

Federal Budget 2010/11 - Overview

12 May 2010



2010-11 FEDERAL BUDGET SUMMARY

Overview

VECCI's initial response to the Federal Budget is one of qualified support.

The budget's strategy rests heavily on rebounding economic activity to drive a significant reduction in debt and underpin the financing of key measures such as the reduction in the company tax rate and new renewable energy and infrastructure spending initiatives.

That the Government has announced that Commonwealth debt is forecast to be reduced from the current \$40 billion to surplus by 2012-13, three years earlier than previously expected, is particularly positive.

Reducing budget deficits is important to business because it takes pressure off interest rates, and allows monies that would have been spent on servicing that debt to be allocated to more productive purposes.

However, the earlier than expected deficit reduction should not come as a surprise. It is largely a consequence of stronger than previously forecast revenue flows to the Commonwealth as a result of an economy that fared better than its major trading partners in navigating the Global Financial Crisis (GFC).

The recent decision by the Government to delay the introduction of the emissions trading system also saves the budget a significant \$2.9 billion over the next four years.

The key pluses for business are:

- Company tax rate cut to 29 per cent from 2013-14 and 28 per cent from 2014-15. Company tax rate cut to 28 per cent for small business from 2012-13.
- Instant write-off for assets under \$5,000 for all small businesses from 1 July 2012.
- \$661 million in funding for education and training initiatives to deliver 70,000 new training places.
- \$5.6 billion for a new infrastructure fund and \$1 billion to renew rail networks.
- \$652 million for a Renewable Energy Future Fund.

On the negative side of the ledger, the Government has not decoupled the proposed Resource Tax from the business tax reductions. This means that the delivery of the company tax reductions and earlier depreciation and asset write downs for small business will be conditional upon continuing strong recovery in the resource sector.

Tax reform is unfinished business and VECCI will continue to advocate for capital gains tax relief for business, and the implementation of the Henry Tax review recommendation that (State) payroll tax should be abolished.

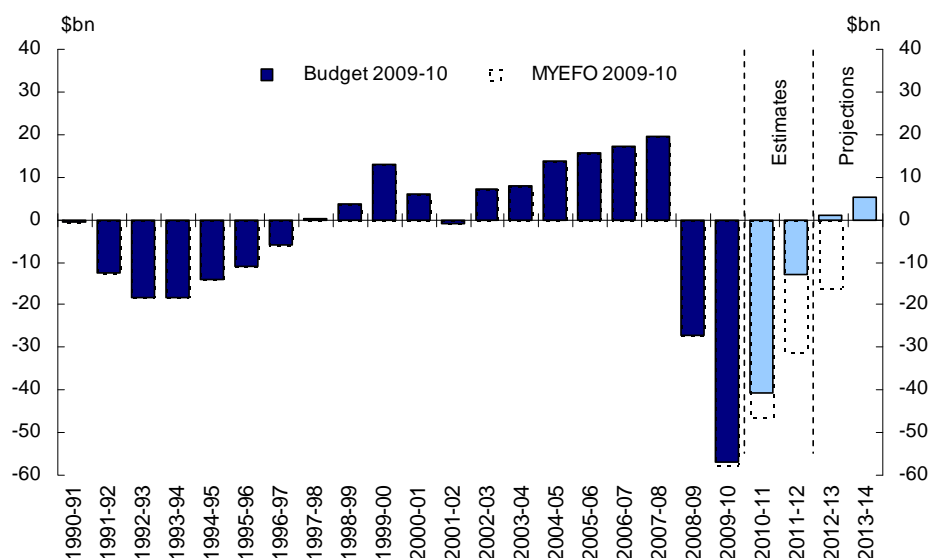
Of concern for business will be the plan to boost GST audits and investigations. The Government expects to yield \$2.7 billion over the next four years from these efforts.

There is very little attention in the budget to the growing size of Government or spending restraint.

Fiscal Outlook

The updated budget forecasts show a marked improvement in the fiscal position over the forward estimates period. While the budget deficit is largely unchanged from previous estimates at \$57.1 billion in the 2009-10 financial year, beyond that period there are sizeable upward revisions to the underlying cash balance.

