

Barton Deakin Brief: Commonwealth Budget 2015-16

12 May 2015

The Treasurer, the Hon Joe Hockey MP, today delivered the 2015-16 Commonwealth Budget, revealing a \$35.1 billion deficit in the upcoming financial year.

The aggregate deficit over the four-year forward estimates period is \$82.2 billion.

Net debt is estimated to be \$286 billion, or 17.3% of Gross Domestic Product (**GDP**).

Unemployment is projected to be 6.5% in 2015-16, and 6.25% by 2016-17.

Overall spending constitutes 25.9% of GDP. The 2015-16 Budget details \$429.8 billion in expenditure items and \$398.0 billion in receipts.

Real GDP is forecast to grow at 2.75% in 2015-16 and reach 3.25% in 2016-17.

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Support for Small Business

The Government will implement a \$5.5 billion Jobs and Small Business package.

- All small businesses will receive an immediate tax deduction for any individual assets they buy costing less than \$20,000. This will benefit 96 per cent of Australian businesses.
- From 1 July 2015, small companies with annual turnover of less than \$2 million will have their tax rate lowered, from 30 per cent to 28 and a half per cent.
- The Government will reduce red tape within the Fringe Benefits Tax (**FBT**) system by expanding the FBT exemption for work-related portable electronic devices. The Government will release a consultation paper later in 2015 on potential changes to the Corporations Act to reduce any unnecessarily burdensome or restrictive regulatory requirements for small businesses.
- The Government will provide a 5 per cent tax discount to unincorporated businesses with annual turnover less than \$2 million from 1 July 2015. This delivers a tax cut of \$1.8 billion over the next four years.
- The Government will also deliver a \$331 million *Youth Employment Strategy*. This includes a \$212 million *Transition to Work* programme to help disengaged young people, aged 15-21 years, become job-ready. This initiative will commence on 1 January 2016.

Infrastructure

Funding for key infrastructure initiatives is contained within the Budget:

- A \$5 billion Northern Australia Infrastructure Facility will provide concessional loans to State and Territory Governments and the private sector for major projects in the nation's north.
- The National Stronger Regions Fund will receive \$212.2 million for 51 projects in rural and regional areas - see [here](#).
- \$100 million will be spent on improving roads across Northern Australia, focusing on routes used by farmers and key agricultural exporters;
- \$500 million in 2015-16 towards Queensland's \$6.7 billion Bruce Highway upgrade;
- \$350 million will be spent annually through the *Roads to Recovery Programme*; and
- \$300 million over four years will be spent through the *Bridges Renewal Programme*.

The Commonwealth will save \$1.5 billion originally allocated to Melbourne's East West Link. The new Victorian Labor Government has subsequently abandoned this project. The Minister for Infrastructure and Regional Development, the Hon Warren Truss MP, has officially stated that this funding will be listed as a contingent liability in the 2015-16 Budget should the Victorian Government reverse its position and proceed with the project – see [here](#).

Western Australia (**WA**) will benefit in an additional \$499 million in road infrastructure funding from the Commonwealth in response to the short-term revenue shortfall facing the WA Government. Of the nine projects to gain further funding, the Mitchell Freeway upgrade will receive \$209.1 million. The list of specific road upgrades that will receive funding is available in a press release from the Commonwealth Government – see [here](#).

A list of infrastructure funding commitments to projects in each State and Territory is available [here](#).



Health

The Budget outlines \$69 billion in spending across the health portfolio. The Abbott Government will:

- Provide \$1.6 billion over the next four years for new and amended listings on the Pharmaceutical Benefits Scheme (**PBS**) including new drugs for diseases such as melanoma and breast cancer. In addition, the Government will achieve savings of \$252.2 million over five years by amending the prices for some existing PBS-listed medicines.
- Invest \$485.1 million to improve Australia's electronic health record system. The Government will redevelop the Personally Controlled Electronic Health Record (**PCEHR**) system established by the previous Labor Federal Government. PCEHR will be renamed as My Health Records and the Government will provide national coordination for eHealth by transitioning governance arrangements from the National E-Health Transition Authority to the new Australian Commission for eHealth. Further details regarding proposed changes to Australia's electronic health record system can be found in the Minister for Health's media release issued on 10 May 2015 – click [here](#).
- Provide \$161.8 million over five years from 2014-15 for new and amended listings under the National Immunisation Programme (**NIP**). In addition, the Government will provide \$26.4 million over four years for a number of activities aimed at improving immunisation coverage and further reducing the incidence of vaccine preventable diseases.
- Amend the Medicare Benefits Schedule (**MBS**) and Veterans' Benefits for new and amended items listed since the [Mid-Year Economic and Fiscal Outlook 2014-15 \(MYEFO\)](#), at a net cost of \$39.8 million over four years.
- Achieve savings of \$962.8 million over five years from 2014-15 by rationalising and streamlining funding across a range of Health programmes. Savings from this measure will be redirected by the Government to fund other Health policy priorities or reinvested into the *Medical Research Future Fund*.

