

2019-20 FEDERAL BUDGET

WHAT IT MEANS FOR AGRICULTURE



regional &
agribusiness

BACKGROUND

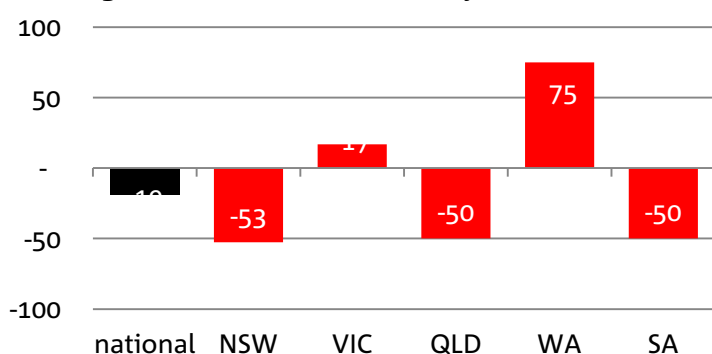
2018 was a tough year for agriculture in eastern Australia, although the west enjoyed an excellent crop. These tough seasonal conditions continued into 2019 (compounded by devastating floods in north-west Queensland earlier this year), although sentiment has been boosted by useful rains over the last few weeks.

NAB's latest Agribusiness Banker Survey reflects these conditions, finding that agribusiness conditions were negative in Q4 2018, with a strong divergence in seasonal conditions across Australia. Conditions were weakest in NSW which endured severe drought in large parts of the state and strongest in WA which enjoyed CBH's second biggest winter harvest and solid grain prices. Overall confidence levels were flat but varied widely across the country. WA was the clear out-performer, with confidence flat or negative in all others states.

Against this background, key industry bodies such as the National Farmers Federation (NFF) in their 2019-20 Pre-Budget Submission, called on the Government to develop a comprehensive national drought policy and to "reduce confusion among farmers about their eligibility for drought assistance and ensure the provision of personal support services".

AGRIBUSINESS CONDITIONS BY STATE

NAB Agribusiness banker survey Q4 18 net bal.



AGRICULTURE BUDGET MEASURES

The budget delivers substantial spending for drought and flood relief, as well as a Future Drought Fund (announced late last year) and an Emergency Response fund.

The North Queensland Flood Recovery Package includes \$3.1b over five years – this will support the North Queensland livestock industry to recover from the devastating floods earlier this year. The package has a number of components but the largest three are:

- up to \$1.75b for financial institutions to provide interest rate relief for business loans to flood affected primary producers;
- \$1b for loans through the Regional Investment Corporation to assist in restocking and damaged crops and on-farm infrastructure; and
- \$300m in grants to primary producers (with a cap of \$400,000 per producer) to assist in restocking and damaged crops and on-farm infrastructure.

The government will also establish a \$3.9b Future Drought Fund, although this is was already announced in MYEFO in December. The fund will use \$3.9b in uncommitted funds from the Building Australia fund, with the value of these invested funds expected to grow to \$5b over the next decade. \$100m in disbursements will be available from the fund per year from 2020-21.

The government will establish a further \$3.9b Emergency Response Fund, to fund natural disaster recovery. Up to \$150m will be available from the fund annually from 2019-20. There will also be \$130.5m over the forward estimates to reduce the risk and impact of disasters.

There will also be \$29.4 million to improve industry access to export markets, \$30m for agriculture biodiversity as well as \$18.3m to continue the war on fire ants.

TAX SYSTEM CHANGES

The **instant asset write-off** - which allows businesses to write off assets (such as tools or equipment) against their taxable income - has been extended and expanded. It will now cover purchases under \$30,000, up from \$25,000, and can be used by businesses with annual turnover of under \$50 million, up from a \$10 million limit previously. Medium sized businesses will welcome this new access to the scheme. The threshold applies on a per asset basis so businesses will be able to instantly write off multiple assets. Around 22,000 additional businesses employing around 1.7 million people will now be eligible for the tax write-off with the changes projected to cost the budget \$400 million over four years. These changes will apply from April 2019 to 30 June 2020 - not the permanent scheme business had hoped for. In total these changes will benefit around 3.4 million businesses employing around 7.7 million workers. The Government's decision to increase and extend the instant asset write should help alleviate cash flow pressures for SMEs and help them with their expansion plans.

The government also announced that the **corporate tax rate** for companies with annual turnover of less than \$50 million will fall from 27.5 per cent to 26 per cent next year and 25 per cent starting in 2021-22. This is some five years earlier than previously planned and is expected to benefit around 970,000 companies. The Government will also increase the unincorporated small business (up to \$1000) tax discount rate from 8% in 2019-20 to 13 per cent in 2020-21 and 16% in 2021-22.

Regarding **income tax**, in the near term the low to medium income tax offset has doubled to \$1080 per annum and the second tax threshold (of 32.5%) has been raised from 87k to 90k. However the really big tax adjustments don't come until 2022-23. Put differently the near term cost to the Budget is only \$700m per annum, whereas \$4.5bn of the total spend of \$6.7bn in the four years to 2023 comes in the final year. A lot more money is given to the Tax office to improve integrity but again is mainly spent in the out years.

INDUSTRY REACTION

The National Farmers Federation was generally pleased with the budget. NFF President Fiona Simson told The Weekly Times that the budget represents "a commitment to agriculture and the regions" and that "across the board there's been some really positive announcements". The NFF welcomed greater measures to improve industry access to export markets and the increase in the instant asset write off.

NAB REACTION

Neil Findlay, NAB Agribusiness Customer Executive had the following reaction to the budget:

"This year's budget confirms significant funding for flood relief, as announced in March, and we welcome this support. This will be welcome news to our customers, some of whom have suffered significant loss and damage to their stock and farms as a result of the floods in North Queensland earlier this year. NAB has already announced up to \$500m in concessional loans at a reduced rate to support our flood-affected customers in North Queensland to assist in repairs, restocking and re-opening for business because we want them to know that we are there to help and want to help," said Mr Findlay.

"Looking toward the longer term, we note the establishment of two new funds around drought and disaster relief. This is a positive step towards a more proactive response to natural disaster relief we look forward to analysing the detail."

FOR FURTHER INFORMATION

Alan Oster

Group Chief Economist
Alan.Oster@nab.com.au
+613 8634 2927

Phin Ziebell

Associate Director - NAB Group Economics
Phin.Ziebell@nab.com.au
+61 (0) 475 940 662

Dean Pearson

Head of Behavioural and Industry Economics
Dean.Pearson@nab.com.au
+613 8634 2331

Robert De lure

Senior Economist - Behavioural and Industry
Economics
Robert.De.lure@nab.com.au
+613 8634 4611

Important Notice

This document has been prepared by National Australia Bank Limited ABN 12 004 044 937 AFSL 230686 ("NAB"). Any advice contained in this document has been prepared without taking into account your objectives, financial situation or needs. Before acting on any advice in this document, NAB recommends that you consider whether the advice is appropriate for your circumstances.

NAB recommends that you obtain and consider the relevant Product Disclosure Statement or other disclosure document, before making any decision about a product including whether to acquire or to continue to hold it. Please click [here](#) to view our disclaimer and terms of use.