Budget 2022-23: Update

"AN ELECTION BUDGET"

Contents

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Introduction: An Election Budget

With the Federal Election in sight, The Federal Treasurer, Josh Frydenberg, last night handed down a pre-election budget that set the scene for the Government's election platform.

To provide some context, it was a little less than a year ago when the 2021-22 Federal Budget was handed down and there was applause from afar that the Government may just have pulled the rabbit out of the hat and successfully navigated our way through the Global Pandemic. The transition had started to that of incurring a deficit to forecasting surpluses once again.

Fast forward 12 months, we last night witnessed a pre-election budget that was not concerned with returning the budget to surplus but rather a very targeted budget with a clear focus on alleviating increases in the cost of living, including:

- Dropping the fuel excise by 22.2 cents a litre for 6 months.
- A $250 cash payment for Age Pensioners and certain social security recipients, Commonwealth Seniors Health Card and Pensioner Concession Card holders. This payment will be made in April prior to the Federal election.
- An increase in this year's low and middle income tax offset (LMITO) by $420.
- An initiative to help address home affordability for first home buyers.
- An enhanced paid parental leave program, meaning couples can share up to 20 weeks leave within 2 years of having or adopting a child.

Whilst these initiatives are to be commended, what was also noted is the forecast to have a budget deficit for the next 10 years, citing a genuine shift in the budget management of this Government.

Notably, last night's Federal Budget was almost silent on legislative changes to superannuation and social security which was a refreshing change. Instead, we are seeing a flow of prior commitments being implemented, including:

- A removal of the work test for those aged between 67 and 74 making superannuation contributions more accessible.
- Extending the eligibility of using the superannuation contribution bring forward rule for superannuants aged between 67 and 74.

Importantly, we did note the Government have extended the optional 50% reduction in minimum superannuation pension payments for a further year. Whilst this may not be needed, it does provide retirees with an option about how they best manage their cash flow requirements.

Other important initiatives of note included:

- A boost for small business to upskill their employees whereby 120% of eligible costs can be claimed as a tax deduction.
- A technology investment boost for small business to invest in digitising their business and protecting themselves against cyber security risks.
- Further implementation of Government's response to the Royal Commission into Aged Care Quality and Safety along with additional funding for the Aged Care sector to deal with Covid-19.

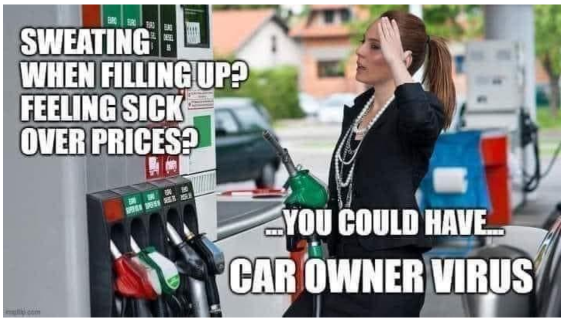
In summary, the Government have aimed to address many areas of need and time will tell whether they have done enough to be re-elected. We will continue to monitor any regulatory changes and will keep you informed as and when measures that relate to you specifically need to be addressed. Until then, please find below a detailed summary of the Budget Initiatives.

For you & your family

Temporary reduction in fuel excise

From	12.01am 30 March 2022

There are a few jokes going around social media about the price of fuel.



As widely predicted, the Government will temporarily reduce the excise and excise-equivalent customs duty rate that applies to petrol and diesel by 50% for 6 months from Budget night. That is, the current 44.2 cents per litre excise rate will reduce to 22.1 cents per litre from Budget night. However, the measure is subject to the passage of the enabling legislation so don't expect to see a change right away.

The reduction extends to all other fuel and petroleum based products except aviation fuels.

At the conclusion of the 6 months on 28 September 2022, the excise and excise-equivalent customs duty rates revert to previous rates including any indexation that would have applied during the 6 month period.

The Australian Competition and Consumer Commission (ACCC) will monitor the price behaviour of retailers to ensure that the lower excise rate is passed on to consumers.