Further information on the changes in the Health portfolio can be found in the Health section of the budget papers – click [here](#).

Read Barton Deakin's Brief on the Commonwealth's latest initiatives to reform Medicare [here](#).

Education and Training

The Commonwealth will spend nearly \$32 billion on education portfolio initiatives in 2015-16. It will:

- Provide \$840 million over two years for preschool programmes across Australia. The Government will extend the *National Partnership Agreement on Universal Access to Early Childhood Education* for the 2016 and 2017 calendar years – a joint media release released by the Prime Minister, the Minister for Education and Training and the Parliamentary Secretary to the Minister for Education and Training can be read [here](#). Barton Deakin's Brief of the Productivity Commission's final report on Australia's childcare and early childhood learning arrangements can be accessed [here](#).
- Extend the Higher Education Loan Programme (**HELP**) repayment framework to Australian graduates living overseas. Graduates living overseas and earning incomes above the minimum HELP repayment threshold (A\$53,345 in 2014–15) will be required to make



payments towards their HELP debts. This measure is expected to generate more than \$140 million over the next ten years. Further information can be found in a media release issued by the Minister for Education and Training - click [here](#).

- Achieve savings of \$131 million over five years from 2014-15 by abolishing or restructuring several programmes currently administered by the Department of Education and Training. Further information regarding the affected programmes is contained in the Education and Training section of the budget papers – click [here](#).
- Provide \$150 million in 2016-17 to continue to provide quality research infrastructure through the *National Collaborative Research Infrastructure Strategy*, which funds the operation and maintenance of critical national research infrastructure.

Child Care

In the lead up to the Budget, the Minister for Social Services, the Hon Scott Morrison MP, announced a range of measures aimed at providing child care services to low-income families.

Nearly \$40 billion of Commonwealth funding will be provided for the [Child Care Assistance Package](#) over the next four years. The 2015-16 Budget includes a funding increase of \$3.5 billion.

Barton Deakin's Brief of the Productivity Commission's final report on Australia's childcare and early childhood learning arrangements can be accessed [here](#).

Child Care Subsidy

From 1 July 2017, parents engaged in work will be able to access a single, child care payment rate that will be based on family income. This will replace the existing Child Care Benefit (CCN), the Child Care Rebate (CCR) and the Jobs, Education and Training Child Care Fee Assistance (JETCCFA).

This payment will:

- Be paid directly to service providers rather than to families;
- Tapered from 85 per cent of the child care service fee for families earning less than \$65,000 to a 50 per cent subsidy for families earning \$170,000 or more;
- Be capped at \$10,000 annually for families with an income of \$185,000;
- Be subject to a three-step activity test that aligns the number of subsidised care hours with the number of hours of work, training or study engaged in by parents.

The hourly cap fee will slightly vary depending on the nature of the care provided. A table stipulating the rate of subsidy for families on a range of incomes can be viewed [here](#).

Child Care Safety Net

Over four years, \$869 million will be allocated to three initiatives that ensure children from disadvantaged families have access to child care services.

1. The **Additional Child Care Subsidy** provides an addition \$156 million to the Child Care Subsidy from 1 July 2017 for children at risk of abuse or neglect, families experiencing temporary financial hardship and families transitioning to work from income support.



2. From 1 July 2016, the **Inclusion Support Programme** allocates \$406 million to provide child care services to families with special needs, which may be related to disabilities and culturally or linguistically different backgrounds. Specialist equipment and practical support services will be included in this scheme.
3. The \$304 million **Community Child Care Fund** is a competitive grants programme that will address barriers for disadvantaged children and provide capital to improve centre-based and mobile child care. Of this funding, \$10 million each year will be specifically directed to remote Indigenous communities.

Home Based Carer Subsidy Programme

A two-year, \$246 million pilot programme to provide subsidies for nanny services to low and middle-income families earning less than \$250,000 each year. The scheme will commence in January 2016 and is targeted towards parents that work irregular and shift-work hours.

This trial will fund nearly 4,000 nannies providing care for 10,000 children.

