



Budget 2017-18

Ensuring that the

Government lives within its means

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Ensuring Government lives within its means

The Government is taking further action to return the Budget to balance

A strong fiscal outlook provides the foundation for a growing, thriving economy. Putting our nation on a sustainable financial path creates a positive environment for growth, opportunity, and prosperity.

This is in sharp contrast to high debt levels in other countries where governments are required to spend more of their budgets on interest costs.

To ensure the Budget supports growth that secures more and better paying jobs, the Government is maintaining a credible path of diminishing deficits each year, leading to a projected return to balance in 2020-21.

Since the last election, the Government has legislated more than \$25 billion in Budget repair measures.

Delaying action will make it more difficult to protect the essential services that Australians rely on.

In order to protect these essential services, the Government is making sensible decisions to keep spending under control, while creating the conditions for a stronger economy that will result in increased revenues.

The Government's continuing focus on budget repair demonstrates its commitment to maintaining our AAA credit rating.

Return to balance in 2020-21

The projected return to balance in 2020-21 and continuing projected surpluses over the medium term will enable a reduction in debt. This will place Australia in a better position to withstand any future economic downturns. It will reduce the need to increase taxes or cut back on essential services if there comes a time when Government action is needed to support economic activity.

By living within its means the Government will not burden future generations with debt from today's everyday spending. From 2018-19, debt will not be required to fund recurrent spending for the first time since the GFC. This will make Australia stronger and more resilient to the shocks that may come its way.

Better days ahead

Economic outlook – domestic and global

There are clear and growing signs that global economic conditions are improving. Chinese GDP growth has ticked up in early 2017 and the United States economy is performing well.

World trade growth has also started to lift after unusually weak growth in recent years. This lift is broad-based, across both advanced and emerging economies.

“There has been a broad-based pick-up in the global economy since last year.”

“The improvement in the global environment is helping us here in Australia.”

RBA Governor Philip Lowe

Stronger trade growth is an important foundation for a more vibrant world economy. This is particularly true for Australia as trade is an important source of growth in the Asian region.

Australia is well placed to benefit from this improving global growth outlook.

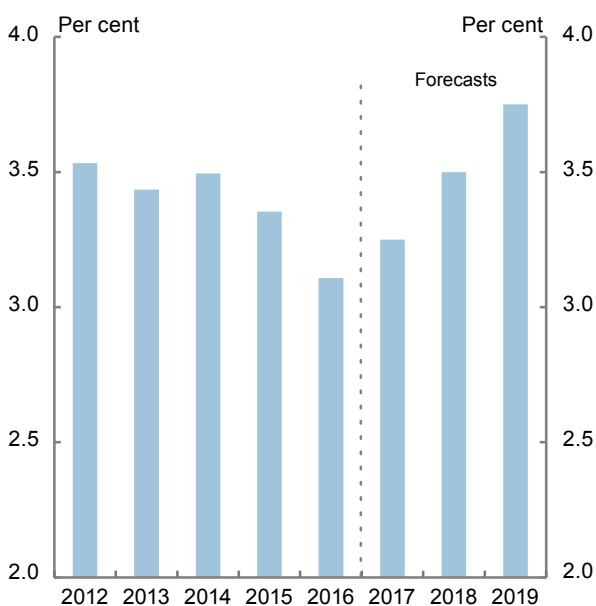
Resource exports will continue to support growth. Strong demand from Asia for Australia’s tourism and education services will also drive further rapid expansion in our services exports.

Our open and flexible economy has handled a transition to broader-based growth and global uncertainty remarkably well over the past few years.

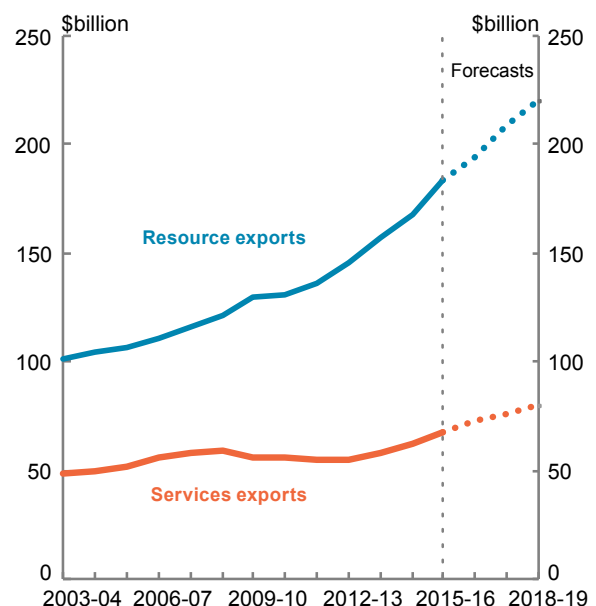
And there are better days ahead.