The measure comes at a cost of $5.6bn.

Low and middle income cost of living tax offset increase

From	1 July 2021 to 30 June 2022

The low and middle income tax offset (LMITO) currently provides a reduction in tax of up to $1,080 for individuals with a taxable income of up to $126,000.

The tax offset is triggered when a taxpayer lodges their 2021-22 tax return.

For the 2021-22, the LMITO will be increased by $420 which means that the proposed new rates for individuals are as follows:

Taxable income	Offset
$37,000 or less	$675
Between $37,001 and $48,000	$675 plus 7.5 cents for every dollar above $37,000, up to a maximum of $1,500
Between $48,001 and $90,000	$1,500
Between $90,001 and $126,000	$1,500 minus 3 cents for every dollar of the amount above $90,000

$250 cost of living payment

From	April 2022

A one-off $250 'cost of living payment' will be provided to Australian resident recipients of the following payments and concession card holders:

- Age Pension
- Disability Support Pension
- Parenting Payment
- Carer Payment
- Carer Allowance (if not in receipt of a primary income support payment)
- Jobseeker Payment
- Youth Allowance
- Austudy and Abstudy Living Allowance
- Double Orphan Pension
- Special Benefit
- Farm Household Allowance
- Pensioner Concession Card (PCC) holders
- Commonwealth Seniors Health Card holders
- Eligible Veterans' Affairs payment recipients and Veteran Gold card holders.

The payments are exempt from taxation and will not count as income support for the purposes of any income support payment. An individual can only receive one payment.

Medicare levy low-income threshold increased

From	1 July 2021

The Medicare levy low income thresholds for seniors and pensioners, families and singles will increase from 1 July 2021.

	2020-21	2021-22
Singles	$23,226	$23,365
Family threshold	$39,167	$39,402
Single seniors and pensioners	$36,705	$36,925
Family threshold for seniors and pensioners	$51,094	$51,401

For each dependent child or student, the family income thresholds increase by a further $3,619 instead of the previous amount of $3,597.

Home Guarantee Scheme extended

The Home Guarantee Scheme guarantees part of an eligible buyer's home loan, enabling people to buy a home with a smaller deposit and without the need for lenders mortgage insurance. The Government has extended two existing guarantees and introduced a new regional scheme.

Just prior to the Budget, the Government announced:

- **First Home Guarantee** – from 1 July 2022, an increase from 10,000 to 35,000 guarantees to support eligible first homebuyers purchase a new or existing home.
- **Single parent Family Home Guarantee** - 5,000 guarantees each year from 1 July 2022 to 30 June 2025. The family home guarantee supports eligible single parents with children to buy their first home or to re-enter the housing market with a deposit of as little as 2%.
- **Introduction of a Regional Home Guarantee.** This guarantee will support eligible citizens and permanent residents who have not owed a home for 5 years (including non-first home buyers) to purchase or construct a new home in regional areas with a minimum 5% deposit areas (subject to the passage of enabling legislation).

Resources

- Media release: 2022-23 Budget Backs Aspiring Homeowners
- National Housing Finance and Investment Corporation

Digitalising trust income reporting

From	1 July 2024

Trust and beneficiary income reporting and processing will be digitalised with all trusts being provided with the option of lodging income tax returns electronically.

While this measure will reduce compliance costs, it will also increase transparency and provide the ATO with a greater insight into where anomalies are occurring.

Your Superannuation

Reduction in minimum superannuation drawdown rates extended again

The temporary 50% reduction in superannuation minimum drawdown requirements for account based pensions and similar products has been extended to 30 June 2023.

Minimum superannuation drawdown rates 2019-2023

Age	Default minimum drawdown rates (%)	Reduced rates by 50% for the 2019-20 to 2022-23 income years (%)
Under 65	4	2
65-74	5	2.5
75-79	6	3
80-84	7	3.5
85-89	9	4.5
90-94	11	5.5
95 or more	14	7

For business & employers

$120 deduction for every $100 spent on technology

From	7:30pm AEDT, 29 March 2022 until 30 June 2023

The Government intends to provide a 120% tax deduction for expenditure incurred by small businesses on business expenses and depreciating assets that support their digital adoption, such as portable payment devices, cyber security systems or subscriptions to cloud based services.

