



Victorian  
Chamber of Commerce  
and Industry

# OVERVIEW

## 2017-2018 Federal Budget





The Turnbull Government's second Budget was brought down on 9 May 2017.

It contains a number of positive measures for Victorian business and makes a welcome investment in Victorian infrastructure, including \$500 million for regional passenger rail and \$30 million to help plan the Melbourne airport rail link.

The Budget demonstrates responsible economic management with the Government forecasting a return to surplus in 2020-21.

## Overview

The 2017-18 Federal Budget contains a number of important measures that will help Victorian businesses become more competitive. Coupled with the 2017-18 State Budget, it strengthens Victorian infrastructure and enhances the opportunity for businesses in Victoria to expand and employ more people.

Businesses will benefit from the tax cuts for small and medium Australian businesses with turnover less than \$50 million per annum, as announced as part of the Ten Year Enterprise Tax Plan in the last Budget.

Incorporated small businesses with turnover less than \$10 million will have their tax rate cut to 27.5 per cent in 2016-17. This lower corporate tax rate will extend to other companies with annual turnover less than \$50 million by 2018-19. The Budget recommits to cutting the company tax rate to 25 per cent for all businesses by 2026-27.

Also positive for small business is the extension of the \$20,000 instant asset write-off for a further 12 months to 30 June 2018. The turnover threshold will be maintained at \$10 million. This measure will improve cash flow for small business and help them to invest in new, productivity enhancing assets. Improved cash flow will also give businesses the flexibility to hire more employees.

Victorian infrastructure receives a \$1 billion boost in the Budget, including \$500 million for regional passenger rail, \$20.2 million for Murray Basin Rail and \$30 million towards a Melbourne Airport Rail Link business case. The Government has also committed to deliver the Melbourne to Brisbane Inland Rail project, using an additional \$8.4 billion equity investment in

the Australian Rail Track Corporation and private sector involvement.

The Budget tackles red tape by providing up to \$300 million to States and Territories that remove unnecessary regulatory barriers.

Business innovation is spurred by a new \$100 million Advanced Manufacturing Fund designed to promote research and capital development for high technology manufacturing businesses. There is also \$24 million for Rural and Regional Enterprise Scholarships.

Another positive is the new Skilling Australians Fund that will invest \$1.5 billion over the next four years to improve the skills of Australia's apprentices and trainees.

However, we are concerned that users of the temporary skill shortage visa (457 visa) will be required to contribute to the new Skilling Australians Fund. Businesses with up to \$10 million in turnover will pay \$1200 per year for each visa holder. Larger businesses will pay \$1800 per visa per year.

Overall, the Budget has taken a responsible approach to revenue and spending. The underlying cash balance is expected to move from a forecast deficit of \$37.6 billion in 2016-17 to a surplus of \$7.4 billion in 2020-21.

The improved Budget position is underpinned by a positive outlook for the national economy with economic growth (GDP) expected to average 3 per cent between 2018-19 and 2020-21. The outlook for unemployment and jobs growth is steady, with the unemployment rate expected to decline modestly over the forward estimates.



## Key federal budget initiatives for Victorian business

### Infrastructure

- > \$1 billion investment in Victorian infrastructure, including \$500 million for regional passenger rail and \$100 million for upgrades to the Geelong-Waurn Ponds rail line.
- > \$30 million to help plan the Melbourne airport rail link, adding to the \$10 million set aside in the 2017-18 State Budget.
- > A commitment to deliver the Melbourne to Brisbane Inland Rail Project, using an additional \$8.4 billion equity investment in the Australian Rail Track Corporation combined with private sector involvement.
- > Surplus Defence land in Maribyrnong will be released, providing land for a new suburb that could cater for 6,000 homes.

### Skills and training

- > \$1.5 billion to establish the Skilling Australians Fund and support up to 300,000 apprentices, trainees, pre-apprentices and higher level skilled Australians. Priority will be given to occupations in high demand that currently rely heavily on skilled migration, future growth industries and rural and regional areas.
- > \$60 million over two years to establish industry specialist mentoring services to provide intensive support to apprentices and trainees in the first two years of their training in industries that are undergoing structural change.

