

FEDERAL BUDGET SUMMARY



2015-16

Federal Budget Overview

Federal Treasurer Joe Hockey handed down his second Budget tonight in Canberra, forecasting a fiscal deficit of \$35.1 billion for 2015-16.

Total revenue for 2015-16 is expected to be \$405.4 billion – which is an increase of 5.5 per cent on 2014-15 revenue projections.

Total expenses are forecasted to be \$434.5 billion, an increase of 3.4 per cent from last financial year.

A major centrepiece of the Budget is the Jobs and Small Business Package worth around \$5.5 billion, which includes \$5 billion in tax relief. Described in the Treasury as the “largest small business package in Australia’s history”, the Budget measures include tax cuts for small business owners to encourage investment and growth as well as employment growth measures.

A headline benefit of the Small Business Package will encourage investment by small business – the engine room of the economy – to immediately depreciate assets costing under \$20,000.

In the forecast summary for Australia’s economy, the Budget papers highlighted that exports are expanding rapidly as resource production ramps up and the lower exchange rate will support services sectors, such as tourism.

Along with a \$50 billion infrastructure commitment, another major element of the Budget is a \$4.4 billion Families Package that will reform the child care system to make it simpler and improve the affordability, accessibility and flexibility of child care.

In the longer term and despite the large deficit, the Government said it had a “credible path to surplus”, despite a \$52 billion write-down in tax receipts and the iron ore price almost halving since the 2014 Budget. The Government said the Budget deficit was reducing in each and every year (forecasted to be \$6.9 billion in 2018-19) and payments as a share of the economy were falling.

Consistent with the fiscal strategy, the Government said the new Budget spending has been directed to investments that boost productivity and participation. The AHA attended the Industry Stakeholder lock-up in the Treasury today and outlined the following Budget measures:

Hotel-related measures

Small business package and tax cuts

With many hotels being small businesses, the centrepiece package of the Budget will help many hoteliers.

The key aspects of the small business package include: a 1.5 per cent tax cut for small companies with an annual turnover under \$2 million (worth \$1.45 billion) starting from July 1, 2015, measures to help disengaged youth become job ready (\$331 million), measures to

cut red tape for small business (\$40 million) and a five per cent tax discount for small unincorporated businesses.

As part of the package, eligible employers will receive up to \$6500 if they hire an eligible young job seeker aged under 30.

The Budget papers said 96 per cent of Australian businesses will be eligible for a tax cut. Small corporations will benefit from having their company tax rate reduced to 28.5 per cent.

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Accelerated depreciation tax benefits small business

As part of the small business package, the Government will provide small businesses with an immediate deduction for all individual assets costing less than \$20,000, with annual turnover below \$2 million.

All small businesses will receive get an immediate tax deduction for every asset they buy costing less than \$20,000 – for example coffee machines, tables, chairs, fridges, printers or large plant equipment. This \$20,000 limit will apply to each individual item. Small businesses can apply this \$20,000 rule to as many individual items as they like.

The benefit of the increase in the threshold will help small business invest in new assets which will stimulate growth and prosperity into the future. This measure will also improve cash flow for businesses.

Alcohol taxation

There were no fiscal changes outlined in the Budget in relation to alcohol taxation. The status quo has been maintained for alcohol tax.

Standard alcohol indexation was once again briefly outlined in the Budget papers however no major changes to this excise was forecast or outlined.

In regards to remote and indigenous communities, the Social Services Budget included funding of \$2.7 million in 2015-16 to facilitate consultation and engagement with communities and industry on future income management arrangements.

The trial will evaluate the effectiveness of restricted debit card arrangements which will limit access to discretionary cash for certain welfare recipients. The trial is expected to

reduce harm resulting from alcohol, drugs and gambling, while also testing a role for community leaders in influencing social norms.

The discussion on tax reform in the Budget was diverted to the Government's White Paper on Reform of Australia's Tax System.

Excise and sales taxes including WET

In terms of excise, there was no discussion on alcohol excise however lower growth forecasts for tobacco consumption have led to downward revisions to tobacco excise over the four years to 2017-18.

Other sales taxes including the Wine Equalisation Tax (WET) and the luxury car tax (LCT) were also highlighted in the Budget papers.