The technology boost will be available to small business with an aggregated annual turnover of less than $50 million.

An annual expenditure cap of $100,000 will apply to the boost.

The boost for eligible expenditure incurred by 30 June 2022 will be claimed in tax returns for the following income year. The boost for eligible expenditure incurred between 1 July 2022 and 30 June 2023 will be included in the income year in which the expenditure is incurred. That is, the additional deduction available under this measure is expected to be claimed in the 2023 tax return.

Resources

- Media release: Digital and skills tax boost for small businesses

Lowering tax instalments for small business

From	2022-23 income year

Normally, GST and PAYG instalment amounts are adjusted using a GDP adjustment or uplift. For the 2022-23 income year, the Government is setting this uplift factor at 2% instead of the 10% that would have applied.

The 2% uplift rate will apply to small to medium enterprises eligible to use the relevant instalment methods for instalments for the 2022-23 income year and are due after the amending legislation comes into effect:

- Up to $10 million annual aggregated turnover for GST instalments and
- $50 million annual aggregated turnover for PAYG instalments

Resources

- Media release: Cash flow support and red tape reduction to help small business

Expanding access to employee share schemes

In broad terms, an Employee Share Scheme (ESS) is a scheme under which shares in a company, or rights to acquire shares in a company, are issued to an employee or their associate in respect of their employment.

At a commercial level, ESS arrangements are often used to better align the interests of employers and employees, as employees are provided with an opportunity to share in the profitability and growth of the business. The arrangements can also be useful in situations where a business is in start-up mode and does not have significant cash flow or reserves to attract top quality employees with high salaries.

The Government has flagged changes to the ESS rules to expand access to schemes so that employees at all levels can directly share in the growth of the business.

Where employers make larger offers in connection with employee share schemes in unlisted companies, participants can invest up to:

- $30,000 per participant per year, accruable for unexercised options for up to 5 years, plus 70 per cent of dividends and cash bonuses; or
- Any amount, if it would allow them to immediately take advantage of a planned sale or listing of the company to sell their purchased interests at a profit.

The Government will also remove regulatory requirements for offers to independent contractors, where they do not have to pay for interests.

While these changes might expand access to employee share schemes, it is important to consider the tax implications that can arise for employee when they receive shares or options at a discount to their market value. There are a number of different ways that employees can be taxed in this area and the treatment will often depend on how the ESS arrangement has been structured by the company.

Temporary tariff concession on COVID-19 products permanent

From	1 July 2022

The temporary tariff concession in place for certain medical and hygiene products to treat, diagnose or prevent the spread of COVID 19 will be made permanent and the range of products to which the concession applies expanded.

Linking PAYG instalments to financial performance

From	1 January 2024

As announced prior to the Budget, companies will be able to choose to have their pay as you go (PAYG) instalments calculated using current financial performance, extracted from business accounting software, with some tax adjustments.

The move is intended to ensure that instalment liabilities are aligned to the businesses cashflow. In addition, the digitisation of PAYG instalments will improve transparency and provide more accurate data on performance.

Resources

- Media release: Cash flow Support and Red Tape Reduction to Help Small Business

Digitising taxable payments reporting system

From	1 January 2024

As announced prior to the Budget, businesses will be able to report Taxable Payments Reporting System data via their accounting software on the same lodgment cycle as their activity statements.

The measure is expected to reduce the costs of complying with the system and increase transparency.

Sharing of Single Touch Payroll data

As announced prior to the Budget, the Government will commit $6.6 million for the development of IT infrastructure that will enable the ATO to share Single Touch Payroll (STP) data with State and Territory Revenue Offices on an ongoing basis.

The funding will be deployed following further consideration of which states and territories are able and willing to make investments in their own systems and administrative processes to pre-fill payroll tax returns with STP data in order to reduce compliance costs for businesses.

