Federal Budget 2019-20

Political & Economic Overview

KMB BUSINESS ADVISORS & CHARTERED ACCOUNTANTS

STRENGTH | INTEGRITY | SOLUTIONS

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Contents

Budget Overview

The 2019-20 Federal Budget contains few surprises and only a modicum of major initiatives: one is tempted by the view that even the Government doesn't have its heart in it.

The major – and widely expected – ititiative is an extension of the Government's personal income tax cuts from those announced in the 2018-19 Budget which match and raise the more generous benefits which Labor announced in response to the Government's previous measures: at a cost of $5.7 billion over four years. (See Personal Tax).

Treasurer Josh Frydenberg said in his Budget "Lockup" press conference the Government would not try and force this measure through Parliament before it is dissolved for the election but would take the package to the electorate.

This contrasts with the Government's "Power Rebate" announced before the Budget and included in it, which the Government does plan to try and push through before the election.

Other major Budget measures are:

- An extension of the small business instant asset write-off, with an increase of $5000 in the amount to $30,000 and an increase to $50 milllion (from $10 million) in the size of business eligible for the concession (See Small Business)
- $4 billion over four years for increased infrastructure spending (See Infrastructure)
- $1 billion in increased Medicare spending (See Health)
- $530 million for the Disability Royal Commission
- A small concesssion removing the work test for supeannuation ncontributions for people aged 65 and 66 (See Superannuation).

The Budget's biggest saving is a $2 billion windfall to come from a tightening of welfare payments to recipients who are also working, using the controversial automated 'Single Touch Payroll System' which businesses are being forced to adopt.

The Budget contains little information about how this will operate but says, "From 1 July 2020, income support recipients who are employed will report income that is received during the fortnight, rather than calculating and reporting their earnings. Each fortnight, income data received through an expansion of STP data-sharing arrangements will also be shared with the Department of Human Services, for recipients with employers utilising STP."

"This measure will assist income support recipients by greatly reducing the likelihood of them receiving an overpayment of income support payments (and subsequently being required to repay it)."

"The efficiencies from this measure will be derived through more accurate reporting of incomes. This measure will not change eligibility criteria or maximum payment rates."

Table 1: Budget aggregates

	Actual	Estimates			Projections		
	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	Total(a)
Underlying cash balance ($b)(b)	**-10.1**	**-4.2**	**7.1**	**11.0**	**17.8**	**9.2**	**45.0**
Per cent of GDP	-0.5	-0.2	0.4	0.5	0.8	0.4	
Net operating balance ($b)	**-4.0**	**8.5**	**12.9**	**18.2**	**28.8**	**20.6**	**80.4**
Per cent of GDP	-0.2	0.4	0.6	0.9	1.3	0.9	

(a) Total is equal to the sum of amounts from 2019-20 to 2022-23.
(b) Excludes expected net Future Fund earnings before 2020-21.

See below for comparable tables from previous years' Budgets and 2018 Mid Year Economic and Fiscal Outlook

The Government also expects to claw back $78 million "by streamlining the employment servicing arrangement for newly arrived refugees." The savings will come because " Newly arrived refugees would only be required to enter into jobactive services once they have been receiving income support for 12 months, rather than the current requirement of six months."

A further $296 million will be saved by reducing the number of visas for overseas trained doctors.

The Budget projects improved Budget outcomes for all four years of its forecasts, compared to December's Mid-Year Economic and Fiscal Outlook.

According to the Budget Papers the Budget will return to surplus in 2019-20 (as forecast in MYEFO but with a larger surplus of $7.1 billion (compared to $4.1 billion in MYEFO and $2.2 billion in last year's Budget).

In the current year the deficit is forecast to be $4.2 billion, compared to $5.2 billion in MYEFO and $14.5 billion in last year's Budget.

In 2002-21 it is forecasting an $11 billion surplus (down from $12.5 billion in MYEFO and the same -$11 billion – as forecast in last year's Budget.(See Budget Outcome.)

The Budget forecasts that economic growth will rebound in 2019-20 to 2 ¾ per cent from 2 ¼ in 2018-19, with broad-based growth contributing to the national economy except for housing investment which is forecast to fall by 7 per cent in 2019-20 and by a further 4 per cent in 2020-21 (after growing by a forecast 0.5 per cent in 2018-19).

Wages growth is forecast to pick up by 2 ¾ per cent in 2019- 20 and a further 3 ¾ per cent in 2020-21 (after growing an estimated 2 ½ per cent in 2018-19).

The Budget Papers say, "The fundamentals of the Australian economy remain sound. Real GDP is forecast to grow at around its estimated potential rate of 2¾ per cent in 2019-20 and 2020-21.

"Household consumption, business investment, public final demand and exports are all expected to contribute to growth. Following declines in housing prices and building approvals, partly in response to a rebalancing in supply and demand, dwelling investment is expected to detract from growth." (See Economic Outlook).

References
Budget Paper No 1, Statement No 1 – Budget Overview.
Budget Paper No 1, Statement No 3 – Fiscal Strategy and Outlook.
Budget Overview (Glossy)

The following tables are the comparable Budget aggregate tables from previous years' Budgets and the 2019 Mid Year Economic and Fiscal Outlook

MYEFO 2018-19

Table 1.1: Budget aggregates

	Estimates			
	2018-19		2019-20	
	Budget $b	MYEFO $b	Budget $b	MYEFO $b
Underlying cash balance(a)	**-14.5**	**-5.2**	**2.2**	**4.1**
Per cent of GDP	-0.8	-0.3	0.1	0.2
Net operating balance	**-2.4**	**4.9**	**8.6**	**10.1**
Per cent of GDP	-0.1	0.3	0.4	0.5
	Projections			
	2020-21		2021-22	
	Budget $b	MYEFO $b	Budget $b	MYEFO $b
Underlying cash balance(a)	**11.0**	**12.5**	**16.6**	**19.0**
Per cent of GDP	0.5	0.6	0.8	0.9
Net operating balance	**19.6**	**20.4**	**27.4**	**29.8**
Per cent of GDP	0.9	1.0	1.3	1.4

(a) Excludes expected net Future Fund earnings before 2020-21.

Budget 2018-19

Table 1: Budget aggregates

	Actual	Estimates			Projections		
	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	Total(a)
Underlying cash balance ($b)(b)	**-33.2**	**-18.2**	**-14.5**	**2.2**	**11.0**	**16.6**	**15.3**
Per cent of GDP	-1.9	-1.0	-0.8	0.1	0.5	0.8	
Net operating balance ($b)	**-32.1**	**-12.6**	**-2.4**	**8.6**	**19.6**	**27.4**	**53.2**
Per cent of GDP	-1.8	-0.7	-0.1	0.4	0.9	1.3	

(a) Total is equal to the sum of amounts from 2018–19 to 2021–22.
(b) Excludes expected net Future Fund earnings before 2020–21.

MYEFO 2017-18

Table 1.1: Budget aggregates

	Estimates			
	2017-18		2018-19	
	Budget $b	MYEFO $b	Budget $b	MYEFO $b
Underlying cash balance(a)	**-29.4**	**-23.6**	**-21.4**	**-20.5**
Per cent of GDP	-1.6	-1.3	-1.1	-1.1
Net operating balance	**-19.8**	**-18.2**	**-10.8**	**-9.9**
Per cent of GDP	-1.1	-1.0	-0.6	-0.5
	Projections			
	2019-20		2020-21	
	Budget $b	MYEFO $b	Budget $b	MYEFO $b
Underlying cash balance(a)	**-2.5**	**-2.6**	**7.4**	**10.2**
Per cent of GDP	-0.1	-0.1	0.4	0.5
Net operating balance	**7.6**	**6.8**	**17.5**	**20.9**
Per cent of GDP	0.4	0.3	0.8	1.0

(a) Excludes expected net Future Fund earnings before 2020-21.

Budget 2017-18

Table 1: Budget aggregates

	Actual	Estimates			Projections		
	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	Total(a)
Underlying cash balance ($b)(b)	**-39.6**	**-37.6**	**-29.4**	**-21.4**	**-2.5**	**7.4**	**-45.9**
Per cent of GDP	-2.4	-2.1	-1.6	-1.1	-0.1	0.4	
Net operating balance($b)	**-33.6**	**-38.7**	**-19.8**	**-10.8**	**7.6**	**17.5**	**-5.5**
Per cent of GDP	-2.0	-2.2	-1.1	-0.6	0.4	0.8	

(a) Total is equal to the sum of amounts from 2017-18 to 2020-21.
(b) Excludes expected net Future Fund earnings before 2020-21.

Budget 2016-17

Table 1: Budget aggregates

	Actual	Estimates			Projections		
	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	Total(a)
Underlying cash balance ($b)(b)	**-37.9**	**-39.9**	**-37.1**	**-26.1**	**-15.4**	**-6.0**	**-84.6**
Per cent of GDP	-2.4	-2.4	-2.2	-1.4	-0.8	-0.3	
Fiscal balance ($b)	**-39.9**	**-39.4**	**-37.1**	**-18.7**	**-9.8**	**-2.1**	**-67.7**
Per cent of GDP	-2.5	-2.4	-2.2	-1.0	-0.5	-0.1	

(a) Total is equal to the sum of amounts from 2016-17 to 2019-20.
(b) Excludes net Future Fund earnings.