The improvement in the budget deficit is overwhelmingly driven by stronger revenue growth rather than deliberate policy decisions. Stronger than expected economic growth and the associated recovery in tax revenues will deliver a return to surplus in 2012-13, three years ahead of the projections presented in the MYEFO. Net debt is expected to peak at 6.1 per cent of GDP in 2011-12.



Australian Government General Government Sector Budget Aggregates

BUDGET AGGREGATES	Forecasts		Projections	
	2010-11	2011-12	2012-13	2013-14
Underlying cash balance (\$bn)	-40.8	-13.0	1.0	5.4
% of GDP	-2.9	-0.9	0.1	0.3
Revenue (\$bn)	321.8	356.4	381.9	407.2
% of GDP	22.9	24.0	24.3	24.6
Expenses (\$bn)	354.6	364.6	381.0	398.0
% of GDP	25.2	24.5	24.3	24.0

Expenses as a percentage of GDP are forecast to decline over the outlook period, from 26.5 per cent in 2009-10 to 24 per cent in 2013-14. In contrast, **revenue** as a percentage of GDP is forecast to increase, from 22.7 per cent in 2009-10 to 24.6 per cent in 2013-14.

Fiscal and Deficit Exit Strategy

The Government's fiscal and deficit exit strategies remain unchanged. New spending initiatives in the budget have been funded either through tax increases or (limited) savings, with the emphasis largely on the former.

The medium-term fiscal strategy seeks to:

- achieve budget surpluses, on average, over the medium term;
- keep taxation as a share of GDP below 25.0 per cent on average; and
- improve the Government's net financial worth over the medium term.

BUDGET RECONCILIATION	Forecasts		Projections		
	2009-10	2010-11	2011-12	2012-13	Total
<i>Underlying Cash Balance</i>					
Budget 2009-10	-57,593	-57,051	-44,535	-28,150	-187,329
Policy decisions	-2,640	-1,437	594	-2,392	-5,875
Parameter variations	3,153	17,732	30,896	31,557	83,338
Budget 2010-11	-57,079	-40,756	-13,045	1,016	-109,864
Total change	513	16,295	31,490	29,165	77,463

Economics and Taxation

Personal Tax and Thresholds

As promised in 2007, the budget announced funding for the next round of personal income tax cuts from 1 July 2010, including the increase in the low income tax offset to \$1500.

PERSONAL TAX RATES AND THRESHOLDS				
	Current		1 July 2010	
	Taxable income (\$)	Rate (%)	Taxable income (\$)	Rate (%)
	0 - 6,000	0	0 - 6,000	0
	6,001 - 35,000	15	6,001 - 37,000	15
	35,001 - 80,000	30	37,001 - 80,000	30
	80,001 - 180,000	38	80,001 - 180,000	37
	180,001+	45	180,001+	45
LITO	\$1,350		\$1,500	
Effective tax free threshold	\$15,000		\$16,000	

Fairer and Simpler Tax Returns

From 1 July 2012, the Government will provide individual taxpayers with an optional standard deduction of \$500 in lieu of claiming work related expenses and the cost of managing their tax affairs. This amount of standard deduction will increase to \$1000 from 1 July 2013. This measure will cost \$703.7 million over three years from 2011-12.

Discount for Interest Income

From 1 July 2011, the Government will provide individuals with a 50 per cent tax discount on up to \$1000 of interest earned by individuals, including interest earned on deposits held in authorised deposit-taking institutions, bonds, debentures and annuity products. This measure will cost \$1.1 billion over four years from 2010-11.

Superannuation

A 12 Per Cent Superannuation Guarantee

From 12 July 2013, the Government will gradually increase the superannuation guarantee from the current 9 per cent to 12 per cent by 2019-20.

Year	Rate (%)
2013-14	9.25
2014-15	9.5
2015-16	10
2016-17	10.5
2017-18	11
2018-19	11.5
2019-20	12

Low Income Super Concessions

From 1 July 2012, the Government will contribute up to \$500 for workers with incomes up to \$37,000. This implies that those workers will pay no tax on superannuation guarantee contributions in 2012-13. This measure will cost \$887 million over three years from 2011-12.