ABN integrity measure delayed

From	1 July 2022

Back in the 2019-20 Budget, the Government announced that Australian Business Number (ABN) holders would be stripped of their ABNs if they failed to lodge their income tax return. In addition, ABN holders would be required to annually confirm the accuracy of their details on the Australian Business Register.

This measure has been deferred for 12 months, which means that the tax return lodgement obligation is due to commence from 1 July 2022 with the annual confirmation of ABN details to commence from 1 July 2023.

Tax status of COVID-19 grants

The measure that enables payments from certain state and territory COVID-19 business support programs to be treated as non-assessable non-exempt (NANE) income has already been extended until 30 June 2022.

The Government has announced that the following state and territory grant programs have been made eligible for this treatment since the 2021-22 MYEFO, although it is not clear whether the relevant legislative instruments have been issued as yet:

- New South Wales Accommodation Support Grant
- New South Wales Commercial Landlord Hardship Grant
- New South Wales Performing Arts Relaunch Package
- New South Wales Festival Relaunch Package
- New South Wales 2022 Small Business Support Program
- Queensland 2021 COVID 19 Business Support Grant
- South Australia COVID 19 Tourism and Hospitality Support Grant
- South Australia COVID 19 Business Hardship Grant.

This builds on the list of existing grants paid by New South Wales and Victoria that can already qualify for NANE income treatment.

Tax deductibility of COVID-19 test expenses

From	1 July 2021

As previously announced, work-related COVID-19 test expenses incurred by individuals will be made tax deductible.

Changes will also be made to ensure that FBT will not be payable by employers if they provide fringe benefits relating to COVID-19 testing to their employees for work-related purposes.

The changes for deductions will be effective from 1 July 2021, with the FBT changes to apply from 1 April 2021.

At this stage it is not entirely clear whether the deduction rules will cover expenses incurred where the employee is able to work from home. The initial media release indicates that the measure will cover situations where the individual has the option of working remotely, while the Budget only refers to costs of taking a COVID-19 test to attend a place of work but doesn't specifically refer to employees who can work from home.

Resources

- Media release: Tax deductibility of COVID-19 test expenses

Education, skills & training

$120 deduction for every $100 spent on skills and training

From	7:30pm AEDT, 29 March 2022 until 30 June 2024

The Government intends to provide a 120% tax deduction for expenditure incurred by small businesses on external training courses provided to employees. The deduction will be available to small business with an aggregated annual turnover of less than $50 million. External training courses will need to be provided to employees in Australia or online, and delivered by entities registered in Australia.

Some exclusions will apply, such as for in-house or on-the-job training and expenditure on external training courses for persons other than employees.

We assume there will need to be a nexus between the employee's employment and the training program undertaken for the boost, although we are waiting on further details of this initiative to be released.

The boost for eligible expenditure incurred by 30 June 2022 will be claimed in the tax return for the following income year (that is, the 2023 tax return). The boost for eligible expenditure incurred between 1 July 2022 and 30 June 2024, will be included in the income year in which the expenditure is incurred.

Resources

- Media release: Digital and skills tax boost for small businesses

Apprentice wage subsidy support extended

Just prior to the Federal Budget, the Government announced the extension of the:

- Boosting Apprenticeship Commencements wage subsidy, and
- Completing Apprenticeship Commencement wage subsidy.

Any employer (or Group Training Organisation) who takes on an apprentice or trainee up until 30 June 2022 can gain access to:

- 50% of the eligible Australian Apprentice's wages in the first year, capped at a maximum payment value of $7,000 per quarter per Australian Apprentice,
- 10% of the eligible Australian Apprentice's wages in the second year, capped at a maximum payment value of $1,500 per quarter per Australian Apprentice, and
- 5% of the eligible Australian Apprentice's wages in the third year, capped at a maximum payment value of $750 per quarter per Australian Apprentice.

