

COMMITTEE FOR MELBOURNE BRIEFING NOTE

2015-16 Federal Budget Overview

Overview

Having progressively released most of the budget measures over the last two weeks, Federal Treasurer Joe Hockey’s second budget contained few surprises with the debt and deficit trajectory largely left unchanged from the December forecast.

The budget forecasts deficits totalling \$82 billion over the next four years, which is \$12 billion more than the mid-year budget. The Commonwealth’s revenues are affected by a number of areas, including softening wage growth, plunging iron ore prices and a loss of import taxes as a result of a number of free trade agreements.

This brief provides a summary of key highlights from the *2015-16 Federal Budget*, addressing issues most relevant to the Committee for Melbourne’s agenda.

Table 1 | Budget Aggregates

	2015-16	2016-17	2017-18	2018-19
Budget Surplus/Deficit (\$ Billion)	-35.1	-25.8	-14.4	-6.9
<i>Per Cent of GDP</i>	-2.1	-1.5	-0.8	-0.4
Net Debt as Per Cent of GDP	17.3	18.0	17.6	16.8

Table 2 | Economic Context

% Change	2015-16	2016-17	2017-18	2018-19
Real Gross Domestic Product (GDP)	2.75	3.25	3.50	3.50
Unemployment Rate (%)	6.50	6.25	6.00	5.75
Consumer Price Index	2.50	2.50	2.50	2.50
Wage Price Index	2.50	2.75	2.75	3.25

Transport Infrastructure

The government is intending to claw back the \$1.5 billion in federal funds that were earmarked for the East West Link, while booking a commitment to the project as a contingent liability in case it goes ahead at a later date.

Other federal transport infrastructure funding initiatives include:

- The Western Highway – Ballarat to Stawell Duplication: \$501.3 million with \$73.1 million provided in 2015–16;
- The Tullamarine Freeway Widening (Section 1): \$200 million with \$19.7 million provided in 2015–16;
- The Princes Highway West – Winchelsea to Colac Duplication: \$185.5 million with \$20.7 million provided in 2015–16;
- The St Albans Road Rail Level Crossing: \$151 million with \$110.9 million provided in 2015–16; and
- The Princes Highway East – Traralgon to Sale Duplication: \$210 million with \$20 million provided in 2015–16.

Jobs and Growth

The government announced a \$5.5 billion package to help small businesses, which includes the following:

- Measures to lower the tax burden for small business owners (annual turnover < \$2 million), which will be lowered to the tune of 1.5 per cent, costing the government \$1.45 billion;
- For smaller, unincorporated businesses (sole traders, partnerships, trusts, etc.) there will be a five per cent tax offset capped to a maximum value of \$1,000;
- Small businesses can claim immediate tax deductions for as many sub-\$20,000 purchases as they make up to 30 June 2017, rather than having to claim those purchases as deductions spread over several years;
- For start-ups, business registration will be streamlined, with a one-stop online shop for setting up a business. Start-ups will also be able to immediately deduct expenses, such as legal fees they incur when setting up a new company;
- The Medical Research Future Fund is intact despite the \$7 Medicare co-payment not going ahead. It will be established from August 1 this year and have total funds of \$3.48 billion, largely due to a \$2.4 billion contribution from savings elsewhere in the budget; and
- Young people at risk of long-term welfare dependency will be the target of a \$330 million jobs package with money for areas of high youth unemployment, young people with mental health concerns and young migrants. The package also includes a 6,000-place national work experience program, which will offer wage subsidies for employers to hire young people after four weeks of unpaid work.

Child and Healthcare

The government's announcements are aimed at increasing workforce participation, which is one of the two key findings of the Productivity Commission's Inquiry Report into Child Care and Early Childhood Learning (October 2014), and are scheduled to commence on 1 July 2017. The policy is to cost \$3.5 billion over four years, funded by cuts to Families Tax Benefit payments stuck in the Senate.

