



SPECIAL CEO UPDATE – 3 May 2016

Master Builders Australia Federal Budget Media Release and Analysis

Media Release

Tradies and Builders Big Winners from Budget

“The 2016-17 Budget is a win for tradies and Australia’s \$200 billion building and construction industry,” Wilhelm Harnisch CEO of Master Builders Australia said.

“This Budget should act to underpin a boost in building industry confidence, through targeted growth measures and a credible budget repair strategy to take Australia into the next decade,” Wilhelm Harnisch said.

“It provides the settings that will enhance the capacity to strengthen the nation’s economic stability, future growth path and greater investment; fundamental requirements for a strong building industry,” he said.

“The various Budget measures will allow the building industry to play a positive role in the rebalancing of the economy,” Wilhelm Harnisch said.

“The Government has delivered on Master Builders calls for fiscal and industry policy settings that are targeted and realistic. It will boost confidence and should bring forward economic activity, investment, growth and jobs in the building industry,” he said.

“Measures to cut company tax rates for SMEs and the expanded tax write-off will be an immediate shot in the arm for builders, particular in the equipment intensive building industry,” he said.

“Other measures including the Government’s plan to reduce company tax progressively to 25 per cent over the next decade, the continued rollout of the Government’s \$50 billion infrastructure package, confirmation that there will be no change to negative gearing and the \$840 million youth employment package will also boost confidence and jobs,” Wilhelm Harnisch said.

“Overall the Budget has delivered for business by setting out a credible economic strategy that deserves a chance to succeed. Confidence and stability are the essential foundations for growth in new housing and new investment in the commercial construction sector,” he said.

“The building and construction industry needs confidence and certainty. Master Builders is calling for bi-partisan support for the key measures in this Budget,”

ENDS.



2016-17 Federal Budget Analysis

BIG WIN FOR BUILDERS AND TRADIES

The Federal Government has tonight announced an economic plan to transition from mining investment to a stronger, more diversified new economy. The Budget seeks to deliver the economic plan in 3 key ways:

1. Jobs and Growth

- 10-year enterprise tax plan to support growth, higher wages and jobs, commencing with tax cuts for small and medium sized businesses. The company tax rate will be lowered to 27.5% from 1 July 2016 for small to medium sized businesses with a threshold of less than \$10 million (from \$2 million) and ending with all businesses moving to a 25% rate by 2026.
- Increase the unincorporated small business tax discount to 8% and extend the threshold from a turnover of \$2 million to less than \$5 million.
- A new initiative with funding of \$840 million, to help more than 120,000 vulnerable young people into jobs, including a new \$752 million programme called *YouthPaTH* – Prepare, Trial, Hire - which will include intensive pre-employment skills training, internship programs and support for employers.
- Opening up more export opportunities through trade agreements, continued investment in national innovation and science, and delivering the 20 year defence industry plan.

2. Fixing specific problems in the tax system

- Combating tax avoidance especially by multinationals
- Closing off generous superannuation tax concessions
- Tax relief to some individual taxpayers by moving the middle tax bracket from \$80,000 to \$87,000.

3. Ensuring that the government lives within it means, balance the budget & reduce the burden of long term debt

- Responsibly invest in infrastructure with the continued roll out of the \$50 billion national infrastructure plan
- Cut unnecessary waste and keep spending under control



FISCAL STRATEGY AND OUTLOOK

The Federal Government is focused on spending restraint to underpin a sustainable path to balancing the budget and redirecting government spending to boost productivity and workforce participation.

The 2016-17 Budget maintains a steady trajectory towards surplus with the budget projected to return to balance by 2020-21.

As a result of spending restraint and fiscal discipline, Government payments as a share of GDP are forecast to decline from 25.8% of GDP in 2016-17 to 25.2% of GDP in 2019-20.

The underlying cash balance is expected to improve in each year over forward estimates from a deficit of 2.4% per GDP in 2015-16 to 0.3% in 2019-20.

Any increases in tax revenues as a result of measures contained in the budget have been re-invested back into lower taxes, not towards unsustainable higher spending.

Despite lower than anticipated growth in tax receipts, the tax to GDP ratio is expected to return to its long run average of 22.3% by 2017-18.

ECONOMIC OUTLOOK

The Australian economy is forecast to strengthen over the next few years, however, expectations for global growth remain uncertain, providing risks to the forecasts of Australia's economic growth.

The Federal Government identifies that the Australian economy is entering its 26th year of uninterrupted growth despite uncertain international environment. Australia is growing faster than all major advanced economies and well above the OECD average.

The economy is forecast to grow by 2.5% in 2015-16 and again in 2016-17 and to pick up to 3% in 2017-18. Growth is being supported by household spending, investment in housing and exports. The growth is underpinning strong jobs growth with almost 300,000 jobs created in 2015.

Low interest rates and the lower exchange rate are also supporting households and businesses.