Labor’s mini-Budget

Labor has said that if elected it will not be bound by decisions announced in the Morrison Government’s Budget and will deliver its own ‘Economic Statement’ in the third quarter of the year.

Shadow Treasurer Chris Bowen said on ABC TV’s Insiders last Sunday that while Labor would study what was proposed in the budget, it would not be bound by any of it if it wins the election, which Prime Minister Scott Morrison is expected to call by the end of the week.

“This will be a highly political document. This will be a campaign launch, not a Budget for the Liberal Party. If we win and we take nothing for granted, we have no complacency, but if we win, we will bring down a major economic statement in the third quarter of the year, which will in effect be the first budget of a Shorten Labor government,” he said.

“We need to reset the economic settings. We need to update the forecasts with the new government in place, and then, of course, we would return to the normal budget cycle of budgets in May from 2020 onwards.”

The mini-budget would include changes to negative gearing, capital gains, and franking credits - delivering as much as a $7 billion a year in revenue. It may also deliver a surplus in 2019-20 for the first time since the GFC – depending on any revisions made by the incoming Government.

Mr Bowen said the changes meant Labor would be able to afford tax cuts beyond those expected to be announced on Tuesday. He left the door open to backing some of the government's measures in a bid to get them passed before Parliament rises.

"If there's sensible things which help the cost of living, we'll support them" he said.

Mr Bowen said January 1, 2020 was an appropriate start date for negative gearing and capital gains changes, which some economists, Treasury and the government believe could have a dampening effect on an already falling housing market. "The housing market will move around for a whole range of issues," he said. "[Treasurer] Josh Frydenberg warns of falling house prices under the Labor Party. But he seems to think that dramatically falling house prices under him are okay."

Mr Bowen ruled out any grandfathering of changes to franking credit refundability. Labor's $5 billion-a-year policy will strip retirees of tax refunds on their shareholdings if they have not paid any tax.

He also reaffirmed Labor's position to review the rate of unemployment benefits on Newstart with a view to raising it. Newstart has not risen in real terms since 1994. The base rate is $275 a week for a single person, a figure considered too low by former Liberal Prime Minister John Howard. "We are not reviewing it with the idea to cutting it" Mr. Bowen said "You have to consider the interaction of Newstart payments and the minimum wage and consider the implications across-the-board."

References

ABC - Insiders transcript: Chris Bowen joins Insiders - Sunday 31 March 2019
Australian Financial Review - Phillip Coorey: 'Neutralise and move on': Labor to support budget cash splash
Nine Publishing: Labor to deliver mini-budget by September if it wins the federal election

Economic Outlook

The Budget forecasts that economic growth will rebound in 2019-20 to 2 ¾ per cent from 2 ¼ in 2018-19, with broad-based growth contributing to the national economy except for housing investment which is forecast to fall by 7 per cent in 2019-20 and by a further 4 per cent in 2020-21 (after growing by a forecast 0.5 per cent in 2018-19).

Wages growth is forecast to pick up by 2 ¾ per cent in 2019- 20 and a further 3 ¾ per cent in 2020-21 (after growing an estimated 2 ½ per cent in 2018-19).

The Budget Papers say, “The fundamentals of the Australian economy remain sound. Real GDP is forecast to grow at around its estimated potential rate of 2¾ per cent in 2019-20 and 2020-21.

“Household consumption, business investment, public final demand and exports are all expected to contribute to growth. Following declines in housing prices and building approvals, partly in response to a rebalancing in supply and demand, dwelling investment is expected to detract from growth.”

“Solid employment growth is expected to continue over the forecast period and the unemployment rate is forecast to be 5 per cent. Wage growth is expected to pick up as growth in the economy strengthens and spare capacity in the labour market continues to be reduced.”

Major economic parameters(a)

	Outcomes	Forecasts			Projections	
	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Real GDP	2.8	2 1/4	2 3/4	2 3/4	3	3
Employment	2.7	2	1 3/4	1 3/4	1 1/2	1 1/2
Unemployment rate	5.4	5	5	5	5	5
Consumer price index	2.1	1 1/2	2 1/4	2 1/2	2 1/2	2 1/2
Wage price index	2.1	2 1/2	2 3/4	3 1/4	3 1/2	3 1/2
Nominal GDP	4.7	5	3 1/4	3 3/4	4 1/2	4 1/2

(a) Year-average growth unless otherwise stated. From 2017-18 to 2020-21, employment and the wage price index are through-the-year growth to the June quarter. The unemployment rate is the rate for the June quarter. The consumer price index is through-the-year growth to the June quarter.
Source: ABS cat. no. 5206.0, 6202.0, 6345.0, 6401.0 and Treasury.

According to the Budget Papers, “Solid employment growth is expected to continue. As spare capacity in the labour market continues to be reduced and economic growth strengthens, wage growth is expected to pick up.

“Significant weather events including drought and floods are weighing on economic growth in 2018-19.”

Internationally the Budget says “Growth in Australia’s major trading partners remains solid but there are risks. “Global growth strengthened in 2017 and into 2018, but moderated in the second half of 2018.”

The Budget says, “Uncertainties remain around trade tensions, emerging market debt vulnerabilities and geopolitical issues.”

“Internationally, there has been some loss of momentum in key economies including in the euro area, with the IMF and OECD revising down their growth projections for the global economy. However, global growth is expected to remain solid with strong labour market conditions evident across most advanced economies. The Australian economy is expected to continue to benefit from growth in major trading partners, with economies in the Asian region growing relatively strongly.

Accommodative monetary policy settings continue to support the domestic economy, despite some evidence of tightening credit conditions and a recent decline in housing prices, which appear to be weighing on activity. The Australian dollar remains at levels which are supportive of growth – around one-third lower than the 2011 peak against the US dollar."

Domestic economy forecasts (a)

	Outcomes(b)	Forecasts		
	2017-18	2018-19	2019-20	2020-21
Real gross domestic product	**2.8**	**2 1/4**	**2 3/4**	**2 3/4**
Household consumption	**2.8**	2 1/4	2 3/4	3
Dwelling investment	**0.2**	1/2	-7	-4
Total business investment(c)	**6.0**	1	5	4 1/2
By industry				
Mining investment	**-4.1**	-10 1/2	4	4 1/2
Non-mining investment	**9.7**	4 1/2	5 1/2	4 1/2
Private final demand(c)	**3.0**	1 1/2	2 1/4	2 3/4
Public final demand(c)	**4.5**	5 1/2	3 1/4	3
Change in inventories(d)	**0.0**	0	0	0
Gross national expenditure	**3.4**	2 1/2	2 1/2	2 3/4
Exports of goods and services	**4.1**	3 1/2	4	1 1/2
Imports of goods and services	**7.1**	1 1/2	3	2 1/2
Net exports(d)	**-0.6**	1/2	1/4	- 1/4
Nominal gross domestic product	**4.7**	5	3 1/4	3 3/4
Prices and wages				
Consumer price index(e)	**2.1**	1 1/2	2 1/4	2 1/2
Wage price index(f)	**2.1**	2 1/2	2 3/4	3 1/4
GDP deflator	**1.8**	2 1/2	1/2	1
Labour market				
Participation rate (per cent)(g)	**65.6**	65 1/2	65 1/2	65 1/2
Employment(f)	**2.7**	2	1 3/4	1 3/4
Unemployment rate (per cent)(g)	**5.4**	5	5	5
Balance of payments				
Terms of trade(h)	**1.9**	4	-5 1/4	-4 3/4
Current account balance (per cent of GDP)	**-2.8**	-1 3/4	-2 3/4	-3 3/4

(a) Percentage change on preceding year unless otherwise indicated.
(b) Calculated using original data unless otherwise indicated.
(c) Excluding second-hand asset sales from the public sector to the private sector.
(d) Percentage point contribution to growth in GDP.
(e) Through-the-year growth rate to the June quarter.
(f) Seasonally adjusted, through-the-year growth rate to the June quarter.
(g) Seasonally adjusted rate for the June quarter.
(h) The forecasts are underpinned by price assumptions for key commodities: Iron ore spot price falling over the year to reach US$55 per tonne free-on-board (FOB) by the end of the March quarter 2020; metallurgical coal spot price falling over the year to reach US$150 per tonne FOB by the end of the March quarter 2020; and the thermal coal spot price remaining at US$91 per tonne FOB.

Wages growth

As economic growth strengthens and spare capacity in the labour market continues to be reduced, wage growth is expected to pick up to 2¾ per cent through the year to the June quarter 2020 and 3¼ per cent through the year to the June quarter 2021. Growth in the Wage Price Index was 2.3 per cent through the year to the December quarter 2018, its equal strongest outcome in more than three years. All states and territories and most industries recorded higher wage growth compared with a year ago. In Australia, as in other advanced economies, the response of wages to improving labour market conditions has been slower and more muted than in past cycles. This is partly explained by lower inflation expectations and spare capacity in the labour market as indicated by broader measures of labour underutilisation. Strong employment growth has also drawn people into the labour market who were not previously looking for work. In Australia, slower wage growth also reflects adjustments associated with the unwinding of the terms of trade boom.