The current system (Childcare Benefit, Childcare Rebate and Jobs, Education and Training Child Care Fee Assistance programs) will be replaced by a single means tested Child Care Subsidy for up to 100 hours of subsidised care per child per fortnight. Furthermore, the subsidy will be paid directly to approved care service providers.

Key measures include:

- Families earning up to \$60,000 will receive 85 per cent of the actual fee paid up to an hourly fee cap. That will reduce to 50 per cent for families with incomes of \$165,000.
- Families on incomes under \$180,000 will no longer have a cap on the amount of subsidy they receive. However, a cap of \$10,000 per child, at the time of introduction, will be established for the total value of subsidies for family incomes of \$180,000 and above.
- If they work more than 48 hours they will receive more than 100 hours of benefit. Volunteering, paid work and study all count towards the hours required for the activity test.

Given that the package will not commence until 2017 and is to be funded by savings generated through tightening access to the Family Tax Benefit, as outlined in last year's budget, there is significant potential for changes before implementation.

Furthermore, new parents with workplace maternity leave schemes that are more generous than the federal scheme will no longer be able to access the federal government's policy, while those with schemes less generous will only be able to access the gap between the two. The government estimates that the changes will net approximately \$1 billion over the forward estimates.

Education

It is business as usual in terms of last year's higher education reforms despite the reality of the government's plans being knocked back twice by the Senate. There are also funding cuts to an ad hoc raft of programs.

Key government initiatives include:

- \$1.3 billion to help students with disabilities and their families through extra help in the classroom;
- Total federal funding for primary and secondary schools will go up by \$4.1 billion over the next

four years, and there is an extra \$16.9 million to improve the quality of teacher education;

- An extension of the National Collaborative Research Infrastructure funding for one more year at cost of \$150 million;
- A cut of \$150 million from Sustainable Research Excellence grants funding to redirect to research infrastructure;
- The government will try to recoup some funds by asking university graduates living overseas to start paying back their HELP debts once they pass the \$53,000 income threshold; and
- Apprentices will receive \$664 million, including \$7,500 scholarships for employers to take on and train unemployed young people, and another \$1.8 million to continue the Trade Support Loans.

Taxation

- The government has introduced new documentation standards for transfer pricing purposes commencing 1 January 2016. The aim of these new initiatives is to counter treaty abuse¹, enforce anti-hybrid rules² and prevent harmful tax practices by introducing the exchange of information on secret tax deals.
- The government has broadened the GST net to cover cross-border supplies of digital products and services imported by consumers from 1 July 2017, with a view to generate GST revenue of \$350 million.
- New laws, targeted at multinationals who artificially avoid having a taxable presence in Australia, have also been announced. These laws will attempt to force them to pay tax in Australia on profits from economic activities undertaken within the country and will attempt to capture foreign companies which generate over \$1 billion in global revenue that supply goods and services to Australians.
- The Research and Development (R&D) Incentive has been revised to include a cap on the amount of eligible R&D expenditure for which companies can claim a tax offset at a concessional rate. R&D that meets certain requirements and exceeds the \$100 million cap will be eligible for an offset equal to the company tax rate. These changes will have retrospective effect and commence from income years beginning on or after 1 July 2014.
- In the Not-for-Profit (NFP) sector a \$5,000 cap for FBT Salary Sacrifice for entertainment will be introduced from 1 April 2016. This FBT concession has been widely utilised in the health sector and to some extent has been factored into employees' remuneration. This change will put pressure on NFP wages, particularly in the hospital sector.

¹ Treaty abuse refers to bilateral tax treaties that grant treaty benefits in inappropriate circumstances, leading to double non-taxation practices.

² Hybrid mismatch arrangements can be used to achieve unintended double non-taxation or long-term tax deferral by, for instance, creating two deductions for one borrowing, generating deductions without corresponding income inclusions, or misusing foreign tax credit and participation exemption regimes.