FEDERAL BUDGET 2018 REVIEW

Business SA
Chamber of Commerce and Industry South Australia

Overview

The 2018/19 Federal Budget is balancing a faster return to surplus with broader incentives in the economy, primarily through new personal income tax cuts. With the budget deficit down to $14.5 billion in 2018/19, from $40 billion in 2015/16, a surplus is now expected in 2019/20, one year earlier than expected. However, this surplus is still based on healthy economic growth forecasts and remains relatively tentative.

While still running a deficit budget, tax cuts are initially focused on low to middle income earners, with broader tax cuts to unfold over seven years. To enable these tax cuts, the Government is making savings in areas such as the R & D tax incentive, while also clawing back $5.3 billion over four years through a crackdown on the black economy.

Infrastructure spending is still a major funding focus, with significant commitments for South Australia's North/South Corridor, the duplication of the Joy Baluch Bridge in Port Augusta as well as the long awaited Salisbury to Gawler railway line electrification.

Small businesses will benefit directly from a one-year extension in the instant asset write-off for capital expenditure items under $20,000 while there are numerous incentives aimed at increasing workforce participation amongst older Australians, including those starting their own businesses.

Deficit Position

	Actual budget (cash) deficit $ b		Forecast budget (cash) deficit $ b					
Budget	15/16	16/17	16/17	17/18	18/19	19/20	20/21	21/22
17/18	-39.60		-37.60	-29.40	-21.40	-2.50	7.40	
Mid-year Budget Review (Dec 17)		-33.20		-23.60	-20.50	-2.60	10.20	
18/19				-18.20	-14.50	2.20	11.00	16.60

The forecast budget deficit for 2017/18 is now $11.2 billion better than expected at the same time last year. This has significantly improved the path back to surplus while the medium term surplus goal is 1% of GDP, resulting in a $16.6 billion surplus by 2021/22.

Debt Position

	Actual net debt $ b		Forecast net debt$ b					
Budget	15/16	16/17	16/17	17/18	18/19	19/20	20/21	21/22
17/18	296.40		325.10	354.90	375.10	374.70	366.20	
Mid-year Budget Review (Dec 17)		322.30	325.10	343.80	363.20	365.20	355.30	
18/19				341.00	349.90	344.00	334.30	319.30

The Federal Government has made a strong statement that with the budget returning to surplus earlier than expected, that the focus from 2019/20 onwards will be reducing net debt which is expected to decline from $350 billion then to $319 billion by 2021/22.

Federal Economy

	Actual economic growth (real GDP)		Forecast economic growth (real GDP)					
Budget release	15/16	16/17	16/17	17/18	18/19	19/20	20/21	21/22
17/18	2.80%		2.60%	2.75%	3.00%			
Mid-year Budget Review (Dec 17)		2.00%		2.50%	3.00%	3.00%	3.00%	
18/19				2.75%	3.00%	3.00%	3.00%	3.00%

The Federal Economy continues to experience strong economic growth and the growth predictions from last year's budget for 2017/18 and 2018/19 into the forward estimates remain mostly at 3.0% per annum.

Federal Payments to States (including GST)

	Actual payments to South Australia $ b		Forecast payments to South Australia $ b	
Budget	15/16	16/17	17/18	18/19
17/18	8.89	9.86	10.58	10.47
18/19			10.70	10.77

Despite the strong rhetoric from South Australia's previous State Government, actual Federal payments to South Australia continue to grow, up to nearly $11 billion in 2018/19, a 21% increase in the last three years alone.

Budget Measures to directly impact South Australian business:

1. Extension to Instant Assets Write-off program

The instant asset write-off has been extended for a further 12 months to 30 June 2019 for businesses with aggregated annual turnover less than $10 million.

Small businesses will still be able to immediately deduct purchases of eligible assets costing less than $20,000 first used or installed ready for use by 30 June 2019. Certain assets are not eligible (such as horticultural plants and in-house software).

Assets valued at $20,000 or more (which cannot be immediately deducted) can continue to be placed into the small business simplified depreciation pool (the pool) and depreciated at 15% in the first income year and 30% each income year thereafter. The pool can also be immediately deducted if the balance is less than $20,000 over this period (including existing pools).