Resources

- Media release: Extending support to get more Australian apprentices on the job
- Boosting Apprenticeship Commencements wage subsidy and Completing Apprenticeship Commencements wage subsidy
- Applications are through the Australian Apprenticeships Support Network

The government & regulators

Visa rule changes

The pandemic has created a scarcity of labour. As a result, the Government is relaxing certain work restrictions for a range of visas including eligible Student and Working Holiday Maker (WHM) visa holders, and extended visas for certain engineering graduates negatively affected by COVID-19 travel restrictions.

International students and WHM visa holders who bring forward their arrival to Australia will be refunded the Visa Application Charge for Student visa holders who arrive in Australia between 19 January 2022 and 19 March 2022, and for WHM visa holders who arrive in Australia between 19 January 2022 and 19 April 2022, inclusive.

And, the Government will also increase country caps for Work and Holiday visas by 30% in 2022-23, increasing overall places available by around 11,000.

The Government has stated that it will also "clarify the tax treatment for income earned by workers under the Australian Agriculture Visa scheme established in MYEFO 2021-22 to respond to workforce shortages in the agriculture and primary industry sectors." At this stage, we don't know what this clarity means!

Extension of the ATO's Tax Avoidance Taskforce

An additional $652.6m has been set aside to extend the ATO's Tax Avoidance Taskforce by 2 years to 30 June 2025.

In that time, the taskforce is expected to increase receipts by $2.1bn and increase payments by $652.6m.

ABS to work with accounting software

Buried under the wildly exciting headline of *Commonwealth's Deregulation Agenda*, is the $19.9 million spend by the Australian Bureau of Statistics to develop a new reporting application to enable businesses to submit surveys on business indicators directly through their accounting software. Excellent. Real time reporting utilising verified data on the state of Australian business.

Other

Energy and emissions reduction

$446.1 million over 5 years has been provided to increase energy security, maintain affordable and reliable power for households and businesses and reduce the cost of deploying low emissions technologies. $247m of that is to support increased private sector investment in low emissions technologies including hydrogen, the continued development of a hydrogen

Guarantee of Origin scheme, and the development of a Biodiversity Stewardship Trading Platform to support farmers to undertake biodiversity activities ahead of the introduction of a voluntary biodiversity stewardship market.

Another $148.6m is for the development of community microgrids and just over $50m to develop gas infrastructure projects.

Resources

- Media release: 2022-23 Budget backs Australian industry, energy security and net zero emissions

An Australian Space Industry

The Government will provide $1.3 billion from 2021-22 to grow the Australian space sector and space manufacturing industry. This includes $1.2bn to establish a National Space Mission for Earth Observation to secure access to key earth observation data streams, build Australia's sovereign capability and enter agreements with international partners including for the procurement and operation of Australian Satellite Cross Calibration Radiometer satellites. And, $65.7m to fast track the launch of space assets.

Resources

- Media release: Fast tracking jobs and technologies for space

Australia's position in the Asia Pacific

For those of you who have been watching the reaction to the Solomon Islands security agreement with China, the appearance in the Budget of infrastructure investment in the Pacific will come as no surprise.
The Government will increase the Australian Infrastructure Financing Facility for the Pacific to $3.5 billion, supporting additional infrastructure investment in the Pacific. This includes projects in Papua New Guinea to improve roads and power. An additional $650m will provided as a loan for PNG's COVID-19 recovery.

$245.5m will be spent over 5 years on the partnership with India. A new Chancery for the Australian High Commission in Honiara. And, $324.4m to Pacific Island countries and Timor Leste to support their COVID-19 recovery.

Infrastructure projects

Just prior to the Budget's release, the Government announced $17.9bn in new and additional funding for existing infrastructure projects. Full details of infrastructure funding are on the Infrastructure Investment Program website.

