



OVERVIEW OF THE 2009/10 FEDERAL BUDGET

"The budget supports the economy in these tough time while pushing the re-set button in a number of important areas. These include infrastructure, education, science, innovation and welfare reform"

Heather Ridout, Chief Executive

"We know we are capable of this Budget's one central task: Nation Building for the Recovery ..."

To the Australian people I say this is not an easy budget for easy times.

These are complex times. And the task of this Budget is complex as well: spending to stimulate the economy now to support jobs, but finding long term savings necessary for fiscal sustainability"

The Hon Wayne Swan, Federal Treasurer

Key Summary

In his second Federal Budget, the Federal Treasurer, Wayne Swan, has delivered tonight (Tuesday 12 May 2009), a range of budget initiatives targeting the support of jobs and infrastructure spending, boosting assistance to the aged and families, and laying a framework for returning the budget to surplus over the next eight years.

The key priorities of the 2009-10 Budget outlined by the Government are to:

- stimulate demand and keep more Australians in work;
- invest in the road, rail, port and broadband infrastructure that will boost productivity and growth;
- invest in a Clean Energy Initiative and flagship programs in solar energy and carbon capture that help create the low-pollution economy of the future;
- find the necessary room to deliver a fair go for pensioners and make retirement incomes more secure;
- establish a historic Paid Parental Leave Scheme to boost participation and productivity in the long run, and improve work-family balance;
- invest in Australia's research and innovation future, continue the Education Revolution, and provide for world-class universities and hospitals; and
- lay the foundations to deliver on the Government's deficit exit strategy, currently expected to return the budget to surplus by 2015-16.

The **centrepiece** of the Budget is the \$22 billion investment in **nation building infrastructure** to improve the quality, adequacy and efficiency of transport, communications, energy, education and health infrastructure across Australia.

The key initiatives include:

	New investment \$million
Roads, rail and ports	8,453
Regional Rail Express	3,225
East West Rail Tunnel - preconstruction work	40
Gold Coast light rail	365
Gawler rail line modernisation	294
Noarlunga to Seaford rail extension	291
Northbridge rail link (the Hub)	236
West Metro - preconstruction work	91
Brisbane Inner City Rail feasibility study	20
O-Bahn track extension	61
Hunter Expressway	1,451
Pacific Highway - Kempsey Bypass	618
Ipswich Motorway - additional works	884
Bruce Highway - Cooroy to Curra (section B) duplication	488
Oakajee Port common user facilities	339
Darwin Port expansion	50
National Broadband Network	Up to 43,000
Initial Government investment	4,700
Clean energy infrastructure	3,565
Clean Energy Initiative	3,465
National Energy Efficiency Initiative	100
Education infrastructure	2,585
Education infrastructure	2,585
Health and hospital infrastructure	3,172
Hospital infrastructure	1,465
Better cancer care	1,276
Translational health research	430

The Budget also unveils an ambitious \$3.1 billion boost to **funding for innovation** over the next four years, largely focused on the university and research sector. Total funding on science and innovation will lift by almost 25% over the next twelve months (from \$6.9 billion to \$8.6 billion). This includes new “Super Science” infrastructure and other projects under the Education Investment Fund, reform to research and development tax arrangements, along with a re-targeting of Textile Clothing and Footwear innovation initiatives. The structure of the Government’s higher education reform package flows from the Bradley Review commissioned by the Government last year.

Other major initiatives include reform to defence funding, pension arrangements, paid parental leave, an extension of the first home owners scheme boost, additional support for trade exposed industries under the Carbon Pollution Reduction Scheme, additional funding for digital technology initiatives expected to arise with the roll-out of the national broadband network, and higher tax deductibility for capital equipment for small business.

Further details on these and other initiatives are outlined later in the document.