Growth in the Australian economy is expected to rebound to 2¾ per cent in 2017-18 and 3 per cent in 2018-19 as the detraction from mining investment eases and as growth in household consumption and non-mining business investment improves.

Improving global growth



Resource and services exports



A fair and responsible path to Budget balance

The Government is choosing to act with fairness to maintain our path back to balance in 2020-21

Budget on track for balance

The Government has made the right choices to ensure we live within our means.

Deficits are forecast to decline every year over the forward estimates period to a projected surplus of 0.4 per cent in 2020-21.

The underlying cash balance is projected to improve from a deficit of \$29.4 billion in 2017-18 to a surplus of \$7.4 billion by the end of the forward estimates period.

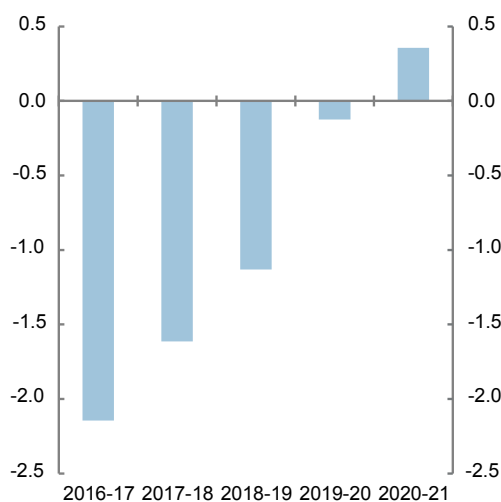
Legislative delays

The Government will reverse a number of savings measures that continue to be held up in the Senate. This has resulted in deterioration in the bottom line of more than \$13 billion. Despite this, the Budget balance has still seen an improvement since the 2016-17 Mid Year Economic and Fiscal Outlook.

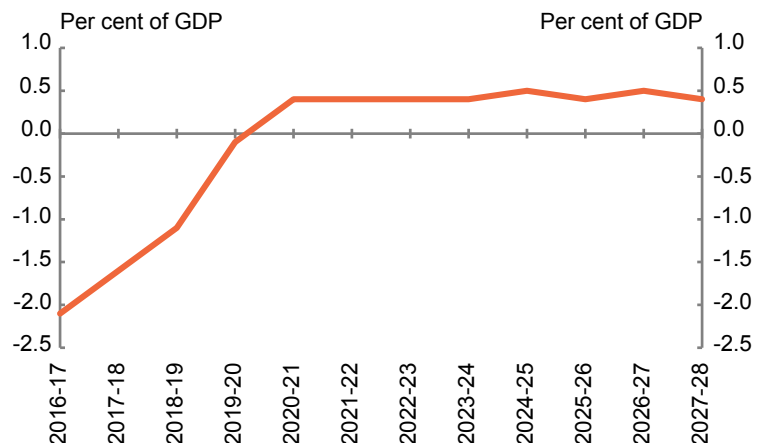
Policy decisions have improved the Budget

The fair responsible choices in the Budget have led to an improvement in the bottom line of \$6.3 billion over four years from 2017-18 to 2020-21 as a result of policy decisions. This builds on more than \$25 billion of budget repair measures the Government has implemented since the 2016 election and more than \$100 billion since the 2013 election.

Deficits are diminishing



Medium Term underlying cash balance





The Government will continue to responsibly curb spending growth in order to protect our economic resilience.

Restoring the Budget to balance will provide the extra buffer necessary to protect Australians from economic shocks that could impact their livelihoods.

