# FEDERAL Budget 2016

**What the Federal Budget means for Business**

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# FEDERAL BUDGET OVERVIEW

## Our Group Economics view

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This Budget clearly has a political as well as economic dimension – and in particular is framed against the assumption of an upcoming election. As such, it's really an exercise in selected refocusing outlays and receipts to achieve the Government's focus of growth and jobs – but achieved within a realpolitik framework of burden sharing and keeping debt at sustainable (AAA) levels. The current environment means there is little scope for large structural reforms. And with a Budget not likely to get back to surplus by 2020-21 – and then only marginally – it clearly remains vulnerable to the vagaries of the economic cycle.

Key measures are largely as signaled in recent days. On improving the 'equity' theme, the Budget raises the 32.5% personal income threshold from $80k to $87k to help offset some effects of bracket creep; imposes tougher rules on top end superannuation (lowering the threshold for the higher tax on super from $300k to $250k and imposing annual and lifetime caps on extra super contributions); and eases the tax treatment of super for lower to middle income contributors. Also on the equity theme is stricter enforcement of multi-national tax (essentially a 'Google tax' with diverted income to be taxed at 40%).

On the 'adding to growth' theme is business tax cuts (from 28.5% to 27.5% for small and middle business with the turnover threshold raised to $10m. Thereafter the turnover limit is progressively raised until all businesses are on the rate by 2023-34. The rate then falls to 25% in 2024-25. There is an extra benefit in that the investment tax write off has been extended for an extra year. That said, the size of the short-term cuts are limited (around $5.3bn over four years) – and our modeling suggests very small short-term benefits. There is also extra money for infrastructure ($5bn); extra money for health ($2.9bn); and education ($1.2bn – albeit much less than full Gonski). Also helping to repair the Budget bottom line is the (12.5%) increase in tobacco taxation.

Outlays remain under 26% of GDP before moving a touch lower in the long run. By way of context, outlays peaked at around 27% during the GFC stimulus and before that around 23% of GDP. Revenue still does most of the repair job on the Budget balance, with a combination of policy and economic recovery. Overall net debt peaks a touch higher in 2019 at 19.2% (previously 18.5%) and starts to edge lower thereafter. Rating agencies have been much more guarded in their reaction than usual. As set out in the Medium Term Economic Outlook, the Budget would represent a slight drag on economy going forward (around 0.5% per year) and as such is probably doable.

Of course the Budget may not be the final word on medium-term fiscal sustainability given the forthcoming election campaign. Our bottom line is there is not a lot of scope for pulling more 'rabbits from the hat'. And that Budget repair will be a long and difficult slog given the economic environment. We are more cautious in 2018-19 forecasts.

### Fiscal outcome

Estimates of the underlying cash deficit are slightly larger at A$39.9bn (2.2% of GDP) in 2015-16 and $37.1bn (2.4% of GDP) in 2016-17 (slightly below market expectations – but near the viewpoint of NAB). The projected deficit then moves down through the out-years with an eventual return to surplus in 2021-22.

### Economic outlook

There is little fundamental difference between Treasury and NAB's economic forecasts in the next few years. A sharp increase in commodity export volumes, offset by subdued domestic demand, remains the common theme. However, NAB forecasts become notably more pessimistic as we move into the forward projections (from 2018-19) reflecting significant headwinds as LNG exports reach their peak and dwelling construction reduces. Over the forward estimates, expectations for the unemployment rate are similar, easing to around 5.5% in the short-term before stabilising. On the nominal GDP forecasts, NAB and Treasury expectations are similar in 2016-17 (around 4.25%) but the Treasury's 2017-18 forecasts are more optimistic.

### Financial markets

There was little discernible market reaction to the Budget. Ratings agencies have been circumspect in their initial reaction to the Budget, choosing instead to allow more time for analysis.

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# BUDGET MEASURES IN BRIEF

**There are a wide range of initiatives in this year's Federal Budget. We've broken it down for businesses by sector – but here's a helpful overview of what's most important.**

## New spending initiatives:

### Small and large businesses

As part of the Ten Year Enterprise Tax Plan;

- Businesses with annual turnover less than $10m will have a company tax rate of 27.5% from 1 July 2016, at a cost of $2.2bn to 2019-20. The company tax rate will be progressively lowered to 25% by 2026-27 for all companies, at a cost of $2.7bn to 2019-20.
- A range of concessions already available to small businesses with less than $2m turnover (such as lower corporate tax rate, accelerated depreciation and depreciation pooling provisions) will be extended to all businesses with turnover less than $10m from 1 July 2016 (costing $2.2bn over the next four years).
- An increase in the tax discount for unincorporated small businesses with annual turnover of less than $5m from 5% to 16% over 10 years (costing $450m over the forward estimates period).