Unemployment

Employment growth has been above its long-run average rate for almost two years and has outpaced population growth. The unemployment rate has fallen to 4.9 per cent, its lowest level in more than seven years. The participation rate is also high relative to historical standards and the employment-to-population ratio for those aged 15-64 is close to record highs. Solid growth in output is expected to continue to support employment growth at 1¾ per cent through the year to the June quarter 2020 and the June quarter 2021. The participation rate is forecast to be 65½ per cent, consistent with continuing strong employment prospects. The unemployment rate is forecast to be 5 per cent across the forecast period.

Housing

Dwelling investment, while remaining at a high historical level, is expected to detract from growth over the forecast period. The fall in housing prices accelerated over 2018 and continued into 2019, partly reflecting a rebalancing of supply and demand. As at February 2019, capital city housing prices had fallen by 8.6 per cent from their most recent peak in September 2017. Price falls were largest in Sydney and Melbourne over that period, although prices remain around 40 to 50 per cent higher in those cities relative to their 2012 levels.

Domestically, uncertainty about the outlook for the housing market, in particular the extent to which housing prices fall, poses a downside risk to the forecasts for both dwelling investment and consumption. A more subdued outlook for household income, or a further tightening in credit conditions, could constrain household spending amid high levels of household debt.

Economic growth

Real GDP is forecast to grow at around its estimated potential rate of 2¾ per cent in 2019-20 and 2020-21. Household consumption, business investment, public final demand and exports are all expected to contribute to growth. Following declines in housing prices and building approvals, partly in response to a rebalancing in supply and demand, dwelling investment is expected to detract from growth.

Nominal GDP is forecast to grow by 5 per cent in 2018-19, 3¼ per cent in 2019-20 and 3¾ per cent in 2020-21. The moderation in growth in 2019-20 reflects a fall in the terms of trade as key commodity prices are assumed to decline to more sustainable levels. This is partially offset by a pick-up in real GDP growth and in wage and domestic price growth.

The level of nominal GDP is expected to be around $42.7 billion lower over the four years to 2022-23 compared with the 2018-19 MYEFO, with downgrades to the outlook for compensation of employees, non-mining profits and gross mixed income. This is partially offset by an upgrade to the outlook for mining profits.

The terms of trade are forecast to fall in 2019-20, consistent with an assumed decline in key commodity prices. This is reflected in a moderation in nominal GDP growth.

Investment

Business investment is expected to continue to be supported by historically low interest rates, positive business conditions, and the lower Australian dollar. Business investment is forecast to grow by 5 per cent in 2019-20 and 4½ per cent in 2020-21. While falling mining investment will continue to drag on growth in the near term, it is expected to grow by 4 per cent in 2019-20, as mining companies invest to maintain their large capital stocks and sustain current production levels. This will be its first contribution to real GDP growth in around seven years.

Following robust growth of 9.7 per cent in 2017-18, non-mining business investment is expected to grow steadily over the forecast period. The latest ABS capital expenditure survey showed a firming in non-mining business investment intentions for 2018-19. Although recent survey measures suggest that business conditions have softened from their record highs over 2018, they remain positive, and an elevated pipeline of building and engineering work is expected to support growth in 2019-20. Non-mining business investment is expected to grow by 5½ per cent in 2019-20 and 4½ per cent in 2020-21.

While steady growth in non-mining business investment is expected to continue, there are some risks. Further declines in business conditions and confidence would weigh on the outlook. In contrast, business investment could benefit from additional opportunities arising from large public infrastructure projects.

Prices

Consumer price inflation has eased a little over recent quarters and was 1.8 per cent through the year to the December quarter 2018. Inflation is expected to increase over the forecast period as growth in the economy picks up and spare capacity in the labour market continues to be reduced. Consumer price inflation is forecast to be 2¼ per cent through the year to the June quarter 2020 and 2½ per cent though the year to the June quarter 2021.

References
Budget Paper No 1, Statement No 2 Economic Outlook

Budget Outcome – Surplus, Deficit and Debt

The Budget projects improved Budget outcomes for all four years of its forecasts, compared to December's Mid-Year Economic and Fiscal Outlook.

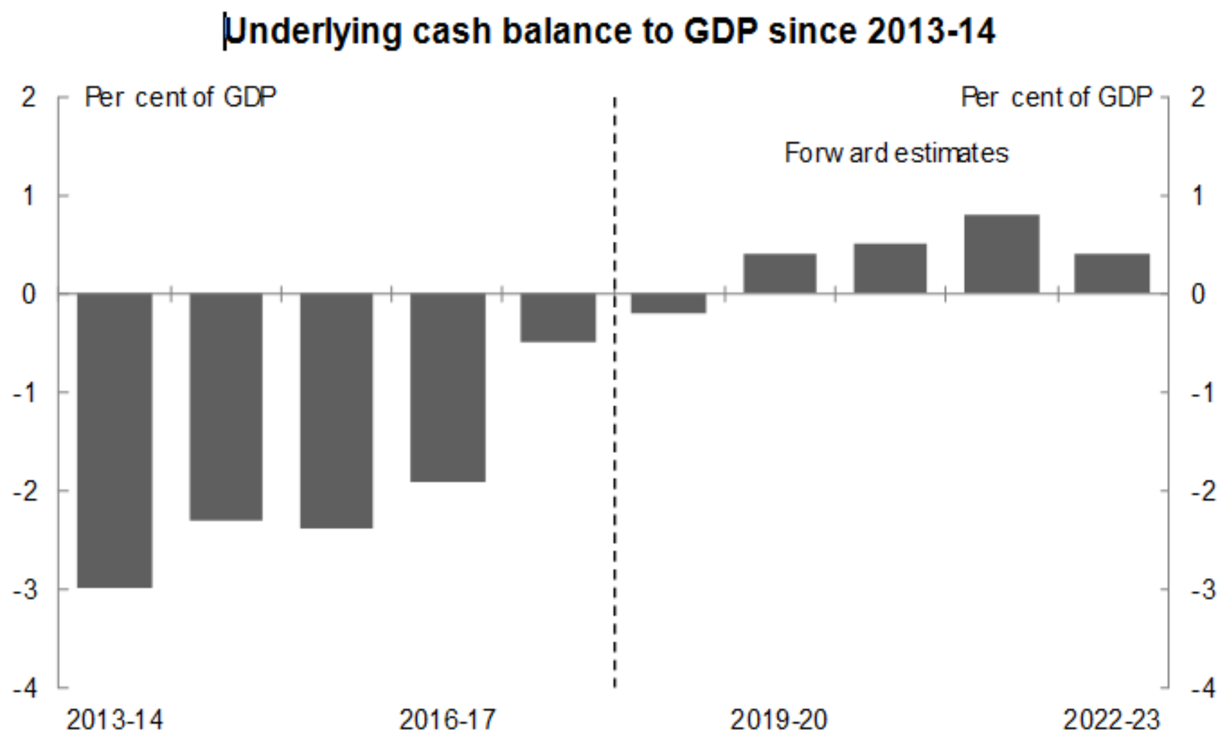
According to the Budget Papers the Budget will return to surplus in 2019-20 (as forecast in MYEFO but with a larger surplus of $7.1 billion (compared to $4.1 billion in MYEFO and $2.2 billion in last year's Budget).

In the current year the deficit is forecast to be $4.2 billion, compared to $5.2 billion in MYEFO and $14.5 billion in last year's Budget.

In 2002-21 it is forecasting an $11 billion surplus (down from $12.5 billion in MYEFO and the same -$11 billion – as forecast in last year's Budget.)

According to the Budget Papers, "After more than a decade of deficits, the budget is returning to surplus in 2019-20 with an underlying cash surplus of $7.1 billion, equal to 0.4 per cent of GDP. Continued fiscal discipline will ensure these surpluses build over time and exceed 1 per cent of GDP in the medium term.

Budget Outcome – Deficit/Surplus as a per cent of GDP



(a) The underlying cash balance includes expected net Future Fund earnings from 2020-21.

"The Government has charted a responsible path back to surplus with the total turnaround in the underlying cash balance between 2013–14 and 2019-20 projected to be $55.5 billion, or 3.4 per cent of GDP."

The net operating balance (an alternative measure of the Budget outcome) is forecast to reach a surplus of $12.9 billion (0.6 per cent of GDP) in 2019-20 and maintain sustainable surpluses over the forward estimates.

Net debt is expected to peak in 2018-19 at 19.2 per cent of GDP. It forecasts net debt will be eliminated by 2029-30.

As a proportion of GDP, payments are forecast to fall below the historical average of 24.7 per cent from 2019-20. The average real growth in spending is expected to be 1.9 per cent under the Government, the lowest average of any government in 50 years.

The Government has continued to offset new spending decisions to make room for new spending priorities. Since 2013-14, the Government has implemented savings measures with a combined effect of more than $200 billion through to 2022-23.