Helping Older Workers Catch Up

From 1 July 2012, the Government will assist older Australians to make catch-up contributions by allowing workers aged 50 and over with balances below \$500,000 to make up to \$50,000 a year in concessional superannuation contributions. This measure will cost \$1.4 billion over four years from 2010-11.

Business Taxation

Resource Super Profits Tax

The Government will introduce a 40 per cent uniform Resource Profits Tax (RSPT) to apply to non-renewable resource projects from 1 July 2012. The RSPT will replace existing Commonwealth resource taxes (except for the Petroleum Resource Rent Tax), including crude oil excise. This measure will deliver \$3 billion in revenue in 2012-13 and \$9 billion in 2013-14.

Reducing the Company Tax Rate

In conjunction with the introduction of RSPT, the company tax rate will be reduced to 29 per cent for 2013-14 and to 28 per cent from 2014-15. For incorporated small businesses, the company tax rate will be reduced to 28 per cent from 2012-13. This initiative will cost \$300 million in 2012-13 and \$2 billion in 2013-14.

Small Business Instant Asset Write-off

From 1 July 2012, the threshold under which depreciable assets of small businesses can be immediately written-off will be increased from \$1000 to \$5000. In addition, small businesses that elect to pool their assets will also be able to depreciate other assets (apart from buildings) in one pool at a rate of 30 per cent, which will replace the two pools under the existing law. These measures will cost around \$1 billion by 2013-14.

Resource Exploration Rebate

The Government will also provide a \$1.8 billion resource exploration rebate over four years from 2010-11 to support small exploration companies.

Other Tax Initiatives

GST Compliance Program

The Government will provide **\$337.5 million** over four years to the Australian Tax Office (ATO) to fund additional activities to promote voluntary GST compliance. This measure will address issues relating to fraudulent GST refunds, systematic under-reporting of GST liabilities, non-lodgement of GST returns and non-payment of GST debts. It is expected to result in additional revenue of just over \$1 billion over the forward estimates due to increased taxpayer compliance.

Increase in Tobacco Excise

On 30 April 2010, the tobacco excise was increased by 25 per cent and is expected to provide \$5 billion over five years to Government revenue.

Infrastructure

\$5.6 billion Infrastructure fund

The Government will establish a \$5.6 billion Infrastructure Fund over the next decade through revenue raised by the RSPT. Funding for this initiative will start at \$700 million in 2012-13 with a further \$735 million to be added in 2013-14.

Increasing Freight Capacity

The Government will make a \$996 million equity investment in the Australian Rail Track Corporation for upgrades to major rail freight networks along the Brisbane to Melbourne, Melbourne to Adelaide and Sydney to Perth rail corridors.

The Government has also committed \$71 million towards the development of an intermodal terminal precinct at Moorebank in Sydney and complement the Government's other investments in rail.

Industry Initiatives

Reduction in Funding for Green Car Innovation Fund

The Government will reduce funding for the Green Car Innovation Fund by \$200 million over three years from 2011-12.

Funding of \$790.4 million over 9 years for the Green Car Innovation Fund will still be available to provide support for eligible Australian companies.

Extra Funding for TCF Innovation

The Government will provide an additional \$5.0 million in 2010-11 for the Textile, Clothing and Footwear Strategic Capability Program (TCF-SCP) to build innovative capability at the enterprise and workplace levels in TCF industries. The program will now also be able to support smaller projects, with the eligibility threshold reduced from \$1 million to \$500,000.

Streamlining Business Names Registrations

The Government will invest **\$125.2 million** in a national register for business names that will enable business owners to register their business names just once.

Other Business and Industry Initiatives

Other business and industry initiatives include:

- Small businesses that account for GST on a cash basis will be allowed to claim input tax credit up front in relation to hire purchase agreements.
- The budget provides **\$2.7 million** to improve access to early intervention dispute resolution services for those operating under the Franchising Code of Conduct, the Horticulture Code and the Produce and Grocery Industry Code.
- Small business also stands to benefit from the announcement of **\$661 million** in new funding for skills and education, including 39,000 new training places in high-demand sectors and 22,500 new apprenticeships.

