

CCH Parliament

2010-11 Federal Budget Briefing

Tuesday 11 May 2010 7:30pm AEST

1. Budget Overview/Highlights

As Treasurer Wayne Swan promised before unveiling the Budget, it was a “no-frills” affair with only modest new pre-election spending.

All spending was offset against cuts in other programs.

The centrepiece of the Budget was its earlier than forecast return to a surplus: by 2012-13, three years earlier than it had previously forecast.

The Budget forecasts stronger economic growth for 2010-11 than was forecast in the Government's Mid Year Economic Forecast published in November: 3 ¼ per cent compared to 2 ¾ per cent.

Business investment will rise by 7 per cent in 2010-11 and by 12 ½ per cent in 2011-12.

Capital Gains Tax (CGT) arrangements will be modified to improve the ability of businesses to restructure.

For individual taxpayers, the budget delivered a new standard deduction to simplify tax returns, increases to Medicare levy thresholds for low income earners and previously announced tax cuts.

After announcing an increase in the existing 9 per cent Superannuation Guarantee (SG) rate to 12 per cent over six years to 2019-20 in its response to the Henry Review, the Budget contained only minor changes to superannuation.

The First Home Saver scheme will be made more flexible with FHS account holders Savings in an FSA Account will be able to be paid into an approved mortgage after the end of a minimum qualifying period, rather than requiring it to be paid to a superannuation account.

The Budget announced 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.

2. Budget Outcome

The Government announced the Budget will return to surplus by 2012-13, three years earlier than it had previously forecast in its Mid-Year Economic Forecast published in November.

According to the Budget the deficit for the current 2009-10 financial year will be little changed on the previous forecast - \$57.1 billion compared to \$57.7 billion forecast in November.

The 2010-11 deficit will be \$40.8 billion compared to the previous forecast of \$46.6 billion in the November forecasts

The Government said that all new spending in this year's Budget has been fully offset by cuts in other programs. Real spending growth has been kept to less than 2 per cent a year.

Higher tax receipts have been allowed to flow through to the budget bottom line. Tax as a share of GDP has been kept below the 2007-08 level.

The Budget will return to surplus by 2012-13. This is forecast to be the fastest positive turnaround in the budget position in modern times, it said, delivering a tightening fiscal policy stance of around 1½ per cent of GDP a year over the next three years. The improvement in budget balance is faster than the recoveries in the 1980s and 1990s.

Net debt is now projected to peak at 6.1 per cent in 2011-12, two years earlier than previously thought.

All the investments in the Budget — measures to boost savings, build skills and infrastructure, improve health and hospitals, invest in renewables and simplify tax time for working families — are fully funded, it said.

	Actual	Estimates			Projections	
	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Underlying cash balance(\$b)(a)	-27.1	-57.1	-40.8	-13.0	1.0	5.4
Per cent of GDP	-2.2	-4.4	-2.9	-0.9	0.1	0.3
Fiscal balance(\$b)	-29.7	-54.8	-39.6	-12.1	2.0	6.3
Per cent of GDP	-2.4	-4.2	-2.8	-0.8	0.1	0.4

(a) Excludes expected future fund earnings

3. Economic forecasts: growth

The Budget forecasts stronger economic growth for 2010-11 than was forecast in the Government's Mid Year Economic Forecast published in November: 3¼ per cent compared to 2¾ per cent.

According to the Budget's economic forecasts, while recent developments in Greece and the rest of Europe are a risk to the outlook for the global economy, overall financial conditions have improved, and with the signs of economic recovery broadening, solid world GDP growth of 4¼ per cent is expected in 2010.

Australia's real GDP is expected to grow strongly over the next two years, by 3¼ per cent in 2010-11 and 4 per cent in 2011-12.

The unemployment rate is expected to fall from its current level of 5.3 per cent, down to 5 per cent in late 2010-11, and 4¾ per cent in late 2011-12, around levels consistent with full employment.

The withdrawal of stimulus is estimated to subtract around 1 percentage point from GDP growth over 2010.

The terms of trade are expected to rebound by around 25 per cent by mid-2010 — injecting \$30 billion into the economy. This injection of incomes will help reinvigorate the mining sector and economic activity more generally, the Budget Papers forecast

Employment is expected to grow by 2¼ per cent through the year to the June quarter 2011 and 2 per cent through the year to the June quarter 2012, absorbing strong growth in the labour force associated with rapid growth in the working age population and an expected increase in the participation rate.