Australian Capital Territory

New projects:

- $46.7 million for the Athllon Drive Duplication
- $2.8 million for the Kent Street and Novar Street Intersection Upgrades
- $1.5 million for the Inner Canberra Corridor Planning Package

New South Wales

New projects:

- $1 billion for the Sydney to Newcastle – (Tuggerah to Wyong) faster rail upgrade
- $336 million for the Pacific Highway – Wyong Town Centre
- $264 million for the Newell Highway Upgrade – Heavy Duty Pavement Upgrades – North Moree

- $232.5 million for Mulgoa Road Stage 2 – Glenmore Parkway to Jeanette Street, Stage 5A Blaikie Road to Jamison Road and Stage 5B Jamison Road to Union Road
- $100 million for the Southern Connector Road, Jindabyne
- $95.6 million for the Picton Bypass and Picton Road – Planning
- $77.5 million for a business case for Stage 2 of the Sydney Metro – Western Sydney Airport line

Additional funding for existing projects:
- $352 million for the Milton Ulladulla Bypass
- $300 million for the Grade Separating Road Interfaces
- $65 million for the M5 Motorway – Moorebank Avenue – Hume Highway Intersection Upgrade

Northern Territory

New projects:
- $132 million for Central Australian Tourism Roads
- $55 million for the Tiger Brennan Drive/Berrimah Road Intersection Upgrade

Queensland

New projects:
- $1.6 billion for the Brisbane to the Sunshine Coast (Beerwah-Maroochydore) rail extension
- $1.121 billion for the Brisbane to the Gold Coast (Kuraby – Beenleigh) Faster Rail Upgrade
- $150 million for the Brisbane Metro – Woolloongabba Station
- $396 million for the South East Queensland City Deal
- $27.2 million for three business cases for upgrades on the Bruce Highway between Anzac Avenue and Caboolture Bribie Island Road
- $22.5 million for Brisbane Olympic and Paralympic Games 2032 business case development
- $20 million for safety upgrades on the Brisbane Valley Highway

Additional funding for existing projects:
- $68.5 million for the Cooktown to Weipa Corridor Upgrade bringing the total Australian Government funding to the corridor to $258.5 million
- $11.5 million for the Tennant Creek to Townsville Corridor Upgrade bringing the total Australian Government funding to the corridor to $211.5 million

Tasmania

New projects:
- $336 million for the Tasmanian Roads Package – Northern Roads Package – Stage 2
- $100 million for the Great Eastern Drive Tourism Support – additional packages
- $96 million for the Tasmanian Freight Rail Revitalisation Program – Tranche 4
- $56 million for the Tasmanian Roads Package – Tasman Highway Sideling Upgrade – Stage 2
- $24 million for the Bell Bay Line – Reconnection to the Bell Bay Wharf
- $14.4 million for the Melba Line Bulk Minerals Rail Hub
- $13.5 million for the Hobart – Northern Transit Corridor Solution

Victoria

New projects:
- $3.1 billion in new commitments to deliver the $3.6 billion Melbourne Intermodal Terminal Package:
    - $1.2 billion for the Beveridge Interstate Freight Terminal in Beveridge, taking the total investment to $1.62 billion
    - $280 million for Road Connections, including Camerons Lane

    - Interchange, to the Beveridge Interstate Freight Terminal
    - $740 million for the Western Interstate Freight Terminal in Truganina
    - $920 million for the Outer Metropolitan Ring – South Rail connection to the Western Interstate Freight Terminal
- $109.5 million for the Mickleham Road Upgrade

Additional funding for existing projects:
- $45 million for the Ballarat to Ouyen – Future Priorities
- $23.1 million for the Canterbury Road Upgrade

Western Australia

New projects:
- $145 million for the Thomas Road – Dual Carriageway – South Western Highway to Tonkin Highway and interchange at Tonkin Highway
- $140 million for Regional Road Safety Upgrades
- $100 million for the METRONET: Morrison Road Level Crossing Removal
- $50 million for the Tonkin Highway – North Ellenbrook Interchange
- $48 million for the Moorine Rock to Mt Holland Road Upgrades
- $40 million for the Newman to Katherine Corridor Upgrade - Great Northern Highway Upgrade - Newman to Port Hedland Overtaking Lanes

Additional funding for existing projects:
- $320 million for the Bunbury Outer Ring Road (Stages 2 and 3)
- $200 million for the Tonkin Highway Stage 3 Extension
- $178 million for the Pinjarra Heavy Haulage Deviation – Stages 1 and 2
- $135 million for the METRONET: Thornlie-Cockburn Link
- $116 million for the METRONET: High Capacity Signalling
- $90 million for the METRONET: Yanchep Rail Extension

The economy

Australia's unemployment rate is at 4%: the lowest rate in 48 years.

