



Victorian
Chamber of Commerce
and Industry

OVERVIEW

2018-2019 FEDERAL BUDGET



The Turnbull Government's third Budget was brought down on 8 May 2018.

The Victorian Chamber of Commerce and Industry welcomes the \$7.8 billion investment in Victorian infrastructure in the 2018-19 Federal Budget which helps lift Victoria's share of federal infrastructure funding.

This infrastructure boost targets important projects in metropolitan and regional Victoria that are vital to keeping Victoria competitive and align with the priorities for Victorian business advocated by the Victorian Chamber.

The Budget builds on the strong outcomes for Victorian business delivered in the recent Victorian Budget. It demonstrates responsible economic management with a projected return to surplus in 2019-20 and forecasts continuing solid economic growth for the Australian economy over the medium term.

Overview

The 2018-19 Federal Budget contains a number of important measures that will help Victorian business stay competitive. Coupled with last week's State Budget, it strengthens Victorian infrastructure and enhances the opportunity for Victorian businesses to grow their workforces.

The Federal Budget's Personal Income Tax Plan provides income tax cuts for lower income earners which will help address cost of living pressures, reduce the impact of bracket creep and inject additional spending into the economy.

Small businesses with aggregated annual turnover less than \$10 million will be able to immediately deduct purchases of eligible assets costing less than \$20,000. This measure will improve small business cash flow and build productive capacity.

All businesses will benefit from the recommitment to cutting the company tax rate to 25 per cent over a ten-year period.

International trade support is strengthened by a \$20 million investment in new SME Export Hubs. The Hubs will foster greater cooperation between Australian businesses, helping them grow as they work together to sell their products to the world. There is also \$51.3 million to expand the existing network of agricultural trade counsellors in Asia, Europe and Latin America.

In terms of industry development, the Federal Budget funds a new Sovereign Industrial Capability Grants Program worth up to \$17 million per year to help small businesses in the defence industry buy equipment. The Budget also invests \$225 million to improve the accuracy of GPS in Australia. More accurate GPS can improve transport logistics, surveying, agriculture and marine navigation.

Agribusiness is supported with \$102 million to strengthen biosecurity, \$20 million for pest control, and \$4.7 million

to improve the collection of agricultural labour force data to better understand the skills gaps facing farm businesses.

While the Federal Budget contains limited support for lowering business energy costs, the Government will invest \$50.8 million to support the Hydrogen Energy Supply Chain project which is designed to develop an integrated supply chain for liquid hydrogen, converted from Victorian brown coal.

Regional communities will benefit from \$200 million for the Building Better Regions Fund which supports regional infrastructure and community investments and includes \$45 million to improve tourism-related infrastructure.

A range of measures are included in the Budget to support education and training. They include an additional \$250 million for the Skilling Australians Fund which provides support for apprenticeships and traineeships. A new \$19.3 million Skills and Training Incentive will be introduced to assist older Australians update their skills. Australians aged 45-70 will be eligible for up to a \$2,000 incentive to undertake suitable training (accredited or non-accredited), which must be matched by the individual or their employer.

Less positive are changes to the research and development (R&D) tax incentive which reduce the level of benefits to eligible businesses and increase its complexity. Reducing the incentive to undertake R&D benefitting Australia and growing business competitiveness is inconsistent with Victorian Chamber recommendations.

Overall, we consider the Federal Budget builds on the strong outcomes for Victorian business delivered in the recent Victorian Budget. It demonstrates responsible economic management with a projected return to surplus in 2019-20 and forecasts continuing solid economic growth for the Australian economy over the medium term.



Key Federal Budget initiatives for Victorian business

Infrastructure

- > \$5 billion for a Melbourne Airport rail link
- > \$1.75 billion for the North-East link
- > \$475 million for a rail connection to the Monash employment precinct
- > \$225 million for Frankston to Baxter line electrification
- > \$140 million for urban congestion reduction projects
- > \$132 million for the Princes Highway duplication from Traralgon to Sale
- > \$50 million for the duplication of the Geelong Rail Line between South Geelong and Wairn Ponds
- > \$20 million funding boost for Avalon Airport.
- > Reaffirmed commitment of \$3 billion towards the East West Link.