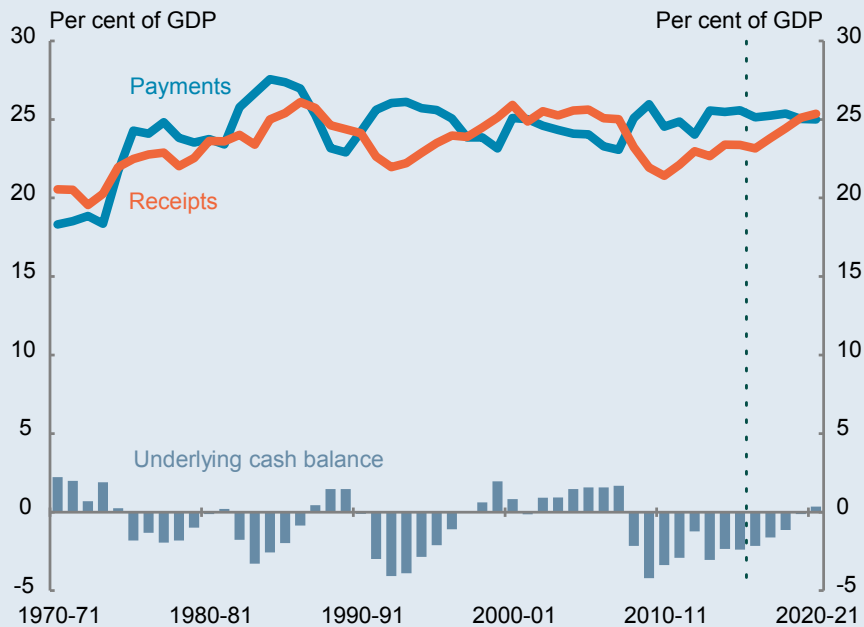
After abstracting from Senate positions, all new spending in this Budget has been offset by savings decisions, and the Government has ensured that unnecessary spending is reduced, reprioritised and redirected to policies that enhance growth.

The Government's focus on managing recurrent revenue and expenses is shown in the improvement to the net operating balance. Operating surpluses mean we do not require debt to fund everyday expenses.

Strengthening the economy will ensure sustainable growth in revenue that will support our path back to balance and create the space that would be needed to consider potentially reducing the tax burden in the future.

The Government will redirect spending to more efficient and productive purposes while ensuring taxpayers can receive the essential services they rely on.

Underlying cash balance, payments and receipts



Respecting future taxpayers

This Budget ensures fiscal sustainability and economic growth for the next generation

Meeting our everyday expenses

Australians know that while it can be wise to borrow for investment, it is generally not a good idea to borrow to meet everyday expenses.

This is the difference between 'good debt' and 'bad debt'.

Since the Global Financial Crisis, Australian governments have been borrowing to meet everyday expenses like welfare and health.

More than 75 per cent of the growth in our debt since then has been raised to pay for welfare (45 per cent), health (21 per cent) and education (10 per cent).

This means we have been borrowing for a decade to pay for everyday expenses. Putting these on the national credit card, is not sustainable.

Everyday expenditures like welfare and health should be funded from the taxes and other revenues we collect each year, not by debt.

This does not mean those expenditures are high or low quality, just that they should be paid for when they are received or consumed.

To not do so is unfair to future taxpayers. They are being asked to pay for benefits and services that were being consumed long before they probably even started paying taxes.

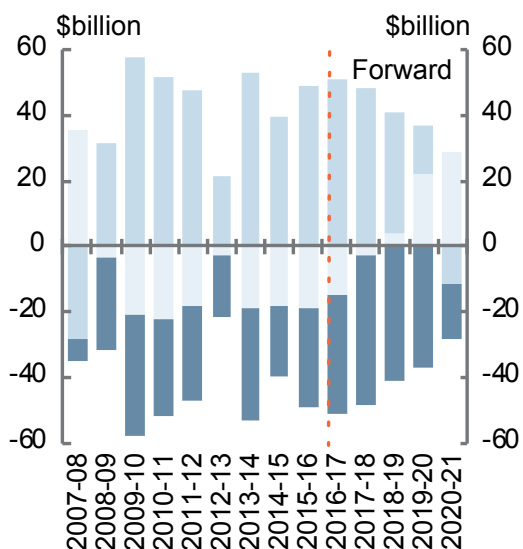
The net operating balance, given more emphasis in this year's budget, only takes account of these recurrent expenditures and shows the Budget returning to surplus a year earlier in 2019-20.

However, when you take out infrastructure grants to the States and Territories, which support their net operating balance, and remove other non-cash accounting items, we get another result.

