

BUDGET SPEECH 2016-17
DELIVERED ON 3 MAY 2016
ON THE SECOND READING
OF THE APPROPRIATION BILL (NO. 1) 2016-17
BY
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TREASURER OF THE COMMONWEALTH
OF AUSTRALIA

Thank you Mr Speaker, I move that the Bill now be read a second time.

Mr Speaker, this cannot be just another budget, because these are extraordinary times.

This Budget is an **economic plan**, it's not just another budget.

Australians know that our future depends on how well we continue to grow and shape our economy as we transition from the unprecedented mining investment boom to a stronger, more diverse, new economy.

They know that their future, their jobs and those of their children and grandchildren depend on it. This is a very sensitive time.

Australians have clearly said we must have an economic plan to make this economic transition a success.

This economic plan is the foundation on which we can build a brighter, more secure future, in a stronger, new economy with more jobs.

This Budget delivers our economic plan in three key ways.

First, by sticking to our plan for jobs and growth.

Tonight I will announce a growth friendly, ten year enterprise tax plan to boost new investment, create and support jobs and increase real wages, starting with tax cuts and incentives for small and medium-sized enterprises.

We will continue our investment in our national innovation and science agenda – to create our own ideas boom, in every city, in every town, in every factory, farm, shop and office - including support for new start-up businesses.

Through our twenty year defence industry plan, we will secure an advanced local defence manufacturing industry, driving new high-tech jobs in Australia, including 3,600 direct jobs as part of the Government's naval shipbuilding plan.

More export opportunities will be opened up by following through on our export trade agreements that are already delivering new jobs and markets for Australian producers, manufacturers and service providers right across the country.

And I will announce tonight a new initiative to help more than 100,000 vulnerable young people into jobs, to be part of our growing economy by giving them real work experience with real employers that lead to real jobs.

Second, by fixing specific problems in our tax system so we can sustainably cover the Government's responsibilities for the next generation.

This means combating tax avoidance, especially by multinationals, with new measures to ensure everyone pays the tax they should on what they earn in Australia, not avoid tax by shifting their profits offshore.

I will announce how we will close off generous superannuation tax concessions for Australia's most wealthy and better target these tax concessions to hard working Australians saving and investing for their retirement so as not to be dependent on the age pension.

And we will give hard working Australians, and the thousands of Australian businesses that employ them, some tax relief so when they earn more, they won't be taxed more.

And third, by continuing to ensure the Government lives within its means, to balance the budget and reduce the burden of long term debt.

In this Budget we will continue to cut unnecessary waste and keep Government spending under control to balance the budget over time.

We will continue to target welfare abuse to protect our social safety net and ensure it is there for Australia's most vulnerable, in particular those with disabilities.

And we will continue to responsibly invest in infrastructure like roads, rail, dams and public transport and guarantee real, affordable funding for health and education services that Australians rely on.

The Turnbull Government understands the economic challenges that Australia faces.

This Budget is a practical, targeted and responsible economic plan that meets these challenges by clearing the way for jobs and growth, in a stronger, more diversified new economy.

It is the right plan. We have spent time getting it right because it is such an important foundation for everything else.

It is also a fully funded, affordable and sustainable plan.

This is important because hard working Australians and their families know that when Governments make promises with money that's not there, they either end up being let down or left with the bill.

This Budget keeps us on a sustainable path to bring the budget back into balance.

The deficit in underlying cash balance terms is expected to reduce from \$39.9 billion in 2015-16 to \$37.1 billion, or 2.2 per cent as a share of the economy in 2016-17. The deficit is then projected to fall to \$6.0 billion or just 0.3 per cent of GDP over the next four years to 2019-20.

We are achieving this by policies that continue to control spending.

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

Our new spending commitments have been more than offset by our disciplined restraint and better targeting of spending in other areas.

Payments as a share of our economy will fall from 25.8 per cent in 2015-16 down to 25.2 per cent in 2019-20. At the same time there is no increase in the projected tax burden as a share of the economy, compared to the 2015-16 Budget.

This is not a time to be splashing money around or increasing the tax burden on our economy or hardworking Australians and their families. Such policies are not a plan for jobs and growth, they simply put our successful economic transition at risk.

I now turn to some of the specific initiatives of our economic plan that are delivered in this year's budget.