### Industry

- > Establishment of a \$15 million small business information campaign to help businesses understand what programs and support are available to assist them.
- > Establishment of a \$100 million Advanced Manufacturing Fund to promote research and capital development assisting businesses establishing or expanding high value manufacturing operations in South Australia and Victoria.
- > Provision of up to \$300 million to States and Territories that remove unnecessary regulatory barriers which impede job growth and entrepreneurship.

### Regional investment

- > \$24 million for Rural and Regional Enterprise Scholarships.
- > A further \$200 million for the Building Better Regions Fund to support the construction of community infrastructure and build the capacity of regional areas.
- > Consistent with the Victorian Chamber's advocacy, the Government is also exploring opportunities to decentralise Commonwealth agencies to expand the range of skills and jobs in our regions.

### Taxation

- > Recommitment to cutting the company tax rate to 25 per cent for all businesses by 2026-27. A lower corporate tax rate promotes business investment by raising the return from investing in Australia. Legislating the tax cut for companies with an annual turnover above \$50 million will allow the economic benefits to be realised in full and will drive new business investment.
- > The extension of the instant asset write-off to June 2018 available to businesses with a turnover up to \$10 million. This allows eligible businesses to claim an immediate tax deduction for assets costing less than \$20,000 and will benefit businesses by \$650 million over four years.
- > A major bank levy will be introduced for banks with liabilities of at least \$100 billion from 1 July 2017, increasing tax receipts by \$5.5 billion over the forward estimates period.
- > From March 2018, businesses that employ foreign workers on certain skilled visas will be required to pay a levy that will provide revenue for a new Skilling Australians Fund. The new levy will impose a cost to business of between \$1,200 to \$1,800 per visa per year for each employee on a temporary visa and \$3,000 to \$5,000 for each permanent migrant. This is estimated to increase tax receipts by \$1.2 billion over the forward estimates period.
- > To assist in funding the National Disability Insurance Scheme, from 1 July 2019 the Medicare levy will increase by half a percentage point from 2 to 2.5 per cent of taxable income, raising an additional \$8.2 billion over the forward estimates period.



## Economic outlook

- > The Federal Budget forecasts indicate that national economic conditions are expected to improve over the forward estimates. The Australian economy is forecast to grow by 2.75 per cent in 2017-18 and to pick up to 3 per cent in 2018-19.
- > 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.
- > The outlook for unemployment and jobs growth is steady, with the unemployment rate expected to decline modestly over the forward estimates.
- > Consistent with the projected improvement in 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 a surplus by 2020-21.
- > The return to a balanced budget will be supported by a number of new or increased taxes and by restraining growth in government spending.
- > The underlying cash balance is expected to improve in each year over the forward estimates period, from a deficit of \$37.6 billion in 2016-17 to a surplus of \$7.4 billion in 2020-21.
- > Net debt as a share of GDP is estimated to be 19.5 per cent of GDP in 2017-18 and to peak at 19.8 per cent in 2018-19.

## Federal funding to Victoria

- > Consistent with forecasts in the Victorian Budget, projected Goods and Services Tax (GST) revenue to Victoria is expected to increase over the forward estimates. This is due to an increase in the amount of GST being collected by the Commonwealth and a reflection of Victoria's growing population.

Australia's economic forecast (%)	2015-16 outcomes	2016-17 forecast	2017-18 forecast	2018-19 forecast	2019-20 projections	2020-21 projections
Real GDP	2.6	1.75	2.75	3.0	3.0	3.0
Employment	1.9	1.0	1.5	1.5	1.5	1.5
Unemployment rate	5.7	5.75	5.75	5.5	5.5	5.25
Consumer price index	1.0	2.0	2.0	2.25	2.5	2.5
Wage price index	2.1	2.0	2.5	3.0	3.5	3.75

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