

Governing for growth: a call for clarity & certainty

Federal Budget 2019-20

April 2019



Foreword

As Budgets go, this one is special. Australia will head to the polls in May to either return the incumbent government, or welcome a new one. This Budget is as much an election promise as it is a Budget blueprint for the next financial year.

This Budget estimates a return to surplus of \$7.1 billion (or 0.4% of GDP) in 2020, the first surplus in 12 years. Surpluses are expected to increase over the next ten years from 0.4% of GDP to 1.8% of GDP. Further, government net debt is expected to reduce from \$373 billion in 2019 to \$0 by 2030. The last time we were in surplus was in 2008, right when the Global Financial Crisis hit. It is a good place to be and now we must look at how we can continue to foster the right economic conditions for growth in light of a softer property market and slow wage growth.

Prime Minister Scott Morrison has promised a “pro-growth Budget”.

Mid-sized businesses need certainty. They aren't small enough to benefit from this cut, nor are they large enough to absorb the costs of doing business as easily as big multinationals. Instead they live in the middle ground where incentives and programmes designed to encourage innovation and growth are equally as essential as tax cuts.

Take Australia's \$3 billion R&D programme, which was put under the microscope by the media in late 2018. We know, working with our clients across technology, life sciences, manufacturing and consumer products that the programme has been integral to keeping pace with overseas competitors and helps to attract great companies and talent to Australia.

No changes to the R&D programme in this Budget will provide some certainty for our clients to continue to invest in themselves and Australia. Ideally we would like to see some additions made to the programme for a wider range of R&D activities.

Off the back of the Hayne Royal Commission we see \$600 million in additional funding to significantly bolster regulators' ability to address misconduct in the financial services sector. The new funding should be spent wisely on surveillance and enforcement to address the areas found wanting by the Royal Commission. We continue to advocate for proportionate regulation for the financial services sector – to maintain an equitable balance across our small, medium and large institutions.

The energy sector is another big winner – escalating energy costs for the consumer is combatted with investment in new energy generation projects, including \$1.4 billion equity “green lighted” for Snowy Hydro 2.0. We're expecting to see energy as a priority in the Opposition Budget Reply, with a focus on renewable energy investment and targets. We would also like to see additional investment in the ‘poles and wires’ transmitting and distributing energy around Australia – creating a truly sustainable and secure network.

So is this a “pro-growth Budget”? Perhaps it's an incremental growth Budget.

There are good investments and policy initiatives in this Budget for a number of our core industries, however there is always more that can be done to incentivise our mid-sized businesses to grow.

But this is an election year – and the Budget today might not be the Budget we have by the middle of this year.

Recognising that the pockets will not get deeper under a different government, the Opposition Budget Reply in a couple of days' time will at least reveal their priorities should they take office and provide Australians greater clarity as they cast their vote on election day.



Greg Keith
Chief Executive Officer
Grant Thornton Australia

Budget snapshot

Budget deficit (underlying cash balance)

-\$10.1b **-\$4.2b**
FY18 actual FY19 estimate

Budget surplus (underlying cash balance)

\$7.1b **\$11b**
FY20 estimate FY21 estimate

The winners

- 1
Infrastructure
- 2
Small business
- 3
Individuals



Investments

Building a stronger economy and investment in jobs

ABS Labour figures as of December 2018 revealed the unemployment rate had dropped to 4.9% – a level unseen since December 2008. Key highlights from the Budget to support the economy include more jobs and a redistribution of GST revenue, with Western Australia the main beneficiary.



28

consecutive years of annual economic growth including forecast growth of about 2.75% p.a until 2021



5%

unemployment expected to remain at 5% until 2021



\$69b

changes to \$69 billion GST revenue distribution to the states

Backing small business

Funding is the perennial issue for any business – particularly small and mid-sized businesses. In this Budget, small businesses can look forward to additional support in the form of funding, extensions on write-offs and tax cuts. We'd like to see initiatives aimed at small business extended to mid-sized business in future.



instant asset write-off extended to June 2020 and upped from \$20,000 to \$30,000 for businesses with annual turnover of less than \$50 million



\$60m

extra in funding for the Export Market Development Grants Scheme over the next three years



\$2b

introduced into Australian Business Securitisation Fund



10

established tax clinics for 12 months pilot scheme across metropolitan and regional Australia to provide free tax advice to assist unrepresented small business and individuals on tax issues



25%

bring forward tax cuts for companies with annual turnover of less than \$50 million to 25% from 27.5% from the 2021-22 income year



Establishing e-invoicing system



Deferral of Division 7A measures to 1 July 2020



\$2.7m

streamlining GST reporting for around 2.7 million small businesses by reducing the number of BAS GST questions

INVESTMENTS

Better healthcare

A major platform for both parties coming into the election has been improved healthcare, with significant funding for medical research and improved hospital facilities. Approximately 120,000 older Australians remain on the waiting lists for home care packages – with \$280 million a start towards providing the support required, but more is needed to address demand.



\$220m

from Medical Research Future Fund for research into heart disease



\$320m

for aged care providers to increase support



\$496m

for Victorian cancer research, services and facilities



\$37.5m

to support people with dementia – with a focus on caring for veterans with mental health conditions related to their service



\$1.3b

community Health and Hospitals Program will improve health care specialist services



\$736.6m

for mental health services over seven years



\$337m

comprehensive drug strategy



\$385.6m

to build on Sports 2030 to encourage a more active Australia



\$280m

committed to new home care packages

INVESTMENTS

Access to education and training

The skills we will need in the future will be different to the ones we have today. The government has announced a number of initiatives to ensure we're upskilling in areas such as technology and digital – as well as providing training opportunities in areas of high youth unemployment.