WET receipts are forecast to grow by 1.9 per cent in 2014-15 and 5.1 per cent in 2015-16. Since the 2014-15 MYEFO, forecast WET receipts have been revised down by 1.8 per cent, or \$60 million, over the four years to 2017-18, consistent with slightly lower expected prices.

National Drugs Campaign targeting ice

As part of the Health Budget, a new National Drugs Campaign will be rolled out by the Federal Government.

The Government will provide \$20 million over two years from 2015-16 to renew the National Drugs Campaign, which is a national media campaign to promote the avoidance and cessation of illicit drug use.

In 2015-16 and 2016-17, the major campaign will focus on young people and their parents and seek to raise awareness of the harm caused by illicit drug use, in particular the form of methamphetamine known as 'ice'.

Tax changes for temporary working holiday makers

In a blow for the hotels sector, the Government will change the tax residency rules from 1 July 2016 to treat most people who are temporarily in Australia for a working holiday as non-residents for tax purposes, regardless of how long they are here. This means they will be taxed at 32.5 per cent from their first dollar of income.

Currently, a working holiday maker is treated as a resident for tax purposes if they satisfy the tax residency rules. *2015-16 Federal Budget Summary - 3*

This means they are able to access the tax-free threshold, the low income tax offset (LITO) and the lower tax rate of 19 per cent for income above the tax free threshold up to \$37,000.

This measure is estimated to boost revenue by about \$540 million over the forward estimates.

The Government will also exclude 'fly-in fly-out' and 'drive-in drive-out' (FIFO) workers from the Zone Tax Offset (ZTO) where their normal residence is not within a zone. This measure will start from 1 July 2015 and is estimated to have a gain to \$325 million over the forward estimates period.

Education and training cuts and programs

While there is a strong focus on job creating, the Budget outlined considerable savings in Education and Training Portfolio. This could have impacts on current Federally-funded training programs for the hospitality sector.

The Government will achieve savings of \$131.0 million over five years from 2014-15 by terminating or redesigning a number of programs administered by the Department of Education and Training. The Government's decision has been informed by a functional and efficiency review of the department.

This measure includes the redesign of the following programmes: the Industry Workforce Training programme; the Promotion of Excellence in Learning and Teaching in Higher Education programme and the National Workforce Development Fund.

This measure also includes savings of \$1.6 million over five years from 2014-15 by replacing seven vocational education and training governance bodies with the Australian Industry and Skills Council.

Youth Employment Strategy

The Youth Employment Strategy will deliver a \$331 million package to make young people job ready. This program includes a \$212 million Transition to Work program to help disengaged young people aged between 15 and 21 become job-ready. The program will begin on January 1, 2016.

The Government will also establish and an \$18 million National Work Experience program for around 6000 job seekers.

As part of the package, there will be a strong focus on helping disengaged young people to take up work experience opportunities to build practical skills and undertake training or education to encourage them to take up apprenticeships and traineeships that lead to job outcomes.

The Government has allocated \$18.3 million over five years from 2014-15 to vary existing unpaid work experience arrangements, allowing job seekers to undertake up to 25 hours per week of unpaid work experience for up to four weeks where there is the likelihood of employment.

Industry Skills Fund

Employers will be able to benefit from a \$664 million Industry Skills Fund, designed to grow businesses, increase exports and create more jobs.

The program will support more than 250,000 training places and support services for small to medium businesses. Young people will receive job training and skills linked to real jobs through new Government training pilots being trialled in 32 sites across Australia. 2015-16

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Wages growth subdued

The Budget papers show wage growth has been subdued in both the public and private sectors as governments across the country focus on expenditure restraint and businesses look to reduce costs. Within the private sector, wage growth has contracted most markedly in mining, retail trade and administrative services.



Income growth is expected to remain modest, consistent with falls in the terms of trade. Accordingly, the WPI is forecast to remain constrained, growing by 2½ per cent through-the-year to the June quarter 2015 and 2¾ per cent through-the-year to the June quarter 2016.

