

2009-10 Federal Budget Overview



Invigorating Business Representation

Budget at a Glance

Budget Stats

- > Deficit of \$57.6 billion;
- > Reduction in tax receipts of \$210 billion over next four years;
- > Contraction in GDP of -0.5% in 2009-10 with a forecast of positive growth of 2.25% in 2010-11;
- > Unemployment rate projected to rise to 8.25% in 2009-10;
- > CPI expected to remain steady on 1.75% in 2009-10;
- > Budget savings of \$22.6 billion over four years.

Announcements

- > Creating a \$260 million paid parental leave scheme to begin in 2011;
- > \$14.2 billion reform of the pension system including a rise in pension age to 67 with the pension for single people raised by \$32.49 a week and couples increased by \$10.14 a week.
- > Cutting personal income tax by \$9.8 billion;
- > Investing \$22 billion in national infrastructure including;
- > Spending \$8.5 billion on roads, rail and ports; with \$2.16 billion for NSW.
- > Investing \$4.7 billion in a national broadband network;
- > Increasing the Small Business and General Business Tax Break to 50 per cent for eligible assets ordered between December 2008 and December 2009
- > Extending the First Home Buyers Boost for a further six months – including three months at the full rate, before stepping it down;
- > Changes to superannuation including a reduction in the amount that can be salary sacrificed at a concessional tax rate.
- > Commitment to \$4.5 billion for the development of clean energy generation and new technologies in a bid to reduce carbon emissions.

Fiscal aggregates and economic outlook

Fiscal Outcomes

The second Swan Budget is projected to deliver an underlying cash balance of -\$57.6 billion, or -4.9% of GDP.

This is 61% down from the updated underlying cash balance of -\$22.5 billion for 2008-09, which amounted to -1.9% of GDP.

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

The projected fiscal balance of the 2009-10 Budget is -\$51.3 billion, or -4.5% of GDP.

This is a deterioration of 58% from the updated fiscal balance of -\$22.4 billion for 2008-09, which stood at -1.9% 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. Whereas in June 2008, the Federal Government was lending to the rest of the economy, it now is borrowing from it.

Total revenue for 2009-10 is expected to be \$290.6 billion, with 42% coming from individuals' income taxation and 20% coming from company and petroleum resource rent taxation.

The global recession has led to successive downward revisions to taxes since the 2008-09 Budget, which together have reduced tax receipts by around an estimated \$210 billion over the forward estimates to 2012-13.

In 2008-09, the write-down is expected to be \$23 billion – the biggest downward revision since 1930-31. In 2009-10, estimated tax receipts have been revised down by \$50 billion.

Total expenses for 2008-09 are expected to be \$338.2 billion, with 33% going to social security and welfare, 24% to general government services and 15% to health.

Budget deficits are forecast for the next six financial years. The Government will finance these deficits by issuing Commonwealth Government Securities (CGS).

Growth

The global financial crisis and recession are ultimately responsible for the sharp turnaround from solid Budget surplus to deep deficit. In its latest World Economic Outlook, the International Monetary Fund (IMF) has forecast global growth to contract by 1.3% in 2009, marking the deepest postwar recession to date.

The IMF expects global growth to recover in 2010, but only at a sluggish growth rate of 1.9%. Moreover, these gloomy projections assume that governments are already prosecuting financial stabilisation policies and strong macroeconomic policies.

The Federal Government's assessment of Australia's economic growth prospects is much more optimistic. It forecasts a -0.5% contraction in GDP in 2009-10 and 2.25% positive growth in 2010-11.

Spending

The IMF insists that fiscal stimuli must be sustained and (if possible) increased in 2010. But the Fund also acknowledges that the effectiveness of such expansionary policies will be reduced if the public loses confidence in them. Arguably, this is already a problem for the Australian Government, as commentators' misgivings about the size and duration of projected Budget deficits are beginning to resound with taxpayers.

Similarly, the IMF points out that the credibility of extraordinary government spending can only be maintained if it:

- > addresses the medium-term challenges brought by an ageing population, notably increases in social security and health costs; and
- > boosts long-term economic capacity through adequate investment in infrastructure; and

> is reduced once recovery begins and so avoids inflating asset price bubbles.

The Federal Government contends that the net measures in the Budget will raise the level of GDP by 0.75% in 2009-10. It also claims that in the absence of policy action, the 8.5% forecast for unemployment in 2010-11 would have peaked 1.5 percentage points higher at around 10%.

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; and
- > holding real growth in spending to 2% a year until the budget returns to surplus.

The Federal Government expects a strengthening economy 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 13.8% GDP in 2013-14, falling to under 4% in June 2019. This compares favourably to other government debt-to-GDP ratios forecast by the IMF for the end of calendar year 2014, notably 27% for Canada, 83% for the UK, the USA and Germany, and 136% for Japan.