More information on the Interim Home Based Carer Subsidy Programme can be accessed on the Department of Social Services website – see [here](#). Minister Morrison's 28 April 2015 media release can be accessed [here](#).

Other child care measures

- The [Universal Access National Partnership Agreement](#) will be extended by two years, at a cost of \$843 million. This funding is targeted toward providing up to 15 hours a week of pre-school services to Australian children;
- The Department of Social Services will receive \$200 million to upgrade and develop its IT system, which will contribute to streamlined payment and processing of child care benefits and services;
- From 1 July 2016, parents that do not immunise their children will not receive the child care subsidies or the Fringe Benefits Tax (FBT) Part A; and
- States and Territories will receive a further \$61 million over three years to guide the implementation of the [National Quality Framework](#) in child care.

Social Security

In 2015-16, the Commonwealth will spend \$154 billion on welfare payments. This constitutes 35 per cent of total government expenditure.

Social security benefits and payments will change in the following ways:

Pension

- From 1 January 2017, the pensions asset test will provide further assistance to non-homeowners and pensioners with moderate assets, with 170,000 pensioners set to have their pensions increased by \$30 each fortnight.
- Pensioners with substantial assets (excluding the family home) will lose any pension entitlements.



- The asset test taper rate will increase from \$1.50 to \$3.00. This will save \$2.4 billion over four years.
- The Defined Benefits Schemes will be subject to a new income test that will save \$474 million over four years.
- Government has decided not to proceed with the indexation of pension and pension equivalents by CPI.

A summary of the changes to the pension can be accessed [here](#).

Welfare

- An initial \$60 million will be invested in Welfare Payment Infrastructure Transformation to upgrade the Department of Human Services' (**DHS**) information technology. This funding will offer streamlined online services for recipients of government payments and benefits. Each year, over \$100 billion in payments is made each year to 7.3 million Australians.
- DHS will be given increased capability to detect, investigate and deter suspected welfare fraud and non-compliance.
- Income management services to 25,000 will continue to be provided at a cost of \$147 million.
- Restorative care places, aimed at supporting older Australians that suffer from temporary illnesses, will be increased by 2,000 to 6,000 before 2021.
- Those who receive employer-provided parental leave entitlements will no longer be able to access taxpayer funded Parental Leave Pay from 1 July 2016.
- \$73.7 million over four years will be invested to improve home care services for older Australians.
- A new four week waiting period applies to under 25 year olds to access welfare payments.

A summary of these changes can be accessed [here](#).

Disability services

- In the 2015-16 financial year, \$695 million will be committed to the National Disability Insurance Scheme (**NDIS**). Through this funding allocation, the delivery of the programme will be supported by \$143 million of investment in a new IT system. The full rollout of the initiative is scheduled for July 2016 – see [here](#).
- \$25 million will be spent on transitioning the [disability employment framework](#) to a new model by 2018;
- [Australian Disability Enterprises](#) (**ADE**) will receive \$17 million over the next four years to invest in new business development initiatives; and
- Carers will be the beneficiaries of \$33.7 million in investment in the Integrated Plan for Carer Support Services (**IPCSS**). This will assist with the coordination of support services for carers – see [here](#).

Job Seekers

- A new Restart wage subsidy will encourage small businesses to employ older workers.
- \$106 million will go toward supporting vulnerable job seekers into finding sustainable work.
- \$212 million will go toward a Transition to Work program which will support early school leavers and young job seekers overcome challenges and participate in work or study.



The Coalition is still in the process of responding to the 2014 review of Australia's welfare system.

Barton Deakin's Brief on the recommendations of the McClure Review into Australia's welfare system can be accessed [here](#).

Tax reform

Income Tax

The following measures will lead to key changes in the income tax regime:

- Fringe Benefits Tax (**FBT**) exemptions and rebates available to not-for-profit and public sector health workers will be subject to a cap of \$5,000 each financial year, reducing the number of meal and entertainment tax exemption claims that these workers can use to reduce their personal taxable income level.
- Individuals that travel long distances for work (fly-in fly-out and drive-in and drive-out workers) will no longer be eligible for the Zone Tax Offset (**ZTO**), which is designed to assist residents of isolated, expensive and remote communities. Currently, people that live outside the eligible zones access one third of the ZTO benefit.
- Foreigners working in Australia under working holiday arrangements will be treated as non-residents for tax purposes. Such individuals will not be able to access the tax-free threshold, paying 32.5 per cent tax on every dollar earned up to \$80,000 annually.