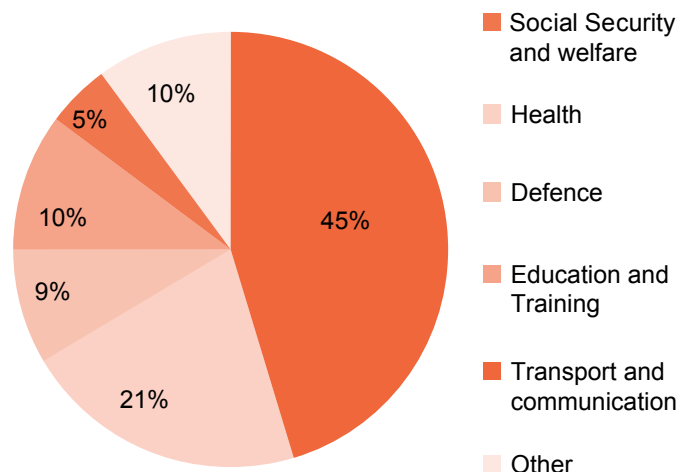
This shows that the Government will no longer be borrowing to pay for recurrent activities from 2018-19.

This is good news for future taxpayers, as the Government will soon be living within its means.

Recurrent and Capital contribution to borrowing requirement



Proportions of borrowing requirements since 2007-08 notionally allocated by function



Medium-term fiscal projections

The Government is making progress in meeting its fiscal strategy. Despite the reversal of a number of savings measures, the Budget is projected to return to balance in 2020-21 and remain in surplus over the medium term.

The underlying cash balance is projected to reach 0.5 per cent of GDP in 2026-27, an improvement of 0.1 per cent of GDP relative to the 2016-17 MYEFO.

Government debt is also projected to fall as a share of the economy. Net debt is projected to peak at 19.8 per cent of GDP in 2018-19, before falling to 8.5 per cent in 2027-28. Gross debt is projected to fall from 30.7 per cent of GDP in 2018-19 to 24.2 per cent of GDP in 2027-28.

The Future Fund

The Government has decided to continue to build the assets of the Future Fund to benefit successive generations of Australians.

The Future Fund was established in 2006 to accumulate financial assets on behalf of the Australian Government to meet the Government's unfunded superannuation liability.

Since the initial contributions of \$60.5 billion to the Future Fund, the average return has been 7.7 per cent per annum. The Future Fund has since more than doubled its worth to \$130 billion as at 31 March 2017.

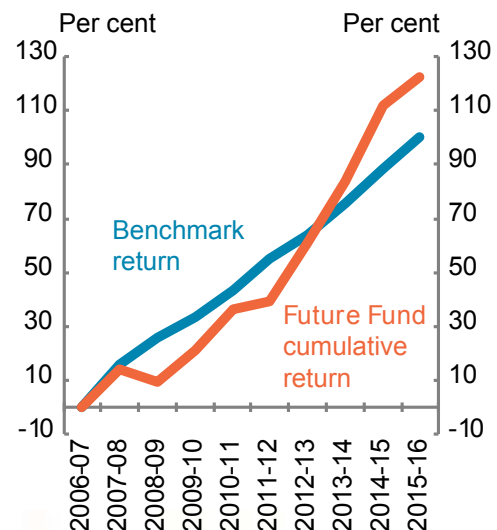
The Government's decision to delay drawdowns from the Future Fund will allow it to build its assets to fully cover the Government's superannuation liabilities. This will help ensure that future generations of Australians are not burdened with the debt of predecessors.

Investing for the future

Well-selected infrastructure investment can improve productivity and increase economic growth and lead to better paying jobs.

The Government has committed to invest additional equity of \$8.4 billion into Australian Rail Track Corporation to deliver the Melbourne to Brisbane Inland Rail project. It has also committed to establish WSA Co to develop Western Sydney Airport. The Government is making an equity investment of up to \$5.3 billion in WSA Co.

Future fund cumulative returns



Responsibly funding essential services

The Government is securing funding for crucial services that Australians rely on

Medicare Guarantee Fund

The Government is guaranteeing Medicare to ensure Australians have access to essential health care services when they need them.

A new Medicare Guarantee Fund will be established to meet the ongoing costs of the Medicare Benefits Schedule and the Pharmaceutical Benefits Scheme.

In this Budget, the Government is providing \$1 billion to phase in the reintroduction of indexation for certain items on the MBS, while \$1.2 billion will be provided for new and amended listings on the PBS, to provide patients with access to new services and affordable, often lifesaving, medicines.

