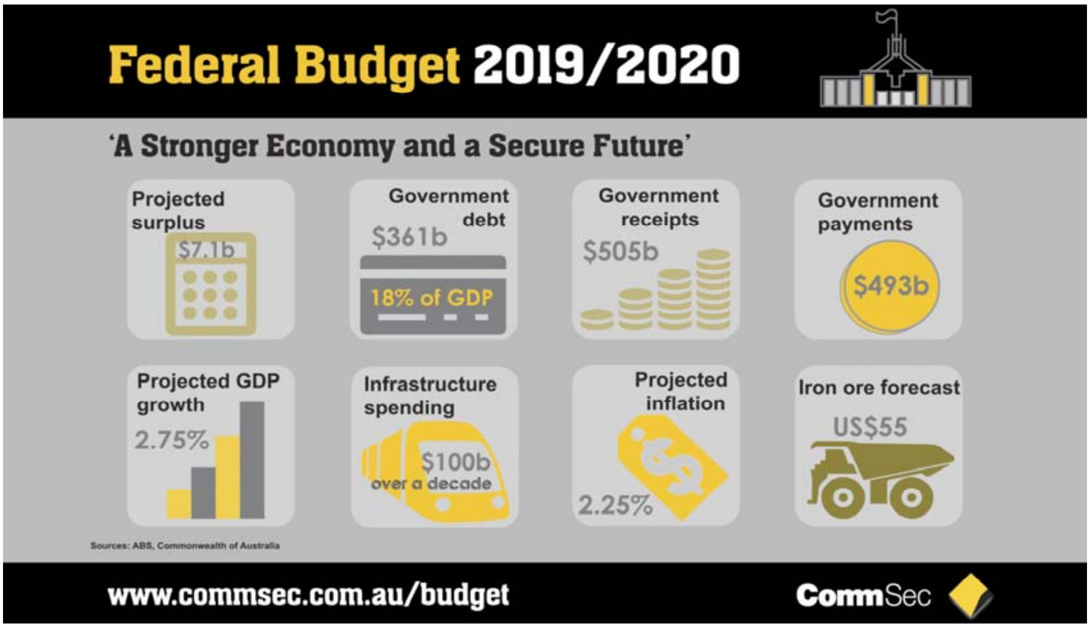
Australia's 2019/20 Budget



At a glance...

- Budget deficit of $4.2 billion estimated for 2018/19
- Budget surplus of $7.1 billion now forecast for 2019/20
- $100 billion of infrastructure spending over a decade
  - Including $2 billion contribution to the Melbourne-Geelong fast rail project; a $3 billion increase in the Urban Congestion Fund
- $525.3 million to modernise the vocational education and training sector, including 80,000 new apprenticeships
- $158 billion of tax cuts for low/middle income earners
- Double proposed Low Income Tax Offset from July 1
- Increasing the instant asset-write-off threshold for small/medium-sized businesses to $30,000
- $309m to improve access to diagnostic imaging
- $187m to increase patient rebates for 119 GP service items
- $3.9 billion Emergency Response Fund
- $93.7 million over four years for scholarships to study in regional Australia
- Reduce permanent migration program by 120,000 places over four years
- $284m to assist 3.9 million Australians with cost of power bills
- $3.5 billion Climate Solutions Package
- $725 million for 10,000 new home care packages

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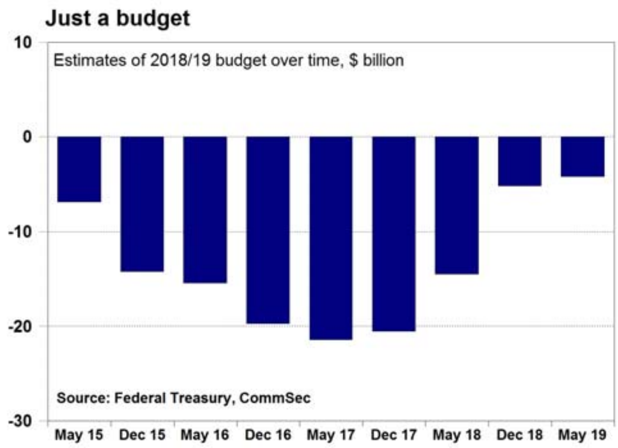
Craig James – Chief Economist, CommSec; Twitter: @CommSec
Ryan Felsman – Senior Economist, CommSec; Twitter: @CommSec