The move towards simplifying the rules around how listed companies can issue bonds to retail investors should help small and mid-cap companies who have found their access to finance greatly reduced since the onset of the GFC.

- The IT sector will benefit as a result of the **\$466.7 million** over the next two years to introduce the new electronic health records scheme, designed so patients and health providers can check medical histories online.
- The film sector stands to benefit from the **\$6.9 million** over four years to fund changes to the film tax offsets program. The minimum qualifying expenditures for the post, digital and visual effects offset will fall from \$5 million to \$500,000, while the Government will also remove the requirement for films with a production value of between \$15 million and \$50 million to spend a minimum of 70 per cent of their production budgets in Australia.

Tourism

The tourism industry stands to gain from two particular initiatives outlined in the budget:

- **\$5.5 million** over four years to implement and operate the National Tourism Accreditation Framework (NTAF) to strengthen Australia's tourism industry.
- A further **\$4.1 million** in Australia's international tourism trade between China and Australia, via the China Approved Destination Status (ADS) Scheme which will ensure inbound tour operators continue providing a quality service to leisure tour groups from China, based on their compliance with the ADS Code of Business Standards and Ethics.

Environment and Energy

The budget papers show that some of the savings from the deferral of the CPRS have been redirected to a new Renewable Energy Fund and other initiatives. The Clean Energy Initiative in the main incorporates and extends previously announced initiatives and funding. The 2010 budget announcements include:

- A **\$5.1 billion** Clean Energy Initiative including:
 - A new **\$625 million** Renewable Energy Future Fund over four years to provide additional support for the development and deployment of large and small scale renewable energy projects, and to enhance take-up of industrial, commercial and residential energy efficiency, helping Australian businesses and households reduce their energy consumption.
 - The **\$2 billion** Carbon Capture and Storage Flagships Program (previously announced)
 - The **\$1.5 billion** Solar Flagships Program (previously announced) which has allocated feasibility funding for eight projects including two potential solar photovoltaic projects in Victoria with Infigen/Suntech and Mildura.
 - A further **\$110.5 million** from existing programs to be invested in key solar projects under the previously announced Renewable Energy Demonstration Program and to Australia Solar Institute research projects.
- Continued support for the Australian Carbon Trust and the implementation of the National Strategy on Energy Efficiency.

- A boost for geothermal energy exploration with a new resource exploration rebate that provides an immediate cash benefit of \$300,000 for companies in a tax loss position that spend \$1 million on exploration.
- Retention of **\$790.4 million** over nine years for the Green Car Innovation Fund.
- A redesigned Green Loans program, with an additional **\$102.7 million** for home sustainability assessments to reach around 900,000 households.
- Funding of \$439 million to fix the insulation scheme including \$15 million to installers affected by the scheme's abrupt end.

Employment, Education and Training

The budget includes a **\$661 million** Skills for Sustainable Growth Strategy that will provide up to 70,000 new training places and support 22,500 new apprentices to boost the skills of our workforce and lift productive economic capacity.

The Government has announced a number of new and extended employment, education and training measures in the budget 2010-11.

VET and Skills Development

- **\$200.2 million** over four years to establish a Critical Skills Investment Fund to provide 39,000 training places in skill shortage areas including the resources, construction and renewable energy sectors. Approved on a competitive basis, it would fund up to 90 per cent of training costs for small businesses and 50 per cent for large businesses (200 or more employees) for existing workers and job seekers.
- Establish a National Training Entitlement in partnership with State and Territory Governments, that would provide a guarantee to all persons under 25 of a subsidised training place at Certificate II level or at the level above their current highest qualification, to be funded by reallocating National Partnership Productivity Places funding.
- **\$53.6 million** over four years to provide income-contingent loans for higher level qualifications at diploma level and above (VET FEE HELP).
- **\$55 million** over four years to establish a National Vocational Education and Training (VET) Regulator from April 2011.
- **\$129.8 million** over four years to fund a Quality Skills Incentive available to the top 100 public and private Registered Training Organisations to drive quality outcome improvements.
- **\$4.1 million** over four years to establish a *MySkills* website to provide information to students and employers on pathways, commencement and completion data, and student and employer satisfaction.
- The budget includes an additional **\$106.2 million** over four years to boost language literacy and numeracy skills as part of its Foundation Skills package. This includes:

- **\$23.5 million** over four years to establish the National Foundation Skills Outreach and Leadership Project to develop a national adult literacy and numeracy strategy, improve the core skills of trade apprentices, and a national education campaign to de-stigmatise participation in language, literacy and numeracy training.
- **\$67 million** over four years to expand the Language, Literacy and Numeracy Program (LLNP) to assist 70,000 job seekers.
- **\$15.7 million** over four years to expand the Workplace English Language and Literacy Program (WELL), including an additional 9,500 workplace based places, and 8,000 innovative community-based places.
- **\$5.3 million** over four years to implement the National Green Skills Agreement, to revise and rewrite training packages, up-skilling Vocational Education and Training instructors and teachers in green skills and develop and implement a strategy to re-skill vulnerable workers.

Apprenticeships

- **\$79.4 million** to extend the Apprenticeship Kickstart Initiative for six months through to 12 November 2010. It provides an additional \$3,350 to employers who recruit an apprentice aged 19 and under in skill shortage areas.
- **\$19.9 million** over four years for the Smarter Apprenticeships initiative to support a transition from time-served to a competency-based system for apprentices. (This replaces the Fast-Track Apprenticeships Program).
- The Government will appoint an Expert Panel to advise on reforms to the Australian Apprenticeships system, including training arrangements, financial incentives, and improving outcomes for students and employers. The Panel will report by the end of 2010.
- The Innovation Commencement Incentive will cease from 12 May 2010, with funds redirected to support the Skills for Sustainable Growth package. The Securing Australian Apprenticeships Through Registered Training Organisations initiative will cease from 12 May 2010, which funded training for out-of-trade apprentices.

Employment

- New Disability Support Pension (DSP) assessments will require applicants to provide sufficient evidence that they are unable to work independently, even with assistance and support, before being eligible. Those with a work capacity will be referred to Job Services Australia or Disability Employment Services.

Economic Outlook

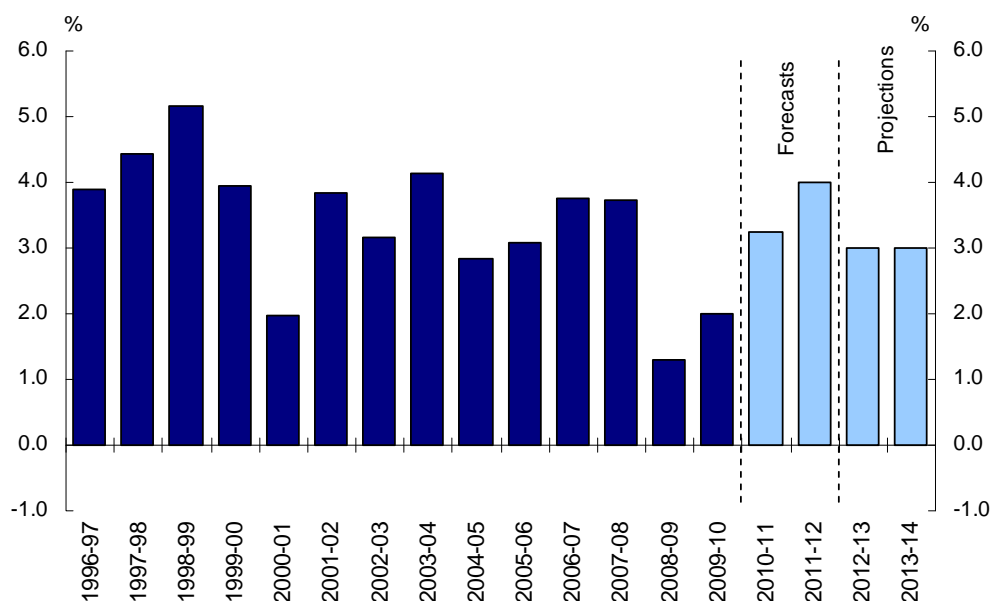
The Australian economy slowed significantly in 2009 but outperformed other advanced economies in a year of unprecedented global economic turbulence.