National Disability Insurance Scheme

The Government will deliver the NDIS. It is committed to fully fund and safeguard the NDIS, ensuring that Australians with permanent and significant disability can exercise choice and control in accessing vital care and support.

From 1 July 2019, the Medicare levy will increase by half a percentage point from 2 to 2.5 per cent of taxable income. The additional revenue raised will be directed to the NDIS Savings Fund, along with NDIS underspends and previous contributions to the fund from across government, to ensure the NDIS is fully funded.

Levy for Australian skills training

Businesses employing foreign workers on certain skilled visas will be subject to a new levy to fund training for Australians through the *Skilling Australians Fund*.

This new approach will introduce an annual foreign worker levy of \$1,200 or \$1,800 for temporary skilled visas and a \$3,000 or \$5,000 one-off levy for those on certain permanent skilled visas, depending on the size of the business.

Over the next four years, more than \$1.2 billion will be raised from this new levy that will contribute directly to a new Commonwealth-State *Skilling Australians Fund* to replace the expiring Skills National Partnership.



Medicare



NDIS



Skilling Australians Fund



Working together

The Commonwealth is providing a range of payments to the States and Territories to help them deliver essential services

Payments to States and Territories

The Commonwealth will provide the States and Territories with \$119 billion in payments in 2017-18, including funding of \$55.9 billion for specific purposes, like hospitals and schools, and general revenue assistance, of \$63.1 billion. Commonwealth payments provide around 46 per cent of State revenue.

GST

The States and Territories are expected to receive \$62.3 billion in GST revenue in 2017-18, an increase of more than \$3 billion compared to 2016-17. In this budget GST payments to the States and Territories are estimated to increase by \$1.8 billion over the forward estimates from integrity measures.

In recent years, views have been put to the Government that the way GST is distributed to the States and Territories creates disincentives for reform. The Government has tasked the Productivity Commission to undertake an inquiry to consider its effect on productivity, efficiency and economic growth for the States and for Australia as a whole.

New support

The Government will provide:

- an additional \$18.6 billion for States, Territories and the non-government schools sector over the next decade to achieve genuine needs-based **support for all students**, with 99 per cent of schools receiving increases in their Commonwealth per student funding;
- \$428 million to extend the current National Partnership Agreement on Universal Access to **Early Childhood Education** for a further 12 months, giving around 346,000 children access to preschool;
- ongoing funding for a new **Skilling Australians Fund**, with an estimated \$1.5 billion over the first four years to train Australians;
- \$300 million for a new National Partnership on **Regulatory Reform** to reward States that remove red tape for small businesses and unnecessary barriers to competition;
- an additional \$375.3 million for front line services to help the homeless and those at risk of **homelessness**.

Untied
funding to the
States
\$63bn

Funding for
education
\$18bn

Funding for
health
\$20bn

Other funding
to the States
\$18bn

Total payments to the States of \$119bn
will make up 46 per cent of State revenue in 2017-18



Ensuring our welfare system is well targeted

Living within our means to provide support for those who need it most

Strengthening the integrity of welfare

The Government remains committed to ensuring the welfare system is fair and supports those who are genuinely in need.

A more sustainable welfare system helps to guarantee these crucial services for current and future generations of Australians.

The Government has instituted a number of measures to strengthen the integrity of the welfare system by identifying and recovering overpayments.

In total, these integrity measures are expected to return around \$4 billion to the Budget in cash terms by 2021, and will help to ensure the sustainability of Australia's welfare system.

Simpler welfare

The Government will simplify and streamline the welfare system by introducing a new JobSeeker Payment which will consolidate seven existing income support payments.

The new JobSeeker Payment will make the welfare system easier for people to navigate and will deliver a fairer social welfare system by ensuring that people in similar circumstances receive similar support.

The best way to get the welfare budget under control is to get Australians back to work. The new JobSeeker Payment better reflects the expectation that working age people with a capacity to work should be in employment, looking for work or improving their skills to gain employment.

Transitional arrangements will ensure that no Australian-based income support recipients face any reduction in payment rates.

Off welfare, into work

Supporting Australians into jobs

The best form of welfare is a job. Workforce participation is central to improving the long-term wellbeing of Australians and the economy.