Nonetheless, the Federal Government's medium-term fiscal strategy falls short of the strict discipline promised by the Treasurer and expected by financial markets. It identifies only \$22.6 billion in Budget savings over four years and relies on a forecast of strong positive growth in the very next financial year.

Tax

Small business tax break Personal income tax cut

The Government will inject an additional \$141 million to expand the Small Business and General Business Tax Break for small businesses. This provides a greater incentive to invest in new capital items such as vehicles as well as existing equipment.

Small businesses will be able to claim a bonus tax deduction of 50% of the cost of eligible assets ordered between 13 December 2008 and 31 December 2009 and installed by 31 December 2010. This will give a small business spending \$30,000 an extra \$6,000 upfront tax deduction. The 30% announced earlier this year can still be obtained by all other businesses that acquire eligible assets before 30 June 2009, as well as the rate of 10% applying for eligible assets acquired before 31 December 2009.

The Federal Government is honouring its promise to deliver tax cuts for middle and high income earners – those earning between \$80,000 and \$180,000 a year – by dropping the marginal income tax rate from 40% to 38%. This measure is worth \$9.8 billion.

The low income tax offset applies in full to those taxpayers earning less than \$30,000. But for every dollar of income over \$30,000, the low income tax offset phases out at a rate of 4 cents in the dollar.

This means that an apprentice earning a taxable income of \$25,000 will not pay tax after assessment until their annual income exceeds at least \$15,000.

Personal income tax rates and thresholds outlined in the 2009 Federal Budget

Current		From 1 July 2009		From 1 July 2010	
Taxable income (\$)	Rate (%)	Taxable income (\$)	Rate (%)	Taxable income (\$)	Rate (%)
0 – 6000	0	0 – 6000	0	0 – 6000	0
6,001 – 34,000	15	6,001 – 35,000	15	6,001 – 37,000	15
34,001 – 80,000	30	35,001 – 80,000	30	37,001 – 80,000	30
80,001 – 180,000	40	80,001 – 180,000	38	80,001 – 180,000	37
180,001 +	45	180,001 +	45	180,001 +	45
LITO	\$1,200		\$1,350		\$1,500
Effective tax free threshold	\$14,000		\$15,000		\$16,000

Infrastructure

Treasurer Wayne Swan's budget delivers \$22 billion in nation building infrastructure, focused on transport, communications, energy, education and health.

NSW represents one-third of the national economy yet in this budget we only receive one-quarter of the infrastructure spend. Our argument is simple: NSW should get back what it puts in.

New Announcements

- > \$8.5 billion for nationally significant infrastructure projects on metropolitan rail networks, national road priorities and port infrastructure.
- > \$43 billion over eight years for National Broadband Network with an initial investment of \$4,700 million in this budget. It will be majority Government-owned with significant private sector investment.
- > \$3.6 billion for Clean Energy Initiative to help support the development of low-emission technologies while also building the necessary infrastructure and skills and capacity in the move to a low-pollution future. The Clean Energy Initiative will comprise of:
 - the establishment of Renewable Australia, a new renewable technology innovation body;
 - investment in up to four new commercial-scale Solar Flagship projects; and
 - investment in large-scale Carbon Capture and Storage (CCS) demonstration projects.
- > \$2.6 billion million from the Education Investment Fund for priority education infrastructure.
- > \$3.2 billion from the Health and Hospitals Fund towards hospital infrastructure (\$1.5 billion), better cancer care (\$1.3 billion), and transnational health research (\$430m). This includes \$96 million for Nepean Health Services Redevelopment in NSW.

New Announcements (NSW)

- > \$91 million for pre-construction work of Sydney West Metro ensuring that the project is ready for public tender in 2010.
- > \$1.5 billion for new dual carriageway between the F3 and the New England Highway near Branxton.
- > \$618 million for the construction of a 14.5 km dual carriageway bypass of the Kempsey and Frederickton townships on the mid-north coast of NSW. Construction to commence in 2010 and be completed in 2014.

Skills and Workplace Participation

The Government has increased education spending by around 50 per cent over the current five year period, including significant investment in capital infrastructure for tertiary education and schools modernisation. Investment in infrastructure projects also forms a significant part of the Government's agenda in creating jobs in the short term to counter the impact of the economic downturn.

Additional support provided to encourage young and unemployed people to retrain and reconnect with the workforce is welcome, however retraining must be targeted to identified local employment needs at a regional level to be effective.

