

# Federal Budget 2010-11



Research Services

## 1. Economy

The forecast budget deficit of \$40.8 billion in 2010-11 is \$16.3 billion lower than was expected a year ago. This reflects the strong performance of Australian economy where recession was avoided, people remained in work and productive spending initiatives – rather than financial system bailouts – were effectively used.

The better than anticipated performance also means the budget is forecast to return to surplus three years ahead of last year's projection.

	Actual	Estimates			Projections	
	08-09	09-10	10-11	11-12	12-13	13-14
Underlying cash balance	-27.1	-57.1	-40.8	-13	1.0	5.4
Per cent of GDP	-2.2	-4.4	-2.9	-0.9	0.1	0.3
Fiscal balance	-29.7	-54.8	-39.6	-12.1	2	6.3
Per cent of GDP	-2.4	-4.2	-2.8	-0.8	0.1	0.4

(Source: Federal Budget Papers 2010-11)

GDP is expected to strengthen reaching 4% growth in 2011-12 before easing to 3% over the following two years.

Treasury also delivered a soft inflation outlook, predicting the CPI will remain steady at 2.5% over the next four years.

Unemployment is forecast at 5% for the coming year, before dipping to 4.75%.

	09-10	10-11	11-12	12-13	13-14
Real GDP	2.00	3.25	4.00	3.00	3.00
Employment	2.50	2.25	2.00	1.50	1.75
Unemployment Rate	5.25	5.00	4.75	5.00	5.00
CPI	3.25	2.50	2.50	2.50	2.50
Nominal GDP	2.75	8.50	5.75	5.50	5.50

(Source: Federal Budget Papers 2010-11)

## 2. Households

The main positives for individuals and households lie in taxation-based initiatives to encourage saving, superannuation changes and healthcare spending, some of which have been previously announced.

### Lower Taxation of Savings

A measure drawn from the Henry Review sees proposal to reduce the tax payable on savings. Individuals will be able to discount by 50% up to \$1,000 of interest income earned in calculating tax payable. In other words, consumers pay tax on \$500 instead of \$1,000 interest income. This applies to interest income earned on savings accounts, bonds, debentures and annuity

products held directly and indirectly (eg in trust).

### Improved First Home Saver Accounts

Changes have been announced to the First Home Savings Account under the banner of "easing the costs of living" and housing affordability. Details on the change are scant, but the Government has responded to calls (including by Abacus) to remove the four year "lock-up" of funds. FHSA balances will now be able to be paid into a mortgage after a shorter qualifying period if a house is purchased.

### Tax Thresholds

From 1 July 2010, some Australian taxpayers will benefit from the next round of tax cuts. This includes lifting the low income tax offset to \$1,500 to provide an effective tax free threshold of \$16,000 for Australians with income up to \$30,000.

As announced in a previous budget, the marginal tax rate for annual income between \$80,001 and \$180,000 will be reduced from 38% to 37% from 1 July 2010.

### Simplified Tax Returns

Changes have been announced to simplify and reduce the costs of filing tax returns for many Australians.

Rather than claiming money deductions for workplace expenses based on receipts collected, from July 2012 workers will be able to claim \$500 in a standard deduction, increasing to \$1,000 from July 2013, without the need for evidence.

Those with higher expenses or more complex tax affairs can continue to claim these deductions and will need supporting evidence.

The main rationale for this change is to reduce the burden of annual returns and reliance on tax agents or accountants to file simple tax returns.

### Superannuation

Previously announced initiatives include:

- > The superannuation guarantee charge will transition over the next ten years to 12%, starting July 2013.
- > From July 2012, contributions up to \$500 to offset contributions tax for those on incomes up to \$37,000.
- > From July 2012, up to \$50,000 a year in concessional superannuation contributions is allowed by older workers whose super balances are less than \$500,000.

## Healthcare

Total new investment of \$7.3 billion over five years, and \$23 billion over the rest of the decade:

- > Additional \$2.2 billion towards a modernised health system
- > \$355 million for 23 new GP Super Clinics and around 425 GP facility upgrades
- > \$417 million to enhance after hours GP locum services
- > \$523 million over four years to train nurses
- > \$467 million to introduce electronic health records for individual Australians
- > \$533 million over five years to improve access in the community to high quality aged care
- > Lower cost prescription medicine

## 3. Businesses

### Tax Rate

- > The company tax rate will be reduced to 29% in 2013-14 and to 28% from the 2014-15, in conjunction with the introduction of the Resource Super Profits Tax (a new 40% tax on super profits, starting from July 1, 2012).