Tonight, we announce a ten year enterprise tax plan to support jobs and growth.

Small and medium businesses are driving jobs growth in Australia and must continue to do so.

They are also overwhelmingly Australian owned and more likely to reinvest their earnings in future growth, as they seek to build their businesses.

A tax on their businesses is a tax on their enterprise and the jobs they provide.

That is why last year, we announced a 1.5 percentage point reduction in the tax rate for small businesses with a turnover of less than \$2 million per year.

Tonight we go further and share the ambition for smaller businesses to become bigger businesses.

From 1 July this year, the small business tax rate will be lowered to 27.5 per cent and the turnover threshold for small businesses able to access it will be increased from \$2 million to \$10 million. This means businesses with a turnover of less than \$10 million will also be able to access other tax incentives, including the small business depreciation pooling provisions, simplified trading stock rules, and Pay-As-You-Go Instalments payments option.

This will mean 870,000 businesses, employing 3.4 million Australians, will have their tax rate reduced, including a 2.5 percentage point cut in the tax rate for up to 60,000 businesses with a turnover between \$2 million and \$10 million, employing around 1.5 million Australians.

At the same time we will also increase the unincorporated small business tax discount to 8 per cent and extend the threshold from a turnover of \$2 million to less than \$5 million.

Also, from 1 July 2016 we will extend access to instant write off for equipment purchases of up to \$20,000 that will expire on 30 June 2017, to businesses with a turnover of less than \$10 million.

But we don't want these businesses to stop there.

Each year we will continue to step up the turnover threshold for access to the lower company tax rate of 27.5 per cent for more businesses, from \$10 million to \$25 million in 2017-18, to \$50 million in 2018-19 and \$100 million in 2019-20.

This will mean by 2020 more than half of all employees of companies in Australia will be in companies paying a lower tax rate of 27.5 per cent. That's around 4.9 million employees, whose jobs will be supported by a lower tax rate in just four years.

Phase two of our ten year enterprise tax plan will extend the lower tax rate of 27.5 per cent to all businesses, by continuing to step up the threshold each year until 2023-24, before reducing the 27.5 per cent rate for all businesses to 25 per cent at the end of ten years in 2026-27. This is an important measure in securing our future prosperity.

We will not be able to rely on our natural advantages in resources to secure the jobs of the future like we have in the past. If we wish to continue to see our living standards rise with more jobs and higher wages, we need to ensure our tax system encourages investment and enterprise.

Australia has the seventh highest company tax rate of the 34 OECD countries and it is much higher than our neighbours in the Asian region.

These measures will reduce revenue by \$5.3 billion over the next four years. This reduction is fully offset by the increased revenue derived from the revenue and integrity measures in the Budget.

Tonight we will back in average full-time wage earners by preventing them from moving into the second highest tax bracket.

From 1 July this year, we will increase the upper limit for the middle income tax bracket from \$80,000 to \$87,000 per year.

Those earning average wages – full-time or otherwise – should stay in the middle income tax bracket.

This will stop around 500,000 taxpayers from facing the 37 per cent second top marginal tax rate in each and every year.

This is about providing room in our tax system for average full-time wage earners to earn more without being taxed more.

Of course we would like to do more, but this is what we can afford today.

This change also builds on the tax cuts provided to those on incomes of less than \$80,000 to compensate for the carbon tax. By abolishing the carbon tax and keeping the tax relief in our first budget we delivered a genuine tax cut for those earning up to \$80,000 a year.

And we will not remove or limit negative gearing – that would increase the tax burden on Australians just trying to invest and provide a future for their families.

Those earning less than \$80,000 a year in taxable income make up two thirds of those who use negative gearing. They are teachers, nurses, police officers, defence force personnel, office workers and tradespeople.

We do not consider that taxing these Australians more on their investments, including increasing their capital gains tax, and undermining the value of their own home and investments is a plan for jobs and growth.

While these are modest changes to our personal income tax system, they are important. They are affordable. They are not funded by higher deficits or higher borrowing.

This modest tax relief demonstrates that wherever possible we prefer to leave a dollar in Australians' pockets than take it for the Government's pocket, because we know that it is money in your pocket that can help you and your family most.

These changes, which will reduce revenue by \$3.95 billion over the next four years are again fully offset by the revenue and integrity measures contained in the Budget.