New Announcements

Schools

- > \$14.7 billion investment in infrastructure of Australian schools
- > Up to \$1.5 million per high school to establish trades training centres at every Australian secondary school
- > \$1.5 billion to address the needs of disadvantaged schools by facilitating innovative approaches to running schools
- > \$550 million to improve the quality of teachers and school leaders through training and rewarding teachers and principals
- > \$540 million to deliver sustained improvement in literacy and numeracy outcomes for all students through incentive payments to the States and Territories.

Skills

- > \$1.5 billion (\$799.5 million in 2009-10) for the Jobs and Training Compact, providing education and services to support young people, retrenched workers and local communities over 4 years
- > \$650 million Jobs Fund to support local jobs, build skills and improve facilities in local communities from 2009 – 2011 targeted at regions hardest hit by the economic downturn
- > \$277 million Compact with Young Australians to keep them engaged in education and training and increase educational attainment, including
 - a guaranteed training place for every young person aged under 25 who wishes to up-skill
 - requirement that anyone under the age of 17 must be in school, training or work
 - lifting level of Year 12 attainment to 90 per cent by 2015
 - \$155 million to support both out-of-trade apprentices and apprentices that have been laid off and encourage the use of apprentices in Government infrastructure projects.
- > \$438 million Compact with Retrenched Workers will give retrenched workers immediate access to intensive employment services providing immediate support to Australians who experience a job loss.
 - \$299 million to give retrenched workers immediate access to intensive employment services
 - Temporary Training Supplement of \$41.60 per fortnight will provide extra income support to people on income support undertaking training who have not completed Year 12 or who are upgrading their qualification

Workforce Participation

- > \$731 million over five years to implement a Paid Parental Leave scheme from January 2011, supporting primary carers of newborn babies 18 weeks at the Federal Minimum Wage if they earn less than \$150,000
- > \$2.4 billion savings over 4 years on Family Tax Benefit and the Baby Bonus

Higher education

- > \$578 million over three years to increase the rate of indexation for higher education funding in response to the Bradley Review of Higher Education
- > \$491 million over four years to uncap the number of public university places from 2012, allowing universities to offer a place to all eligible students
- > \$325 million to reward institutions for attracting and retaining students from a low socio-economic background \$108 million over four years for universities to build long term partnerships with schools and communities in disadvantaged areas to lift participation in higher education.

Defence

According to the Defence White Paper, local industry involvement remains dependent on Australia's defence industry investing in the workforce skills required by Defence and ensuring that they have the capacity and capability to meet the schedule, cost and technical requirements found in Defence programs.

Defence's funding of \$25.7 billion will be based on the following funding principles:

- > 3 per cent average real growth to 2017-18
- > 2.2 per cent average real growth from 2018-19 to 2029-30
- > 2.5 per cent fixed price indexation from 2009-10 to 2029-2030, with the 2.5 per cent to be calculated from 2009-10 but applied from 2013-14

Trade

Export Market Development Grants Scheme will receive \$50 million more in 2008/09 to ensure that all claimants get paid in full.

Research and Development

The incentive to undertake research and development will be doubled for most small businesses from 2010-11 under the new Research and Development (R&D) Tax Credit – replacing the existing R&D Tax Concession.

As an interim measure, the Government will lift the expenditure cap on eligible R&D for firms in tax loss from \$1 million to \$2 million for the 2009-10 financial year, at a cost of \$65 million.

Small Business support line

The Budget also provides \$10 million over two years to establish a Small Business Support Line and referral service to assist small businesses during the global recession.

Rural Small Businesses

There will be a 12 month extension of Exceptional Circumstances assistance for farm-dependent small businesses.

Support for Australia's business innovators

- > Access for business to an estimated \$1.4 billion per year through a simpler tax incentive for R&D, by replacing the current R&D Tax Concession with a Tax Credit – doubling the level of support for innovative small businesses;
- > \$65 million for a transitional R&D tax measure, to support high technology start up firms during the global downturn by increasing the R&D expenditure limit for the R&D Tax Offset from \$1.0 million to \$2.0 million for 2009-10;
- > \$196.1 million for an innovative Commonwealth Commercialisation Institute to help translate great ideas into products and services;
- > A retargeted TCF Innovation Package to renew the textiles, clothing and footwear sector, with an extra \$55.0 million to support innovation, including \$10.0 million in new funding (from 2010-11 to 2014-15);



NSW Business Chamber is one of Australia's largest business support groups, helping over 22,000 businesses each year.

Founded in 1885, we've worked with thousands of businesses, from sole traders to large corporate, and have developed into a leading business solution provider and lobbying group with tremendous strengths in workplace management, OHS, IR HR, international trade, and improving business performance.

Independent and non-government, NSW Business Chamber represents the needs of business at a local, state and federal level, lobbying governments and authorities to create a better environment to do business in.

Invigorating Business Representation



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