Federal Budget 2019/20:
'A stronger economy and a secure future'

Making Sense of it

The Federal Budget is hardly the most riveting document you are ever likely to read. Sure you know it's important, but the problem is that it's a huge document with countless facts, figures and tables. And when it comes to analysis, economists seem to be writing for other economists; and accountants writing for other accountants.



It's always important to remember that it is just a budget, the same that any household or company would prepare. Assumptions are made; forecasts are taken; and events can change.

When the 2018/19 budget was first conceived in May 2015, a deficit of $6.9 billion was projected. By May 2017 the projection had blown out to $21.4 billion. Today, a deficit of $4.2 billion is tipped for the current year ending in June. The deficit for the year to February stands at just $953 million.

And then there is the small matter of politics. The government outlines the measures that it believes are important for the short and medium-term health of the economy. But given the absence of a majority in the Senate this means that the government needs to seek agreement with other parties for the measures to become law.

Ideally the government should be laying out a medium-term strategy, especially to reform the tax base, but the short-term election cycle as well as lack of agreement between the major parties is delaying this essential planning.

Still, at the end of the day most people want to know whether it's a "good" budget and what's in it for them. It doesn't matter whether you are a student, pensioner or CEO of a major company.

So this analysis is different.

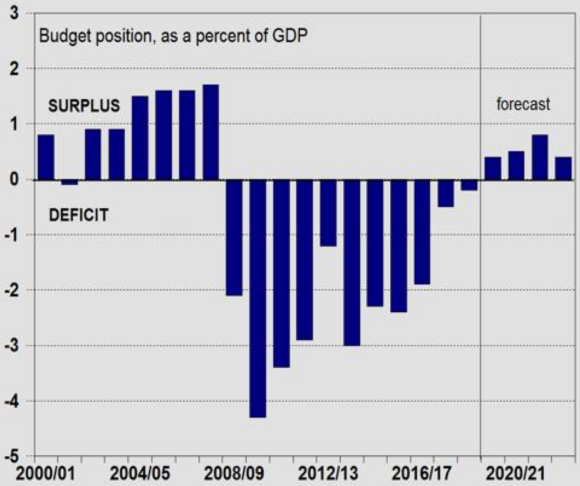
Sure, there are the usual tables, graphs, facts and figures. But we reckon that there are only two questions most people want answered and that's where we will be concentrating:

Did the government get it right?
Who are the winners and losers?

1. The Analysis

Federal Budget 2019

A surplus of $7.1 billion is expected in 2019/20.



Sources: Budget papers, CommSec

- Deficit of $4.2 billion (0.2% of GDP) is tipped this year 2018/19.
- Surplus of $7.1 billion (0.4% of GDP) is tipped next year 2019/20.
- Economy expected to grow 2.25% this year and 2.75% next year.
- Net debt to peak at $373.5 billion or 19.2% of GDP in 2018/19.
- Net debt to ease to 14.4% of GDP in 2022/23.
- Increase instant asset write-off for small/medium businesses to $30,000.

Did the government get it right?