Australian general government sector budget aggregates

Australian Government general government sector budget aggregates

	Actual	Estimates			Projections		
	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	Total(a)
	$b	$b	$b	$b	$b	$b	$b
Receipts	**446.9**	**485.2**	**505.5**	**522.3**	**551.0**	**566.9**	**2,145.7**
Per cent of GDP	24.2	25.0	25.2	25.1	25.4	25.0	
Payments(b)	**452.7**	**482.7**	**493.3**	**511.3**	**533.2**	**557.7**	**2,095.6**
Per cent of GDP	24.5	24.9	24.6	24.6	24.5	24.5	
Net Future Fund earnings(c)	4.3	6.6	5.1	na	na	na	5.1
Underlying cash balance(d)	**-10.1**	**-4.2**	**7.1**	**11.0**	**17.8**	**9.2**	**45.0**
Per cent of GDP	-0.5	-0.2	0.4	0.5	0.8	0.4	
Revenue	**456.3**	**495.8**	**513.8**	**534.3**	**564.7**	**580.5**	**2,193.2**
Per cent of GDP	24.7	25.6	25.6	25.7	26.0	25.6	
Expenses	**460.3**	**487.3**	**500.9**	**516.1**	**535.9**	**559.9**	**2,112.8**
Per cent of GDP	24.9	25.1	25.0	24.8	24.7	24.6	
Net operating balance	**-4.0**	**8.5**	**12.9**	**18.2**	**28.8**	**20.6**	**80.4**
Per cent of GDP	-0.2	0.4	0.6	0.9	1.3	0.9	
Net capital investment	1.3	6.5	4.7	7.7	9.7	10.8	33.0
Fiscal balance	**-5.3**	**2.0**	**8.1**	**10.4**	**19.1**	**9.8**	**47.5**
Per cent of GDP	-0.3	0.1	0.4	0.5	0.9	0.4	
Memorandum items:							
Net Future Fund earnings(c)	4.3	6.6	5.1	5.2	5.6	6.2	22.2
Headline cash balance	-25.9	-12.7	-4.4	-0.5	7.9	2.5	5.6

(a) Total is equal to the sum of amounts from 2019-20 to 2022-23.
(b) Equivalent to cash payments for operating activities, purchases of non-financial assets and net acquisition of assets under finance leases.
(c) Under the *Future Fund Act 2006*, net Future Fund earnings will be available to meet the Australian Government's superannuation liability in 2020-21. From this time, the underlying cash balance includes expected net Future Fund earnings.
(d) Excludes expected net Future Fund earnings before 2020-21.

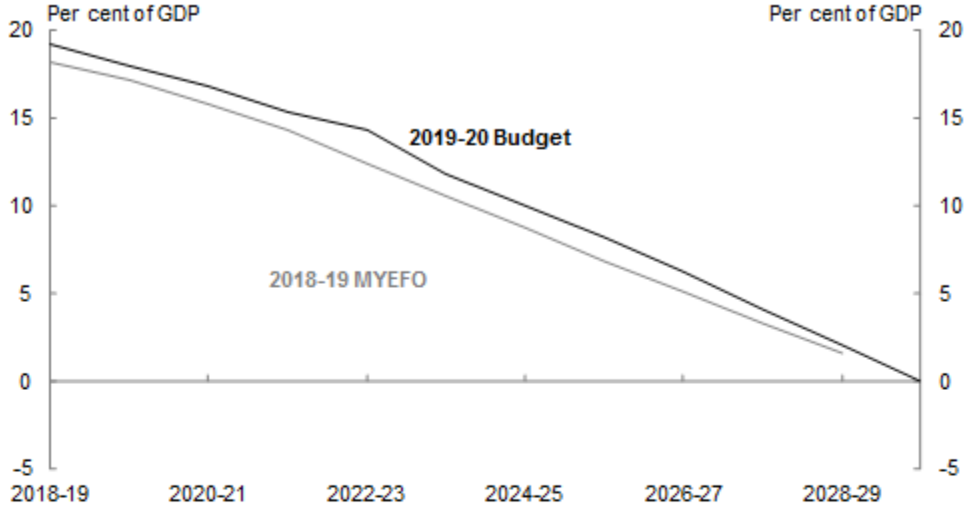
Tax receipts as a share of GDP are expected to be 23.3 per cent in 2019-20 and remain below 23.9 per cent until 2029-30.

Compared with the 2018-19 MYEFO, the 2019-20 Budget forecasts for tax receipts have been revised down by $18.2 billion over the four years to 2022-23. The revisions have been driven by parameter and other variations, and policy decisions, including the Government's measure Lower taxes for hard-working Australians: Building on the Personal Income Tax Plan. Policy decisions are expected to reduce tax receipts by $3.2 billion over the four years to 2022-23.

Debt and borrowing

Net debt projected to 2029-30

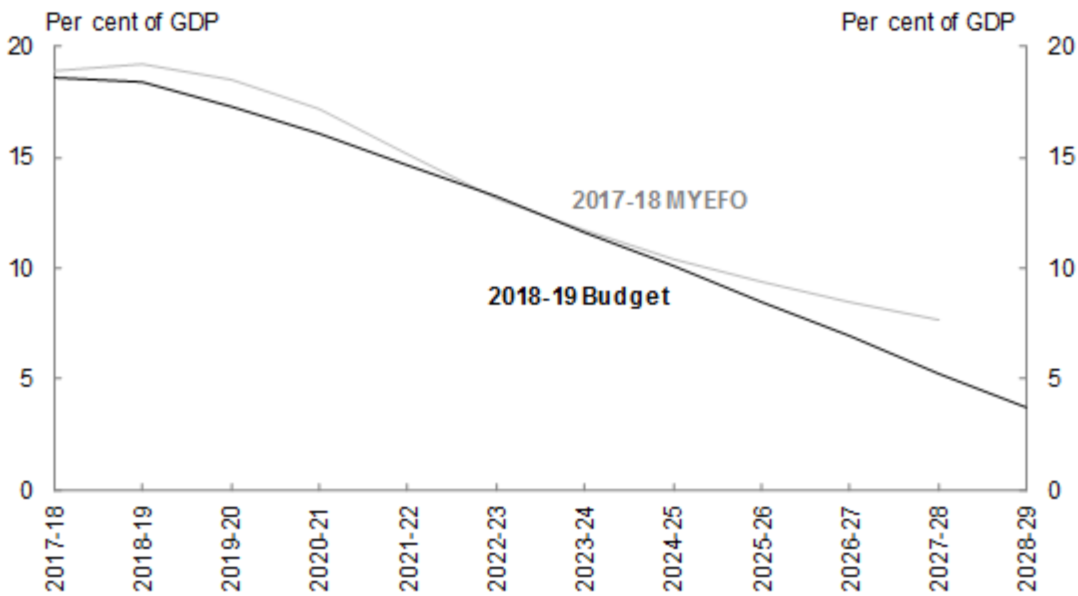
Net debt projected to 2029-30



Note: A tax-to-GDP cap of 23.9 per cent is applied to these projections in 2029-30.
Source: Treasury projections.

Below: Comparable chart from 2018-19 Budget

Chart 1: Net debt projected to 2028-29



Note: A tax to GDP cap of 23.9 per cent is applied to these projections from 2026-27.
Source: Treasury projections.

Debt and borrowing (continued)

Interest expense, interest income and net interest expense

Interest expense, interest income and net interest expense[(a)]

	Estimates			Projections	
	2018-19	2019-20	2020-21	2021-22	2022-23
	$m	$m	$m	$m	$m
Interest expense on AGS	17,134	17,012	16,599	16,031	15,709
Per cent of GDP	0.9	0.8	0.8	0.7	0.7
Interest expense	18,375	19,264	18,857	17,948	16,994
Per cent of GDP	0.9	1.0	0.9	0.8	0.7
Interest income	4,837	6,009	6,796	7,180	7,605
Per cent of GDP	0.2	0.3	0.3	0.3	0.3
Net interest expense(b)	13,538	13,255	12,060	10,767	9,388
Per cent of GDP	0.7	0.7	0.6	0.5	0.4

(a) Interest expense is an accrual measure, with the relevant amount recognised in the period in which the expense is incurred, but not necessarily paid.
(b) Net interest expense is equal to the difference between interest expenses and interest income.

Below: Comparable chart from 2018-19 Budget

Table 10: Interest expense, interest income and net interest expense[(a)]

	2017-18	2018-19	2019-20	2020-21	2021-22
	$m	$m	$m	$m	$m
Interest expense on CGS	17,017	17,781	18,325	18,023	17,782
Per cent of GDP	0.9	0.9	0.9	0.9	0.8
Interest expense	17,931	19,045	20,166	19,545	19,093
Per cent of GDP	1.0	1.0	1.0	0.9	0.9
Interest income	3,663	4,442	5,521	6,062	6,044
Per cent of GDP	0.2	0.2	0.3	0.3	0.3
Net interest expense(b)	14,268	14,603	14,645	13,483	13,049
Per cent of GDP	0.8	0.8	0.7	0.6	0.6

(a) Interest expense is an accrual measure, with the relevant amount recognised in the period in which the expense is incurred, but not necessarily paid.
(b) Net interest expense is equal to the difference between interest expenses and interest income.