Fiscal Balance

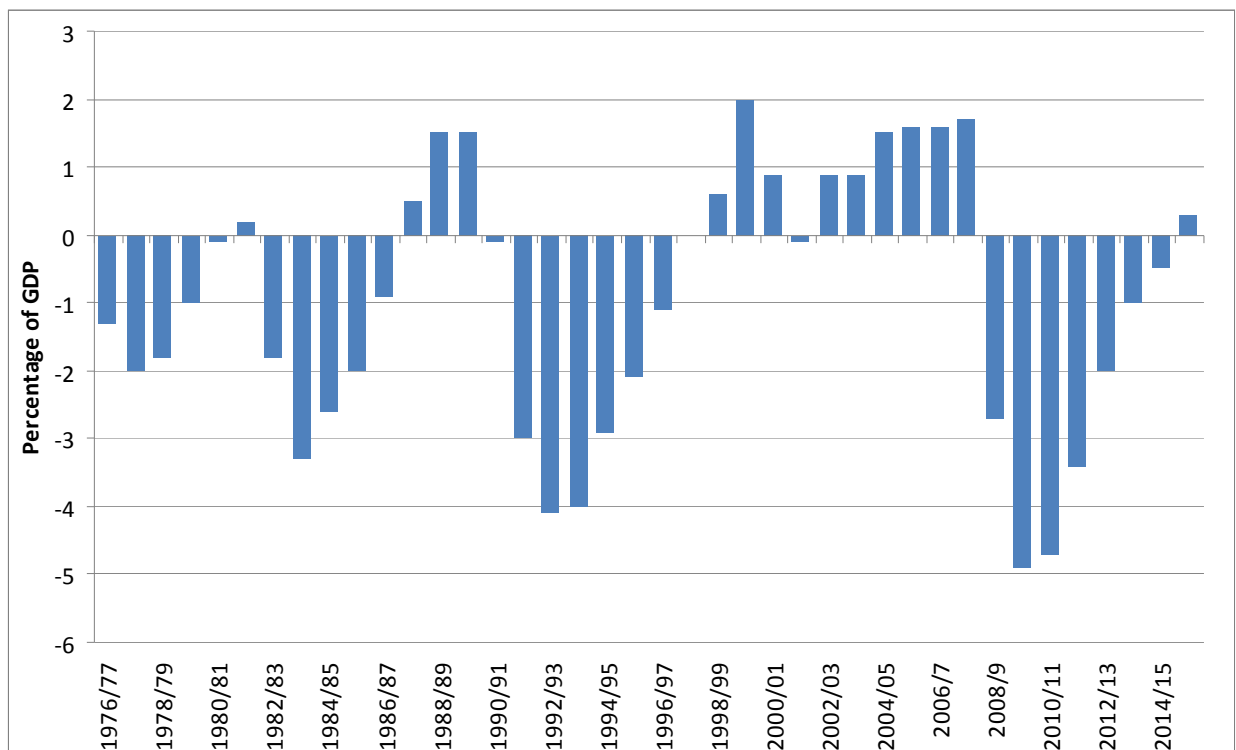
The last budget estimated a surplus for 2009/10 of \$19.6 billion, which has now deteriorated to a deficit of \$57.6 billion in tonight's budget. The Government estimates that around two-thirds of the deterioration in the budget position has been due to changes in economic parameters arising from the sharp decline of the economy into recession.

The budget (cash) deficit is equivalent to 4.9% of GDP, a worse outcome than during the last two recessions in the eighties and nineties.

Total revenue is expected to fall by 1.8% (from \$295.9 billion to \$290.6 billion), while total expenditure is set to rise by 4.3% (from \$324.4 billion to \$338.2 billion).

As chart 1 below highlights, the budget is not expected to return to surplus until 2015/16, and this is dependent on the economy returning to growth of around 3.75% in the first three years of recovery.

Chart 1 Underlying cash balance



Ai Group Assessment

Ai Group has described the budget as supporting the economy in these tough times while pushing the reset button in a number of important areas. These include infrastructure, education, science, innovation and welfare reform.

The Budget is a sober reflection of the severity of the global crisis and its sudden impact on Australia.

The Government has mapped a strategy for returning the budget to surplus over a period that is comparable with the experience of previous recessions. There are risks to the growth rates projected beyond 2009-10 and our assessment is that more savings may be needed to address these risks.

The announced investments in road, rail and port infrastructure are particularly welcome. These investments will lift the productive potential of the economy over the long term.

Ai Group also welcomes the additional resources devoted to education – particularly the key measures to boost participation, quality and the structure of higher education; and research, including in renewable energy as critical ingredients in building competitive advantage. The funding for improving commercialisation and collaboration between business and education and research institutes are vital elements in extracting full value from these investments.

“Measures for business include the increase in the investment allowance for smaller businesses, the additional funding for the Export Market Development Grants (EMDG) Scheme and the recasting of the Research and Development tax incentive. The extension of the First Home Owners Boost will provide additional stimulus to the housing industry and the many businesses supplying home construction.