Strengthening participation requirements

The Government is creating clearer mutual obligation requirements for working-age welfare recipients and increasing support to help them find employment.

Clearer rules that can be properly monitored and enforced will assist people to prepare for, search for and secure employment.

ParentsNext

In this Budget, the Government will provide \$263 million over four years from 2017-18 to expand ParentsNext services nationally, providing tailored support to parents of young children to plan and prepare for employment.

Parents will be supported to identify their educational and employment goals, and develop a pathway to achieving them.

Work for the Dole

Work for the Dole continues to be a cornerstone of the mutual obligation system. The Government is streamlining the administration of the program and ensuring it provides participants with the skills employers want, while giving back to the community.

New Job Seeker Compliance Framework

A new, targeted Job Seeker Compliance Framework will commence from 1 July 2018 and will apply stronger penalties for those who deliberately and persistently fail to turn up for job interviews or take suitable work while ensuring that genuinely disadvantaged and vulnerable job seekers are supported.

Youth Jobs PaTH

The Government is delivering on its commitment to support 120,000 young Australians to get into work. The Youth Jobs PaTH program is assisting young Australians to get a job by providing them with practical pre-employment training, and with real work experience through internships. Businesses are also being encouraged to hire young job seekers through wage subsidies.



Continuing the fight against multinational tax avoidance

Taking on the tax dodgers

Ensuring big businesses pay the right amount of tax

The Government has some of the strongest multinational tax laws in the world. The Government is building on the success of the Multinational Anti-Avoidance Law (MAAL), which prevents multinationals from avoiding a taxable presence in Australia. The MAAL has already seen many multinationals restructuring to comply with the law.

The Government has taken decisive action to ensure our tax laws remain robust and that those who do business in Australia pay the right amount of tax on the profits they earn in Australia. This includes establishing a Tax Avoidance Taskforce and implementing a new Diverted Profits Tax on multinationals that artificially shift profits offshore.

This financial year, the ATO has already raised \$2.9 billion in tax liabilities from several large multinationals.

Enforcement by a strong Tax Avoidance Taskforce

The Tax Avoidance Taskforce, led by the Commissioner of Taxation, Chris Jordan, is well underway in ensuring multinationals and high wealth individuals comply with our tax laws.

The Taskforce has been estimated to raise \$3.7 billion in revenue over 2016-17 to 2019-20.

A powerful new Diverted Profits Tax

The Diverted Profits Tax imposes a 40 per cent tax on Australian profits artificially shifted offshore by large multinationals.

The Diverted Profits Tax will take effect on 1 July 2017 and will provide the ATO with a formidable new tool to stamp out multinational tax avoidance.



Other major Government initiatives now in place

- Australia's transfer pricing rules have been aligned with OECD recommendations. Transfer pricing rules prevent profit shifting by ensuring payments are treated as occurring at arm's length.
- Legislation has been enacted to significantly increase the penalties applied to multinationals that breach their tax disclosure obligations.

Clamping down on hybrid tax abuse

The Government will introduce anti-hybrid mismatch rules to prevent multinational banks and insurance companies from double dipping by exploiting different tax treatments of their regulatory capital across borders. Without these rules it is possible to get both a tax deduction and another tax concession for a single payment.

Extending the Multinational Anti-Avoidance Law to foreign partnerships and foreign trusts

The Multinational Anti-Avoidance Law will be extended to ensure corporate structures involving foreign partnerships and foreign trusts will now be subject to the law.

The OECD Multilateral Instrument

The Government is committed to protecting Australia's tax treaties from being exploited by some taxpayers to avoid tax, and is participating in global action to ensure this protection through the Multilateral Instrument.

It has consulted on Australia's adoption of the Multilateral Instrument which aims to ensure that profits are taxed where they are generated and where economic value is created.



Exposing the black economy

Addressing the black economy to improve fairness for businesses

The black economy is a significant, complex and growing economic and social problem. It undermines the community's trust in the tax system, creates an uneven playing field for business, fosters the exploitation of workers, and results in lost government revenue and undue welfare expenses. These activities disproportionately hurt the most vulnerable in our community.

In response, the Government established the Black Economy Taskforce, independently chaired by Mr Michael Andrew AO, to develop a policy framework to tackle the black economy.

The Government has released the Taskforce's Interim Report, accepting its recommendations for immediate action, including:

- The extension of the Taxable Payment Reporting System to the courier and cleaning sectors to ensure payments made to contractors are reported to the ATO.

