

Election budget sends companies sweeteners to drive growth

Written by The Conversation USA

The Turnbull government has promised company tax cuts to stimulate investment and action to prevent middle-income earners moving into a higher tax bracket, in a budget that will launch its election campaign.

The budget contains a significant shake-up in the superannuation tax arrangements, hitting higher-income earners, while leaving 96% of people with super unaffected or better off.

Hours before Treasurer Scott Morrison delivered his first budget the Reserve Bank cut interest rates by 25 basis points to 1.75%, reflecting a sluggish economy and deflationary pressures.

With minimal giveaways, Morrison declared: "This budget is an economic plan, it's not just another budget."

He said the budget delivered the plan in three ways: by sticking to its course on jobs and growth; by fixing specific problems in the tax system; and by continuing to ensure the government "lives within its means".

The budget – which forecasts economic growth of 2.5% in 2016-17 – reduces the deficit only minimally, from A\$39.9 billion this year to A\$37.1 billion, or 2.2% as a share of the economy, in 2016-17. The budget is projected to reach balance only in 2020-21.

New spending has been more than offset. Payments as a share of GDP will fall from 25.8% in 2015-16 to 25.2% in 2019-20. Morrison stressed there would be no increase in the projected tax burden as a share of GDP, compared to last year's budget.

"This is not a time to be splashing money around or increasing the tax burden on our economy for hard-working Australians and their families," he said.

“Such policies are not a plan for jobs and growth – they simply put our successful economic plan at risk.”

The centrepiece tax changes emphasise smaller businesses, which Morrison painted as the most likely to invest and agile performers.

Under the government’s ten-year tax plan, from July 1 the small business tax rate will be lowered from 28.5% to 27.5% and the turnover threshold increased from \$2 million to \$10 million. This will affect 870,000 businesses employing 3.4 million people.

There will be annual increases in the turnover threshold for access to the lower rate, so that by 2020 more than half of all employees of companies in Australia will be in firms paying a 27.5% rate – about 4.9 million workers.

Phase two of the 10-year plan will extend the 27.5% rate to all businesses by continuing to step up the threshold annually until 2023-24 – before reducing it for all businesses to 25% in 2026-27.

The various tax relief measures in the budget will reduce revenue by \$5.3 billion over the next four years – to be offset by other revenue and integrity measures. A new assault on multinational tax avoidance will include an operational task force of more than 1,000 specialist staff to police and prosecute companies, multinationals and high-wealth individuals who are not paying the tax they should.

There will be a new diverted profits tax, strengthened protections for whistleblowers and increased penalties for multinationals that fail to meet their compliance and disclosure obligations.

As anticipated, the budget promises to prevent average full-time wage earners from moving into the second-highest tax bracket. From July 1 the upper limit for the middle-income tax bracket will be increased from \$80,000 to \$87,000 a year.

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This will stop about 500,000 taxpayers from facing the 37% second top marginal tax rate.

Morrison said: “Of course we would like to do more, but this is what we can afford today.”

From July 1 next year, the access to generous superannuation tax concession for the wealthiest people will be reduced by:

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introducing a transfer balance cap of \$1.6 million on amounts moving into the tax-free retirement phase;

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extending the 30% tax on concessional contributions to those earning over \$250,000; and

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reducing the annual cap on concessional superannuation contributions to \$25,000.

Taking effect immediately, there will be a lifetime non-concessional contributions cap of \$500,000.

The government has put about half of the savings back into superannuation. It will, in effect, continue the Labor low-income superannuation scheme that was due to finish, and it will increase flexibility and choice for self-employed and other people for whom the present scheme has been rigid, which will improve arrangements for many women.

The net savings from the superannuation changes will be \$2.9 billion over four years.

The budget contains a new plan to help young people get employment, which will include boosting their job readiness and an internship program with up to 120,000 placements over four years to help young people who have been in employment services for at least six months to gain experience “within a real business”.

The job seekers will get \$200 a fortnight while interns, on top of their ordinary income support. “This is real work for the dole,” Morrison said.

Businesses will receive payments and subsidies under the scheme. “The subsidies are just a smarter way of leveraging what you would otherwise spend on Newstart and other welfare payments,” Morrison said.

The government has found some extra money for the National Disability Insurance Scheme by scrapping the compensation for Labor’s carbon tax that the Abbott government continued even though it abolished the tax. This measure, however, will only affect people coming onto benefits – those receiving the compensation currently will continue to do so. The saving is \$1.3 billion over the budget period.

More than a billion dollars will be saved by deferring, until July 2018, the start of new childcare arrangements, as a result of the failure to get the measures through the Senate that were to fund the new scheme.

The government is still in limbo on higher education. It has abandoned its one-time aspiration for full-fee deregulation but has not got a replacement proposal – putting off change for another year, until 2018.

Reaction

The federal opposition has condemned the budget but said it will support the change in the \$80,000 tax threshold to prevent people moving into the 37% tax bracket.

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However as an offset, a Labor government would make permanent the temporary deficit levy on high income earners that is scheduled to end in 2017.

The 2% levy applies on income of more than \$180,000 and was imposed in the 2014 budget.

Shadow Treasurer Chris Bowen announced Labor's support for changing the \$80,000 threshold but slammed the budget as "fiscal recklessness on a grand scale". He said it proposed an unfunded and uncoded 5% company tax cut over 10 years "which has the potential to put Australia's AAA credit rating at risk". Bowen said it was "a Liberal budget to its core".

"Mr Turnbull promised fairness, but he is so desperate to give a tax cut to the top end of town that he's changed the definition of small business."

He said Australia's families were the biggest losers, "individuals who earn the most will get a double tax cut - someone on \$1 million will get a \$16,715 tax cut tonight while three quarters of Australian tax payers receive absolutely nothing".

"A couple with a single income of \$65,000 with three children in primary school are \$3,034 worse off a year - and receive no tax cuts - as a result of tonight's budget," he said.

Greens leader Richard Di Natale said the budget made inequality worse and criticised its tax cuts for people at the higher end of the spectrum. He said the deficit levy should be permanent. The big corporate tax cuts were a mistake, he said.

Economist Chris Richardson from Deloitte Access Economics said that given that this was a pre-election budget it was "pretty responsible".

The Australian Council of Social Service welcomed the tightening of superannuation concessions and changes to youth employment programs. But CEO Cassandra Goldie said that previous harsh cuts affecting people on low incomes remained locked in.

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“The failure to strengthen revenue is a major problem, and this budget reveals the ongoing consequences to essential services and the social safety net,” she said.

The Business Council of Australia said this was “a solid, responsible budget that balances holding the line on spending growth with new initiatives to improve the nation’s economic growth prospects”.

Michelle Grattan does not work for, consult, own shares in or receive funding from any company or organization that would benefit from this article, and has disclosed no relevant affiliations beyond the academic appointment above.

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