Key Economic Parameters

The Treasurer expects growth in **gross domestic product** (GDP) to slow from a year average of zero in 2008/09 to -0.5% in 2009/10. The growth of **household consumption** is expected to fall from 1.00% to -0.25% over the year.

Inflation is expected to remain steady at 1.75% in 2009/10, while **unit wage costs** are expected to moderate to 3.25% in 2009/10, from 4.25% in the previous year.

Employment growth is expected to worsen to -1.50% (from -0.25% in 2009/10). The **unemployment rate** is forecast to deteriorate significantly from 6% in 2008/09 to 8.25% in 2009/10, with the participation rate falling.

Australia's **export** performance is anticipated to weaken considerably, from -0.25% growth in goods and services exports in the current year to -4.00% growth in 2009/10. **Imported goods and services** are also anticipated to fall by -6.50% in 2009/10 compared with a decline of -1.50% in 2008/09.

The **current account deficit** is expected to worsen from a deficit of 3.00% to a deficit of 5.25% of GDP.

Growth in **private investment dwellings** is expected to be zero in 2009/10, an improvement from the decline of -2.50% in 2008/09. Investment in new **machinery and equipment** is expected to collapse from a growth of 3.00% in 2008/9 to a decline of 16.50% in the year. The rate of growth in new investment in **non-dwelling construction** is expected to deteriorate from 0.5% to -26.0% over the coming financial year.

In terms of the world environment, the **United States** growth forecast is expected to be 0.25% in 2010 up from -3.00% in 2009. Growth in the **Japanese economy** is expected to improve from -6.00% in 2009 to 0.50% in 2010. **Chinese** growth is also anticipated to improve from a rate of 6.25% to 8.00% in 2010. Growth among **ASEAN** nations is expected to also lift from -1.25% to 2.50% over the course of 2010. In the **Euro area**, GDP growth is expected to be zero in 2010, an improvement on the 4.00% decline in the previous year.

Overview of Main Initiatives Affecting Business

Innovation and Industry

Changes to the R&D Tax Concession

The Government will restructure the Research and Development (R&D) Tax Concession from the present form, under which certain expenditure is eligible for a 125% deduction (and 175% under the Premium Tax Concession), to a tax credit arrangement.

From 1 July 2010, both the 125% and 175% deductions will be removed. Most businesses claiming the concession will be eligible for a non-refundable credit of 40% of the amount of eligible expenditure.

Under the new arrangements they will not be able to claim any deduction for the R&D expenditure in calculating taxable income but they will be able to deduct the credit from the amount of tax they would have paid. The 125% concession delivered assistance of 7.5 cents for every dollar of R&D expenditure. The 40% tax credit will deliver assistance of 10 cents per dollar of R&D expenditure.

For businesses with a turnover of less than \$20 million, the rate of tax credit will be 45% and for these businesses the credit will be refundable. This means that if the business does not have a tax liability at all, or if its tax liability is less than its tax credit, then at least part of the tax credit would be payable in cash.

As a transitional measure for 2009-10, the R&D expenditure cap for the existing R&D Tax Offset will be lifted from \$1 million to \$2 million. The cap is the maximum amount a firm can spend on R&D to be eligible for the Tax Offset.

Under the new Tax Credit system, criteria for determining eligible R&D expenditure will be tightened. The Government will consult further on the eligibility criteria in developing legislation for the new Tax Credit. A consultation paper will be released in the next few months.

Collaborative Research Networks program

The Government has allocated \$114 million over six years from 2010/11 (including \$20.7 million per annum from 2013/14 to 2015/16) to establish the Collaborative Research Networks program. The program will assist those regional universities that are less research intensive, but have identified areas of research strength, to develop collaborative links with other universities and make the structural adjustments required to boost their international competitiveness and research quality in line with the Government's reforms in this area.

Commonwealth Commercialisation Institute — establishment

\$196 million has been allocated over four years to establish the Commonwealth Commercialisation Institute, to support research commercialisation and early stage company development by small and medium enterprises.

Small Business

Tax deduction for eligible capital expenditures

The Government will expand the Small Business and General Business Tax Break announced in the *February 2009 Updated Economic and Fiscal Outlook* to provide additional assistance to small businesses.

A bonus deduction of 50 per cent of the cost of eligible depreciating assets will be available to small businesses that invest in them between 13 December 2008 and 31 December 2009 and install them ready for use by 31 December 2010. For this purpose, small businesses are those with annual turnover below \$2 million. The previously announced 30 per cent and 10 per cent bonuses will continue to apply to all other businesses.