"A stronger economy and a secure future"

- Each budget has a theme. Last year the theme of the budget was **"Plan for a stronger economy".** This year, the theme is **"A stronger economy and a secure future."**
- Perhaps the Government is making point that the plan has so far been successful and that a secure future now lies ahead? Either that or the plan is on track and this year's Budget builds on last year's?
- Certainly the features of this year's Budget are similar to last year. Tax cuts and infrastructure spending are the centre-piece elements.
- Are these the right choices in the current environment? While we ask this question every year, it is particularly apt this year. But the environment is a little different. The Budget this year is framed against the background of a slower global economy. Consumers and businesses alike are fretting over myriad issues: Brexit, US-China trade war and recession fears just to name a few. And Australia is not immune. The economy has lost momentum just like other major economies. Some central banks (US) have put rate hikes on hold. Some (New Zealand) have indicate that rate cuts are on the agenda.
- So tax cuts, spending measures and more infrastructure projects are entirely appropriate given the global background. In Australia, sluggish growth of consumer incomes and lower home prices in cities like Sydney, Melbourne and Perth are also in focus.
- It is also important to always remember that government budgets – state and federal – are political documents as well as economic documents. So the current need for stimulus measures is fortunate for the Government. An election is imminent and the Budget is in strong shape. With the economy losing steam, well-structured and tailored stimulus measures will be seen as responsible. A Budget right for the times.
- But it always has to be remembered that the Government has to get its measures through the Senate. The good news is that the tax cuts are likely to be supported by the Opposition Labor Party.
- Still, if Labor is successful in the upcoming poll, we may be back here in a few months' time with a different Budget with differently-structured measures. Federal Treasury would be providing the same advice though – modest stimulus is required to sustain economic momentum.

The key measures

- The Government is proposing to increase and accelerate the timetable of legislated tax cuts. Also a raft of infrastructure spending measures have been outlined across a myriad of electorates. The Government is also seeking to help out consumers at a time of modest income growth through measures such assistance for lower-income families with power bills. There is money for health, mental health, regions students. The accelerated asset write-off provisions for small and businesses should assist in lifting investment and maintaining employment.

Winners & Losers

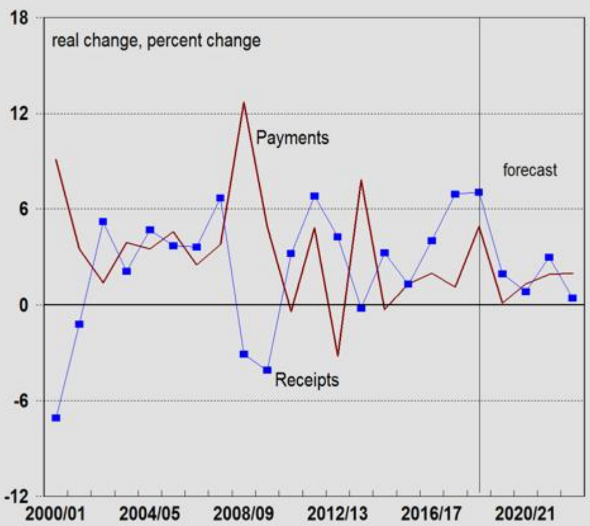
- At the outset, again we have to go back to the over-riding caveat: whether you benefit from the latest Budget measures or you lose out in some way is dependent on the measures being passed by Parliament.
- But having said this, the other key point is that an election is imminent. So it is hardly surprising that there are few that could be regarded as 'losers' from the latest Budget.
- The 'winners' are low and middle-income earners and businesses that benefit from the building of economic and social infrastructure likes roads, railways, schools and hospitals.
- Infrastructure spending is important to keep the economy operating efficiently and therefore boost productivity as well as being important to sustain our standard of living. The spending is understandably (from a political point of view) shared by regions across the country.
- Given, as noted, that budgets are political documents, spending may tend to favour more marginal electorates – the spending measures will need to be more closely analysed to see if that is indeed the case.
- 'Losers' could include the Black Economy and Multinationals – subject to greater tax scrutiny.