In other tax matters, the GST compliance programme will be extended for a further three years, raising \$1.8 billion for the States and Territories.

On 11 May 2015, Treasurer Hockey announced two major Budget initiatives to promote integrity in Australia's taxation system – see his media release [here](#).

Multinational Anti-Avoidance Tax

The Commonwealth will introduce legislation designed to mitigate the tax avoidance activities of 30 identified multinational corporations. From 1 July 2016, Australian consumers that engage with an Australian subsidiary that is 'integral to the customer's decision to enter the contract', these sales will be recognised as Australian income.

This legislation will ensure that tax paid on profits raised through economic activities that occur in Australia. The government argues that tax avoidance activities and artificial corporate structures erode Australia's tax base, threatening Commonwealth revenue streams.

Moreover, the Taxation Commissioner will have the power to recover unpaid taxes and issue a fine of an additional 100 per cent of the unpaid taxes and interest. A summary of this initiative is available on the 2015-16 Budget website – see [here](#).

Barton Deakin's Brief outlining the Australian Government's previous efforts to prevent international tax avoidance and profit shifting can be accessed [here](#).

Taxation of Digital Products



The Australian Government will begin to apply the Goods and Services Tax (**GST**) to digital products and services imported into Australia. In its existing form, the GST does not apply to online digital downloads, games and e-books.

Draft legislation has been discussed with the States and Territories and will be released for review. When implemented, this extension of the GST is expected to raise \$350 million over four years. The Budget's explanation of this initiative can be read [here](#).

Barton Deakin's Brief on the Commonwealth's Taxation Reform Discussion Paper can be accessed [here](#) and our summary of the Competition Policy Review's Final Report can be accessed [here](#).

Defence and National Security

The \$31 billion 2015-16 Defence Budget includes \$1.2 billion in new funding for national security and defence. This builds on the \$630 million allocated in the 2014-15 MYEFO document.

\$450 million will be provided for a range of measures aimed at boosting national security. Furthermore, \$750 million has been provided to extend and expand Australia's military operations across the Middle East.

New national security measures include:

- \$296 million for new information technology capabilities for intelligence agencies.
- \$131 million toward the telecommunications industry to upgrade its systems to implement the Government's metadata retention policy.
- \$22 million provided to combat extremist propaganda on the internet and social media.

The government's investment in defence will lead to:

- Specifically, an allocation of \$382 million will continue Australia's involvement with the international coalition assisting Iraq. The Australian Defence Force (**ADF**) will also receive \$134 million for training missions in Afghanistan.
- Training for 300 personnel to assist in rebuilding the Iraqi security forces as part of the Building Partner Capacity mission.

Funding commitments relating to the acquisition of ADF surface ships and submarines over the next two decades will be outlined following the release of the upcoming Defence White Paper in late 2015.

The Defence Materiel Organisation (**DMO**) will be incorporated in to the Department of Defence.

Privatisation and the Australian Public Service

Privatisation

The Commonwealth has identified a range of agencies that may be suitable for privatisation over the coming years:

- The **Australian Rail Track Corporation** will be subject to a scoping study relating to future ownership, management and operation arrangements. Any findings will be considered as part of the 2016-17 Commonwealth Budget.



- A competitive tender process will be held to test the market with respect to engaging a private operator for the **Australian Securities and Investments Commission (ASIC) registry**. The Commonwealth will not relinquish ownership of ASIC's base data.
- The proposed sale of **Defence Housing Australia (DHA)** will not proceed, but the Commonwealth will seek to improve the transparency of the DHA's operations through a review of accounting and IT systems.
- The government will engage in further consultations with stakeholders on the sale of **Australian Hearing** – see [here](#).
- A scoping study on the sale of the **Intra Government Communications Network** has commenced and will be provided to government later in 2015.
- The government will not proceed with plans to sell the **Royal Australian Mint**.

Agency changes

The number of Commonwealth agencies, bodies and groups will be reduced by 35:

- At least 32 government bodies will be abolished;
- Three bodies will be merged into one; and
- The functions of the Consumer Advocacy Panel have been transferred to the South Australian Government.

Since it entered office in September 2013, the Coalition has reduced the number of Commonwealth bodies by 286 for a saving of \$1.4 billion. Further initiatives aimed at streamlining public service agencies will be contained in the 2015-16 MYEFO document.

Significant efficiencies will be made through successive comprehensive reviews of each major government department. Outlay savings of \$106 million and \$131 million by the Departments of Health and Education and Training respectively have already been identified – see [here](#).

