



Victorian Budget Announcement 2020-21

A review of the Victorian Budget's
major business implications

November 2020

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Carmel Mortell

Victorian Chairman



Grant Wardell-Johnson

Lead Tax Partner,
Economics & Tax Centre

Executive summary

The 2020-21 Victorian Budget sees the government investing further in lifting the economy out of recession.

The Victorian Government's budget for 2020-21 projects an operating deficit of \$23.3 billion, to follow a deficit of \$6.5 billion for 2019-20. However, despite projected infrastructure investment of more than \$75 billion over the forward estimates period to 2023-24, government net debt is not expected to exceed 30 percent of gross state product during that time.

This infrastructure investment includes \$5 billion for the Melbourne Airport Rail Link and \$2.2 billion for the Suburban Rail Loop, with construction expected to commence on these projects in 2022. The expectation is that new transport infrastructure construction will directly create jobs and thereafter indirectly support employment by enhancing the state's productivity.

We are pleased to see the commitment to invest \$5.3 billion in social and affordable housing, constructing 12,000 additional homes for those on lower incomes. There is also a further \$1.9 billion for construction of new buildings for schools.

The Jobs Plan includes the New Jobs Tax Credit program. This will be welcomed by eligible small-to-medium employers, who will receive a 10c Victorian payroll tax reduction for every dollar by which the 2020-21 and 2021-22 Victorian payrolls exceed that of the previous year.

The Jobs Plan's targeted assistance for women seeking to return to the workforce stands as recognition of the impacts that the pandemic has had on sectors where women typically make a large contribution. The government has complemented this with a commitment to a pilot project for providing paid sick and carer's leave to casual workers, recognising the potential benefit for the whole community of workers not having to choose between their health and a day's pay.

In directing more than \$850 million in additional funding to mental health programs, the Budget recognises that the pandemic may have a legacy that requires significant resources to manage over the longer term.

This Budget rightly focuses on the necessary priorities for repairing the state's economy in the near term, and on building physical and social infrastructure that will sustain growth over the longer term. In due course, we look forward to the government considering tax reform measures that could enhance Victoria's productivity still further.

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Lead Tax Partner, Economics & Tax Centre



Brendan Rynne

Chief Economist,
Economics & Tax Centre

Economic analysis

The Budget suggests that Victorian economy will be severely hit this financial year due to impacts associated with the coronavirus lockdowns.

“The short-term spending and stimulus measures contained with the Budget are enormous, but questions remain how this run up in debt will be repaid given limitations in State taxation arrangements.”

The Budget contains a good mix of short, medium and even longer-term fiscal stimulus measures that have the capacity to deliver on multiple objectives for the population of Victoria. Public investment in social housing, education facilities, transport networks, and arts facilities result in an economic stimulus and job creation and can also deliver social benefits to those on low incomes, the young, the old and the general public.

The question that arises is whether the envisaged substantial increase in debt (a) can be serviced sustainably, and (b) can be (substantially) retired in the medium term. Today’s yield curve suggests that the coupon rates for long-dated government bonds remain historically low, although the coupon rate for a 20-year bond is nearly double that of a 10-year bond. Over the next decade, the Victorian government will need to set the economic foundations for achieving operating surpluses, in order to slowly let down this coronavirus- induced debt balloon. The challenge is that Victoria, either voluntarily or due to competition from other states, is likely to see payroll tax and stamp duty revenues fall during this period as it moves to more economically efficient tax arrangements.

The best way of ensuring Victoria’s debt position is stabilised and reduced is to create a framework to facilitate economic growth in the state faster than would have been the case in the absence of COVID. Investments in productivity-enhancing infrastructure, both economic (eg: transport) and social (eg: community housing), plus implementing public sector reforms aimed at easing the burden of doing business in the state (e.g. reforms to the planning system) are vitally important developments that should contribute to increased growth.

While the Government has put forward an array of these growth-enhancing reform measures, the economic forecasts presented within the Budget appear strong. Victoria is the second-largest state economy, behind New South Wales (which also has a relatively more diversified economy). During the past ten years NSW has achieved compound average annual real (CAAR) GSP growth of 2.3 percent compared to Victoria’s 2.4 percent. However, over the forward estimates period NSW Treasury is anticipating CAAR GSP growth of 1.6 percent for NSW, compared to Victorian Treasury’s forecasts of 2.4 percent. This average growth forecast for Victoria is strongly influenced by the 7.75 percent forecast for 2021-22, which also compares to the national GDP growth forecast of 4.75 percent proposed by Commonwealth Treasury in the 2020-21 Federal Budget.

