2010 – 2011 Federal Budget Overview

Invigorating Business Representation

A message from the CEO

Tonight Treasurer Wayne Swan delivered the first Budget post the Global Financial Crisis and the final Budget before this year's Federal Election.

The Budget confirms that the Australian economy has weathered the economic storm. In every sense, the projections contained within the Budget contain welcome news. They are the dividend of two decades of reform undertaken by the Hawke, Keating and Howard Governments.

The Government's approach to undertake counter-cyclical Budget measures in the stimulus package was the right strategy and as Australia moves into recovery, the challenge will be to ensure the Budget is back in balance quickly.

Whilst the Government projects a $40 billion budget deficit in 2010-11, it projects a return to surplus by 2012-13. However, the return to surplus has a caveat in that it is funded by the new Resource Super Profits Tax (RSPT) which will provide a total of $15 billion in additional taxation by 2013-14. The Government has argued that the RSPT is the antidote to the two-speed economy. We are yet to be convinced that the best way to handle a two speed economy is to slow down the fast lane.

It is important to note that with or without the RSPT, the Australian fiscal position is stronger than any of the world's most advanced economies. This is welcome.

The 2010-11 Budget does contain a number of initiatives that business welcomes including reducing the company tax rate to 28% for small businesses in 2013-14. Other companies will see the company tax rate fall to 29% in 2013-14 and 28% in 2014-15. The decision to extend write-offs and rebates for smaller businesses will remove unnecessary red-tape from small businesses. Each of these initiatives makes sense in their own right and should not be contingent on the RSPT.

New initiatives in encouraging Australia as a regional financial services sector recognises the resilience of the Australian financial sector and the prudence of government regulation in the sector. This was demonstrated during the GFC.

I am particularly pleased that the government has expanded funding for vocational education and training. This includes further $79 million in funding for the Kickstart program and additional training and support for 22,500 apprentices. This support will ensure that Australian businesses have access to a sufficient skills base as the economy accelerates.

Tonight's Budget is the dividend of reform and the challenge before this Government is, as the Australian economy again accelerates, to continue with a reform agenda that improves productivity, creates jobs and lays the foundation for further growth.

Yours sincerely

Stephen Cartwright

CEO, NSW Business Chamber

Budget Overview

Key Statistics of the 2010–11 Budget:

> Deficit of $40.8 billion

> Improvement in tax receipts of around $100 billion over next four years

> GDP growth of 3.25% in 2010-11 and 4.0% in 2011-12

> Unemployment forecast to fall to 5% in 2010-11 and 4.75% in 2011-12

> Budget savings of $30.1 billion over four years

Key Initiatives of the 2010–11 Budget

Changes to Personal Tax

> Raising the effective tax free threshold to $16,000 from 2010-11

> Lower tax on savings — 50% discount on up to $1,000 of interest income from 1 July 2011

> Standard deduction to simplify the tax system from 1 July 2012-13

Skills for Sustainable Growth and Building Infrastructure

> $661 million for the Skills for Sustainable Growth strategy over 4 years

> $5.6 billion for a new infrastructure fund and $1 billion to renew rail networks over 10 years

Renewables and Energy Efficiency

> $652 million Renewable Energy Future Fund

Changes to Taxation

> Resource Super Profits Tax from 1 July 2012

> Company tax rate cut to 29% from 2013-14 and 28% from 2014-15

> Company tax rate cut to 28% for small business companies from 2012-13

> Instant asset write off for assets under $5,000 for all small businesses from 1 July 2012

Changes to Superannuation

> Increasing the super guarantee to 12%

> From 1 July 2012, contributing up to $500 to offset contributions tax for those on incomes up to $37,000

> From 1 July 2012, allow catch up contributions by older workers with super balances less than $500,000

National Health and Hospitals Network

> Total new investment of $7.3 billion over five years, and $23 billion over the rest of the decade

Fiscal Aggregates and Economic Outlook

Fiscal Outcomes

The third Swan Budget is projected to deliver an underlying cash balance in 2010-11 of -$40.8 billion, or -2.9% of GDP.

This is a 29% improvement from the updated underlying cash balance of -$57.1 billion for 2009-10, which amounted to -4.4% of GDP.

The underlying cash balance is a broad indicator of the Government's cash f ow requirements and excludes proceeds from asset sales and other one-off or abnormal items.

The projected fiscal balance for 2010-11 is -$39.6 billion, or -2.8% of GDP.

This is a 28% improvement from the updated fiscal balance of -$54.8 billion for 2009-10, which stood at -4.2% of GDP.