The expansion is estimated to cost \$141 million, though this is simply a forecast of takeup – the tax break is not capped.

The Government has also enhanced the Tax Break for all businesses since it was announced on 3 February 2009. A taxpayer can now aggregate their investment in assets that are substantially identical, or that form a set, to meet the threshold. Where assets are jointly held, a taxpayer can recognise all other business interests in the asset for the purpose of meeting the threshold, but will only be able to claim the Tax Break on their interest in the asset. Where a taxpayer has met the investment threshold for an asset, they can claim additional investment in the assets as part of the Tax Break. These enhancements have an unquantifiable but small revenue impact.

Pay As You Go (PAYG) Instalments — cash flow relief for small business

The Government will provide cash flow relief for small business by reducing Pay As You Go (PAYG) instalments for the 2009/10 income year for all taxpayers who pay quarterly PAYG instalments based on their previous year's tax adjusted by GDP growth.

For the 2009/10 income year, the Government will reduce the GDP adjustment factor for calculating quarterly instalments under the GDP adjustment method from around 9 per cent to 2 per cent. This aligns it with the expected increase in the Consumer Price Index for 2009/10, as forecast in the February 2009 *Updated Economic and Fiscal Outlook*.

This reduction will provide cash flow benefits to around 1.5 million eligible small businesses, individuals, trusts and small superannuation funds, by ensuring that their PAYG instalment amounts for the 2009-10 income year more closely approximate their actual income tax liability for that income year. This will cost the Government \$720 million in 2009/10.

Digital Economy

National Broadband Network

The Government has established a company to build and operate the NBN, and will make an initial investment of \$4.7 billion. This includes \$4.45 billion for equity injections to the company and early fibre rollout in Tasmania, and \$250 million for regional fibre-optic backhaul infrastructure. Final details of the rollout will be announced in February 2010, but stakeholder consultations are underway for the Tasmanian and backhaul elements and implementation can be expected sooner.

Digital Switchover

\$119.7 million over three years to assist the switchover from analog to digital television in regional areas of Victoria, South Australia and Queensland. This will involve information provision, in-home assistance for vulnerable households, and a program to work with industry to drive digital take-up.

e-Health

The Government will save \$34.8 million through efficiencies in e-Health programs, and provide small additional funding of \$1.2 million will be provided for a virtual network linking Tasmanian health care providers.

Textile, clothing and footwear sector

Clothing and Household Textile Building Innovative Capability Program — additional funding

The Government will provide \$25.0 million over five years for the Textiles, Clothing and Footwear Post-2005 Strategic Investment Program Scheme to be expanded and renamed the Clothing and Household Textile Building Innovative Capability Program.

The expanded program will increase the level of assistance to clothing and household textile firms and refocus support to develop innovative capability at the enterprise level.

Competitive grants to build innovative capability — establishment

The Government will provide \$32.5 million over six years to establish a competitive grants program to support larger strategic projects that will build innovative capability at the enterprise and workplace level in the textiles, clothing and footwear industries. The first grants for this program will be provided in 2010-11.

Skills, Education & Training

Education, Training and Youth Transitions

The government has significantly invested in measures to boost participation and quality in Australia's tertiary education system. This package includes \$5.7 billion over four years and largely support the reforms identified in the Bradley Review. Measures extend to both higher education and vocational education and training, and include

- \$3 billion for infrastructure, including \$934 million for Education Investment Fund (EIF) Round 2 projects, \$750 million for future EIF funding rounds, and \$1.2 billion for research infrastructure, including the \$931 million Super Science initiative.
- \$491 million funding for a student demand driven entitlement system. This funding will occur in two stages with a transition to the entitlement system occurring over 2010-2011, with full implementation of a student centred funding model in 2012.
- \$57 million for establishment of a national body for regulation and quality assurance in higher education
- \$402 million structural adjustment funding aimed at supporting increased participation in higher education facilitating greater collaboration with VET providers and schools.
- \$433 million to support an increase low SES participation in higher education
- \$512 million to augment existing 'sustainable research excellence'
- \$52 million for collaborative research networks
- Reforms also include improvements to income support arrangements for students as recommended in the Bradley Review.