### Small Business

- > The small business company income tax rate will be reduced to 28% from 2012-13.
- > From 1 July 2012, the threshold under which depreciable assets of small businesses can be immediately written off will be increased from \$1,000 to \$5,000.

## Financial Markets

- > The Government will phase out interest withholding tax rate incurred by financial institutions on most interest paid on offshore borrowings.
- > A regional centre for financial system innovation and regulation will be established to foster innovation, best practice regulation and financial sector stability.

## 4. Infrastructure

### Infrastructure Fund

- > The Government will establish a new infrastructure fund to invest in the nation building infrastructure necessary to improve Australian living standards.
- > The fund will commence in 2012-13 with an initial contribution from the Commonwealth of \$700 million and will be worth more than \$5.6 billion over the decade.

### Railways

The Government is investing close to \$1 billion in the Australian Rail Track Corporation and has announced funding for a number of productivity enhancing rail projects. These include :

- > Whyalla to Broken Hill and Parkes to Cootamundra re-railing;
- > Broken Hill to Parkes concrete re-sleepering;
- > NSW North Coast curve easing;
- > Albury to Melbourne to Geelong re-railing;
- > Gheringhap to Maroona passing loops;
- > Goulburn / Moss Vale / Glenlee double track passing.

### National Broadband Network

The Government will provide \$23.4 million over five years to continue to support the implementation of the National Broadband Network. A further \$24.0 million over five years will go to the Australian Competition and Consumer Commission to establish and deliver the proposed regulatory arrangements for the National Broadband Network.

## 5. Social Structures

### Addressing Skill Shortages

The Government set aside \$661 million for Skills for Sustainable Growth strategy, aiming to tackle the growing needs for a quality workforce. Included are :

- > A \$200 million Critical Skills Investment Fund to support quality training where it is needed most through partnerships with industry. The investment is expected to fund up to 39,000 training places.
- > \$79 million for SMEs to take on young traditional trade apprentices in skill shortage occupations.
- > An investment of \$243 million to drive major improvements in training systems.
- > \$119 million to improve literacy and numeracy.
- > \$20 million to encourage competency based apprenticeships, improving the efficiency of skills formation.

## 6. Climate Change

### Renewable Energy

- > The Government will invest \$652 million over four years in a new Renewable Energy Future Fund.
- > The Fund will leverage private investment in large and small scale renewable energy projects, including wind, solar and biomass. It will also be used to encourage Australia's take-up of energy efficiency, helping businesses and households reduce their energy consumption.

### Carbon Pollution Reduction Scheme

- > The Government will not move to legislate the CPRS before the end of 2012, and will only do so after this time if there is sufficient international action.

## 7. Rural and Regional Australia

- > The Government is providing \$29 million in this Budget to support nurses in regional Australia.

- > Over \$300 million provided to support community sport and local clubs under the Regional and Local Community Infrastructure program.

## 8. National Security

An investment of \$4.3 billion to enhance our national security, including measures to boost border protection and aviation security

## 9. Viewpoint

The Government has kept to its promise of a no frills budget. Rather than a pre-election spending spree, the focus has been on underlining its track record of fiscal responsibility pointing to the post-GFC shape of our economy. "Selling" of the budget has been helped by restating a number of key areas that had already been announced.

There are some question marks over some of the indicators in the economic outlook for 2012 – strong GDP growth of 4% combined with low unemployment at 4.75% would seem to be at odds with an inflation rate of 2.5%. A downside risk is that interest rates would likely need to rise with these forces at play.

The forward projections that see the budget in surplus are reliant on the successful implementation of the Resource Super Profits tax. If the tax is delayed, watered down or not introduced, the budget will remain in deficit for much longer.

The added incentive for households to save via changes to tax treatment of ADI deposits, bonds, debentures and annuity products is a welcome positive with benefits right across the mutual sector. A bonus for the financial sector is that this initiative helps provide some stability for retail funding for building societies and credit unions.

The centre for financial system innovation and regulation flags that the Government is interested in supporting financial services locally, however it remains to be seen whether this helps achieve more even competitive opportunities.

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