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Federal Budget

2015-2016

Advance Australia Fair

After criticism that his first budget was too tough and unfair, Treasurer Joe Hockey has used his second budget to restore the confidence of ordinary Australians and shift the focus to jobs, growth and opportunity.

Gone is the talk of a budget emergency. Instead, the Coalition government has unveiled nearly \$10 billion in spending initiatives for small business and families. There is also support for youth unemployed and drought-stricken farmers with a message that “this is a time to get out there and have a go”.

While the emphasis on debt and deficit was somewhat muted, the Treasurer announced that the timetable back to surplus was unchanged.

The big picture

The budget deficit is expected to grow to a lower than expected \$35.1 billion next financial year on the path to \$6.9 billion in 2018-19. This is well below market expectations of around \$45 billion this year and next.

Even so, the improved deficit forecast for next year is significantly higher than the \$17 billion forecast this time last year. The Treasurer acknowledged that local and global economic conditions have been, and remain, challenging.





One of the main reasons for the deteriorating budget position over the past year is the sharp fall in commodity prices. The government had been forced to write-off \$90 billion of expected revenues over the past 18 months, due largely to falling commodity prices.

Iron ore fell 65 per cent below its 2014 high of US\$135.27 a tonne to a decade low of US\$47.08 in April. The price has since recovered to more than US\$63 a tonne, compared with government estimates of US\$48 a tonne in its forward estimates, which provides some hope of a positive surprise in time for next year's budget.

The Treasurer has forecast the economy will grow at 2.75 per cent in 2015-16, in line with the Reserve Bank's forecast 2-3 per cent. However, unemployment is projected to remain stubbornly high at 6.5 per cent in 2015-16, falling to 6.25 per cent then 6 per cent in the years following.

Small Business

Small businesses with a turnover of less than \$2 million have been singled out as one of the major growth engines of the economy.

In order to encourage the sector to invest, innovate and create new jobs, small business will receive a 1.5 percentage point tax cut to 28.5 per cent, the lowest in almost 50 years. Unincorporated businesses have not been forgotten – they will receive a five per cent tax discount worth up to \$1000 a year.

The small business instant asset write-off will also be increased from the current \$1000 to \$20,000, starting immediately. This measure will help small businesses manage their cash flow and reduce paperwork at tax time.

The government is also abolishing fringe benefits tax for small businesses on portable devices such as mobiles, tablets and laptops. And in a nod to the growing importance of the entrepreneurial sector, employees in start-ups will receive tax breaks on shares they receive as part of their remuneration.

Farmers

The importance of farmers and the agricultural sector to national productivity has also been recognised.

Farmers will receive \$300 million for drought assistance as well as tax deductions for investment in new water facilities and fencing.

New infrastructure spending is also aimed at regional Australia. Northern Australian businesses and states are to get a \$5 billion concessional loan scheme for infrastructure projects.

In addition, every federal electorate is to receive \$150,000 for investment in local infrastructure projects as part of a new "Stronger Communities" fund which will cost \$45 million over two years. The initiative is designed to stimulate local economies, especially in rural areas where under-employment is an issue.

“This budget helps build a stronger, safer, more prosperous Australia. It’s time for all Australians to get out there and have a go.” Treasurer Joe Hockey.

Families

As previously announced, the government’s new \$3.5 billion childcare reforms are not due to come into force until 2017-18, when the budget deficit is forecast to be substantially reduced. The move is designed to get more families to increase their working hours and is targeted at families earning less than \$170,000.

The bulk of the new spending is to be funded by savings from Family Tax Benefit Part B, which still needs to be passed by the Senate, and the scrapping of the Coalition’s proposed paid parental leave scheme.

Investors and retirees

The good news for retirees is that the government will continue to index the age pension to wages, not inflation. It has also repeated its pledge not to make any changes to superannuation in this term of government and has maintained its hands-off approach to negative gearing, dividend imputation and capital gains tax discounts.

There will, however, be \$2.4 billion in savings from an increase in the age pension asset test threshold and taper

rate. For example, couples with assets, excluding their home, above \$823,000 will lose their pension instead of the current \$1.15 million cut off.