To increase revenues we will crack down further on multinational tax avoidance.

Everyone has to pay their fair share of tax, especially large corporates and multinationals, on what they earn here in Australia.

The Turnbull Government has been listening to the Australian people on this issue and is taking action.

Last December, despite opposition, we secured the passage of world leading multinational tax avoidance laws. The new powers and penalties in these laws are now in place and supporting the Australian Taxation Office to ensure multinationals pay tax on what they earn in Australia.

However, we need to do more.

Tonight I announce that these new laws will be backed up by a new operational taskforce of more than 1,000 specialist staff in the ATO to police and prosecute companies, multinationals and high wealth individuals not paying the tax they should.

This will be added to new measures to combat multinational tax avoidance which include:

- embracing a new diverted profits tax, as implemented in the United Kingdom, that taxes multinationals on income they have sought to shift offshore at a penalty rate of 40%, that is higher than the current company tax rate;
- strengthening the protections for whistleblowers who come forward and report tax avoidance; and
- increasing penalties for multinationals that fail to meet their compliance and disclosure obligations to the ATO.

These measures will raise an additional \$3.9 billion in revenue over the next four years, helping us to reduce the tax burden on hard working Australians and small business.

Tonight we also announce changes to better target superannuation tax concessions.

Together with raising your children and owning your own home, becoming financially independent in retirement, free of welfare support, is one of life's great challenges and achievements.

We need to ensure that our superannuation system is focussed on sustainably supporting those most at risk of being dependent on an Age Pension in their retirement, which is the purpose of these concessions.

While protecting the overall architecture of our superannuation system, including retaining the tax-free status of retirement accounts, from 1 July 2017 we will be reducing access to generous superannuation tax concessions for the most wealthy by:

- introducing a transfer balance cap of \$1.6 million on amounts moving into the tax-free retirement phase, with balances able to increase above this cap, on account of tax free earnings, once transferred;
- extending the 30 per cent tax on concessional contributions to those earning over \$250,000;
- reducing the annual cap on concessional superannuation contributions to \$25,000; and
- from tonight, establishing a lifetime non-concessional contributions cap of \$500,000.

A balance of \$1.6 million can support an income stream in retirement around four times the level of the single Age Pension. The transfer balance cap will be applied to both current retirees and to individuals yet to enter their retirement phase.

The transfer balance cap, lifetime non-concessional cap and the 30 per cent contributions tax for those on high incomes will each affect less than one per cent of superannuation fund members.

A concessional contributions cap of \$25,000 per annum will affect just three per cent of superannuation fund members, particularly those who pay the top rate of income tax.

Commensurate measures will also be applied to high income earners with defined benefit arrangements, including current and former politicians and public servants.

In addition to tightening access to tax concessions, the Government will also be introducing 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.

This will effectively allow individuals with an adjusted taxable income of up to \$37,000 to receive a refund into their superannuation account of the tax paid on their concessional contributions, up to a cap of \$500.

The Low Income Superannuation Tax Offset will, in particular, assist around 2 million low income women to build their superannuation savings.

At the same time we will increase flexibility and choice in superannuation to support how people work and save in our modern economy by:

- allowing more employees and a wider range of self-employed people to claim a tax deduction for personal superannuation contributions;
- encouraging partners to make contributions to their low-income spouses' superannuation by extending the eligibility for individuals to claim a tax offset for these contributions;
- removing the current regulations that restrict people aged between 65 and 75 from making contributions to their superannuation. This will assist those who are no longer working to top up their retirement savings from sources not necessarily available to them before retirement; and
- allowing people to rollover unused concessional caps so those with interrupted work arrangements – predominantly women and carers – are not prevented from making catch-up contributions to their super, if they are in a position to do so.

Ninety-six per cent of Australians with super will be unaffected by or be better off as a result of the superannuation changes we have announced tonight.

The net impact of changes to superannuation announced in these measures will be a net gain of \$2.9 billion over the next four years.

In other revenue measures, we will implement a further four annual 12.5 per cent increases in tobacco excise, with the first increase to take effect on 1 September 2017.

The net impact of the tobacco measures will raise \$4.7 billion over the next four years.

Harnessing the power of innovation and entrepreneurship, to create our own ideas boom, lies at the heart of our plan to support jobs and growth in a stronger new economy.