The fiscal balance is the difference between Government savings and investment in accrual terms and indicates the impact of the Government's operations on private sector savings. While the Federal Government was lending to the rest of the economy prior to the global financial crisis, it is now borrowing from it.

The outlook for Government revenues has improved since the last round of Budget forecasts was released. Total revenue for 2010-11 is now expected to be $321.8 billion, with 43% coming from individuals' income taxation and 21% coming from company and petroleum resource rent taxation.

Total expenses for 2010-11 are expected to be $354.6 billion, with 32% going to social security and welfare, 26% to general government services and 16% to health.

Budget deficits, which were previously forecast to last until 2015-16, are now forecast to be eliminated by 2012-13, with a very modest underlying cash balance surplus of $1.0 billion now forecast for that year.

Growth

While growth rates remain sluggish in many advanced economies, the global economic outlook has improved significantly over the past twelve months. In its latest World Economic Outlook, the International Monetary Fund (IMF) has forecast global growth of 4.25% in 2010.

Forecasts for Australian growth have also strengthened considerably. The Federal Government now expects growth of 3.25% in 2010-11 and 4.0% in 2011-12. While a little more pessimistic in 2010-11, Treasury's forecasts are broadly consistent with those of the Reserve Bank of Australia, for 3.75% growth in 2010-11 and 2011-12.

However, Treasury's economic outlook also acknowledges that these growth forecasts are dependent on continuing strong growth in China, which is subject to a number of risks.

Spending

Stimulus measures announced by the Government early in 2009 are now beginning to be unwound. This is consistent with the recommendations of the IMF, which recently stated that it may be appropriate to start unwinding stimulus measures, particularly if output gaps are closing and inf ationary pressures are beginning to emerge. Australia was specifically identified by the IMF as a country where these elements appear to be evident.

New spending decisions announced by the Government in this Budget total $30.5 billion over the forward estimates. This spending has been largely offset by "savings" of $30.1 billion.

However, the majority of these "savings" are actually increased taxes. The increase in the tobacco excise and the Resources Super Profits Tax will generate an additional $17.0 billion in revenue over the forward estimates, and around $10 billion each year from 2014-15 onwards.

In addition, of the remaining $13.1 billion of savings identified, $5.9 billion is simply reported as "other."

Debt

The Federal Government's medium-term fiscal strategy consists of:

- allowing the level of tax receipts to recover 'naturally' as the economy improves, while keeping taxation as a share of GDP below the 2007–08 level on average;
- offsetting all new spending with savings;
- once the economy returns to above trend growth, holding real growth in spending to 2% a year until the budget returns to surplus.

The Government has delivered a Budget which fully offsets all new spending decisions and holds real growth in spending to less than 2% from 2010-11 onwards. However, expenditure reductions in this Budget have been limited, with the majority of "savings" actually being increased taxes.

The continued strengthening of the economy is expected to restore revenues without any policy changes, as receipts from company tax and income tax rise and welfare payments decline (what economists call 'automatic stabilisers').

Accordingly, net debt is projected to peak at 6.1% of GDP in 2011-12, and to be eliminated completely three years earlier than previously projected. This compares favourably to other government debt-to-GDP ratios forecast by the IMF for the end of calendar year 2015, of around 80% for countries such as Germany, the UK, France and the US, and over 150% for Japan, (noting that Australia's net debt levels are higher when State debt is included).

Taxation

New Announcements

Resource Super Profits Tax

A new Resource Super Profits Tax (RSPT) will be introduced from 1 July 2012. The tax will be payable at a rate of 40% on the realized value of resource deposits.

Resource royalties paid to State and Territory Governments under existing arrangements will be offset by a refundable tax credit, avoiding double taxation of resource profits. Projects currently within the scope of the Petroleum Resource Rent Tax will have the option of electing into RSPT.

This decision is expected to raise $3 billion in 2012-13 and a further $9 billion in 2013-14.

Company Tax

The company tax rate will be reduced to 29% in 2013-14 and to 28% in 2014-15, in conjunction with the introduction of RSPT. The company income tax rate for small business will be cut to 28% from 2012-13. While supported by the NSW Business Chamber, these measures fall short of the reduction to 25% recommended by the Henry Review.