References
Budget Paper No 1, Statement No 3 – Fiscal Strategy and Outlook
Budget Paper No 1, Statement No 1 – Budget Overview – Fiscal Strategy and Outlook
Budget Paper No 1, Statement No 7 – Debt Statement, Assets and Liabilities
Budget Overview (Glossy) – Returning the Budget to surplus

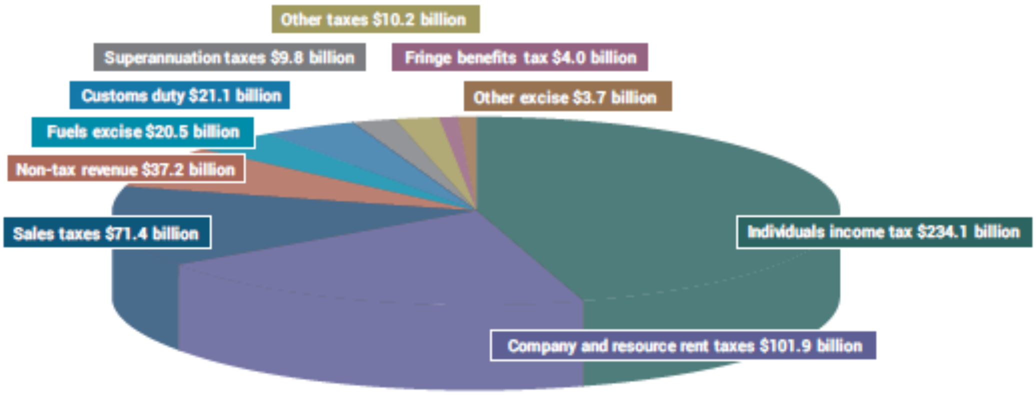
Revenue

Total revenue for 2019-20 is expected to be $513.8 billion, an increase of 3.6 per cent on estimated revenue in 2018-19. Total expenses for 2019-20 are expected to be $500.9 billion, an increase of 2.8 per cent on estimated expenses in 2018-19

Since December's MYEFO expected tax receipts including new policies have been revised up by $1.2 billion in 2018-19, but have been revised down by $250 million in 2019-20 and by $18.2 billion over the four years to 2022-23.

Excluding GST, tax receipts including new policy have been revised up by $2.2 billion in 2018-19 and $1.6 billion in 2019-20, but have been revised down by $8.0 billion over the four years to 2022-23. As GST receipts flow through to the States, tax receipts excluding GST represent the tax receipts available to the Australian Government to meet its own spending needs.

Where the revenue comes from



Australian Government general government receipts

	Actual	Estimates			Projections	
	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Total taxation receipts ($b)	**418.1**	**448.8**	**466.4**	**486.4**	**514.3**	**528.7**
Growth on previous year (%)	10.2	7.4	3.9	4.3	5.7	2.8
Per cent of GDP	22.6	23.1	23.3	23.4	23.7	23.3
Tax receipts excluding GST ($b)	**354.9**	**383.2**	**399.2**	**416.4**	**440.8**	**451.3**
Growth on previous year (%)	11.1	8.0	4.2	4.3	5.9	2.4
Per cent of GDP	19.2	19.7	19.9	20.0	20.3	19.9
Non-taxation receipts ($b)	**28.9**	**36.3**	**39.1**	**35.9**	**36.7**	**38.2**
Growth on previous year (%)	-5.7	26.0	7.6	-8.1	2.1	4.0
Per cent of GDP	1.6	1.9	2.0	1.7	1.7	1.7
Total receipts ($b)	**446.9**	**485.2**	**505.5**	**522.3**	**551.0**	**566.9**
Growth on previous year (%)	9.0	8.6	4.2	3.3	5.5	2.9
Per cent of GDP	24.2	25.0	25.2	25.1	25.4	25.0

Including new policy, total tax receipts are forecast to grow by 7.4 per cent in 2018-19 and 3.9 per cent in 2019-20, and by 4.2 per cent on average over the four years to 2022-23 (Table 1). The growth in tax receipts is in line with growth prospects for the Australian economy, with the continued absorption of spare capacity in the labour market supporting a pick-up in average wage growth.

Total tax receipts as a share of GDP are expected to increase from 23.3 per cent in 2019-20 to 23.7 per cent in 2021-22, before temporarily dipping in 2022-23 to 23.3 per cent. Tax receipts as a share of GDP are then expected to rise over the medium-term period, but remain below the 23.9 per cent tax cap until 2029-30.

Major Initiatives – Revenue

Revenue

Initiatives	2018-19	2019-20	2020-21	2021-22	2022-23	Total
	$m	$m	$m	$m	$m	$m
Lower taxes for hard-working Australians: Building on the Personal Income Tax Plan (a)	0.0	-750.0	-700.0	250.0	-4540.0	-5,740.0
Tax Integrity – extension and expansion of the ATO Tax Avoidance Taskforce on Large Corporates, Multinationals and High Wealth Individuals	0.0	114.6	910.9	1236.0	1351.1	3,612.5
Increasing and expanding access to the instant asset write-off	0.0	-200.0	-500.0	50.0	250.0	-400.0
Personal Income Tax – increasing the Medicare levy low-income thresholds	0.0	-100.0	-50.0	-50.0	-50.0	-250.0
Protecting Your Super Package – amendment	0.0	-157.1	59.1	-14.5	-7.3	-119.8
Tax Integrity – increasing engagement and on-time payment of tax and superannuation liabilities	0.0	-15.9	-21.6	-23.0	-23.3	-83.9
Superannuation – improving flexibility for older Australians	0.0	0.0	-10.0	-25.0	-40.0	-75.0
Protecting Your Super Package – putting members' interests first	0.0	-35.7	-2.1	-2.0	-2.0	-41.8
Increasing Work and Holiday Visa Cap for Indonesia	0.0	3.0	8.8	13.1	15.4	40.4
Australia-Hong Kong Free Trade Agreement	0.0	-10.0	-10.0	-10.0	-10.0	-40.0

(a) This measure, which will reduce revenue by $19.5 billion over the forward estimates period, reduces tax receipts by $5.7 billion owing to the inclusion of a provision in the 2018-19 MYEFO.

All figures are in net fiscal impact terms.
Totals may not sum due to rounding.

References
Budget Paper No 1, Statement No 5 – Revenue
Budget Overview ('Glossy') – Revenue and spending

Spending

Budget spending is expected to increase by 0.7 per cent in real terms in 2019-20, with the growth rate remaining stable in 2020-2021. This reflects slower growth across a range of Government programs, partially offset by growth in education and social security and welfare programs. Reflecting the Government's continued focus on fiscal restraint, total expenses are expected to decline as a percentage of GDP from 25.0 per cent in 2019-20 to 24.6 per cent in 2022-23. The decline in total expense over the forward estimates compares with significant growth in total expenses during the period 2007-08 to 2013-14 when expenses rose from 23.8 per cent of GDP in 2007-08 to 25.9 per cent of GDP in 2013-14.

In cash terms, Government spending is forecast to grow by an average of 1.3 per cent per annum in real terms over the four years to 2022-23 and total payments are expected to decline as a percentage of GDP from 24.6 per cent in 2019-20 to 24.5 per cent in 2022-23.

Major Spending Initiatives

Major Spending Initiatives – Spending

This table summarises the major initiatives in the 2019-20 Budget and their impact on the fiscal balance. More comprehensive information is provided in Budget Paper No. 2, *Budget Measures 2019-20*

Expense

Initiatives	2018-19	2019-20	2020-21	2021-22	2022-23	Total
	$m	$m	$m	$m	$m	$m
Infrastructure Investment Program – Urban Congestion Fund – next priorities	0.0	-400.0	-400.0	-400.0	-400.0	-1,600.0
Infrastructure Investment Program – Victorian infrastructure investments	0.0	-98.4	-107.4	-358.4	-636.5	-1,200.7
Guaranteeing Medicare – strengthening primary care	-46.7	-147.1	-142.0	-268.8	-449.5	-1,054.1
Infrastructure Investment Program – Road Safety and Upgrade Package	0.0	-200.0	-200.0	-200.0	-200.0	-800.0
More Choices for a Longer Life – improving the quality, safety and accessibility of aged care services	-332.9	-149.4	-138.8	-36.9	-21.4	-679.4
National Security Agencies – additional resourcing	-33.0	-80.3	-75.5	-171.5	-194.2	-554.5
Royal Commission into Violence, Abuse, Neglect and Exploitation of People with Disability	-7.3	-191.2	-179.0	-149.6	-0.9	-527.9
National Partnership Agreement on Universal Access to Early Childhood Education – further extension	0.0	-136.2	-318.3	0.0	0.0	-454.5
Infrastructure Investment Program – Roads of Strategic Importance – next priorities	0.0	0.0	-100.0	-150.0	-200.0	-450.0

The main trends in Budget spending are:

- in 2019-20 the social security and welfare, health, defence and education functions account for nearly two thirds of total expenses, with social security and welfare accounting for slightly more than one third of total expenses;
- in real terms, the strongest growth across the budget and forward estimates is expected to occur in the education and the social security and welfare functions.

