



Victorian
Chamber of Commerce
and Industry



OVERVIEW

2019-2020 FEDERAL BUDGET AND BUDGET REPLY

Federal Treasurer Josh Frydenberg's first Budget was delivered on 2 April 2019.

The Victorian Chamber of Commerce and Industry welcomed several key initiatives, including returning the Budget to surplus in 2019-20, its inclusion of tax relief for small and medium-sized businesses, the \$525 million funding boost to skills and training and its \$6.2 billion investment in Victorian infrastructure.

The Budget will help Victorian businesses get workers with the skills they need, reinvest in capital and expand internationally.

While the national economic outlook has moderated, economic growth is expected to remain stable with growth supported by household consumption, business investment, public final demand and exports.

However, risks to the economy remain around global economic conditions, a deeper than expected correction in the domestic housing market and further drought and flood events.

Overview

The 2019-20 Federal Budget contains several initiatives that will help Victorian business stay competitive. It complements the pre-election commitments of the Andrews Government to strengthen Victorian infrastructure and includes much needed measures to help Victorian businesses grow the skills and capabilities of their workforces.

The Budget includes tax cuts for lower and middle income earners which will help address cost of living pressures, reduce the impact of bracket creep and inject additional spending into the economy.

An additional 22,000 businesses will benefit from the expansion of the instant asset write-off, bringing the number of businesses eligible to benefit to 3.4 million nationally.

Also positive is the recommitment to introduce a 25 per cent company tax rate for companies with an annual turnover of less than \$50 million.

Industry skills will be strengthened by a \$525 million skills package. Funds will support 80,000 new apprentices in occupations experiencing skill shortages through an additional \$4000 payment to employers and \$2000 payment to apprentices. Other supporting measures include \$62 million to improve foundation literacy and numeracy and digital skills and \$51 million to connect schools and industry in areas of high youth unemployment through ten Training Hubs.

International trade is strengthened by a \$60 million increase in Export Market Development Scheme funding which responds to the Victorian Chamber's call to get more small businesses engaged in international markets.

The \$6.2 billion investment in Victorian infrastructure focuses on reducing urban congestion and improving freight efficiency. It includes funding for several road and

rail projects the Victorian Chamber has identified as priorities to grow trade and improve liveability. However, Victoria will still receive only around 18 per cent of federal infrastructure funding, despite us having more than 26 per cent of the population.

Victoria's agribusiness sector will benefit from \$2 million to develop a National Agricultural Workforce Strategy, as recommended by the Victorian Chamber's Agribusiness Taskforce.

The tourism industry welcomed funding of \$50 million over three years to support investment in new iconic attractions which will help drive tourism across Australia. Tourism businesses will be able to apply for a refund on luxury car tax paid up to a maximum of \$10,000 from 1 July 2019.

In addition to funding for several major regional road upgrades, Victoria's regions will benefit from the Budget's allocation of \$206 million from 2019-20 for a further round of the Building Better Regions Fund, to support investment in community infrastructure and capacity building projects in regional areas.

While the Budget contains a one-off Energy Assistance Payment to individuals, it is disappointing that there are no specific measures to help lower business energy costs. Also disappointing is a 30,000 person reduction in the permanent overseas migration cap to 160,000, and an almost \$50 million cut to industry and innovation funding.

Overall, we consider the Federal Budget is positive for Victorian business. It demonstrates responsible economic management with a projected return to surplus in 2019-20 and forecasts steady economic growth over the medium term.

Key Federal Budget outcomes for Victorian business

Victorian Infrastructure

- > \$1.1 billion for Suburban Roads Upgrades (South Eastern and Northern Roads).
- > \$700 million for South Geelong to Waurin Ponds Rail.
- > \$360 million for the Western Highway (Final Stage of Duplication from Ararat to Stawell).
- > \$396 million for the Urban Congestion Fund.
- > \$490 million for Roads of Strategic Importance.

Taxation

- > Low and middle income earners will receive tax cuts, reducing the 32.5 per cent tax rate to 30 per cent from 2024-25 and lifting the threshold for the 19 per cent tax bracket from \$41,000 to \$45,000 from 2022-23.
- > An expansion of the instant asset write-off to businesses with a turnover of up to \$50 million (up from \$10 million) and an increase to the maximum deduction from \$25,000 to \$30,000.

International trade

- > A \$60 million expansion to the Export Market Development Grant scheme to help small and medium businesses expand into overseas markets.
- > \$1 million to further promote Australian export industries to overseas markets.