Energy

- > \$37.6 million to improve energy affordability, reliability and sustainability by implementing recommendations from the Finkel Review and improving energy market regulation.
- > \$50.8 million to support the pilot phase of the Hydrogen Energy Supply Chain project which is designed to develop an integrated supply chain for liquid hydrogen, converted from Victorian brown coal.

Taxation

- > Small businesses will 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. This provides business with a benefit of \$350 million over the forward estimates period.
- > For companies with aggregated annual turnover below \$20 million, the refundable R&D offset will be a premium of 13.5 percentage points above a claimant's company tax rate. Cash refunds from the offset will be capped at \$4 million per annum. For larger businesses, 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.
- > Changes to personal income tax will provide a new tax offset for low and middle income earners. Bracket creep is addressed by increasing the top threshold of the 32.5 per cent personal income tax bracket to \$90,000. The Government also intends to remove the 37 per cent personal income tax bracket entirely from 2024.

International trade

- > \$20 million for SME Export Hubs allowing greater cooperation between Australian businesses.
- > \$51.3 million to expand the existing network of agricultural trade counsellors in high-growth export markets.

Jobs and skills

- > \$29.9 million to grow Australia's capabilities in artificial intelligence and machine learning.
- > An additional \$250 million will be added to the Skilling Australians Fund which supports vocational education and training to upskill Australian workers.
- > \$17.4 million to establish the Skills Checkpoint for Older Workers program providing customised career advice for employees aged 45-70.
- > A \$19.3 million Skills and Training incentive providing up to \$2,000 for workers aged 45-70 to reskill or upskill.
- > \$26 million to establish a national space agency to drive investment, create jobs and continue Australia's participation in the global space economy.

Economic outlook

- > The Federal Budget forecasts indicate that national economic conditions are expected to remain stable over the forward estimates. The Australian economy is forecast to grow by 3.0 per cent in 2018-19 and to remain at that level over the forward estimates.
- > This reflects improving world economic conditions and rising household consumption, non-mining business investment and exports. Growth is also being supported by historically low interest rates.
- > While employment growth is expected to moderate from the current high level, the unemployment rate is expected to decline modestly over the forward estimates.
- > Consistent with projected stable economic growth, both consumer prices and wages are expected to increase over the forward estimates.

Australia's financial position

- > The Budget has taken a responsible approach to revenue and spending with a planned return to surplus by 2019-20, one year earlier than expected.
- > The return to a balanced budget will be supported by tax changes, restrained government spending and a stronger economy.
- > The underlying cash balance is expected to improve in each year over the forward estimates period, from a deficit of \$14.5 billion in 2018-19 to a surplus of \$16.6 billion in 2021-22.
- > Consistent with the improved budget position, net debt as a share of GDP is estimated to peak at 18.6 per cent of GDP in 2017-18 and then fall in each year of the forward estimates and medium term.

Federal funding to Victoria

- > Consistent with the Victorian Budget, projected Goods and Services Tax (GST) revenue to Victoria is anticipated to grow significantly in 2018-19, reflecting our strong population growth and infrastructure needs, before levelling out over the forward estimates.

Australia's economic forecast (%)	2016-17 outcomes	2017-18 forecast	2018-19 forecast	2019-20 forecast	2020-21 projections	2021-22 projections
Real GDP	2.1	2.75	3.0	3.0	3.0	3.0
Employment	1.9	2.75	1.5	1.5	1.25	1.25
Unemployment rate	5.6	5.5	5.25	5.25	5.25	5.0
Consumer price index	1.9	2.0	2.25	2.5	2.5	2.5
Wage price index	1.9	2.25	2.75	3.25	3.5	3.5

Sources: ABS Cat. No. 5206.0, 6202.0, 6345.0, 6401.0 and Treasury