Support for Apprenticeships

Support for Apprenticeship and related programs will be extended over the next four years. This includes realignment of incentive payments for both employers and apprentices. Realignment includes:

- Streamlining of three existing separate payments into 'Tools for Your Trade' payments of \$3,800 per apprentice, received as five cash payments of the course of the apprenticeship;
- Broadening eligibility of employer incentives to all diploma and advanced diploma apprenticeship qualifications (\$4,000 per apprentice);
- Amending eligibility for Support for Mid-Careers Apprentices payments from 30 years to 25 years; and
- Assistance to out-of-trade apprentices to complete their training.

Youth Transitions and Careers

The government will provide up to \$644 million over 5 years to support Youth Attainment and Transitions National Partnerships. The national partnership will assist young people to complete Year 12 or equivalent

qualifications and enter the workforce. This will involve two new elements: Youth Connections, and Community and Education Engagement. Funding from existing programs such as Careers Advice Australia will be redirected into these new arrangements.

Trade and Export

The Budget provides a one-off additional boost of \$50 million to the Export Market Development Grant Scheme (EMDG) for 2008-09. The Scheme provides financial assistance to small and medium sized Australian businesses to develop export markets through the reimbursement of up to 50 per cent of their expenses incurred on eligible export promotion activities. This additional money will bridge a previous funding shortfall and allow reimbursement of eligible expenses incurred during the 2007-08 financial year.

Climate Change

The Government has announced three measures worth \$3.5 billion to drive the development and commercialisation of clean energy technologies.

Carbon Capture and Storage Flagships

\$2 billion over nine years will be available for private sector projects to build industrial-scale carbon capture and storage projects, including demonstration plants and a storage hub. There will be a competitive process to select successful projects, with the Government funding up to one third of project costs.

Solar Flagships

\$1.5 billion over six years will be available for up to four industrial-scale solar energy generation projects. The process for selecting these projects has not been announced.

Renewables Australia

\$465 million to establish an independent innovation investment body to promote the development, commercialisation and deployment of renewable energy technologies. The process by which Renewables Australia will allocate funding has not yet been announced.

Defence

The 2009 Defence White Paper, *Force 2030*, provides a comprehensive plan for Australia's national security to 2030. The plan is built upon greater funding certainty for Defence through average real growth in underlying defence funding of 3 per cent a year until 2017/18, new stable indexation arrangements that reduce Defence budget volatility, and an extensive program of savings and reinvestment. Over the next decade, the new funding model will provide Defence with total funding of \$308 billion.

The Strategic Reform Program is an ambitious plan to deliver deep reforms and efficiencies throughout the Defence organisation to 2030, and deliver around \$20 billion in savings in the next decade which will be reinvested in Defence priorities. This increased funding, together with the reinvestment of savings, will

allow for the acquisition of next-generation capabilities, such as combat aircraft, armoured vehicles and submarines.

The Government is also providing \$1.7 billion in the 2009-10 Budget for military operations, including in Afghanistan, East Timor and the Solomon Islands.

National and Border Security

The Budget is providing a \$1.3 billion boost to Australia's border security to enhance national security and border protection and to combat people smuggling. The Government has allocated \$654 million over six years for a whole-of-government strategy to combat people smuggling and strengthen border security. This includes strengthened engagement in source and transit countries for people smuggling, and \$365 million for aerial and maritime surveillance of our waters. This additional funding will also provide \$685 million over four years to strengthen our national security framework, funding measures across aviation security, counter-terrorism, foreign policy, enhanced regional security cooperation and e-security.

Welfare and Retirement Income Changes

The Budget will increase payments to full rate single pensioners by \$32.49 per week and payments to couple pensioners will be raised by \$10.14 per week combined. Carers also receive an increase in support.

Important savings decisions have been taken to support the pension reform package. In summary these are:

- The age pension age will gradually be increased to 67 (at a rate of 6 months every two years beginning in 2017);
- The Pension Bonus Scheme will be closed to new entrants from 20 September 2009;
- The cap on concessional superannuation contributions will be reduced (see further below);
- The superannuation co-contribution matching rate will be reduced temporarily;
- From 1 July, higher income thresholds for certain family payments will be held at their current levels for three years and Family Tax Benefit payment rates will be 3 indexed in line with the cost of living only;
- The Government will also reduce the generosity of Private Health Insurance rebates for higher income earners.