\$525.3m

to upgrade the Vocational Education and Training sector over five years



\$200.2m

over four years to establish new Additional Identified Skills Shortage Payment – supporting up to 80,000 new apprentices over five years



\$67.5m

to pilot ten Training Hubs in regional areas of high youth unemployment



\$42.4m

over four years to establish a National Careers Institute

A renewable future

Energy bills continue to trend upwards, with renewable energies and alternative energy generation key to not only providing reliable and affordable energy, but to also reduce emissions. The government is investing in projects, and providing additional funding avenues for the private sector to invest in technologies and projects to support Australia's energy future.



\$2b

Climate Solutions Fund – an extension of the Emissions Reduction Fund – for projects to bring down Australia's emissions



\$56m

of the \$1.5 billion to fast-track the development of a second Bass Strait interconnector



\$61.2m

to establish the Energy Efficient Communities program to improve energy efficiency practices and technologies to better manage energy consumption



\$1.4b

Snowy Hydro green light of \$1.4b of equity funding



\$1.5m

additional package of measures – including improving energy efficiency standards and developing an electric vehicles strategy



\$50m

for microgrids in remote and regional Australia energy consumption

INVESTMENTS

Investing in infrastructure

Infrastructure continues to be one of the largest areas of government spending, with a significant investment of \$100 billion over the next decade in road projects designed to ease congestion in our major cities, as well as a number of City Deals (partnerships between federal, state and local governments) in discussion.



\$4b

increasing Urban Congestion Fund by \$3 billion to \$4 billion



\$5.3b

for the Western Sydney International Airport



\$1.6b

additional \$1.6 billion for critical road and rail infrastructure across Perth and regional Western Australia



\$1.5b

for the north-south corridor in Adelaide



\$2b

towards fast rail between Melbourne and Geelong



\$5.7b

worth of City Deals for Adelaide, Hobart, Townsville, Launceston, Western Sydney, Darwin and Geelong, with negotiations underway for South East Queensland and Perth

INVESTMENTS

Improving trust in financial services

The Hayne Royal Commission into Misconduct in the financial services sector has resulted in 75 recommendations to government, all of which will be acted upon. Bipartisan support for the Recommendations means that no matter who wins at the federal election in May, it's simply a matter of how the government supports the implementation of the Recommendations.



25%

additional \$405 million to ASIC to boost capability including addressing the 11 matters referred from the Royal Commission (25% increase)



30%

Additional \$152 million to APRA to boost capability including addressing the 12 matters referred from the Royal Commission (30% increase)



\$35m

to expand jurisdiction of the Federal Court of Australia to include corporate crime

Research and development

Australia has a simple but effective R&D programme. Changes to the program were announced in the 2018-2019 Budget, with proposals not yet implemented. R&D initiatives and incentives are crucial to encourage local businesses to invest in R&D and entice international companies to set up in Australia. While we wait for next steps from the government – it's status quo in terms of R&D activities.

Black economy and tax integrity

Responding to the Black Economy – those people and organisations operating outside our regulatory and tax framework – was a key feature of the 2018 – 2019 Budget. Many initiatives have already been implemented, and this year we expect to see real impact in this space off the back of Single Touch Payroll extended to small and micro businesses, as well as ABN reform.



\$1b

to extend the ATO Tax Avoidance Taskforce to 2023



Requiring business to have a good track record when tendering for large government contracts



\$42m

of additional funding over four years to increase engagement and on-time payments of tax and superannuation by large corporates and high wealth individuals.



Technical amendments to the hybrid mismatch rules from 1 July 2019

INVESTMENTS

People and movement

Between 70 – 80% of new migrants choose to live in Sydney or Melbourne, placing enormous pressure on Australia's two largest cities. In an attempt to address congestion issues in capital cities, the government has introduced measures to cap immigration and divert migrants to settle in other cities and regional areas. This may have an impact on companies and institutions based in Sydney and Melbourne that rely on skilled overseas migrants or cater to international students.



23,000

places set aside for two new regional visas for skilled workers requiring them to live and work in regional Australia for three years before being able to access permanent residence



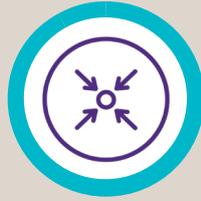
\$93.7m

over four years from 2019-20 for scholarships for international and domestic students to study in regional Australia



160,000

immigration cap



Establishment of a Centre for Population



\$64.2m

Social Cohesion Fund

Lower, fairer and simpler taxes for individuals

The government states that by the time their tax relief plan is fully implemented, 94% of taxpayers will pay no more than 30 cents in the dollar. This means more money in the back pocket, and ideally more discretionary spending to help keep the economy ticking over.



Increase in 2018-2019 in Low and Middle Income Earners Offsets to up to \$1,080/\$2,160 for single earners and dual income earners respectively



Increases in Medicare Levy low income thresholds from 2018-19



30%

government will reduce the 32.5 per cent rate to 30 % for taxable incomes between \$45,000 and \$200,000 from July 2024



Superannuation voluntary contributions for those aged 65 and 66 to be allowed without works test from 1 July 2020

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