Commonwealth Property Divestment

On 11 May 2015, the Minister for Finance, Senator the Hon Mathias Cormann, announced that the government would approach the market to determine the level of investor interest in four key Commonwealth properties located in central Canberra. The East Block, West Block and Anzac Park East and West buildings may be sold if the government is unable to suggest alternative purposes for these buildings - see Minister Cormann's media release [here](#).

The Commonwealth's whole-of-government approach to property lease arrangements is expected to save \$200 million in efficiencies over the next ten years.

Communications

In the Communications portfolio, the Government will provide \$254.7 million over four years from 2015-16 to support the initial implementation of the Digital Transformation Agenda.

The Digital Transformation Agenda is aimed at improving the user experience for individuals and businesses in their engagement with government, reducing the burden of red tape and increasing the efficiency of government service delivery. Funding measures include:



- \$94.5 million over four years from 2015-16 to create the [Digital Transformation Office \(DTO\)](#) as a new Executive Agency within the Communications portfolio;
- \$106.8 million for streamlining government grants administration by adopting standard business processes, a common ICT platform, improved reporting arrangements and a single portal to search and apply for grant opportunities;
- \$33.3 million for the development of a trusted digital identity framework, providing individuals and businesses with simpler ways to access government services;
- \$11.5 million to enable users to update their contact information with government once and have this information transmitted to relevant linked agencies;
- \$7.1 million for the development of a whole-of-government digital mailbox solution to enable individuals and businesses to receive and transact with digital messages and documents from government in a seamless and secure environment; and
- The development of a mandatory digital service standard to ensure government information and services are delivered in a simple, efficient, effective and consistent manner.

Additional information regarding this measure is contained in the *Coalition's Policy for E-Government and the Digital Economy* and in a Coalition Government statement from January 2015 – click [here](#).

Environment

The Government will:

- Provide an additional \$100 million over four years from 2015-16 to the Reef Trust in order to support priority projects in the Great Barrier Reef. Additional information regarding this measure can be found in a media release issued by the Prime Minister, the Premier of Queensland, the Minister for the Environment and the Queensland Minister for the Environment on 21 March 2015 – click [here](#);
- Achieve savings of \$73.2 million over four years from 2015-16 from efficiencies in the Green Army programme. The Government will continue to provide \$701.9 million over four years from 2015-16 to support Green Army projects;
- Provide \$6.1 million over two years from within the existing resources of the Department of the Environment to extend the Climate Change Authority until 31 December 2016.

A media release issued by the Minister for Environment regarding the funding measures for the Reef Trust and Green Army projects contained in the 2015-16 Commonwealth Budget can be read [here](#).

Other initiatives

Drought Relief

Rural communities exposed to extreme drought conditions will have access to a \$333 million support package – see the Prime Minister's media release [here](#). This funding will be distributed in the following way:

- \$250 million in additional funding towards the existing drought concessional loan scheme;
- \$35 million will be used to build immediate local infrastructure and employment projects across small towns;



- Programmes to manage pest animals and weeds in drought-affected areas will receive \$25.8 million; and
- \$20 million for social and community programmes aimed at mitigating the effects of drought on families and communities.

Foreign Investment

From 1 December 2015, a \$55 million screening threshold will apply to foreign investments in Australian agribusiness. Moreover, from 1 July 2015 the Australian Taxation Office (**ATO**) will collect data for a register of agricultural land. By 1 July 2016, this register will include data derived from State and Territory land titles.

Barton Deakin has produced briefs on previously announced measures designed to promote integrity and transparency in foreign investment relating to [Australian agricultural land](#) and [Australian real estate](#).

Further information

Detailed information on the 2015-16 Budget can be found online:

- The [full transcript](#) of the Treasurer's Budget speech.
- [Budget overview](#): key economic figures and information on Government initiatives
- [Budget Papers](#)
- Treasurer Hockey's [media release](#)
- [2015-16 Appropriation Bills](#)

On 18 December 2014, the Treasurer invited individuals, companies and stakeholders to produce pre-Budget submissions – see [here](#).

Minister Truss and the Assistant Minister for Infrastructure and Regional Development, the Hon Jamie Briggs MP, have released a [Ministerial Statement](#) outlining the level of investment in regional Australia across a range of portfolios.

Past Commonwealth Budgets, from 1996-97 through to 2014-15, can be accessed [here](#).

Barton Deakin's Brief on the 2015 Intergenerational Report can be accessed [here](#).

Barton Deakin's Budget Briefs webpage can be accessed [here](#).

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