Table 2: Major economic parameters^(a)

	Outcomes		Forecasts		Projections	
	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Real GDP	2.2	2 1/2	2 1/2	3	3	3
Employment	1.6	2	1 3/4	1 3/4	1 1/4	1 1/2
Unemployment rate	6.1	5 3/4	5 1/2	5 1/2	5 1/2	5 1/2
Consumer price index	1.5	1 1/4	2	2 1/4	2 1/2	2 1/2
Wage price index	2.3	2 1/4	2 1/2	2 3/4	3 1/4	3 1/2
Nominal GDP	1.6	2 1/2	4 1/4	5	5	5

(a) Year average growth unless otherwise stated. From 2014-15 to 2017-18, 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.

Steady growth is expected to continue in household consumption with household consumption to grow by 3% each year over the next 4 years.

Dwelling investment grew by 7.9% in 2014-15 – the largest seen over the past decade, partly driven by a significant shift towards medium-high density dwellings. While the level of investment is expected to remain high, growth is expected to ease at 2% in 2016-17 and 1% in 2017-18 as record number of dwellings reach completion.

Business investment is forecast to fall by 5% in 2016-17 and remain flat in 2017-18 but this will be driven by a decline in mining investment while conditions are in place for non-mining investment to pick up.

In terms of jobs, the unemployment rate is forecast to fall slightly, participation rate to remain at recent levels and youth unemployment to continue its decline.

A FOCUS ON SMALL BUSINESS

A Ten Year Enterprise Tax Plan – creating growth and jobs with a focus on small business

- From 1 July 2016 the small business company tax rate will be lowered to 27.5% and the turnover threshold for small business will be increased from \$2 million to \$10 million and that will then enable those businesses to also access other tax incentives available to small business.
- At the same time the unincorporated small business tax discount will be increased to 8% and the threshold for eligibility will be increased from a turnover of \$2 million to less than \$5 million.
- From 1 July 2016 access to the instant write off for equipment purchases of up to \$20,000 will be extended until 30 June 2017 for businesses with a turnover of less than \$10 million.



- Each year thereafter the government plans to step up the turnover threshold for access to the lower company tax rate of 27.5% for more businesses, from \$10 million to \$25 million in 2017-2018, \$50 million in 2018-2019 and \$100 million in 2019-20.
- The step of the threshold will continue until 2023-24 and then the government plans to reduce the 27.5% rate for all businesses to 25% at the end of the ten years in 2026-27.
- From 1 July 2016 the upper limit for the middle income tax bracket will move from \$80,000 to \$87,000. The government budget papers use the example of a sole trader running a construction business and shows that with this initiative the sole trader will be better off by around \$1300.
- Government will be introducing a range of initiatives designed to reduce taxation regulatory burden.
- The Government will also provide \$16.3 million over four years from 2016-17 to support the activities of the Australian Small Business and Family Enterprise Ombudsman and to expand the advocacy function of the Ombudsman.

EMPLOYMENT & TRAINING

The Federal Government has announced the creation of a new pathway to youth employment through a new \$840 million Youth Employment Package to assist 120,000 vulnerable young people over 4 years.

The Package will include an “innovative” \$752 million Youth Jobs PaTH (Prepare-Trial-Hire) Programme to help job seekers move off welfare and into employment. The Programme encompasses 3 phases:

1. Prepare – 6 weeks of intensive training to improve job preparedness and enhance job hunting skills;
2. Trial – 4 to 12 weeks of internship placement with a \$200 per fortnight payment to the intern in addition to income support and \$1000 to the host business; and
3. Hire – A youth bonus wage subsidy up to \$10,000 if an employer hires a young job seeker who has been in employment services for 6 months or more.

The Package will also include streamlining of wage subsidy arrangements including payments to employers.

The Government has announced efficiencies to achieve savings of around \$250 million over 5 years by reducing the annual funding under the Industry Skills Fund. Funding of around \$200



million over 5 years will continue to be provided to support the training needs of small and medium enterprises which cannot be readily met by the national training system.

The Government will provide an additional \$10 million over 2 years for a national campaign to provide information to prospective students and employers about the VET sector and the redesign of VET FEE-HELP. The campaign will provide information about VET and inform jobseekers and employers about the availability of skills-related government services.

INFRASTRUCTURE

The Government has recommitted to its \$50 billion national infrastructure plan noting that there are currently around 100 major projects under construction and another 80 in pre-construction stage.

Infrastructure is a key part of the Government's plan to improve Australia's economy. Commitments in the Budget seek to accelerate planning and investment in major city transformational projects, further investment in critical regional projects and key transport links.

The Government has finalised or is close to finalising agreements under the Asset Recycling Initiative with 4 states and territories worth \$3.3 billion.

The Government will provide \$4.6 million in 2016-17 to continue and expand the Cities Taskforce.

The main nationwide infrastructure commitment is \$594 million towards the Melbourne to Brisbane Inland Rail Project.

The Government will return \$853.6 million in unallocated funds from the Asset Recycling Initiative (ARI) to the budget for use on other policy priorities. The States and Territories have until 30 June 2016 to agree final ARI schedules with the Commonwealth.