Overall the domestic downturn was relatively shallow, in part a result of monetary and fiscal policy stimulus.

While the global economic recovery is expected to be uneven, the outlook for the Australian economy is increasingly positive with strong prospects for the Asian region expected to support a rising terms of trade and a rebound in business investment. As the Government's fiscal stimulus is being phased out, much of the expansion will come from a recovery in private sector investment, together with household consumption and exports.

Forecast economic growth for 2010-11 is expected to reach 3.25 per cent, and accelerate to 4 per cent in 2011-12.

Treasury Economic Growth Forecasts



After solid **business investment** growth in 2008-09, growth in investment is forecast to decline by 2 per cent in 2009-10. However, business investment is expected to be a significant contributor to growth over the outlook period, increasing by 7 per cent in 2010-11 and 12.5 per cent in 2011-12.

Household consumption is forecast to increase by 2.75 per cent in 2009-10 as confidence improves, and expand by 3.25 per cent in the following year, supported by a strong labour market, increased confidence and higher asset prices.

Public final demand, having risen strongly in 2009-10, is forecast to moderate in 2010-11 and 2011-12, reflecting the unwinding of the Government's fiscal stimulus measures and a broader moderation in spending growth across other levels of Government.

Domestic Economy Forecasts(a)

TREASURY, DOMESTIC ECONOMY FORECASTS				
	Outcomes	Estimate	Forecasts	
	2008-09	2009-10	2010-11	2011-12
Demand and Output				
Household consumption	1.9	2 3/4	3 1/2	4
Dwellings	-1.9	3	7 1/2	4
Business Investment	6.6	-2	7	12 1/2
Private Final Demand	2.3	1 3/4	4 1/2	6
Public Final Demand	4.3	7 1/4	1	- 1/2
Domestic Final Demand	2.7	3	3 3/4	4 1/2
Change in Inventories (a)	-0.9	3/4	1/2	0
Exports	0.1	1 1/2	5	6
Imports	-2.8	5	9	8 1/2
Net Exports (a)	0.6	- 3/4	-1	- 3/4
Real GDP	1.3	2	3 1/4	4
Non-farm	1.0	2	3 1/2	4
Farm Product	17.6	6	1	2
Other Selected Measures				
Terms of trade	9.6	-3 3/4	14 1/4	-3 3/4
Employment (b)	0.1	2 1/2	2 1/4	2
Unemployment Rate (c)	5.7	5 1/4	5	4 3/4
Consumer Price Index (b)	1.5	3 1/4	2 1/2	2 1/2
Wage Price Index (b)	3.8	2 3/4	3 3/4	4

(a) contribution to growth

(b) year-end June quarter

(c) estimate for June quarter

Exports are forecast to grow solidly in both 2010-11 and 2011-12, as the world economy continues to strengthen and new resources production comes on line. The recovery in exports is expected to be broad-based, but with particular strength in non-rural commodity exports.

Imports are expected to increase strongly in both 2010-11 and 2011-12, reflecting rising domestic demand and a strong Australian dollar. The growth in imports is expected to be broadly based, although the contribution of capital goods imports — driven by the capital expenditure of major mining projects — is expected to be substantial.

The **unemployment rate** is expected to continue to fall, reaching 5 per cent by the end of 2010-11 and 4.75 per cent by the end of 2011-12, around its full employment rate.

Employment is expected to grow by 2.25 per cent through the year to the June quarter 2011 and 2 per cent through the year to the June quarter 2012, absorbing strong growth in the labour force associated with rapid growth in the working age population and an expected increase in the participation rate.

Wages growth is expected to recover after growing close to its slowest rate on record through 2009. The Wage Price Index is expected to grow by 3¾ per cent through the year to the June quarter 2011 and 4 per cent through the year to the June quarter 2012.

Underlying **inflation** is expected to stabilise at around 2.5 per cent through 2010-11 and 2011-12. Headline inflation is expected to be 3.25 per cent through the year to the June quarter 2010 and 2.5 per cent through the year to the June quarter of both 2011 and 2012.

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