The current ‘lock out’ laws for the simplified depreciation rules (these prevent small businesses from re-entering the simplified depreciation regime for five years if they opt out) will continue to be suspended until 30 June 2019.

2. Company Tax Cuts

Despite opposition in the Senate to date, the Government has still included company tax cuts for all companies in the Budget, with the rate to fall to 25% by 2026/27. At present, the only cuts legislated are for companies with turnover less than $50 million.

3. R&D Tax Incentive

The Government will amend the research and development (R&D) tax incentive to better target the program and improve its integrity and fiscal affordability in response to the recommendations of the 2016 *Review of the R&D Tax Incentive*. The changes will apply for income years starting on or after 1 July 2018:

- **For companies with aggregated annual turnover of $20 million or more**, the Government will introduce an R&D premium that ties the rates of the non-refundable R&D tax offset to the incremental intensity of R&D expenditure as a proportion of total expenditure for the year. The marginal R&D premium will be the claimant’s company tax rate plus:
  - 4% for R&D expenditure between 0% to 2% R&D intensity;
  - 6.5% for R&D expenditure above 2% to 5% R&D intensity;
  - 9% for R&D expenditure above 5% to 10% R&D intensity; and
  - 12.5% for R&D expenditure above 10% R&D intensity.

- The R&D expenditure threshold — the maximum amount of R&D expenditure eligible for concessional R&D tax offsets, will be increased from $100 million to $150 million per annum.

- For companies with aggregated annual turnover below $20 million, the refundable R&D offset will be a premium of 13.5% above a claimant’s company tax rate. Cash refunds from the refundable R&D tax offset will be capped at $4 million per annum. R&D tax offsets that cannot be refunded will be carried forward as non-refundable tax offsets to future income years.

- Refundable R&D tax offsets from R&D expenditure on clinical trials will not count towards the cap.

These savings are significant, at $2.4 billion over the forward estimates period. Business SA is concerned that the $20 million threshold for changes will impact the ability of many medium sized businesses to undertake genuine research and development activities.

4. Beer Excise changes impacting Craft Brewers and Distillers

Craft brewers and distillers will no longer pay additional tax, enabling them to be more competitive with large beverage companies.

At present, draught beer sold in kegs exceeding 48 litres is taxed at lower rates compared with beer sold in smaller kegs. The concessional draught beer excise will now be extended to kegs of 8 litres or more, helping crafter brewers which typically use smaller sized kegs to distribute their beer to pubs and restaurants. Domestic distillers are also expected to benefit from this change.

Considering South Australia now has 44 craft brewers, including two opening next month, and 11 distilleries, this is a great boost for a growing part of South Australia’s dynamic food and beverage manufacturing sector.

The Government will also increase the alcohol excise refund scheme cap for eligible domestic producers up to $100,0000.

5. Cutting red-tape with simpler BAS statement reporting

The Government will streamline GST reporting for approximately 2.7 million small businesses by reducing the number of BAS GST questions from a 20-question worksheet to three. It is estimated the streamlining of the BAS statement report will save each small business an average of $590 per year.

Budget Measures to indirectly impact South Australian business:

6. Income tax cuts

Step 1: Targeted tax relief to low and middle-income earners

The Government will introduce the Low and Middle-Income Tax Offset, a non-refundable tax offset of up to $530 per annum to Australian resident low and middle-income taxpayers. The offset will be available for the 2018-19, 2019-20, 2020-21 and 2021-22 income years and will be received as a lump sum on assessment after an individual lodges their tax return.

The Low and Middle-Income Tax Offset will provide a benefit of up to $200 for taxpayers with taxable income of $37,000 or less. Between $37,000 and $48,000, the value of the offset will increase at a rate of three cents per dollar to the maximum benefit of $530. Taxpayers with taxable incomes from $48,000 to $90,000 will be eligible for the maximum benefit of $530. From $90,001 to $125,333, the offset will phase out at a rate of 1.5 cents per dollar.

