

COMMITTEE FOR MELBOURNE BRIEFING NOTE

2016-17 Federal Budget Overview

The 2016-17 Federal Budget aims to be a fiscally responsible budget designed to deliver growth and jobs with tax cuts to address bracket creep for a substantial part of the Australian population. Multinational businesses will face tougher rules by the Australian Tax Office to combat tax avoidance. Changes to superannuation will impact on well-off retirees through a \$1.6 million cap on amounts that can be transferred into tax-free retirement accounts.

Claiming a continued path to a balanced economy, the Budget cautiously forecasts a deficit for 2016-17 of \$37.1 billion to match the Government's projection of steady, but modest growth of the Australian economy. While lower company tax rates are a further shot in the arm for small and medium-sized business, benefits to business overall are for the longer term. The Budget offers only a relatively modest effort to support business start-up opportunities. For a government professing to support innovation and entrepreneurship to help underpin a vibrant new economy, further incentives may be considered for future years.

This brief provides a summary of key highlights from the *2016-17 Federal Budget*, addressing issues most relevant to the Committee for Melbourne's agenda.

Table 1 | Budget Aggregates

	2016-17	2017-18	2018-19	2019-20
Budget Surplus/Deficit (\$ Billion)	-37.1	-26.1	-15.4	-6.0
<i>Per Cent of GDP</i>	-2.2	-1.4	-0.8	-0.3
Net Debt as Per Cent of GDP	18.9	19.2	18.8	17.8

Table 2 | Economic Context

% Change	2016-17	2017-18	2018-19	2019-20
Real Gross Domestic Product (GDP)	2.50	3.00	3.00	3.00
Unemployment Rate (%)	5.50	5.50	5.50	5.50
Consumer Price Index	2.00	2.25	2.50	2.50
Wage Price Index	2.50	2.75	3.25	3.50

Business Growth

The Government's ten year enterprise plan is designed to boost new investment, create and support jobs, and increase real wages by including tax cuts and incentives for small and medium-sized businesses. While the measure will reduce revenue by \$5.3 billion over the next four years, it is expected that the offset will be derived from other increased revenue measures:

- From 1 July this year, the small business tax rate is to decrease to 27.5 per cent and the turnover threshold for small businesses will increase from \$2 million to \$10 million. It is expected that businesses with a turnover of less than \$10 million will be able to access other tax incentives, such as small business depreciation pooling provisions, simplified trading stock rules, and the Pay-As-You-Go instalments payment option;
- From 1 July, access to instant write-off for equipment purchases of up to \$20,000 – which expires on 30 June 2017 – will be extended to businesses with a turnover of less than \$10 million;
- Each year the turnover threshold for the company tax rate of 27.5 per cent will be made increasingly available to businesses:
 - A threshold increase from \$10 million to \$25 million in 2017-18;
 - An increase to \$50 million in 2018-19; and
 - An increase to \$100 million in 2019-20.
- Phase two of the ten year enterprise tax plan is to extend the tax rate of 27.5 per cent to all businesses by 2023-24, before finally reducing it to 25 per cent at the end of a ten-year period in 2026-27 (flat tax).

Reducing Bracket Creep

The Budget contains measures to prevent average full-time wage earners from moving into the second highest tax bracket:

- From 1 July, the upper limit for the middle income bracket is to be increased from \$80,000 to \$87,000 per year to stop around 500,000 taxpayers from facing the 37 per cent second top marginal tax rate.

Changes to Superannuation

The Budget includes measures intended to support those more at risk by reducing access to superannuation tax concessions for the most well-off and by providing tax assistance for low income earners:

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- Introducing a transfer balance cap of \$1.6 million on amounts moving into the tax-free retirement phase;
 - Extending the 30 per cent tax on concessional contributions to those earning over \$250,000 per annum;
 - Reducing the annual cap on concessional superannuation contributions to \$25,000;
 - Establishing a lifetime non-concessional contribution cap of \$500,000;
 - From 1 July 2017, a Low Income Superannuation Tax Offset will be introduced to ensure people earning less than \$37,000 are not paying more tax on their superannuation than on their income.

Tax Avoidance

Measures designed to combat tax avoidance by multinationals are included in the Budget:

- Starting in July 2017, Australia will get a new Diverted Profits Tax law to prevent multinationals shifting profits made in Australia offshore to avoid paying tax. Penalties will include a 40% tax on the diverted profits;
- Strengthening protections for whistle blowers who report tax avoidance;
- Increasing penalties for multinationals failing to meet their compliance and disclosure obligations to the Australian Taxation Office;
- Establishing an operational taskforce of more than 1,000 specialist staff in the Australian Taxation Office to police multinationals, private companies and high-wealth individuals avoiding their Australian tax obligations.

Jobs for Youth

The Budget aims to help young Australians get real jobs and overcome the significant number of children growing up jobless through establishing the Youth Jobs PaTH – Prepare, Trial, Hire, designed to assist young people develop confidence, skills, attitudes and behaviours expected by employers:

- From 1 April 2017, young job seekers may participate in intensive pre-employment skills training within five months of registering with *jobactive*;
- In stage two, an internship program with up to 120,000 placements over four years will aim to assist young job seekers who have been in employment services for over six months to gain valuable work experience;
- With assistance from *jobactive*, providers, job seekers and businesses may have the opportunity to work together to design internship placements of four to twelve weeks' duration during which job seekers will be able to work from 15 to 25 hours per week;

- Job seekers will be able to receive \$200 per fortnight on top of regular income support payment while participating in the internship;
- Businesses can receive an up front payment of \$1,000 per intern; and
- In stage three, Australian employers may be eligible for a Youth Bonus wage subsidy worth between \$6,500 and \$10,000.

National Infrastructure Plan

A national infrastructure plan has been allocated \$50 billion in order to support economic growth. It includes:

- Construction of an integrated inland Brisbane and Melbourne rail link connection through the provision of \$594 million in additional equity to the Australian Rail Track Corporation for land acquisition, continuation of pre-construction works and due diligence activities;
- Establishment of a \$2 billion Water Infrastructure Loan Facility to catalyse new investment in dams and pipelines across Australia and add to the existing National Water Infrastructure Development Fund and the Northern Australia Infrastructure Facility;
- New funding commitments for road and rail infrastructure, including the Monash Freeway and the Murray Basin Freight Rail; and
- Additional infrastructure investment allocated to projects, including the Sydney and Melbourne Metro projects and regional road and rail freight corridors across New South Wales and Victoria.

Health and Education

The Budget includes some support for hospitals and schools:

- Additional funding of \$2.9 billion provided to state and territory hospitals to improve patient safety, improve quality of services and reduce avoidable hospitalisations;
- \$118 million of extra funding to support students with a disability;
- New funding through the National Disability Insurance Scheme (NDIS) to protect people with a disability from welfare cuts;
- From 2018, \$1.2 billion over three years of extra funding provided to schools; and
- The university fee deregulation policy has been removed.

Other Relevant Issues

- An annual increase of 12.5 per cent in the tobacco excise over the four years to 2020, which is expected to raise \$4.7 billion in revenue.