The combined impact of policy decisions and variations to program estimates has decreased expenses by $8.9 billion over the four years from 2018-19 to 2021-22 compared to the 2018-19 MYEFO. In the same period, program specific parameter variations, public debt interest and other variations have decreased expenses by $7.6 billion, and economic parameter variations have decreased expenses by $11.2 billion compared to the 2018-19 MYEFO.

<u>(Refences for the following items are at the end of the section)</u>

Childcare and pre-school education

The Government will invest $453 million in preschool education for the 2020 school year. The Government says this will ensure universal access to a quality preschool education in the year before school.

School education

Recurrent funding for schools will reach $19.9 billion in 2019, with average Commonwealth funding per student having increased from $3,755 in 2014 to $5,097 in 2019. By 2029, this funding will grow to $32.4 billion, an increase of 63 per cent, the Budget Papers say.

University education

The Government is investing $17.7 billion in the university sector in 2019. This is projected to grow to more than $20 billion by 2024.In this Budget, the Government is providing $93.7 million over four years from 2019-20 for scholarships for students to study at a regional campus of a university or vocational.

Vocational education and training

The Government is investing over $525 million to upgrade the vocational education and training (VET) sector. The Government's *Delivering Skills for Today and Tomorrow* package of reforms will deliver up to 80,000 new apprentices in occupations experiencing skill shortages through an Additional Identified Skills Shortage Payment.

Health

The Budget says "The Government is continuing to guarantee and strengthen Medicare to ensure that Australians can access affordable and quality healthcare.

To help patients with out-of-pocket costs, the Government is providing $309 million to improve access to diagnostic imaging. This includes access to Magnetic Resonance Imaging (MRI) scans for patients with breast cancer and increasing patient rebates for ultrasound and x-ray diagnostic imaging items on the Medicare Benefits Schedule (MBS) from 1 July 2020.

The Government is also providing $187 million to increase patient rebates for 119 GP service items on the MBS from 1 July 2019.

In addition, the Government is fighting the prevalence of heart disease by introducing a new item on the MBS for heart health checks and providing funding to HeartKids Australia for the Childhood Heart

A new $448 million primary care funding model will offer improved care for Australians with complex and chronic conditions.

This Budget is providing $331 million for new and amended listings on the Pharmaceutical Benefits Scheme (PBS), including life-changing medicines to treat lung, bladder, kidney and skin cancers, and leukaemia.

The Government is investing $737 million over seven years for mental health, including $461 million to help young people. This funding will reduce waitlists for youth mental health services, address youth suicide and provide a range of new community support services.

Power rebate

The Government announced ahead of the Budget that four million Australians will receive a cash handout from the Federal Government to help cover the cost of rising power prices when Treasurer Josh Frydenberg hands down the Budget on Tuesday.

The handout, part of the Budget, will be $75 for eligible singles and $125 for eligible couples

In announcing the measure Treasurer Josh Frydenberg and Social Services Minister Paul Fletcher said in a statement that those eligible will be:

- 2.4 million Australians receiving the Age Pension;
- 744,000 recipients of the Disability Support Pension;
- 280,000 carers receiving the Carer Payment;
- 242,000 Parenting Payment Single recipients; and
- 225,000 veterans and their dependants receiving eligible payments from the Department of Veterans' Affairs.

Newstart beneficiaries do not receive the payment.

Mr Frydenberg said (in his Budget "Lockup" press conference) that the Government would seek to legislate the power rebate before Parliament is dissolved for the election.

Mr Frydenberg denied the measure was a "cash splash" describing the payments as "responsible, targeted spending".

"This is money [that's] going to go into people's pockets to help meet the cost of their next power bill," he told Channel Nine.

This same "one-off" payment appeared in the 2017 budget, under a deal struck by the Government to get then-independent senator Nick Xenophon's support for its company tax cuts.

It also comes a year after the Coalition tried — and ultimately failed — to scrap the Labor-era Energy Supplement for new recipients, which is worth hundreds of dollars a year.

The Treasurer said it was one of a number of measures in his first Budget that "will ease cost of living pressures".

The ministers said, "The payment of $75 for singles and $125 for eligible couples will be exempt from income tax and will be paid automatically before the end of the current financial year, subject to the passage of legislation."

Labor leader Bill Shorten said the one-off payment was better than nothing, but would not address years of rising power prices. "$1.45 a week for 12 months is not an energy policy, it's an election con. Does anyone think you'd be getting this if you weren't six weeks before an election?" he said.

"It shows that the Government knows that they don't have an energy policy but they want to pretend to have one."

References
[Treasurer's media release: One-off energy payment to help 3.9 million Australians with their next energy bill]
[ABC: Budget to include one-off payment to help with electricity, Josh Frydenberg denies 'cash splash']

Infrastructure

See separate item

Aged care

See separate item

References
Budget Paper No 1, Statement No 3 – Fiscal Strategy and Outlook - Budget Priorities
Budget Paper No 1, Statement No 4 – Recurrent and Capital Budget
Budget Overview (Glossy) - Major Initiatives

National security

Ahead of the Budget Home Affairs Minister Peter Dutton announced a $570 million funding boost for security agencies.

Mr Dutton said, "The Morrison Coalition Government will provide an additional $512 million to the Australian Federal Police and an additional $58 million to ASIO."

"The increased allocations will ensure the AFP is positioned to detect, deter and disrupt terror threats and transnational crime and will provide an initial investment to enhance the operational effectiveness of ASIO against evolving threats and technology."

He said "The 2019-20 Budget will provide the support for the AFP to dedicate increased resources to managing and monitoring the risk posed by persons of interest.

"It will enable the AFP to address the risks posed by convicted terrorists being released from jail and returning to the community.

"Additionally, it will enhance the AFP's ability to operate offshore to combat the threat posed by Australian foreign fighters attempting to return to Australia."

He said:
- cyber security defences will be strengthened
- the 2019-20 Budget will arm the AFP with capabilities to counter drone threats with anti-remote piloted aircraft systems and associated hardware and software.
- A range of other capabilities, staff deployments, training and acquisitions will be provided by these Budget allocations.

In a statement, Labor said the government had "been dragged kicking and screaming to restore funding" to security agencies before the election.

"Most notably, last year, AFP commissioner Andrew Colvin confirmed the 2018-19 budget contained a $205m cut to resourcing for the AFP over the forward estimates – impacting their work to tackle fraud, organised crime and anti-narcotics," the shadow attorney general, Mark Dreyfus, the and opposition spokeswoman for justice, Claire O'Neil, said.

References
Ministerial media release: Funding boost for security agencies
Guardian Australia: Australian budget to give security agencies $570m in extra funding

NDIS

Ahead of the Budget the Government announced a major increase in payments made to service providers under the NDIS.

The increase follows long-running criticism by the disability sector that the fee structure under the NDIS was inadequate to attract appropriate quality services.

The sector's dissatisfaction had been heightened by reports before the price increase announcement that the Budget surplus would be significantly boosted by the NDIS' underspend of its Budget.

The fee increases will be funded from the existing NDIS budget – the underspend.

Families and Social Services Minister Paul Fletcher in announcing the fee increases said the cost would be $850 million in 2019-20 but in *The Australian Financial Review* Phillip Coorey said the actual increase over the Forward Estimates (four years) will be $3.5 billion.

Minister for Families and Social Services, Paul Fletcher, and Assistant Minister for Social Services, Housing and Disability Services, Sarah Henderson said in a statement the new prices would include a minimum increase of almost $11 per hour for therapists and up to a 15.4 percent price increase to the base limit for attendant care and community participation.

"Substantial increases to the hourly rates for therapy also follow a comprehensive review of the price control arrangements and other market settings for therapy services through December 2018 to March 2019," the statement said.

"These price increases are part of an overarching pricing strategy and commitment to review and respond to pricing evidence as required, and will encourage the development of a disability services market of appropriate size, quality and innovation."

ProBonoAustralia reported, "Graeme Innes, from the National Disability Insurance Agency's Pricing Reference Group, said the pricing changes were discussed by the group over a number of meetings and were supported by a strong body of evidence. "We endorse the changes because we are satisfied that the increases are reflective of the adjustment that is needed to address sector concerns and ensure participants continue to be supported in achieving their goals," Mr Innes said.

The *Australian Financial Review* reported, "The federal government has dampened criticism its budget surplus will be boosted by money that should have been spent on the disabled after it increased National Disability Insurance Scheme payments by about $3.5 billion."

"As a result of the extra money being rolled out, the underspend on the NDIS – money that was allocated but not rolled out – has been reduced to a forecast $1.6 billion over the next four years, the budget papers will show."

"Had the last-minute spending decision not been made, the underspend over four years would have been about $5 billion."

"The government is facing criticism from the disability sector, the Labor states and federal Labor that the 2019-20 budget surplus to be unveiled on Tuesday could be due largely to money that was not spent on the disabled."

"A slower than anticipated roll-out of the NDIS, which is budgeted to cost $22 billion in 2019-20, and poor administration are resulting in demand not being met."

"On Saturday, Social Services Minister Paul Fletcher announced price increases of up to 22 per cent for NDIS service providers, as well as some temporary transition assistance."