Wages growth is expected to recover after growing close to its slowest rate on record through 2009. The Wage Price Index is expected to grow by 3¾ per cent through the year to the June quarter 2011 and 4 per cent through the year to the June quarter 2012.

Headline inflation is expected to be 3¼ per cent through the year to the June quarter 2010 and 2½ per cent through the year to the June quarter of both 2011 and 2012. Underlying inflation is expected to stabilise at around 2½ per cent through 2010-11 and 2011-12.

	Forecasts			Projections	
	2009-10	2010-11	2011-12	2012-13	2013-14
Real GDP	2	3 1/4	4	3	3
Employment	2 1/2	2 1/4	2	1 1/2	1 3/4
Unemployment rate	5 1/4	5	4 3/4	5	5
CPI	3 1/4	2 1/2	2 1/2	2 1/2	2 1/2
Nominal GDP	2 3/4	8 1/2	5 3/4	5 1/2	5 1/2

4. Economic forecasts: Investment

The Budget forecasts business investment will rise significantly in both 2010-11 and 2011-12.

Total business investment is forecast to grow by 7 per cent in 2010-11 and by 12 ½ per cent in 2011-12.

The Small Business and General Business Tax Break has supported machinery and equipment investment in recent times, it says, but strong business confidence and easing credit conditions are expected to support a broader-based recovery, despite recent interest rate increases.

A surge in new mining investment is expected as a number of large projects come on line. Non-residential building investment is expected to remain subdued before recovering in response to the broader economic recovery.

Dwelling investment is forecast to grow by a strong 7½ per cent in 2010-11. There is currently a significant pipeline of dwelling construction work to be completed, the Budget Papers say. Strong population growth and low vacancy rates should continue to support activity in the dwelling sector, although this is likely to be tempered by higher mortgage interest rates.

Engineering construction investment is expected to increase by around 50 per cent over the forecast period as large resource projects come on line. The recovery in other industries, such as non-residential building, is expected to be more subdued. The economy's solid performance through the global financial crisis has meant that Australia has avoided the erosion of the skills base and the loss of business capital that have occurred in other countries and in previous downturns. As a result, Australian firms and workers are in good shape to meet a recovery in demand. Inflation has also moderated and is expected to remain moderate over the forecast horizon.

5. Company Tax, GST and other corporate measures

The Government will introduce legislation to make amendments to the Capital Gains Tax (CGT) provisions to improve the ability of businesses to restructure.

The Government announced in the Budget it will

- extend the CGT rollover for the conversion of a body to an incorporated company;
- make the share sale facility exclusion more broadly available for CGT rollovers; and
- allow CGT demerger relief for certain demerger groups that currently cannot access the relief.

Assistant Treasurer Nick Sherry said the changes would allow more businesses to restructure, including those with foreign investors.

The Government will amend the CGT demerger relief provisions to allow another member of a demerger group to qualify as the head entity of the group where the existing head entity cannot demerge its interests in the demerger group.

In another announcement, the Government will boost competition in business lending with reforms to make it easier for businesses to borrow directly from retail investors and reduce their reliance on borrowing from banks.

The Australian Securities and Investments Commission (ASIC) will allow listed entities to issue bonds to retail investors using a simplified process, while maintaining a strong level of investor protection, the Government said.

Businesses will only be able to use the new streamlined process on the following strict conditions, including that the size of the bond offer is at least \$50 million.

Meanwhile, the Government will allow non-major banks to access cheaper funding so they can offer cheaper loans to Australian households and businesses.

The Government will phase down the Interest Withholding Tax (IWT) incurred by local subsidiaries and branches when they pay interest on borrowings from their overseas parents.

For local subsidiaries of overseas parents, the IWT rate will be reduced on such borrowings from 10 per cent to 7.5 per cent in 2013-14 and to 5 per cent in 2014-15. The Government is favourably disposed to reducing this rate to zero, subject to its medium-term fiscal objectives.

Additionally, the IWT rate applying to borrowings by any bank branch from its overseas head office will be reduced from 5 per cent to 2.5 percent in 2013-14 and to zero in 2014-15.

The Government expects this reform will allow such bank branches to continue their active lending to Australian businesses, including infrastructure investors, at even more competitive interest rates.