Amid the ongoing COVID 19 pandemic and natural disasters, the Australian economy has outperformed all major advanced economies, experiencing a stronger recovery in output and employment from pre pandemic levels. The recovery is expected to continue with the unemployment rate forecast to reach 3.75% in the September quarter of 2022, nearly 3% below the forecast 2 years ago.

The Wage Price Index (WPI) is forecast to increase from 2.75% through the year to the June quarter of 2022 to 3.25% through the year to the June quarter of 2023. But, there is "significant uncertainty around the pace at which wages growth will accelerate."

Real GDP is forecast to grow by 4.25% in 2021-22. And, by 3.5% in 2022-23 and 2.5% per cent in 2023-24.

The deficit for 2022-23 is expected to be $78 billion or 3.4% of GDP.

Since the Mid Year Economic and Fiscal Outlook (MYEFO), the underlying cash balance has improved by $103.6 billion over the 5 years to 2025-26. The Budget shows the deficit more than halving to 1.6% of GDP by 2025-26 before falling to 0.7% of GDP by the end of the medium term. Gross debt as a share of the economy is expected to peak at 44.9% of GDP at 30 June 2025, 5.4% lower and 4 years earlier than projected at MYEFO. Gross debt is projected to fall to 40.3% of GDP by the end of the medium term, 9.6% or $236 billion lower than at the end of the medium term in MYEFO.

The Budget projects a halving in the deficit to 1.6% of GDP by 2025-26 before falling to 0.7% of GDP by the end of the medium term.

Commodity prices are near record high levels, in part due to the Russian invasion of Ukraine. Metallurgical and thermal coal spot prices have recently reached highs that are 62% and 53% above previous peaks.

Inflation is expected to rise to 4.25% through the year to the June quarter of 2022. This reflects higher global oil prices and ongoing supply chain pressures as well as price pressures in the housing construction sector. Then moderate to 3% in 2022-23 and 2.75% in 2023-24.

The recent floods in Queensland and New South Wales have had a devastating impact on many communities. The Government expects to spend over $6 billion in total on disaster relief and recovery (in addition to the $3.6 billion already allocated to households, businesses and communities).

On COVID-19, the Budget assumes:

- Community transmission of COVID-19 will continue to occur.
- A further Omicron wave is assumed to occur over winter 2022, which may again see elevated rates of absenteeism and pressure on supply chains.
- Beyond winter, it is assumed that Australia will continue to experience intermittent, localised waves of Omicron, or other new COVID-19 variants. However, it is assumed that high vaccination rates and improved medical treatments, together with continued community adaptation to COVID-19, will see the economic impact of future outbreaks continue to moderate. Box 2.4 considers a scenario where a new

COVID-19 variant of concern poses greater downside risks to the economic forecasts.

- It is assumed that public health measures such as physical distancing and density restrictions are phased down, but reimposed in a targeted way in response to future COVID-19 outbreaks. These public health measures are not expected to materially affect the economic forecasts.
- Australia's international borders are assumed to be open to migrants and fully vaccinated tourists.

Expenditure: How the 2022-23 Budget will be spent

As the Government's response to the COVID-19 pandemic reduces, expenses decrease from $640 billion in 2021-22 to $628 billion in 2022-23 – an impact that is primarily reflected in the health, social security and welfare, and other economic affairs functions. Expenses are expected to reach $687 billion in 2025-26. While, low unemployment and increased economic growth has reduced expenditure on income support programs, higher inflation and wages growth forecasts have impacted indexation rates and led to increased expenditure estimates on government payments to individuals.