Despite the optimistic forecasts in the Budget, the Victorian economy at the end of the forward estimates will be between 1 and 2 percent smaller than would have been the case in the absence of the COVID shock. This emphasises the importance of stimulating productivity growth, which is vital for improvement to living standards.

The Victorian Government also anticipates growth in private sector employment, which combined with the Budget’s stimulus measures, will see *“at least 200 000 new jobs by 2022, and 400 000 new jobs by 2025, compared to the trough in employment in 2020”*. However, employment growth forecasts presented in the Budget only suggest between 250,000 and (maybe up to) 300,000 new jobs in Victoria by the end of the forward estimates period, of which around 40,000 are new employees within the Victorian Public Service.

Key Insights

- The Budget contains a good mix of fiscal stimulatory measures aimed at meeting more than one policy objective.
- While the intent of the Budget is clear, there will be a legacy debt cost that will be challenging to repay into the medium term, especially if property tax reform is implemented.



Michelle Bennett

Partner,
Deals, Tax & Legal

“Support for critical housing, but no sudden moves that could further disrupt revenues as Victoria moves into recovery mode”

Stamp duty & land tax

A focus on construction as mission critical in Victoria’s road to economic recovery is being complemented by targeted land tax and duty concessions – with no hint of the significant reforms that NSW is exploring in relation to property tax.

Challenge to revenue

Unsurprisingly, weakening of the Victorian economy and public health restrictions have resulted in downgrades to transfer duty and land tax revenue (along with many other revenue streams) when compared to the 2019-20 Budget Update. Transfer duty is forecast to fall 25.9 percent in 2020-21, a reflection of the reduced transaction levels due to COVID-19 which will have a delayed effect on settlements throughout during this financial year. However, a modest increase in land tax revenue of 1.9 percent is forecast – a reminder of its role as a more stable and predictable revenue stream.

Previously announced expenditure to assist in recovery from both the bushfires and the commercial losses flowing from COVID-19 will also come at a cost to revenues, in the form of a range of land tax and transfer duty concessions. In what must no doubt come as a relief to most Victorians there are no significant new taxes or rate increases proposed to fill that hole, and instead there is a focus on stimulus measures and concessions designed to work in with broader policy objectives to keep us firmly on the path to economic recovery.

New Land Tax Concessions

- A 50 percent land tax discount will be welcomed by the burgeoning Build To Rent market. Commencing on 1 January 2022 and available for “eligible new developments” until 2040, details on eligibility will be eagerly awaited.
- Those developments will also qualify for exemption from absentee owner surcharge on land tax for the same period.
- The concessional rate currently available to certain not-for-profit clubs will be replaced with a full exemption, excluding horse and harness racing clubs which will continue to benefit from the concessional rate.

Transfer Duty Concession

- A new transfer duty waiver of up to 50 percent will apply for new residential property purchases on a value of up to \$1 million. A 25 percent waiver will also be available for existing residential properties up to that value. The waiver will be available for contracts entered into between 25 November 2020 and 30 June 2021. The concession will not apply to any Foreign Purchaser Additional Duty.
- Bringing forward the previously announced 50 percent duty concession on acquisition of commercial and industrial properties in regional Victoria to contracts entered into on or after 1 January 2021.

Key Insights

- The Government has shown a keen awareness of the need to generate confidence in the Victorian economy and not to create disincentives to investing.
- The modest tax measures are in harmony with the “Big Housing Build” policy outlined in the Budget.



David P Sofrà

Partner,
Deals, Tax & Legal

Payroll tax

The Budget includes further incentives for small-to-medium businesses to hire additional employees.

Under the new Jobs Plan initiative, the Victorian Government has budgeted \$836 million for the New Jobs Tax Credit to encourage small and medium businesses to increase employment by re-hiring staff, restoring staff hours or supporting new jobs.

In order to be eligible, a business would need to have Australia-wide annual taxable wages of less than \$10 million. For the 2020-21 and 2021-22 financial years, eligible businesses will receive a tax credit of 10 cents for every dollar of Victorian taxable wages that is additional to those paid for the previous financial year.

This means that if an employer had \$100,000 of additional Victorian taxable wages for 2021-22 compared to the previous year, it would receive a credit of \$10,000 to offset against its 2021-22 Victorian payroll tax liability. With the current payroll tax rate at 4.85 percent for metropolitan employers, this would represent the equivalent of \$206,000 in tax-free wages.

Calculation of the tax credit will be based on the employer's payroll tax disclosures to the State Revenue Office, who will apply the credit to the employer's account automatically.