As part of our national innovation and science agenda we are backing co-investment in new spin-offs and starts-ups created by Australia's research institutions, through the CSIRO. We are also expanding the CSIRO's accelerator programme to support public research bodies get up to speed and achieve commercial success.

Reforms to employee share schemes and crowd-sourced equity funding will make it easier for start-ups to raise capital and our changes to company tax loss arrangements will make it easier for existing businesses to reinvent themselves.

Big improvements in the nation's defence capability also support innovation and skills development in advanced technologies.

Through the 2016 Defence White Paper we have made the decisions necessary to establish a pipeline of work that will secure an advanced defence manufacturing industry here in Australia, driving new high-tech jobs for decades.

The nine future frigates, 12 offshore patrol vessels and 12 new regionally superior submarines will do the job of boosting our defence capability, but they will also drive jobs and growth in the new economy we are building – not just in the ship yards in Adelaide and Perth, but right across the supply chain of our national economy.

This Budget also invests in public private partnerships through our Cyber Security Strategy to back Australian businesses to develop and promote their cyber security capabilities globally.

So often successful technology ventures have started by solving a complex problem for governments.

That is why these investments are not just about national security but are an important part of our economic plan for Australia for jobs and growth.

In this Budget we continue to roll out our \$50 billion national infrastructure plan to support economic growth.

We know that an inland rail link will help to integrate domestic markets and bring global export markets closer to home. This is particularly important to leverage the benefits of our export trade agreements for Australian agriculture.

That is why the Turnbull Government will take the next step to realising an integrated inland rail link connecting Brisbane and Melbourne.

In this Budget we are providing \$594 million in additional equity to the Australian Rail Track Corporation for land acquisition and the continuation of pre-construction works and due diligence activities.

The Government will also establish a \$2 billion Water Infrastructure Loan Facility which will catalyse new investment in dams and pipelines across Australia, building on the existing National Water Infrastructure Development Fund and the Northern Australia Infrastructure Facility.

Around 180 other major projects are under construction or in the pre-construction stage, including the Midland, Bruce and Pacific Highways. In this Budget we are adding new commitments for the Ipswich Motorway, Monash Freeway, Murray Basin Freight Rail and the Perth Freight Link.

The Government has finalised or committed to agreements with four states and territories under the Government's Asset Recycling Initiative, worth \$3.3 billion, which will catalyse \$23 billion in additional infrastructure investment in projects including the Sydney and Melbourne Metro projects, light rail in Parramatta, regional road and rail freight corridors across NSW and Victoria, and flood mitigation works in the Northern Territory.

Most importantly, our economic plan for jobs and growth will help young Australians get real jobs.

In 2012, 12 per cent of Australian children aged under 15 were growing up in jobless families.

We must do better than this. We must try new approaches, not just keep doing the same old thing. And we must keep trying until we get it right.

Tonight I announce an ambitious new attempt to get vulnerable young people into jobs called Youth Jobs PaTH – Prepare, Trial, Hire.

Australian businesses, especially small businesses, have told me they want to give young people a go, but we need to do more to get young people ready for a job, so businesses don't carry all the risk and cost.

And it's a two way street. Young people have told me how they need people to get alongside them to help them to develop the confidence, skills, attitudes and behaviours that are expected by employers so they can get a job and stay in a job, because that is what they want.

This is what Youth Jobs PaTH is designed to do – it is not just another training programme.

From 1 April 2017, young job seekers, who need to boost their job-readiness, will participate in intensive pre-employment skills training within five months of registering with *jobactive*. The first three weeks of training will focus on skills such as working in a team, presentation, and appropriate IT literacy. A further three weeks of training will centre on advanced job preparation and job hunting skills.

In stage two, the Government will introduce an internship programme with up to 120,000 placements over four years to help young job seekers who have been in employment services for six months or more to gain valuable work experience within a real business.

Job seekers and businesses, with the help of *jobactive* providers, will be able to work together to design an internship placement of 4 to 12 weeks duration, during which the job seeker will work 15 to 25 hours per week.

In addition to gaining valuable hands on experience in a workplace, job seekers will receive \$200 per fortnight on top of their regular income support payment while participating in the internship. This is real work for the dole.