Previously, in its response to the Henry Tax Review the Government had announced that the company tax rate would be reduced to 29 per cent for the 2013-14 income year and to 28 per cent from the 2014-15 income year, in conjunction with the introduction of the Resource Super Profits Tax.

6. Small business taxes, GST for small business and other small business measures

The Government will reduce compliance costs for businesses through a package of GST reform measures to help business owners spend less time wading through red tape, the Government announced in the Budget.

The key components of the plan are:

- restructuring the margin scheme provisions to clarify and simplify the rules and ensure greater certainty for taxpayers on issues surrounding the use of valuations;
- 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 delivering compliance savings for many more small businesses;
- introducing measures to protect the GST base by reducing opportunities for businesses to inappropriately take advantage of the reduced input tax credit concessions by bundling services; and
- allowing small businesses accounting for GST on a cash basis to claim input tax credits upfront in relation to hire purchase arrangements. This change will significantly assist those businesses that have been forced into higher cost chattel mortgages following the introduction of the GST.

In response to the Treasury's review of the GST margin scheme, the Government also announced:

- The financial acquisitions threshold (FAT) input tax credit test will be increased from \$50,000 to \$150,000, enabling many more small businesses to avoid being caught up in the financial supply regime.
- The treatment of hire purchase agreements will be simplified by removing the need to apply different GST treatments to different parts of the one supply.
- The attribution rules for hire purchase arrangements will be made the same for both cash and non-cash GST taxpayers. This change should significantly advantage small businesses operating on a cash basis that have been forced into higher cost chattel mortgages following the introduction of the GST.

The Government will amend income tax law to improve the operation of rules relating to the calculation and collection of income tax liabilities from consolidated groups and multiple entry consolidated groups (MEC groups).

The measure will allow an entity in a tax sharing agreement to leave a consolidated group or MEC group clear of any future income tax liabilities relating to the group.

For consolidated groups and MEC groups, the changes will clarify that:

- Pay-As-You-Go (PAYG) liabilities can be recovered under the liability for payment rules in the income tax law, with effect from today; and
- • an entity which pays its contribution amount under a tax sharing agreement can leave a group clear of any further liability, with effect from the 2004-05 income year.

Additional changes for MEC groups will ensure that:

- the liability for payment rules apply to those groups, with effect from today; and
- where there is a change in the provisional head company during an income year, any PAYG instalments paid by the former provisional head company on behalf of the group are attributed to the group, with effect from 1 July 2002.

Meanwhile, the Government will provide \$89.9 million over four years to support the continuation and operation of the Standard Business Reporting (SBR) program to streamline business to government reporting.

The Government earlier announced as part of its response to the Henry tax Review the reduction in the company tax rate to 29 per cent from 2013-14 and to 28 per cent from 2014-15.

For small businesses, this will be pulled forward to 2012-13 and the rate cut will go straight to 28 per cent from that date.

7. Personal Tax

For individual taxpayers, the budget delivered a new standard deduction to simplify tax returns, increases to Medicare levy thresholds for low income earners and previously announced tax cuts.

On the down side, the threshold to claim the medical expenses offset was raised from \$1,500 to \$2,000.

Calculating work related expenses is the main tax burden for many Australians. As a result, more Australians use tax agents than almost anywhere else in the world.

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.

When fully implemented, the Government said 6.4 million Australians will find it easier to choose just the standard deduction and will see their tax drop by an average of \$192.

Taxpayers with higher expenses or more complex tax affairs can continue to claim their expenses and will not be worse off.

The Government committed to improving pre-filling so that more Australians can have their tax return filled out for them.

The Government will increase the Medicare low-income thresholds to \$18,488 for individuals and \$31,196 for families, with effect from 1 July 2009.

The additional amount of threshold for each dependent child or student will also increase to \$2,865. The increase in these thresholds takes into account movements in the Consumer Price Index and ensures that low-income families and individuals are not liable to pay the Medicare levy.

The Government will also increase the Medicare levy threshold for single pensioners below Age Pension age to \$27,697, with effect from 1 July 2009. This increase will ensure that pensioners below Age Pension age do not pay the Medicare levy when they do not have an income tax liability.

The Government also delivered its third round of tax cuts. Under these previously announced cuts the Low Income Tax Offset (LITO) will allow Australians to earn up to \$16,000 and not have to pay income tax (up from \$11,000 in 2007-08) from 1 July 2010.

