2017-18 Federal Budget: Overview

On Tuesday, 9 May 2017, Treasurer Scott Morrison handed down the 2017-18 Federal Budget, his 2nd Budget.

In his Budget Speech, the Treasurer reported an underlying cash balance deficit of $29.4bn for 2017-18. However, this outcome is projected to improve to a $7.4bn surplus by 2020-21. The Budget expects the economy to rebound and grow at 2.75% in 2017-18 and 3.0% in 2018- 19, supported by growth in household consumption, exports and a transition to non-mining business investment.

Forecast tax receipts for 2017-18 have been revised up by $6.4bn over the forward estimates to 2019-20 due to new policy measures, including an increase in the Medicare levy, introducing a major bank levy, improving the integrity of GST on property transactions and a Skilling Australia Fund levy. These policy measures are expected to raise $11.9bn over the forward estimates. While tax receipts have been affected by downward revisions to the outlook for wages, an upgrade to the outlook for profits is expected to see higher taxes for companies to more than offset the lower tax receipts expected from individuals.

Reflecting this economic optimism, the Government has committed over $70bn from 2013-14 to 2020-21 to transport infrastructure across Australia, using a combination of grant funding, loans and equity investments. To ensure that each dollar of funding (so-called "Good Debt") for infrastructure goes further to enable more projects, the Government will look to identify ways to deliver infrastructure through more innovative financing methods

In the week leading up to the Budget, the Treasurer said that the Government was very cognisant of the frustration about rising costs of living, especially when wages are tight. While Mr Morrison said it was important to put downward pressure on rising costs of living, no government can solve that. He said Governments "have to take the actions they can take to put downward pressure on those rising costs of living". In this area, the Government has also put forward a comprehensive plan on housing affordability, including initiatives for first home buyers.

Revenue measures announced

The major revenue measures announced in the Budget included:

a new major bank levy from 1 July 2017 for ADIs with licensed entity liabilities of at least $100bn;

the instant asset write-off ($20,000 threshold) for small business entities (SBEs) will be extended by 12 months to 30 June 2018;

the small business CGT concessions will be restricted to assets used in a small business or ownership interests in a small business from 1 July 2017;

the multi-national anti-avoidance law (MAAL) will be amended to negate the use of foreign trusts and partnerships in corporate structures effective from 1 January 2016;

additional ATO funding for black economy audit and compliance programs;

changes to the GST treatment of digital currencies (from 1 July 2017) and changes for payments on sales of new residential premises (from 1 July 2018);

the Medicare levy will be increased by 0.5% to 2.5% from 1 July 2019; and faster higher education repayment and threshold changes from 1 July 2018.

"Big ticket" tax reform takes back seat to Budget economics (again)

In the run-up to most Federal Budgets, calls emerge for tax reform to take a prominent place. This year has been no different. Tax, accounting and business bodies all called for various tax reform measures to simplify the tax system and make "meaningful" reform. A pre-Budget survey by Pitcher Partners of business owners for example found that 60% of those surveyed wanted the tax system to be made simpler, just ahead of balancing the budget.

The Business Council of Australia, in its Budget submission, called for lower personal and company tax rates, as well as measures to simplify the tax system.

These days, there never seems to be a "right" time to undertake meaningful tax reform. Reforms of any kind are always a movable feast, but it seems tax reform often falls into the too hard basket. And perhaps in the current (and near recent) political and parliamentary climate, this is somewhat understandable. But the tax system and its legislation continues to lurch and struggle under its own weight – it's not getting any simpler, nor any shorter, and more people than ever it seems require help with their tax compliance.

That said, not all tax reform necessarily has a significant direct revenue implication - indeed many called-for reforms seek to reduce compliance costs and simplify the tax law. For example, simplification of Div. 7A, the personal services income (PSI) rules, the CGT small business concessions (the Henry review recommended this) and the FBT system all feature in regular calls for reform. And of course, completing the re-write of the ITAA 1936 into the ITAA 1997 would help considerably with simplification. Australia's tax law is complex enough without having 2 assessment s Acts for taxpayers and their advisers to deal with.

In last year's Budget, the Government announced several "tax reform" measures as part of what it called its "Ten Year Enterprise Tax Plan" – these included increasing the small business entity turnover threshold, reducing the company tax rate to 25% over 10 years, targeted amendments to Div. 7A and increasing the $80,000 tax threshold to $87,000 – see 2016 WTB 18 [543]. A number of these have been legislated.

This year's Budget did not announce any big ticket fundamental tax reforms, although several significant tax changes were announced, as this Bulletin describes. These include measures designed to help make housing more affordable. Speculation about the possibility of a standard tax deduction for work-related expenses amounted to nothing. In the meantime, calls for tax reform will continue.