Youth unemployed

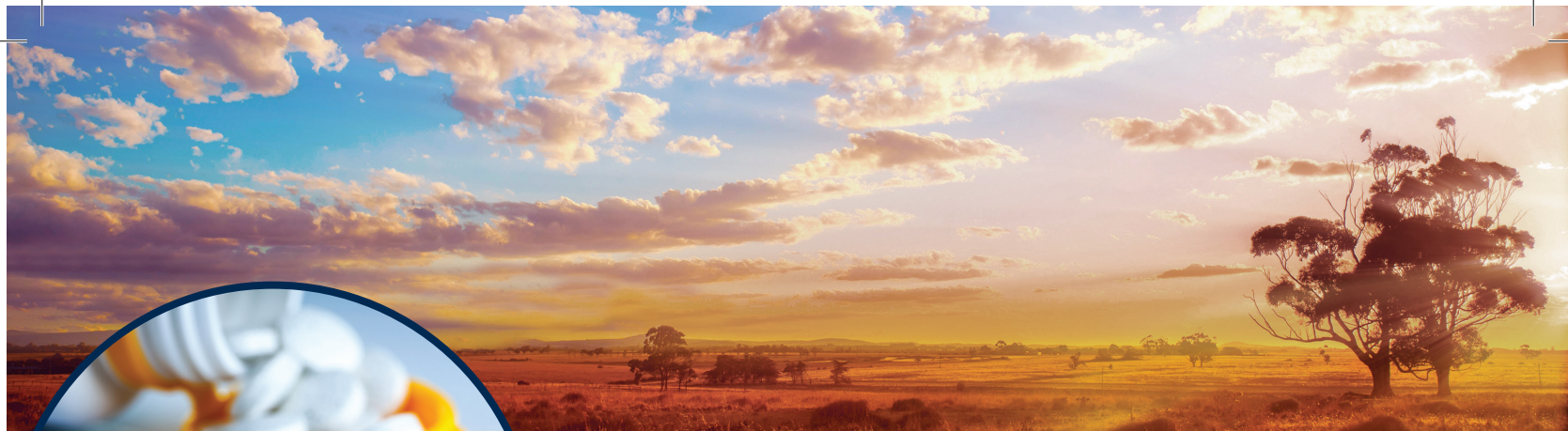
In an acknowledgement that youth unemployment is unacceptably high, the government will spend \$330 million to help young and disadvantaged Australians into work.

The much-criticised proposal in last year’s budget to make people aged under 30 wait six months before being eligible for unemployment benefits has been modified. The wait will be cut to four weeks for people aged under 25.

At the other end of the scale, employers will be paid \$10,000 over 12 months, up from two years, if they hire and keep older workers aged 50-plus.

Young foreigners on working holidays have fared worse. They will be expected to pay tax on every dollar of income they earn, losing their entitlement to the tax-free threshold of almost \$20,000.





Health and education

There are no major changes to health or education after the furore over the proposed GP co-payment and university fee deregulation of last year's budget.

The pharmaceutical benefits scheme is to receive an additional \$1.6 billion for new drugs, including subsidised treatments for bowel and breast cancer and melanoma.

National security

The government plans to spend \$1.2 billion on moves designed to make Australia safer. It has increased spending on Australia's military operations, including the war against Islamic State in Iraq, by \$750 million. It will also commit a further \$450 million to the fight against home-grown terrorism.

An extra \$400 million will also be spent on Australia's new Border Force Agency which will begin operating on July 1, 2015. This is in addition to the \$711 million over six years allocated in last year's budget.

The new body aims to post up to 6000 mainly armed officers at immigration detention centres, airports, shipping terminals and at sea.

'Google & Netflix tax'

In a move designed to stop profit shifting and tax avoidance by large multinational companies such as Google, the Australian Taxation Office has been given more power to recover unpaid taxes and issue additional fines of 100 per cent of those unpaid taxes, plus interest.

In addition, foreign companies selling digital downloads to Australian consumers will be subject to the goods and services tax (GST). This so-called 'Netflix tax' is designed to level the playing field for local companies and would deliver \$350 million in extra revenue to the states.

Looking ahead

This budget has refrained from any major structural reforms. It should, however, go a long way towards restoring faith in the government's commitment to a fair go for all. Most of the spending initiatives favour low and middle-income earners and the neglected small business and rural sectors.

Just as importantly, these measures are also designed to boost consumer confidence, spending and economic growth.

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