Additional Project Highlights by State & Territory

New South Wales

- \$115 million for further preparatory activity for Badgerys Creek
- Western Sydney Infrastructure Plan: \$2.9 billion with \$524.4 million provided in 2016-17
- Pacific Highway duplication: \$5.6 billion with \$1.37 billion provided in 2016-17
- West Connex: \$1.5 billion plus a concessional loan of \$2 billion to accelerate the New M5 section with \$300 million provided in 2016-17



- \$2.19 billion through the Asset Recycling Initiative including Sydney Metro (\$1.7 billion), Sydney's Rail Future (\$98.4 million) and Parramatta Light Rail (\$78.3 million)

Victoria

- \$1.5 billion paid to Victoria for construction of the East West Link road project will be reallocated to Victorian infrastructure including \$500 million to upgrade the Monash Freeway, \$350 million to upgrade the M80 Ring Road and \$220 million to upgrade the Murray Basin Freight Rail network.
- \$877.5 million through the Asset Recycling Initiative towards Melbourne Metro (\$857.2 million) and Murray Basin Rail (\$20.2 million).

Queensland

- Ipswich Motorway: \$200 million with \$50 million to be provided in 2016-17
- Bruce Highway: up to \$6.7 billion with \$558.1 million to be provided in 2016-17
- Gateway Upgrade North: up to \$914.2 million with \$200 million to be provided in 2016-17

Western Australia

- \$490 million for the Forrestfield-Airport Link
- Perth Freight Link: \$1.2 billion with \$207.7 million provided in 2016-17
- North Link WA including Swan Valley Bypass (\$644.1 million with \$118.3 million in 2016-17) and Tonkin Highway Grade Separations (\$225 million with \$87.3 million to be provided in 2016-17).

South Australia

- North-South Corridor – Darlington interchange: \$496 million with \$159.7 million to be provided in 2016-17
- North-South Corridor – Torrens Road to River Torrens: \$448 million with \$77.1 million in 2016-17

Tasmania

- Midland Highway: \$400 million with \$70 million to be provided in 2016-17
- Freight Rail Revitalisation: \$59.8 million with \$20.4 million to be provided in 2016-17



Northern Territory

- Northern Territory Roads Package: \$77 million with \$23 million to be provided in 2016-17
- Regional Roads Productivity Package: \$90 million with \$20.3 million provided in 2016-17
- Through the Asset Recycling Initiative, the Federal Government will provide a total of \$40.4 million including Ship Lift and Marine Industries Project, Flood Mitigation in Darwin and Katherine and Road Upgrades.

Australian Capital Territory

- ACT Travel Time Information of \$0.3 million to enable the project to be completed in 2016.

Greater details of projects by state and territory are available online at www.investment.infrastructure.gov.au/funding/projects

HOUSING

The Government will not remove or limit negative gearing and will not increase capital gains tax.

SUPERANNUATION

The Federal Government has announced changes to superannuation concessions to improve the sustainability and integrity of the superannuation system.

From 1 July 2017 the government proposes to reduce access to superannuation tax concessions by:

- Introducing a transfer balance cap of \$1.6 million on amounts moving into the tax-free retirement phase;
- Extending the 30% tax on concessional contributions to those earning over \$250,000
- Reducing the annual cap on concessional superannuation contributions to \$25,000 and
- From 3 May 2017, establishing a lifetime non-concessional contributions cap of \$500,000.



The Federal Government will introduce a Low Income Superannuation Tax Offset from 1 July 2017 to ensure that people earning less than \$37,000 are not paying more tax on their superannuation than they are on their income.

In addition, there are plans to:

- Improve access to concessional contributions
- Harmonise contribution rules for older Australians
- Change retirement income products to improve innovation in this area.

INDUSTRIAL RELATIONS/WORK HEALTH & SAFETY

The Government will provide funding of \$6.0 million to 2016-17 for the continuation of the joint police taskforce to investigate matters arising from the Royal Commission into Trade Union Governance and Corruption (the Royal Commission).

The police taskforce will extend for a further 12 months until 31 December 2016 to allow the continuation of investigations of significant matters arising from the Royal Commission.

The Government will provide an additional \$3.4 million over two years from 2016-17 to the Asbestos Safety and Eradication Agency to coordinate the *National Strategic Plan for Asbestos Management and Awareness 2014-2018* (the Plan). The Plan establishes a framework for a national approach to asbestos management and awareness in Australia.

The Government will abolish the Road Safety Remuneration Tribunal (the Tribunal). Funding of \$15.6 million over four years from 2016-17 that was previously allocated to the Tribunal will be redirected to the National Heavy Vehicle Regulator to work with the states and territories to implement practical safety measures.

Master Builders Australia, Level 1, 16 Bentham Street (PO Box 7170 YARRALUMLA ACT 2600, ABN 68 137 130 182, Tel: 02 6202 8888, Fax 02 6202 8877, Email enquiries@masterbuilders.com.au

This CEO Update is not legal advice. Employers should obtain advice about their specific situation. Whilst every care has been taken in preparing this Update, no responsibility will be accepted for actions taken in reliance upon information contained in this document.