The benefit of the Low and Middle-Income Tax Offset is in addition to the existing Low-Income Tax Offset. This first step of the Government's Personal Income Tax Plan will increase disposable incomes to help relieve household budget pressures.

Step 2: Protecting middle income Australians from bracket creep

From 1 July 2018, the Government will increase the top threshold of the 32.5% personal income tax bracket from $87,000 to $90,000. From 1 July 2022, the Government will increase the Low-Income Tax Offset from $445 to $645 and extend the 19% personal income tax bracket from $37,000 to $41,000 to lock in the benefits of Step 1. The increased Low-Income Tax Offset will be withdrawn at a rate of 6.5 cents per dollar between incomes of $37,000 and $41,000, and at a rate of 1.5 cents per dollar between incomes of $41,000 and $66,667. From 1 July 2022, the Government will further increase the top threshold of the 32.5% personal income tax bracket from $90,000 to $120,000. Together, these tax cuts represent the second step in the Government's Personal Income Tax Plan. The changes will improve the rewards from work and prevent more Australians from moving into higher tax brackets.

Step 3: Ensuring Australians pay less tax by making the system simpler

In the third step of the Personal Income Tax Plan the Government will simplify and flatten the personal tax system by removing the 37% bracket entirely. From 1 July 2024, the Government will extend the top threshold of the 32.5% personal income tax bracket from $120,000 to $200,000, to recognise inflation and wage growth impacts. Taxpayers will pay the top marginal tax rate of 45% from taxable incomes exceeding $200,000 and the 32.5% tax bracket will apply to taxable incomes of $41,001 to $200,000. This measure has a cost to revenue of $13.4 billion over the forward estimates period. This measure builds on the 2016-17 Budget measure Ten Year Enterprise Tax Plan — targeted personal income tax relief, which extended the 32.5% personal income tax bracket from $80,000 to $87,000 from 1 July 2016.

7. Infrastructure

Funding has been allocated to upgrade and maintain South Australia's road network. Currently South Australia is responsible for 11.7% of Australia's national local roads. The Government has announced $1.8 billion for priority regional and urban infrastructure in South Australia. This funding, which is included in the forward estimates, includes:

a) $1.4 billion for North-South Corridor future priorities (this includes $177.0 million for the section between Regency Road to Pym Street);
b) $220.0 million for the Gawler Rail Line electrification; and
c) $160.0 million for the Joy Baluch Bridge duplication in Port Augusta.

A number of key, funded, interstate projects include:

a) Melbourne airport rail link - $5 billion (to commence construction in 2023);
b) WA Metronet rail network - $1.1 billion;
c) Coffs Harbour Bypass - $971 million;
d) Nowra (NSW) bridge $155 million;
e) Australian Government buyout of Vic/NSW Government's Snowy Hydro share - $4.5 billion; and
f) Queensland - $3.3 billion for Bruce Highway upgrades and $1.5 billion for Northern Australia strategic roads.

8. Space Industry Agency

The Government has announced it will provide $41.0 million over four years from 2018/19 to grow Australia's space industry. This $41 million will include $26 million over four years from 2018/19 to establish a National Space Agency and $15 million to establish the International Space Investment project. The location of the National Space Agency has not yet been announced. The Investment project will provide grants for space projects generating employment and business opportunities for Australians. Between the Space Agency and the Investment project opportunities will arise for South Australian businesses to service this advanced industry.

9. Government tax receipt limit

The Government has committed to capping tax receipts to 23.9% of GDP, equivalent to the tax receipts during last two years of former Howard Government. Although it is a positive move to cap receipts at 23.9%, arguably this is still at a historically high level.

10. Film Fund

A total of $140m over four years from 2019-20 will be provided by the Government to attract international investment in the film production and related industries. This funding will complement the existing 'Location Offset' component of the Australian Screen Production Incentive tax rebate. South Australia's film and creative industry already generates world-class content and local businesses are well placed to take advantage additional international investment in this industry.

11. Clarifying the operation of Division 7A integrity rule

The Government will ensure that unpaid present entitlements come within the scope of Division 7A of the Income Tax Assessment Act 1936 from 1 July 2019. This will apply where a related private company is made entitled to a share of trust income as a beneficiary but has not been paid that amount, known as an unpaid present entitlement.