Superannuation Contributions

At present a concessional cap applies to superannuation contributions. Contributions below the cap are taxed at the contributions tax of 15% instead of a taxpayer's marginal tax rate. Currently a cap of \$50,000 pa is in place with a transitional cap – until 30 June 2012 - of \$100,000 for people over age 50.

The Government is reducing these caps substantially. From 1 July 2009, both the standard cap and the transitional cap will be halved – to \$25,000 and \$50,000 respectively. The \$25,000 cap will be indexed. From 1 July 2012 the transitional cap for people over 50 will be removed and there will be one cap regardless of age (the \$25,000 indexed cap). The measure will save around \$2.8 billion over the next four years (and considerably more on an ongoing basis).

Paid Parental Leave

The Budget invests \$731 million over five years to deliver a Paid Parental Leave (PPL) scheme to parents for births and adoptions that occur on or after 1 January 2011. Under the scheme, eligible primary carers earning less than \$150,000 will receive taxable payments through their employer at the weekly rate of the Federal Minimum Wage – currently \$543.78 – for a continuous period of up to 18 weeks.

To be eligible for PPL, parents will need to meet a work test during the 13 months prior to the expected birth. Parents in part-time and lower paid employment will receive the full weekly rate of payment, not a proportion related to their income prior to child birth. Recipients of the PPL will not be eligible to also receive either the Baby Bonus or Family Tax Benefit Part B.

First Home Owners Boost – extension

The Government will extend the First Home Owner's boost, which was set to lapse on 30 June. From 1 July to 30 September, eligible purchasers will continue to receive \$7,000 for the purchase of established homes and \$14,000 for new homes. From 1 October to 31 December, the Boost diminishes to \$3,500 for established homes and \$7,000 for new homes. The Boost will lapse from 1 January 2010, although the ordinary First Home Owners Scheme will continue.

Skilled Migration and Visa

The 2008/09 Migration Program was initially increased to answer skilled labour shortages, however, in March 2009 the Government capped the skill stream at 115,000. The focus of the Skilled Migration Stream has been shifted towards employer-sponsored places and business skills entrants. The number of places in the skill stream has been reduced by a total of 25,400 for the coming year. With an increase in the family stream of 3,800, the total Migration Program in 2009/10 will be 168,700.

The Government has also announced a number of reforms to Australia's Migration Program, including priority for migrants with critical skills; increased English language standards for temporary and permanent entrants; and the introduction of skills assessments and market salary levels for Subclass 457 Business (Long Stay) Visas.

Tax Changes

Personal Income Tax Cuts

The tax cuts announced by the Government as part of its election commitment have been retained in full.

From 1 July 2009:

- The 30 per cent threshold will be raised to \$35,001
- The LITO will be increased to \$1,350
- The 40 per cent tax rate will be reduced to 38 per cent.

From 1 July 2010:

- The 30 per cent threshold will be raised to \$37,001
- The LITO will be increased to \$1,500
- The 38 per cent rate will be reduced to 37 per cent.

The increase in the LITO creates an effective tax-free threshold for low-income earners of \$14,000 in 2008-09, \$15,000 in 2009-10 and \$16,000 in 2010-11.

From 1 July 2010, senior Australians eligible for the senior Australians tax offset will pay no tax on their annual income up to \$30,685 for singles and \$26,680 for each member of a couple.

Other changes

The Government is introducing a number of measures to improve fairness and integrity in the tax system. These tax reforms, which will raise additional revenue of around \$4.6 billion over the forward estimates, include:

- tightening the rules applying to the use of non-commercial business losses to prevent high-income individuals (those who earn \$250,000 or more) from deducting losses against their salary, wage and other income from activities that are unlikely to make a profit, and which are often more like hobbies or lifestyle choices;
- limiting the scope of the tax exemption for the foreign employment income of Australians who work overseas for periods of 91 days or more so that this exemption only applies to aid workers (both government and non-government organisations), charitable workers, certain government employees (such as defence and police force personnel deployed overseas) and those employed on overseas projects approved by the Minister for Trade as being in the national interest;
- better targeting the concessions for employee share schemes by abolishing the option to defer the tax on share discounts and means testing the availability of the \$1,000 'up front' exemption for discounts, limiting this concession to individuals with an adjusted taxable income of \$60,000 or less;
- reducing the generous concessional contributions cap for tax-deductible contributions to superannuation;

- extending the tax file number withholding arrangements to include distributions by closely held trusts;
and
- preventing company owners from getting tax-free benefits through use of private companies.