- The continuation of funding for ATO audit and compliance activities that target the black economy.
- A ban on the manufacture, distribution, possession, use or sale of sales suppression technology. This technology allows businesses to hide sales, and has been identified as a threat to the fairness of the tax system both in Australia and internationally.

In addition, the Government has agreed to the Taskforce's recommendation that a proposal be developed later this year to ensure that Australian Government procurement processes promote good tax behaviour.

The Final Report of the Taskforce, due in October, will consider further measures to counter the black economy to make it harder for those who want to cheat the system, and address the social norms that facilitate acceptance of these activities. By ensuring businesses can be competitive and operate on a level playing field, and ensuring workers are not subject to exploitation, these measures will build a stronger Australian economy.

Protecting the integrity of the tax system

Tougher action to prevent tax avoidance and ensure everyone pays their fair share

New rules to protect tax whistleblowers

The Government is developing new laws to protect those who come forward to report tax misconduct. The development of these new laws is being informed by the submissions received in the Government's consultation process.

Improving the integrity of residential property investment

The Government will improve the integrity of residential property investment rules by disallowing deductions for travel expenses related to owning a residential investment property. The Government will also confine depreciation deductions for plant and equipment – these are items that can be easily removed such as carpets and dishwashers – only to those expenses directly incurred by investors.

Strengthening the integrity of capital gains tax rules for foreign investors

The Government is introducing tougher rules on foreign investment in residential real estate to ensure foreign investors meet their capital gains tax obligations.

The main residence capital gains tax exemption for foreign and temporary tax residents that own Australian real estate will be removed.

To reduce the avoidance of foreign residents' capital gains tax liabilities in Australia, the Government will bolster the withholding regime by increasing the withholding rate from 10 per cent to 12.5 per cent, while also lowering the threshold from sales valued at \$2 million or above to \$750,000 or above.

The Government has also pursued a range of measures to improve corporate tax transparency and strengthen confidence in the tax system.

Tax Transparency Code

The Government has endorsed the Tax Transparency Code, which is a set of principles and minimum standards to guide medium and large businesses, including multinationals, on the public disclosure of their own tax information. This complements the public reporting of key tax information of large corporates in the ATO's annual report of entity tax information.

International action

Australia is participating in the Extractive Industries Transparency Initiative, an international standard that requires companies and governments to report annually on payments in the oil, gas and mining sectors.

In addition, the Government has legislated the Common Reporting Standard which will provide tax authorities with information on individuals with offshore accounts located around the world.



Combating serious financial and organised crime

Ensuring all individuals and businesses pay their fair share of tax

Fighting serious crime

Serious crime poses a genuine threat to national security and to the integrity of Australia's economy, financial markets, regulatory frameworks and tax system.

The Government is committed to combating serious financial and organised crime to ensure all individuals and businesses are paying their fair share of tax, which funds vital community services such as education, transport and public health.

Following on from the success of Project Wickenby, the Government established the Serious Financial Crime Taskforce in 2015 to disrupt and deter serious financial crimes. The Taskforce pools the resources and capabilities of the Australian Federal Police, the Australian Taxation Office, the Australian Criminal Intelligence Commission, the Attorney-General's Department, AUSTRAC, the Australian Securities and Investments Commission, the Australian Border Force and the Commonwealth Director of Public Prosecutions.

To date the Taskforce has been highly successful – progressing 26 joint operations, achieving numerous criminal convictions with significant custodial sentences and raising \$198 million in taxation liabilities and collecting \$108 million in cash.

The Taskforce has identified an increasing participation of organised crime groups in serious financial crime. Organised crime groups are increasingly using complex and sophisticated organisational structures, making them less recognisable and harder to detect.

The Taskforce forms an integral part of the Government's stance against tax crime and includes a strong focus on information from international sources demonstrating that hiding income and assets offshore will not be tolerated.

The package contained in this Budget provides the ATO with \$28.2 million in additional funding to continue to target serious organised crime, removing wealth generated by these organised criminal groups and returning an additional \$408.5 million in revenue to Government.

The package complements the work being done by the Taskforce to disrupt and deter serious financial crime.

Whilst the Taskforce and serious organised crime package will produce a positive cash return, its primary purpose is more than revenue collection. Its focus is the broader benefits for the community from addressing criminal activity.