Other considerations arising from Budget:

12. No Increase in the Medicare levy

The Medicare levy will not be increased in the 2018/2019 budget and the levy rate will be retained at 2% rather than increasing the levy to 2.5% as previously planned from 1 July 2019.

The Government will increase the Medicare levy low-income threshold for singles, families, and seniors and pensioners from the 2017-18 income year. The increases take account of recent CPI movements so low-income taxpayers generally continue to be exempted from paying the Medicare levy.

13. Healthy ageing and high-quality care

South Australia has an ageing population, our median age is 40—two years older than the national average. The Australian Government 2018 budget provides for various measures to assist mature aged South Australians gain and retain employment.

South Australians will benefit from the Government's plans to support people to stay at home longer, remain healthy and independent, and to improve access to high quality, safe, aged care with the introduction of: an additional 14,000 new high level home care packages over four years from 2018-19 (in addition to the 6,000 high level packages delivered in the 2017-18 MYEFO); and 13,500 residential aged care places and 775 short term restorative care and a $60.0 million capital investment to support new places.

Provision of care to regional South Australia will be supported by the provision of capital grants funding of $40.0 million over four years from 2019-20 for aged care facilities in regional, rural and remote Australia and funding of $105.7 million over four years from 2018-19 (including $32.0 million from within the existing resources) to support the National Aboriginal and Torres Strait Islander Flexible Aged Care Program to deliver additional residential aged care places and home care packages in remote Indigenous communities.

14. Jobs and skills for mature age Australians

South Australia's aging workforce will be supported by the Australian Government's provision of $189.7 million over five years (from 2017 – 2018) to support mature aged Australians to adapt to the transitioning economy and develop the skills needed to remain in work.

The initiatives include training funding of up to $2,000 per worker to take up reskilling or upskilling opportunities and restructuring the Employment Fund to allow additional wage subsidy places for mature age employees.

The Government has increased the Pension Work Bonus from $250 to $300 per fortnight to earn up to $7,800 each year without impacting their pension and expanded the scheme to include self-employed retirees.

In addition, the Government will work with business and community peak bodies to develop strategies that promote the benefits of a diverse workforce, influence hiring practices and reduce discrimination.

14. Disability Employment Services

The Government will provide $9.9 million over two years from 2018-19 to ensure continuity of the Disability Employment Services program as providers transition to the new disability employment services' framework and funding model. The new framework will commence on 1 July 2018, and will place greater weight on achieving employment outcomes, and provide recipients with a greater choice in providers.

15. Additional payments to Western Australia to offset loss of GST

Western Australia has been given an additional $188.9 million in 2017/18 to effectively lift WA shares of GST in 2018/19 to 50 cents in the dollar. The additional GST will support three key hospital projects in WA.

16. SuperStream extension to Self-Managed Super Fund rollovers

The limit on the maximum number of members in a Self-Managed Super Funds (SMSF) has been increased from four to six to allow greater flexibility and ensure SMSFs remain an attractive retirement saving vehicles.

17. Training and Skills

The $250 million in 2017-18 to fund a range of projects under the Skilling Australians Fund, which provides support for apprenticeships and traineeships continues to be funded. Although this amount was previously announced by the government, this budget announced an additional $50 million available in 2017-18, on a per capita basis, to those States and Territories that sign on to participate in the Fund on or before 7 June 2018.

State and Territory governments will be offered a new agreement which is estimated to provide $1.2 billion over the four years to 30 June 2022. This is based on current SAF levy revenue estimates plus total additional funding of $50.0 million per year over the four years from 2018-19, on a per capita basis, to provide certainty to the States and Territories and support apprentices and trainees.

The Government will discontinue the competitive funding stream of the Industry Workforce Training, which will achieve savings of $21.2 million.

18. Black economy

The Government will introduce a limit of $10,000 for cash payments made to businesses for goods and services from 1 July 2019. This is to prevent large undocumented cash payments being used to avoid tax or to launder money from criminal activity. This will require transactions over a threshold to be made through an electronic payment system.

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