"These extra payments are from within the existing NDIS budget and are worth $850 million next financial year alone and about the same each year afterwards" said a source.

"That means the unspent money over the next four years will be reduced by about $3.5 billion."

"Combined with the $1.6 billion underspend that will be detailed in the budget, that means that until Saturday's announcement, the government was facing an underspend of about $5 billion over four years."

"The $1.6 billion, which is spread over four years, will contribute to the surplus next financial year but will not be a major component. The surplus is expected to be higher than the $4.1 billion forecast in the mid-year budget update released in December."

References
Ministerial media release: NDIS price increases for a sustainable and vibrant disability services market
Australian Financial Review - Phillip Coorey: NDIS underspend to be $1.6b
ProBonoAustralia.com.au: Government pledges $850 million to help NDIS providers

Company and business tax

Small business

The Government is increasing the instant asset write-off threshold from $25,000 to $30,000 and expanding access to medium-sized businesses with an annual turnover of less than $50 million (from $10 million previously). These changes will apply from 7:30pm (AEDT) on 2 April 2019 to 30 June 2020.

The Government has previously announced (and legislated) that the company tax rate for small and medium-sized companies with an annual turnover of less than $50 million has been lowered to 27.5 per cent. This rate will be lowered further to 25 per cent by 2021-22 as the Government accelerates its plan to deliver lower tax rates. Similar timing applies to the increases in the unincorporated small business tax discount rate, which will increase to 16 per cent by 2021-22 (up to the cap of $1,000).

Tax avoidance

The Government is providing more than $1 billion to extend the operation of the ATO's Tax Avoidance Taskforce, and to expand the Taskforce's programs and market coverage. This measure is estimated to raise $4.6 billion in over the forward estimates period and will help ensure that multinationals, big business and high wealth individuals pay the right amount of tax in Australia.

The Government will also provide $42.1 million over four years to the ATO to increase activities to recover unpaid tax and superannuation liabilities including from large corporate entities and high wealth individuals.

The Government will also strengthen the Australian Business Number (ABN) system to target ABN misuse, enhance the quality of Australian Business Register data and improve ABN holder engagement and compliance, estimated to result in an additional $22.2 million gain to the budget over the forward estimates.

References
Budget Paper No 2, Part 1 Revenue Measures – Treasury
Budget Paper No 1 Statement 1 Budget Overview
Budget Overview (Glossy)
Treasurer's media releases

Personal Tax

The Budget contained personal income tax changes which extend the tax cuts announced in the 2018 Budget and which subsequently passed Parliament. (Details of the already legislated changes and Labor's announced tax changes are outlined below).

Low and Middle Income Tax Offset

From the 2018-19 income year, additional tax relief will be provided to low- and middle-income taxpayers through an increase to the current low and middle income tax offset (LMITO).

Under the changes, the maximum tax relief provided by LMITO will increase by $550 from the previous level of $530 to a new maximum of $1,080. The base amount will increase from $200 to $255 for 2018-19 and the next three income years. The LMITO will be received after individuals lodge their 2018-19 tax returns and will continue to be provided in addition to the low income tax offset (LITO).

The LMITO will assist over 10 million Australians, with about 4.5 million taxpayers with taxable incomes between $48,000 and $90,000 receiving the full $1,080 reduction in tax for 2018-19. Families with two people earning between $48,000 and $90,000 will receive a total reduction in tax of $2,160. Around 2.3 million Australians with taxable incomes less than $37,000 will receive an offset of up to $255.

This additional tax relief builds on the increase to the top threshold of the 32.5 per cent tax bracket from $87,000 to $90,000, which took effect from 1 July 2018.

Changes to income tax thresholds and LITO from 1 July 2022

The Government will lock in the benefits of the increased LMITO through changes to income tax thresholds and LITO from 1 July 2022. The top threshold of the 19 per cent tax bracket will increase from $41,000 as legislated under the plan to $45,000 and the maximum amount of the LITO will increase from $645 to $700. In total, the Government's enhanced plan will benefit 12.6 million taxpayers in 2022-23.

The widening of the top threshold of the 19 per cent tax bracket from $41,000 to $45,000 will prevent around 590,000 taxpayers from entering the 32.5 per cent tax bracket in 2022-23. This builds on the already legislated increase in the top threshold of the 19 per cent tax bracket from $37,000 to $41,000, which is projected to prevent around 560,000 taxpayers from paying tax at the 32.5 per cent tax rate in 2022-23. In total, more than one million taxpayers will stay under the 32.5 per cent marginal tax rate in 2022-23 as a result of the Government's enhanced plan.

The change to the 19 per cent tax bracket builds on the increase to the top threshold of the 32.5 per cent tax bracket from $90,000 to $120,000, which has already been legislated. This change will prevent around 1.8 million taxpayers from entering the 37 per cent tax bracket in 2022-23.

Tax rate changes from 1 July 2024

From 1 July 2024, in addition to the already legislated abolition of the 37 per cent tax rate, the Government will continue to simplify and flatten the tax system to reward hard-working Australians by reducing the 32.5 per cent rate to 30 per cent for taxable incomes between $45,000 and $200,000. The top marginal rate of 45 per cent will remain for taxable incomes above $200,000.

New personal tax rates and thresholds

Rate (%)	2017-18 tax thresholds Income range ($)	Current tax thresholds From 1 July 2018 Income range ($)	New tax thresholds From 1 July 2018 Income range ($)	New tax thresholds From 1 July 2022 Income range ($)
Tax free	0 - 18,200	0 - 18,200	0 - 18,200	0 - 18,200
19	18,201 - 37,000	18,201 - 37,000	18,201 - 37,000	18,201 - 45,000
32.5	37,001 - 87,000	37,001 - 90,000	37,001 - 90,000	45,001 - 120,000
37	87,001 - 180,000	90,001 - 180,000	90,001 - 180,000	120,001 - 180,000
45	>180,000	>180,000	>180,000	>180,000
Low and middle income tax offset	-	Up to 530	Up to 1,080	-
LITO	Up to 445	Up to 445	Up to 445	Up to 700

Rate (%) From 1 July 2024	New tax thresholds From 1 July 2024 Income range ($)
Tax free	0 - 18,200
19	18,201 - 45,000
30	45,001 - 200,000
45	>200,000
LITO	Up to 700

Treasurer Josh Frydenberg said (in his Budget "Lockup" press conference) the proposed tax changes are "a package" which the Government would take to the election and not seek to legislate before Parliament is dissolved. He said the Govdernment . He said the Government would seek to legislate the power rebate before Parliament is dissolved.

Currently legislated personal income tax changes

The following outlines personal income tax changes announced in the 2018 Budget and subsequently legislated.

There will be:

- changes to income tax rate thresholds in the 2018-19, 2022-23 and 2024-25 income years
- a new low and middle income tax offset to reduce the tax payable by low and middle income earners in the 2018-19, 2019-20, 2020-21 and 2021-22 income years
- a new low income tax offset from the 2022-23 income year (to replace both the new low and middle income tax offset and the current Low Income Tax Offset).

Updated rates, thresholds and offset entitlements linked to these changes			
Rate (%)	**New tax thresholds From 1 July 2018 Income range ($)**	**New tax thresholds From 1 July 2022 Income range ($)**	**New tax thresholds From 1 July 2024 Income range ($)**
Tax free	0 - 18,200	0 - 18,200	0 - 18,200
19	18,201 - 37,000	18,201 - 41,000	18,201 - 41,000
32.5	37,001 - 90,000	41,001 - 120,000	41,001 - 200,000
37	90,001 - 180,000	120,001 - 180,000	-
45	>180,000	>180,000	>200,000
New low and middle income tax offset	Up to 530	-	-
Current Low Income Tax Offset	Up to 445	-	-
New low income tax offset		Up to 645	Up to 645

Increased income tax rate thresholds

A number of income tax thresholds are scheduled to change across the 2018-19, 2022-23 and 2024-25 income years. These changes apply to residents, foreign-residents and Working Holiday Makers.

2018-19, 2019-20, 2020-21 and 2021-22 income years

- Increase the top threshold of the 32.5% tax bracket from $87,000 to $90,000

2022-23 and 2023-24 income years

- Increase the top threshold of the 19% tax bracket from $37,000 to $41,000.
- Increase the top threshold of the 32.5% bracket from $90,000 to $120,000.

2024-25 income year onwards

- Increase the top threshold of the 32.5% tax bracket from $120,000 to $200,000.

New low and middle income tax offset

2018-19, 2019-20, 2020-21 and 2021-22 income years

- Australian resident individuals (and certain trustees) whose income does not exceed $125,333 are entitled to the new low and middle income tax offset. Entitlement to the new offset is in addition to the existing Low Income Tax Offset and is available on assessment after you lodge your income tax return.

If your income:

- does not exceed $37,000 you are entitled to $200
- exceeds $37,000 but does not exceed $48,000 you are entitled to $200 plus 3% of the amount of the income that exceeds $37,000
- exceeds $48,000 but not $90,000, you are entitled to $530
- exceeds $90,000 you are entitled to $530 less 1.5% of the amount of the income that exceeds $90,000.