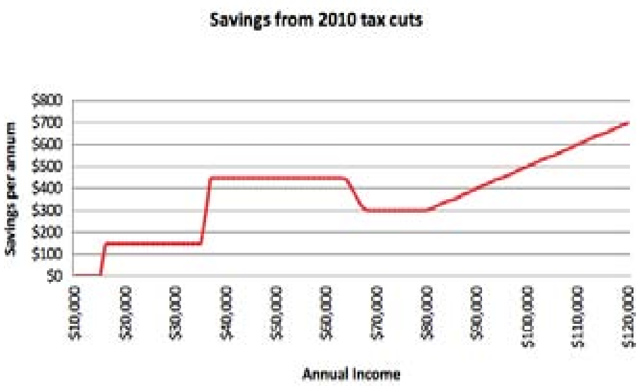
From 1 July 2012, the threshold under which depreciable assets of small businesses can be immediately written-off will be increased from $1,000 to $5,000. Small businesses will be able to depreciate other assets in one pool at a rate of 30%.

Personal Income Tax Cuts

> The Federal Government is honouring its commitment in the 2008-09 Budget to deliver personal income tax cuts. From 1 July 2010, the threshold at which the 30% tax rate commences will be increased to $37,000. This change is worth $300 a year to all employees earning more than $37,000.

> For those earning between $80,000 and $180,000 a year, the marginal tax rate will be reduced from 38% to 37%. The low income tax offset will also be increased from $1,350 to $1,500, increasing the effective tax free threshold to $16,000.

The net effect of these policy changes on individuals' take home incomes is summarised in the following chart and table.



Current		From 1 July 2010	
Taxable income ($)	Rate (%)	Taxable income ($)	Rate (%)
0 – 6000	0	0 – 6000	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

In addition, from 2012-13 the Government will provide taxpayers with the choice of a $500 standard deduction to replace deductions for their work-related expenses and cost of managing tax affairs. This will increase to $1,000 from 2013-14.

Interest Withholding Tax

The Federal Government will phase down the interest withholding tax rate incurred by financial institutions on most interest paid on offshore borrowings. This will help to secure Australia's place as a leading regional financial centre.

Taxation (CONTINUED)

Capital Gains Tax

The Federal Government will amend the capital gains tax (CGT) provisions to improve the ability of businesses to restructure. Specific measures include:

> Extending the CGT roll-over for the conversion of a body to an incorporated company;

> Broadening the range of CGT roll-overs where entities can use a share or interest sale facility for foreign residents in a restructure; and

> Allowing CGT demerger relief for demerger groups that include corporations sole or complying superannuation entities that currently cannot access the relief.

Superannuation Guarantee Levy

While not a tax *per se*, the proposed increase in the superannuation guarantee levy from 9% to 12% represents an additional cost to business of around $20 billion per year once fully implemented. The Government plan to phase this increase in seven steps over a decade transitions the impact but does not make an unfair situation fair.

GST Reform Measures

The Federal Government will reduce the compliance costs for businesses through a package of GST reform measures. The key components of the plan are:

> Restructuring the margin scheme provisions;

> Significantly increasing the threshold above which businesses need to interact with the financial supply provisions from $50,000 to $150,000 of input tax credits;

> Allowing small businesses accounting for GST on a cash basis to claim input tax credits upfront in relation to hire purchase arrangements; and

> Reducing opportunities for businesses to inappropriately take advantage of the reduced input tax credit concessions by bundling services.

Business Announcements

New Announcements

Financial Services

New measures to build on Australia's and Sydney's reputation as a leading financial services centre including:

> phase down of interest withholding tax rate incurred by financial institutions on most interest paid on offshore borrowings making Australia more attractive as an investment destination;

> reducing taxation compliance costs and increasing certainty for Managed Investment Trusts making it easier to attract foreign funds for management; and

> establishing a regional centre for excellence in financial system innovation and regulation.

Renewable energy

$652 million over four years for a new Renewable Energy Future Fund, which will form part of the Government's expanded $5.1 billion Clean Energy Initiative. The Fund will be used to provide further support for the development and deployment of large and small scale renewable energy projects, including wind, solar and biomass. Through partnerships with the private sector, it will support critical early stage investments to leverage private funds for the commercialisation of renewable technologies.

National Business Name Registration and Codes of Conduct

$125.2 million over four years for a new, national system for registering business names.

$2.7 million for early intervention dispute resolution services and streamlined administration under the Franchising Code of Conduct, the Horticulture Code of Conduct, the Produce and Grocery Industry Code of Conduct, and the Oilcode.

TCF

An additional $5 million for the Textile, Clothing and Footwear Strategic Capability Program, bringing the total value to $35 million over five years. The program will now also be able to support smaller projects, with the eligibility threshold reduced from $1 million to $500,000.

Public Policy

Direct Budget funding of $98.4 million to establish the Australian National Institute for Public Policy at the ANU, including the National Security College and an Australian Centre on China in the World.