Jobs and skills

- > A \$525 million skills package to improve training quality and boost employer incentives to support up to 80,000 new apprentices including by providing an additional \$4000 for employers and \$2000 for apprentices in 10 key occupations.
- > \$27 million to establish a National Labour Hire Registration Scheme which will require registration for labour hire operators in specific 'high risk' sectors (horticulture, cleaning, meat processing and security).
- > \$9 million to establish a dedicated sham contracting unit within the Fair Work Ombudsman.
- > A 30,000 person cut in the permanent overseas migration cap to 160,000.

Industry and innovation

- > \$19 million to establish a Space Infrastructure Fund.
- > A \$49 million cut to the Entrepreneurs' Programme and the Industry Growth Centres Initiative.

Energy

- > \$13 million for the Australian Energy Regulator to help improve access to reliable, affordable energy.
- > A Climate Solutions package which includes up to \$1.38 billion in equity funding for the delivery of the Snowy 2.0 project and \$56 million towards a second electricity interconnector between Tasmania and the mainland.
- > One-off energy assistance payments for recipients of Commonwealth benefits.

Fiscal and economic outlook

- > A higher than expected surplus of \$7.1 billion for 2019-20 with surpluses growing into the future. This will help to pay down debt, improving the resilience of the Budget to deal with future challenges.
- > The Australian economy is forecast to grow by 2.75 per cent in 2019-20 and 2020-21. Risks to the economy remain around global economic conditions and a deeper than expected correction in the domestic housing market.
- > While employment growth is expected to continue to moderate from a high of 2.7 per cent in 2017-18, the unemployment rate is predicted to remain stable at 5.0 per cent.
- > Forecasts of wages growth have been revised down to 2.75 per cent in 2019-20 and 3.25 per cent in 2020-21, however wages growth is still expected to exceed growth in consumer prices.

Australia's economic forecast (%)	2017-18 outcomes	2018-19 forecast	2019-20 forecast	2020-21 forecast	2021-22 projections	2022-23 projections
Real GDP	2.8	2.25	2.75	2.75	3.0	3.0
Employment	2.7	2.0	1.75	1.75	1.5	1.5
Unemployment rate	5.4	5.0	5.0	5.0	5.0	5.0
Consumer price index	2.1	1.5	2.25	2.5	2.5	2.5
Wage price index	2.1	2.5	2.75	3.25	3.5	3.5

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

The Opposition Budget Reply - What would Labor do differently?

Leader of the Opposition Bill Shorten delivered his Budget reply speech on 4 April 2019 highlighting the following actions Labor will take if elected

Victorian infrastructure

- > Support the Suburban Rail Loop.
- > Establish a bipartisan process to nominate directors to Infrastructure Australia.
- > Apprentices will need to comprise 10 per cent of the workforce on Commonwealth funded infrastructure projects.

Taxation

- > Additional tax cuts for 3.6 million people earning under \$48,000, the same immediate tax relief as promised by the Coalition for people earning between \$48,000 and \$126,000. However, will not support proposed tax rate cuts for higher income earners.
- > Confirmed previously announced changes to negative gearing and dividend imputation refunds.
- > Confirmed support for company tax cuts for businesses with an annual turnover of less than \$50 million.
- > Investment guarantee will provide a permanent, 20 per cent upfront tax deduction for assets valued over \$20,000 for all businesses.

Jobs and skills

- > Will uncap higher education, adding 200,000 places.
- > \$200 million capital investment to renovate TAFE campuses in regional and outer suburban areas.
- > Will pay the upfront TAFE fees for 100,000 places, including 20,000 places for National Disability Insurance Scheme workers.
- > Additional employer incentives for 150,000 apprenticeship places and will appoint an apprentice advocate.
- > 15 hours per week of pre-school education for all three and four year old children.
- > Will legislate to restore penalty rates, stop sham contracting, control labour hire and implement a living wage (following consultation with employers and the Fair Work Commission and taking into account the capacity of business and the economy to sustain the wages growth).

Industry and innovation

- > Will invest in industries of future growth including agriculture, tourism, hydrogen energy, science and research, advanced manufacturing, mineral exploration, defence and commercial shipbuilding.
- > Will develop Australian renewable energy (specifically battery manufacturing) and waste recycling industries.
- > Will improve the reliability of the National Broadband Network for small business.

Energy

- > Stronger action on climate change, with Labor previously committing to setting a target to reduce emissions by 45 per cent on 2005 levels by 2030 and to deliver 50 per cent of power from renewable sources by 2030.
- > \$2,000 payments to households installing a battery storage system.

Fiscal management

- > Committed to deliver stronger surpluses and pay down debt faster in order to build resilience and capacity to respond to 'international shocks'.