Safeguarding Law Enforcement Integrity – AUSTRAC

In regard to law enforcement, the Government will provide \$2.9 million over four years from 2015-16 for the Australian Commission for Law Enforcement Integrity (ACLEI) to continue activities relating to the expansion of ACLEI's jurisdiction to include CrimTrac, the Department of Agriculture and the Australian Transaction Reports Analysis Centre (AUSTRAC).

As part of previous Budget measures, this AUSTRAC measure which will impact on the hotel sector, industry contributions to AUSTRAC's total expenses will increase to 70 per cent in 2014-15, 90 per cent in 2015-16 and 2016-17, and 100 per cent in 2017-18.

There is also a major spending component for a coordinated approach to fighting financial crime

Health efficiencies including NHMRC funding fall

The Budget papers forecasted a major cut in health funding, including for the National Health and Medical Research Council (NHMRC), the main body for health and medical research, including drug and alcohol research.

Overall, the Government will achieve savings of \$113.1 million for the Health Department over five years from 2014-15 through.

The NHMRC budget will be \$894 million for 2015-16 from \$1.1 billion from 2014-15.

Tourism-related measures

There was a strong tourism focus in the 2015-16 Federal Budget including growth measures – which is positive for the hotel and accommodation sector.



The Government said growth in the local region was expected to strongly support tourism. Tourists from China accounted for over one quarter of the growth in travel services spending in 2013-14. There were over 760,000 Chinese visitor arrivals in that year alone spending around \$6.5 billion or \$8,600 per visitor, providing support for businesses in sectors such as retail and accommodation and food services.

Free Trade Agreements with Korea, Japan and China will also improve Australia's competitiveness across a range of exports. Australian services exporters will also gain improved access to Chinese markets, for example, tourism services.

Real travel expenditure by international visitors to Australia has increased by 11 per cent since the start of 2012, whereas real travel expenditure by Australian residents travelling abroad has decreased by 11 per cent. Overall, this has contributed to a sharp improvement in the trade balance of tourism-related services.

Tourism Australia receives boost

As a result of projected tourism growth, Tourism Australia's Budget for 2015-16 has been increased from 2014-15. TA has been allocated \$137.3 million compared with \$129.75 million last financial year. This will include a small staffing increase.

As part of its boost, Tourism Australia will continue the roll-out of There's nothing like Australia campaign across all major markets and further embedding the Restaurant Australia marketing campaign. *2015-16 Federal Budget Summary - 5*

There will also be a strong push on Business Events Marketing to promote Australia as a business events destination targeting New Zealand, the USA and China. Overall, TA will continue to focus and reinforce Australia's coastal and aquatic reserves and attractions.

Other tourism funding measures

As part of its growth strategy, the Government will provide \$30 million over four years to attract major job creating investment in each of the Government's five investment priority areas, including infrastructure and tourism.

This funding will establish five senior investment specialists posted offshore, and a new investment promotion and attraction office in Boston, United States of America

The Government will provide \$18 million over four years from 2015-16 to Austrade to expand its current programme of Australia Week events, targeting international travellers to visit Australia.

Other measures

Gambling initiatives

The Budget papers were devoid of any mentions of gambling or gaming initiative, including for poker machines. It's understood research and investigations into gaming issues could come under the new Medical Research Future Fund (MRFF).

The MRFF was further outlined in Budget paper 1, saying contributions to the MRFF will come from \$1 billion uncommitted funds in the Health and Hospitality (HHF) portfolio.

Tobacco Plain Packaging Litigation

The Government will provide an undisclosed amount of funding to defend international legal challenges to the *Tobacco Plain Packaging Act 2011*, which is the subject of dispute settlement proceedings instituted by five countries in the World Trade Organisation.

The funding will support work by the Department of Health, the Attorney General's Department, the Department of Foreign Affairs and Trade and the Australian Government Solicitor to defend the litigation.

The expenditure for this measure was not made public.

Airport and immigration infrastructure

The Government will provide \$26.2 million (including \$6.9 million in capital funding) over four years from 2015-16 to establish permanent border clearance services at Townsville and Sunshine Coast airports to support regular international air services.

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The Budget papers contain detailed economic forecasts, savings and other measures for the forward estimates. To read the full papers, click here: [AHA Federal Budget Summary 2015](#)