New low income tax offset

2022-23 and later income years

- A new low income tax offset replaces both the current Low Income Tax Offset and the low and middle income tax offset.
- Consistent with the current Low Income Tax Offset, individuals with taxable income that does not exceed $66,667 (as well as certain trustees taxed on behalf of individuals) will be entitled to the new low income tax offset.
- The amount of the new low income tax offset is $645 reduced by:
  - 6.5% of the amount by which your income exceeds $37,000 but does not exceed $41,000 and
  - a further 1.5% of the amount by which your relevant income exceeds $41,000.

From 2018-19 Budget

New personal tax rates and thresholds 2018–19, 2022–23 and 2024–25

Rate (%)	Current tax thresholds Income range ($)	New tax thresholds From 1 July 2018 Income range ($)	New tax thresholds From 1 July 2022 Income range ($)	New tax thresholds From 1 July 2024 Income range ($)
Tax free	0 - 18,200	0 - 18,200	0 - 18,200	0 - 18,200
19	18,201 - 37,000	18,201 - 37,000	18,201 - 41,000	18,201 - 41,000
32.5	37,001 - 87,000	37,001 - 90,000	41,001 - 120,000	41,001 - 200,000
37	87,001 - 180,000	90,001 - 180,000	120,001 - 180,000	-
45	>180,000	>180,000	>180,000	>200,000
Low and middle income tax offset	-	Up to 530	-	-
LITO	Up to 445	Up to 445	Up to 645	Up to 645

Labor's personal tax plans

Labor Leader Bill Shorten is expected to outline his personal income tax plans in his Budget reply on Thursday night.

After last year's Budget Labor announ ced they planned to keep the shape of the Government's Low and Middle Income Offset. It will still phase in from the point where workers start to pay tax, run at full throttle for the 4 million taxpayers earning between $48,000 and $90,000, and taper off so it phases out at about $125,000.

Labor said it will offer a maximum tax cut of $928 a year for middle-income earners – the Coalition's $530 plus an additional $398. And for the 2.4 million low-income earners promised $200 a year by the Coalition, Labor will give them an extra $150 for a total $350.

On the ABC's Insiders last Saturday Shadow Treasuer Chris Bowen said, "the Government has a lot of catching up to do. We have bigger tax cuts, 75% bigger than the ones the Government has offered, for every Australian who earns less than $125,000 a year. That's ten million Australians. They've first got to match that, that's a key test."

He also said, "We'll look at the budget on Tuesday night and in the days following through an air of responsibility and obviously if there's sensible things which help the cost of living, we'll support them. But we'll have to see. But first, first, the Government has a serious amount of catching up to do with Labor's agenda.

References
Budget Paper 2 Part 1 - Revenue - Treasury
Budget Overview (Glossy)
Lower taxes (Glossy)
ATO: Personal Income Tax Plan
ABC - Insiders transcript: Chris Bowen joins Insiders - Sunday 31 March 2019
Nine Publishing: Compare Labor and Liberal personal tax plans – May 2018

Infrastructure

The Treasurer announced in the Budget that the Government was increasing its Urban Congestion Fund four-fold to $4 billion.

<u>National initiatives</u>

- A new Road Safety Package - $2.2 billion
- Urban Congestion Fund increased from $1 billion to $4 billion including a new Commuter Car ParkFund -$500 million
- Roads of Strategic Importance funding increased from $3.5 billion to $4.5 billion
- Major Project Business Case Fund - $250 million
- Fast rail plan
  - $2 billion to help deliver fast rail from Geelong to Melbourne
  - Establishing the National Faster Rail Agency
  - Fast rail business cases for Sydney to Newcastle, Sydney
  - to Wollongong, Sydney to Parkes (via Bathurst and Orange),
  - Melbourne to Greater Shepparton, Melbourne to Albury
  - Wodonga, Melbourne to Traralgon, Brisbane to the regions
  - of Moreton Bay and the Sunshine Coast, and Brisbane to the
  - Gold Coast

<u>South Australia</u>
New projects of $2.6 billion, including:
• North-South Corridor - $1.5 billion
• SA Regional Roads Package - $260 million
• Urban Congestion Fund - $341 million
• Roads of Strategic Importance - $220 million

<u>Western Australia</u>
New projects of $1.6 billion, including:
• Tonkin Highway - $349 million
• Fremantle Traffic Bridge - $115 million
• Albany Ring Road - $140 million
• Urban Congestion Fund - $122 million
• Roads of Strategic Importance (North) - $393 million
• Roads of Strategic Importance (South) - $142 million

<u>Northern Territory</u>
New projects of $622 million, including:
• Roads of Strategic Importance - $492 million

<u>Tasmania</u>
New projects of $313 million including:
• Tasmanian Freight Rail Revitalisation Program - $68 million
• Urban Congestion Fund - $35 million
• Roads of Strategic Importance - $210 million

Victoria
New projects of $6.2 billion including:
• Suburban Roads Upgrades (South Eastern and Northern Roads) - $1.1 billion
• South Geelong to Waurn Ponds Rail - $700 million
• Western Highway (Final Stage of Duplication from Ararat to Stawell) - $360 million
• Urban Congestion Fund - $396 million
• Roads of Strategic Importance - $490 million

Queensland
New projects of $4 billion including:
• Bruce Highway - $425 million
• Gateway Motorway (Bracken Ridge to Pine River) - $800 million
• Warrego Highway - $320 million
• Urban Congestion Fund - $379 million
• Roads of Strategic Importance (North) - $824 million
• Roads of Strategic Importance (South) - $186 million

New South Wales
New projects of $7.3 billion including:
• M1 Pacific Motorway Extension to Raymond Terrace - $1.6 billion
• Western Sydney Rail - $3.5 billion
• Princes Highway - $500 million
• Urban Congestion Fund - $254 million
• Roads of Strategic Importance - $496 million

Australian Capital Territory
New projects of $50 million

Tasmania
New projects of $313 million including:
• Tasmanian Freight Rail Revitalisation Program - $68 million
• Urban Congestion Fund - $35 million
• Roads of Strategic Importance - $210 million

References
Deputy Prime Minister's media release: Building our future: Delivering the right infrastructure for a growing nation
Budget Overview (Glossy) – Our plan for a stronger economy
Investing in our community (Glossy)

Superannuation

Concessional contributions for older Australians

The Budget contains a $75 million measure over four years to allow 65- and 66-year-olds to make voluntary contributions to their superannuation without having to meet a work test.

The current rule requires people aged 65 and over to work for a minimum 40 hours over a 30-day period in the relevant financial year.

The Government will allow voluntary superannuation contributions (both concessional and non-concessional) to be made by those aged 65 and 66 without meeting the work test from 1 July 2020. People aged 65 and 66 will also be able to make up to three years of non-concessional contributions under the bring-forward rule. Those up to and including age 74 will be able to receive spouse contributions, with those 65 and 66 no longer needing to meet a work test. This measure is estimated to reduce revenue by $75.0 million over the forward estimates period.

Currently, people aged 65 to 74 can only make voluntary superannuation contributions if they self-report as working a minimum of 40 hours over a 30 day period in the relevant financial year. Those aged 65 and over cannot access bring-forward arrangements and those aged 70 and over cannot receive spouse contributions. Aligning the work test with the eligibility age for the Age Pension (scheduled to reach 67 from 1 July 2023) and increasing the age limit for spouse contributions to 74 will give older Australians greater flexibility to save for retirement.

Other superannuation changes announced in the Budget include:

Protecting Your Super Package — amendment
The Government agreed to amendments to the *Protecting Your Super Package* announced in the 2018-19 Budget to:

- extend to 16 months the period after which an account that has not received any contribution is considered inactive;
- expand the definition of when an account is considered active for the ATO-led consolidation regime; and
- require the ATO to consolidate to an active account, where possible, within 28 days of receipt.

This measure is estimated to reduce the fiscal balance by $119.8 million over the forward estimates period.

Protecting Your Super Package — putting members' interests first
The Government will delay the start date for ensuring insurance within superannuation is only offered on an opt-in basis for accounts with balances of less than $6,000 and new accounts belonging to members under the age of 25 years to 1 October 2019. This measure is estimated to reduce the fiscal balance by $41.8 million over the forward estimates period.

References
Budget Paper No 2, Part 1 Revenue Measures – Treasury

Aging and aged care

The Government is investing $282 million to support Australians who wish to stay at home for longer by providing an additional 10,000 home care packages across all levels.

This brings to 40,000 the number of additional home care packages the Government has delivered since the 2017-18 MYEFO.

In addition, the Government is investing $7.7 million to develop an end-to-end compliance framework for home care, and Australians with dementia or requiring cognitive support will benefit from additional funding for home care supplements.

The Budget includes an additional 13,500 residential care places available from 2018-19 — the largest number ever in a single funding round. In addition, the Government is providing $60 million for residential care infrastructure.

The Government is providing a $320 million general subsidy boost in 2018-19 for residential aged care.

The Government is providing $1.5 million to develop a Serious Incident Response Scheme and $8.4 million to introduce mandatory reporting against national residential care quality indicators.

References
Budget Paper 2 Part 2 – Expenses – Health
Budget Overview (Glossy) – Guaranteeing essential services