The New Jobs Tax Credit is additional to payroll tax reliefs that the government has already announced. These include:

- Deferral of 2020-21 payroll tax payments for up to 13 months following the standard due date, where the employer entity had less than \$10 million in Victorian taxable wages for 2019-20.
- Waiver / refund of 2019-20 payroll tax for employer entities with Victorian taxable wages of less than \$3 million.

Key Insights

- Eligible employers will receive the benefit of the New Jobs Tax Credit automatically through their payroll tax account with the State Revenue Office.
- Smaller employers should note that the New Jobs Tax Credit is non-refundable, that is it can only reduce the payroll tax liability to zero.

“The New Jobs Tax Credit has the potential to be a simple and effective tool for supporting increased employment in Victoria.”



Jenny Wong

Director,
Deals, Tax & Legal

Other taxes & charges

“The Victorian Budget provides businesses with much needed cash flow support measures to help rebuild confidence as they recover from the economic effects of a pandemic.”

The Budget for 2020-21 announced a range of new measures to support Victorian businesses and employment:

- Eligible small and medium-sized enterprises claiming the Commonwealth Government’s **Research and Development Tax Incentive** will also have access to low interest loans for up to 80 per cent of their forecast refundable tax offset. This will ensure Victorian enterprises maintain their cashflows to continue vital research and development work. This announcement comes with a range of support initiatives for high-growth start-ups, and new technology and innovation businesses.

In addition to payroll tax reductions (such as the New Jobs Tax Credit announced in this Budget) and land tax concessions to help businesses survive the pandemic and keep paying staff, the government also made emergency changes to taxes, fees and charges including:

- Refunding 2020 and 2021 liquor licence fees, waiving 25 per cent of the 2020 congestion levy and deferring any outstanding congestion levy liability until March 2021.
- A full waiver for all 2021 vacant residential land tax liabilities that arise due to property vacancies in 2020 and deferring an increase to the landfill levy.
- Freezing all fees and fines that were due to increase in July. The 2020-21 Fire Services Property Levy was frozen at the 2019-20 revenue target.
- Drivers of zero and low-emission light vehicles will pay a modest, distance-based charge in lieu of fuel excise. The existing \$100 registration concession will remain for these vehicles only.

Key Insights

The centrepiece of the Victorian Budget is a Jobs Plan and additional investment in research and development to support business cash flow and new jobs as Victorian businesses emerge from the pandemic.



Carmel Mortell

Victorian Chairman

“Victoria will make use of record low interest rates – borrowing now to ensure the state can rebuild sooner”

Government spending measures

The Budget funds up to \$49 billion over the forward estimates in economic recovery measures. The centrepiece Jobs Plan seeks to create 400,000 jobs by 2025 – half of them by 2022.

The Budget’s ‘Jobs Plan includes Jobs for Victoria, a \$619 million investment that is intended to help those most impacted by the pandemic: women, young people and Victorians with no formal qualification. This includes:

- \$250 million to partner with employers to subsidise the wages of at least 10,000 new workers.
- \$150 million of that wage subsidy support will go towards employing women, of which \$50 million will go towards women over the age of 45.
- One-on-one support such as career counselling, assessing training options or help to update a resume.

Additional investments in job creation and job security include:

- \$2 billion for a Breakthrough Victoria Fund, aiming to promote business innovation and create a pipeline of jobs over a ten-year period.
- \$1 billion for skills, including an extra 80,000 TAFE and training places with courses linked to jobs in demand.

Physical infrastructure investments announced in the Budget include:

- \$5.3 billion as part of the Big Housing Build - delivering 12,000 new social and affordable homes.
- \$5 billion for the Melbourne Airport Rail Link, expected to be completed in 2029.
- \$4.2 billion to commence work on Stage One of the Suburban Rail Loop and the Geelong Fast Rail.
- \$2 billion to build new hospitals and upgrading existing ones, including the redevelopment of Warrnambool Hospital and commencing early works for the new Melton Hospital.
- \$1.9 billion for new school buildings across the state.
- \$1.6 billion for clean energy and energy efficiency, including establishing six new Renewable Energy Zones, plus making homes more energy efficient.
- \$1.5 billion to build 100 new accessible trams and develop a new maintenance facility for the tram network.
- \$1.4 billion to transform Melbourne’s Arts Precinct.

Among the announced spending measures on social programs are:

- \$1.9 billion for Victorians with a disability, including doubling the number of students receiving extra support in the classroom to 55,000.
- \$870 million to extend mental health services to more Victorians and implement the Royal Commission into Mental Health’s interim recommendations.
- \$773 million investment in early childhood education, including \$169 million to help cover the cost of kinder for up to 100,000 Victorian families.
- \$357 million to strengthen self-determination, enhance access to education, provide better housing and health support, and improve the lives of Aboriginal Victorians.

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