Also from 1 July 2010:

- The Low Income Tax Offset will increase from \$1,350 to \$1,500;
- The 30 per cent threshold will increase from \$35,000 to \$37,000;
- The 38 per cent marginal tax rate will decrease to 37 per cent; and
- The amount of income a senior Australian eligible for the Senior Australian Tax Offset (SATO) can earn before they pay income tax or the Medicare Levy will increase from \$29,867 to \$30,685 for singles, and from \$25,680 to \$26,680 for each member of a couple.

“With the new tranche of personal tax cuts from 1 July, we will have delivered \$47 billion in tax relief over four years, targeted squarely at working families,” Treasurer Wayne Swan said.

“Working families have also benefited substantially from the increase in the Child Care Rebate, the Education Tax Refund, and the Teen Dental Plan.”

8. Savings Rebate

The Government will provide a 50 per cent tax discount on up to \$1,000 of interest, including interest earned on deposits, bonds, debentures and annuity products.

The 50 per cent discount will operate from July 1 2011 and is expected to benefit around 5.7 million taxpayers in 2011-12, three quarters of whom will have annual incomes below \$80,000.

The discount means interest income will receive a similar tax treatment to capital gains on assets held longer than a year.

The Government said that currently there was considerable variation in the taxation treatment of alternative savings vehicles, with relatively higher levels of taxation applying to interest income. This measure would improve the taxation regime for savings. The discount will be available for interest income earned directly as well as indirectly, such as via a trust or managed investment scheme.

There will be an ongoing cost to revenue estimated to be \$950 million over the forward estimates period.

There will also be a consequential expense of \$145.7 million over the forward estimates because taxpayers claiming the discount for interest income will have a reduced adjusted taxable income for the purpose of determining eligibility for transfer payments and other concessions.

This will result in some individuals and families becoming eligible for transfer payments or eligible for a larger transfer payment.

Treasurer Wayne Swan said this would be of particular benefit to small savers, especially older Australians, who are more likely to put extra non-superannuation savings into interest-earning deposits.

9. Superannuation

After announcing an increase in the existing 9 per cent Superannuation Guarantee (SG) rate to 12 per cent over six years to 2019-20 in its response to the Henry Review, the Budget contained several further smaller reforms.

The Government will help Australians trying to realise the dream of home ownership by allowing First Home Saver Account-holders more flexibility to buy their first home.

Currently, an FHS Account holder is required to keep their savings in an FHS account for four financial years before they are able to use those savings to buy a home. If the account holder buys a home before that the balance of their FHS Account must be transferred to their superannuation so that it remains in a concessional tax environment.

The Government will now allow savings in an FSA Account to be paid into an approved mortgage after the end of a minimum qualifying period, rather than requiring it to be paid to a superannuation account.

In a further move, the Government will extend the range of benefits that are deductible by complying superannuation funds and retirement savings account (RSA) providers to include terminal medical condition (TMC) benefits at a cost of \$7.5 million over the forward estimates. The measure will be backdated to 16 February 2008.

The Government has extended the loss relief for superannuation funds that merge to arrangements where existing funds merge into a new fund, with effect from 24 December 2008.

The Government will make minor amendments to improve the operation of the superannuation legislation from 2010-11. The amendments will include:

- permanently allowing a claim for a deduction for eligible contributions to be made to successor superannuation funds;
- increasing the time-limit for deductible employer contributions made for former employees;
- clarifying the due date of the shortfall interest charge for the purposes of excess contributions tax;
- allowing the Commissioner of Taxation to exercise discretion for the purposes of excess contributions tax before an assessment is issued; and
- providing new arrangements for public sector defined benefit schemes which fund benefits through 'last minute contributions'.

The Government said it would improve the administration of superannuation by facilitating the transfer of any unclaimed superannuation monies held by the States and Territories to the ATO.

The Government will also increase the funding for the Superannuation Complaints Tribunal (SCT). From 2010-11 until 2013-14, the SCT will receive additional funding of \$1.5 million per annum, totalling \$5.9 million.

10. Not for profit sector

Community and fundraising foundations that operate as public ancillary funds will be subject to new regulations announced in the Budget.

Effective from 1 July 2011, the framework will include legislative guidelines governing the establishment and maintenance of the funds, and provide the Commissioner of Taxation with the power to impose administrative penalties on trustees for breaches of the guidelines.