New exporters assistance

$14.4 million over 4 years to continue the Tradestart program, a national network of export assistance offices which assists small and mediumsize enterprises, particularly in regional Australia, to become established exporters. While this prevents the program's cessation (due June 2010) this is a disappointing reduction by $9 million in funding compared to the current program which NSW Business Chamber has successfully delivered in NSW.

CPRS

The Government will not move to legislate the Carbon Pollution Reduction Scheme (CPRS) before the end of the current period of the Kyoto Protocol in 2012 and will only introduce the scheme when there is sufficient international action.

Infrastructure

The 2010-11 budget delivers almost $11 billion in infrastructure projects to NSW which focuses on rail freight capacity efficiencies, aviation infrastructure, road upgrades, and local government.

New Announcements

$5.6 billion Infrastructure Fund

The new infrastructure fund will tackle capacity constraints. The fund will be worth more than $5.6 billion over ten years and will be distributed by recognising that resource-rich States face large associated infrastructure demands.

$2.35 Billion Boost for Local and Community Infrastructure

The budget funds $2 billion in Financial Assistance Grants for local government infrastructure and services.

The Roads to Recovery program will provide $350 million for local roads.

Local government will receive $2 billion in Financial Assistance Grants to support the delivery of basic infrastructure and services in communities, such as roads, water and sewerage, community infrastructure, including community services.

$1 billion to Increase Freight Capacity

The budget funds $1 billion for rail projects which boosts productivity, highlighting the future freight needs of the country.

$70.7 million is allocated for the Moorebank intermodal project to conduct planning for the relocation of Defence facilities and establish a project office to progress the intermodal terminal precinct.

Once operational, the new facility is designed to create jobs across Western Sydney and transform the movement of freight into and out of Port Botany as well as through the Sydney Basin. It should also result in an easing of road congestion on the M5, as it ought to result in over one million trucks a year being taken off the M5.

Investing in the International Gateway

$8.5 million to develop an undertake Aviation Strategic Plan for the Sydney Region as part of the long term planning to identify potential sites for a second Sydney airport, the additional road and rail infrastructure that will be required, and investment strategies that will deliver this additional capacity.

NSW-Specific Project Announcements

> $1.5 billion for Hunter Expressway. Scheduled for completion in 2013

> $618 million for Pacific Highway, Kempsey Bypass . Scheduled for completion in 2014

> $610 million for Pacific Highway, Sapphire to Woolgoolga. Scheduled for completion in 2014

> $170 million for straightening the rail line between Maitland and the Queensland border at 58 NSW locations. This project will take approximately 14 months to complete.

> $5.9 million over two years to upgrade remote airports.

> $683 million for Local Councils – Individual councils' allocations will be determined through independent state local government grants commissions later this year.

> $544 million to invest in the Australian Rail Track Corporation to facilitate a range of works on the interstate network to improve the efficiency of freight rail in NSW, including:

- Building three double track passing loops near Goulburn, Moss Vale and Glenlee;
- Re-railing the lines between Whyalla and Broken Hill and between Parkes and Broken Hill; and
- Replacing the existing old wooden sleepers on the line between Parkes and Broken Hill.

Renewable Energy Future Fund

The Government will invest $652 million over four years in a new Renewable Energy Future Fund, which will form part of the Government's expanded $5.1 billion Clean Energy Initiative. The Fund will be used to support the development and rollout of large and small scale renewable energy projects, including wind, solar and biomass.

Through partnerships with the private sector, it will support critical early stage investments to leverage private funds for the commercialisation of renewable technologies. In addition, the Fund will be used to promote the take-up of energy efficiency in Australia and help businesses and households reduce their energy consumption.

Skills and Workforce Participation

New Announcements

Training and Skills

The Government's $661 million *Skills for Sustainable Growth Strategy* will provide over 4 years up to 70,000 new training places and support 22,500 new apprentices. $300 million will be allocated to address skills hotspots, including:

> $200 million Critical Skills Investment Fund to support quality training where it is needed most through partnerships with industry. Will fund up to 39,000 training places.

> The fund will be available to businesses on a competitive basis to support:

- Upskilling existing workers;
- Training for jobseekers;
- Training mature aged trades people to Certificate IV or Diploma level to enable them to work as a supervisor or mentor to apprentices;
- Other priority target areas determined by the funds advisory body.

Leverage industry co-investment, providing support for 50% of the cost of training for large firms and up to 90% of the cost of training for small firms.

Extension of the Kickstart Apprenticeship bonus by providing $79 million for small and medium businesses to take on young traditional trade apprentices in skill shortage occupations. Will support around 22,500 apprentices.

$20 million to encourage competency based apprenticeships, improving the efficiency of skills formation.