### Agriculture

- $50m over four years allocated to the Australian Grape and Wine Authority to promote wine tourism and Australian wine overseas. However, there will also be a reduction in the Wine Equalisation Tax (WET) rebate cap from $500,000 to $350,000 on 1 July 2017, and to $290,000 on 1 July 2018 and tighter eligibility criteria from 1 July 2019.
- $9.5m for the National Water Infrastructure Development Fund, to fund water infrastructure feasibility studies in northern Australia, with the cost being met by redirecting funds from the Rural Research and Development for Profit program.
- $7.1m to fund additional Rural Financial Counsellors who will provide free financial advice to farmers in drought-affected areas.

### Infrastructure

New initiatives in the Budget include:

- $115m over two years from 2016-17 for preparatory works at the Western Sydney Airport site at Badgerys Creek, including funding for a concept design for provision of a rail link.
- $44m over five years to establish the Northern Australia Infrastructure Facility. The facility is intended to deliver financing to support economic infrastructure in northern Australia.
- An additional $490m in 2015-16 for the Forrestfield Airport Link in Western Australia.

### Youth employment

- A new Youth Jobs PaTH (Prepare-Trial-Hire) Program for vulnerable job seekers aged under 25 who are in employment services that include pre-employment skills training, an internship program for up to 30,000 job seekers each year (with businesses to receive $1,000 upfront to host them). In addition, employers who hire an eligible job seeker to receive an accelerated wage subsidy of up to $10,000 paid over six months (costing $245m over the next four years).
- $88.6m over four years from 2016-17 to expand the New Enterprise Incentive Scheme (NEIS) and to support self-employment opportunities for young people.

### Education and training

- An additional $1.2bn in funding over four years from 2017-18 for government and non-government schools for the 2018 to 2020 school years, although it is contingent upon reforms by the states and the non-government schools sector. Total school funding will be indexed by an education sector specific index of 3.56% rather than the CPI, with an allowance for changes in enrolments.
- An additional $118m over 2016-17 and 2017-18 for school students with disability.

### Health

- $2.9bn additional funding between 2017-18 and 2019- 20 to support public hospitals, partially offsetting the changes to public hospital funding announced in the 2014-15 Budget.

### Aged care

- $137m over four years from 2016-17 to support the operation of the My Aged Care contact centre and $102m over the same period to improve the targeting of the viability supplement for regional aged care facilities.

### Defence

- An additional spending of $700m to extend existing defence operations (Accordian, Highroad, Manitou, Okra and Resolute).

## Revenue measures:

### Multinational company tax

As part of the Tax Integrity Package, a series of measures aimed at tax avoidance:

- A new Australian Diverted Profits Tax that imposes a 40% penalty rate of tax on multinational corporations that attempt to shift their Australian profits offshore through arrangements relating to third parties. It is estimated that this tax will generate revenue of $200m over 2018-19 and 2019-20.
- $679m for the Australian Taxation Office to establish a new Tax Avoidance Taskforce aimed at avoidance by businesses, multinationals and high wealth individuals, which is expected to raise $3.7bn in revenue.

### Superannuation

A Superannuation Reform Package which includes the following measures:

- The lowering of the Division 293 threshold (the point at which high income earners' pay additional contributions tax) from $300,000 to $250,000. starting from 1 July 2017. The Government will also reduce the annual cap on concessional superannuation contributions to $25,000 (currently $30,000 under age 50; $35,000 for ages 50 and over). This is expected to raise $2.5bn over the forward estimates period.
- System changes to defined benefits superannuation schemes, estimated to increase revenue by $2bn over the forward estimates period.

### Tobacco excise

- An expected $4.7bn increase in revenue from raising the tobacco excise and excise equivalent customs duties by 12.5% per year from 2017 until 2020. The increases will take place on 1 September each year and will be in addition to existing indexation to average weekly ordinary time earnings.

## Saving measures:

### Health

- National Disability Insurance Scheme (NDIS) Savings Fund worth $2.3bn to 2019-20, including: $1.4bn from closing carbon tax compensation to new recipients of government welfare benefits; $711.2m over five years from reducing net costs in the NDIS transition agreements reached with states and territories; $109m from aligning backdating provisions for New Carer Allowance claims with other social security payments; $62m by reviewing 30,000 disability support pension recipients each year for three years by assessing their capacity for work; and not proceeding with an advertising campaign.
- Savings of $182 million over three years for the Health portfolio Health Flexible Funds through extending the indexation pause by two years and reducing uncommitted funds.

### Aged care

- Changes to the scoring matrix of the Aged Care Funding Instrument that determines the level of funding paid to aged care providers. There will also be reduced indexation of the Complex Health Care component by 50% in 2016-17. This is expected to generate savings of $1.2bn over four years.

### Infrastructure

- There are savings of $162.7m from uncommitted project contingency, of which the bulk ($150.4m) is achieved in 2019-20.

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