“The measure will provide trustees of these funds with greater certainty as to their philanthropic obligations and provide donors and the charitable sector with greater confidence that donations are being used effectively,” Assistant Treasurer Nick Sherry said.

Transitional rules will be provided to facilitate transition into the new regime.

The charitable sector will be given the opportunity to comment on the measure as part of a public consultation process.

The government also announced that it had extended deductible gift recipient (DGR) support to volunteer fire brigades and other volunteer-based and state-recognised emergency services entities.

11. Housing and property

The Government has announced that concessionally taxed First Home Saver Accounts are being made more flexible, allowing people to buy a house sooner and not have their savings diverted to superannuation.

Money from the FHS accounts will be able to be paid to an approved mortgage at the at the end of the minimum qualifying period, if a house is purchased in the interim.

Currently, an FHS account holder is required to keep their savings in an FHS account for four financial years before they are able to use it to buy their first home. If they buy a house before the four years, the balance must be transferred to their superannuation so that it remains in a concessionally taxed environment.

But first home buyers will now be able to pay savings from an FHS account into an approved mortgage after the qualifying period, rather than requiring it to be paid to a superannuation account.

FHS Accounts will still offer all the existing concessions to help Australians buy their first home:

- The Government contributes 17 per cent on the first \$5,000 (indexed) of individual contributions made each year. That means an individual who makes a contribution of \$5,000 to their FHS Account will be eligible for a Government contribution of \$850.
- There is a cap of \$75,000 (indexed) on the overall FHS Account balance. If an individual reaches the cap, no further individual contributions can be made by the FHS Account-holder.
- However, the FHS Account interest earnings and outstanding government contributions will still be credited to the FHS Account after this time, allowing the account to continue to grow.
- Individuals who are members of a couple will be able to pool their FHS Accounts to purchase a home together.
- Earnings are to be taxed at 15 per cent and withdrawals will be tax free where they are used to purchase a first home.

The Government will release draft amendments for consultation over the coming months.

12. Renewable energy

The Budget redefined climate change as a “core challenge for the future” and switched the focus to renewable energy. Prime Minister Kevin Rudd’ had previously famously described climate change as the “great moral challenge of our generation”,

The Budget announced 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 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.

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.

Treasurer Wayne Swan said the Government accepted the science of climate change and the need for “combined global and domestic action”.

13. Financial Services

The Government will establish a Centre for International Finance and Regulation to support regional financial stability and build on Australia’s growing status as a leading regional financial hub.

The Budget announced the Government will invest up to \$25 million over the next four years to establish the Centre as a regional centre for excellence in financial system regulation and innovation.

Its aim will be to contribute to regional financial system stability by developing and supporting students, academics and researchers from the Asia Pacific region and by building regional capacity.

The first phase of this investment will design a business model for the Centre, to be completed later this year.

The second phase will select a university or consortium of universities to be appointed to host the Centre.

The Centre will:

- provide tertiary education and training for financial regulators from Australia and the Asia Pacific region;
- undertake research into innovation in the financial sector;
- undertake research into developments in the financial sector globally;
- undertake research into best practice financial regulation; and
- enhance regional financial system stability and regional links.

The Government will also refine certain aspects of the 2009-10 Budget measure that allows eligible Australian managed investment trusts (MITs) to make an irrevocable election to apply the capital gains tax (CGT) regime as the primary code for taxing certain disposals of assets by:

- expanding the definition of MIT to ensure that a broader range of widely held trusts, such as state-operated trusts and certain wholesale trusts, are able to make an election, with effect from the 2008-09 income year;
- expanding the scope of eligible assets, with effect from the 2008-09 income year;
- providing taxpayers with certainty about prior year assessments by preventing the Commissioner of Taxation amending, without the consent of the taxpayer, prior-year assessments, in respect of a re-characterisation of gains or losses from eligible assets from capital to revenue or vice versa.

This change will have effect from the 2008-09 income year

The Government will also introduce a specific taxation regime for Managed Investment Trusts, with effect from 1 July 2011,.

The Government will phase down the interest withholding tax (IWT) paid by financial institutions on most interest paid on offshore borrowings, with effect from the 2013-14 income year. Under the current arrangements, interest paid by financial institutions on offshore borrowings may be subject to IWT — generally at 10 per cent. Where IWT applies, it may be passed on to Australian borrowers through higher interest rates and may also bias the funding choices of financial institutions.