Training Reform

$243 million to provide major improvements in the training system, including

> income contingent loans for States and Territories, in return for significant training reforms

> provision of reward payments to drive higher standards and performance, through the $130 million Quality Skills Initiative

> $105.5 million for establishment of a National VET Regulator and the provision of enhanced performance information for students through a newly established MySkills website.

> $129.8 million over three years to establish the Quality Skills Incentive initiative. The funding will be available to reward Registered Training Organisations (RTOs) which meet certain performance benchmarks.

Adult Language Literacy and Numeracy (LLN)

$119 million to improve foundation skills such as literacy and numeracy. This brings the total Government assistance to around $490 million over four years providing support to approximately 140,000 Australians.

Key initiatives include:

> Improving and strengthening the LLN will provide an additional 13,570 training places for jobseekers over four years.

> Better support for the LLN of existing workers with an additional 9,500 Workplace English, Language and Literacy (WELL) Program places.

> Innovative community based learning to better suit individual learning needs, including around 8,000 training places in community settings such as men's sheds, mothers' groups, and neighbourhood houses.

Green Skills

$5.3 million over four years to implement the National Green Skills Agreement, announced by the Government on 30 July 2009 as part of its Clean Sustainable Skills package

Skilled Migration

$92.0 million over four years to establish the *Job Ready* program, which will provide new arrangements for assessing the job readiness of onshore applicants for permanent residency under the General Skilled Migration program. The new arrangements apply from 1 January 2010.

Indigenous Opportunity

$15.4 million over four years (from existing resources) to support the implementation of the Aboriginal and Torres Strait Islander Education Action Plan 2010-2014.

Skills and Workforce Participation (CONTINUED)

Commentary

Business and industry value the contribution apprenticeships make towards building Australia's skills capacity and increasing workforce participation. NSW Business Chamber supports measures to boost apprenticeship take-up and completions, encourage the employment of Indigenous, disabled and mature aged workers, and programs which ensure that workers are job-ready after completing vocational and tertiary training.

NSW Business Chamber has advocated for an extension to the Government's Kickstart Apprenticeship program and welcomes the Government's commitment to fund an additional 22,500 apprenticeship commencements. However, further measures to ensure apprentice attainment and completion would be welcome.

Further, NSW Business Chamber has supported calls for the establishment of a National VET Regulator and the investment of $240 million for longer term reform of the training system is welcome; however the government should ensure that additional compliance and costs do not present an undue burden on Registered Training Organisations and business.

Workplace and Fair Work Announcements

Announcements

Fair Work Implementation

$85.7 million has been allocated over four years with the aim of reducing compliance and administrative costs for employers and employees arising from the Fair Work system.

The Fair Work Ombudsman will also establish a Shared Industry Assistance project. This program will allow employer or industry organisations to apply for grants of up to $104 000 to develop guidance material in partnership with the Fair Work Ombudsman. Grants will be targeted at small businesses in industries identified as requiring specific assistance with particular modern awards.

An additional $11.8 million over four years will be provided to Fair Work Australia for additional Fair Work Commissioners to meet an increasing workload.

Paid Parental Leave Implementation

$21.2 million has been allocated over five years to support the implementation of the paid parental leave scheme announced in the 2009-10 Budget. The scheme provides 18 weeks of leave at the level of the national minimum wage to eligible new mothers from 1 January 2011.

This announcement complements the release of draft paid parental leave legislation on 4 May 2010.

Funding will help employers meet their obligations under the scheme, including the role of pay master for employees participating in the scheme from 1 July 2011.

Commentary

NSW Business Chamber welcomes the Government's recognition that the introduction of the Fair Work system is creating uncertainty and administrative costs for employers.

The Shared Industry Assistance project is a positive initiative to help businesses comply with the new system, particularly as the private sector grapples with the transition to modern awards.

NSW Business Chamber will continue to consult with the Government in relation to the structure of its paid parental leave scheme and welcomes additional funding aimed at minimising the cost impost that the draft scheme will place on business.

NSW Business Chamber

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2 Create jobs by cutting employment taxes and red tape.

3 Protect the NSW Budget by fighting for a fairer share of the GST.

4 End the blame game in hospitals by handing funding to the Federal Government.

5 Move economic growth to the centre of State Government decision making by establishing the Department of Business Growth.

6 Encourage growth in regional NSW through funding government and business relocations to regional areas.

7 Get the politics out of infrastructure by establishing Infrastructure NSW.

8 Take charge of Sydney traffic by appointing a Transport Tsar.

9 Help Sydney prepare for the future by creating 10 super councils.

10 Better prepare young people for the workforce by improving the HSC for students not attending university.

Invigorating Business Representation

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