Businesses that take on interns will receive an upfront payment of \$1,000, and will also benefit from the opportunity to see what a young worker can do and how they fit in to the team before deciding whether to offer them ongoing employment.

In stage three, Australian employers will be eligible for a Youth Bonus wage subsidy of between \$6,500 and \$10,000, depending on the young person's job readiness. These subsidies are just a smarter way of leveraging what you'd otherwise spend on Newstart and other welfare payments.

Businesses will have the flexibility to employ young job seekers either directly, through labour hire arrangements, or combined with an apprenticeship or traineeship.

In addition to these changes, existing wage subsidies including those for parents, Indigenous, mature age, and the long-term unemployed will be streamlined, making them easier for employers to access.

All of these initiatives will cost \$751.7 million over the next four years, and are fully funded from savings in other employment programmes, including better targeting work for the dole.

It is worth trying new ways to get young people into real jobs.

The cost of not doing so resigns thousands of young Australians to a lifetime of welfare dependency. In addition to the financial cost, the social and human cost is too great for our country to ignore.

That is why the Youth Jobs PaTH is such an important part of the Turnbull Government's economic plan for jobs and growth.

Finally, our strong plan to keep spending under control means we can afford to guarantee support for hospitals and schools and protect our strong social safety net for the most vulnerable.

We have already announced we will provide an estimated additional \$2.9 billion over three years for public hospital services. The additional funding is linked to reforms that focus on improving patient safety and the quality of services, and reducing avoidable hospitalisations.

The Government will also deliver a new approach to funding essential dental services for children and low income adults.

The Commonwealth effectively provides around 53 per cent of education expenditure by States and Territories, once Commonwealth general revenue assistance is taken into account. Between 2018 and 2020, the Commonwealth will also provide \$1.2 billion in additional funding for government and non-government schools.

This funding will grow by 3.56 per cent and enrolments each year, and will be contingent on reform efforts from the States and non-government schools sector to get better outcomes for students and parents.

To meet the future costs of the National Disability Insurance Scheme we are establishing an NDIS Savings Fund. This fund will hold unspent funds from the NDIS as well as the proceeds of savings measures from better targeting our welfare spending. These funds can then be reinvested back into delivering the NDIS and contribute to filling the current funding gap that exists.

Conclusion

Australians know it is no easy task to secure jobs and growth in a highly competitive, volatile and uncertain global economy.

Despite the challenges and the naysayers, we are already making it happen.

Our economy last year grew by almost \$40 billion and added almost 300,000 jobs.

Since the last election more than 440,000 jobs have been created. Unemployment has fallen to 5.7 per cent, and youth unemployment is lower than it was at the last election, including more than 50,000 new jobs created for young people in the last eighteen months alone.

At three per cent, our economy has grown faster than the world's major advanced economies, faster than the United Kingdom, the United States, Japan and Germany. We are growing more than twice as fast as Canada, faster than New Zealand and Singapore, and matching it with economies like South Korea.

Given the international headwinds and fragility, this is an achievement of which we should all be proud.

So like the Australian people, we are upbeat and optimistic, even though some Australians are feeling the transition more acutely in some parts of the country than others.

We also know we have the opportunity to do more by accessing the largest and fastest growing economies in our own region, namely China and India.

Australians are already seizing their opportunities. The economic plan we have announced tonight will back them in to do more.

At such a sensitive time none of us can become complacent or make decisions that could put our successful transition at risk. There is too much at stake.

That's why we must stick to our national economic plan for jobs and growth, fix the problems in our tax system so we can cover our responsibilities for the next generation and ensure the Government lives within its means, just like Australians are doing in their homes and in their businesses.

This is the right plan for Australia to overcome the challenges of economic transition and to clear a path for long-term growth and jobs in a stronger, new economy.

Having set this critical direction and having laid out this plan, we must now commit to stay the course. The future of all Australians and their families depend on it.

So let's get this clear, in short here are the components to our plan:

1. An innovation and science programme for start-up businesses;
2. A defence plan for local hi-tech manufacturing and technology;
3. Export trade deals to generate new business opportunities;
4. Tax cuts and incentives for small business and hard working families;
5. A sustainable budget with crackdowns on tax avoidance and loopholes; and
6. Guaranteed funding for health, education and roads.

Accordingly, Mr Speaker I commend the Turnbull Government's economic plan for jobs and growth and this Bill to the House.