Looking ahead

- Is there ever a 'right' time to provide tax relief? Some will say wait until the budget is balanced (effectively we are at that point now). Then others will say wait until there is an adequate surplus. And invariably when that surplus is in sight, there will be an economic downturn, killing off any proposal for tax relief. And in the background, more taxpayer incomes are pushed into higher tax brackets.
- Taxes, as a share of household income, are at the highest levels in around 13 years. At the same time, wage growth is hovering around 2.5 per cent, when it was not that long ago growing closer to 3.5 per cent.
- If consumers don't spend, businesses don't receive the income and thus they are more reluctant to invest and employ. And if unemployment starts to rise, the risk is that negative economic momentum takes over. The economy has gone 28 years without a recession and no government wants one recorded under its watch.
- A government can only make the choices that it believes are in the best interests of the people. Each government will have a different view. And should the Labor Opposition be successful in the upcoming election, it, no doubt, will have different priorities and a different collection of winners and losers.
- Are the current choices 'right' for the times? Yes they are. The budget is unlikely to be cheered or jeered by any group in the economy. The government is relying on revenues to keep outpacing responsible and lower spending rates to work the magic in improving the budget bottom line.
- Are the choices the 'right' ones in the eyes of the electorate? For that we have to wait and see.

Taxing & Spending

Spending growth is tipped to lag revenues to 2020/21.



Sources: Budget papers, CommSec

- Spending (payments) is tipped to grow by 0.1% in real terms in 2019/20.
- Revenues (receipts) are tipped to rise by 1.9% in real terms in 2019/20.
- Payments total $493 billion next year.
- Receipts total $505 billion next year.
- Receipts to rise to 25.4% of GDP in 2020/21 from 25.0% in 2018/19.
- Payments to fall to 24.5% of GDP in 2020/21 from 24.9% in 2018/19.
- Over the long term, both spending & revenues have grown by around 3.6% a year in real terms.

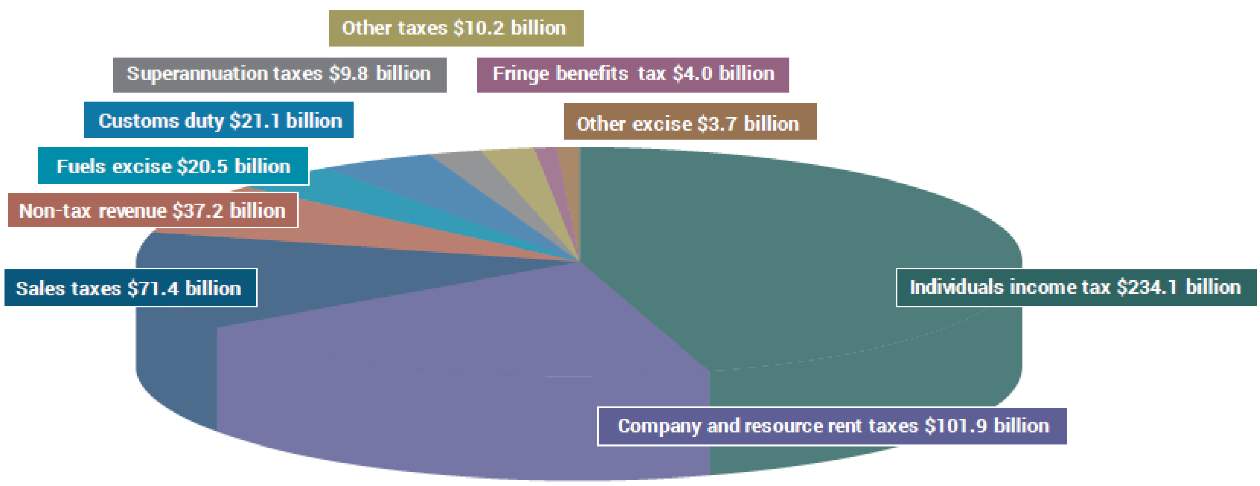
2. Outcomes, Payments & Revenues

BUDGET BOTTOM LINE

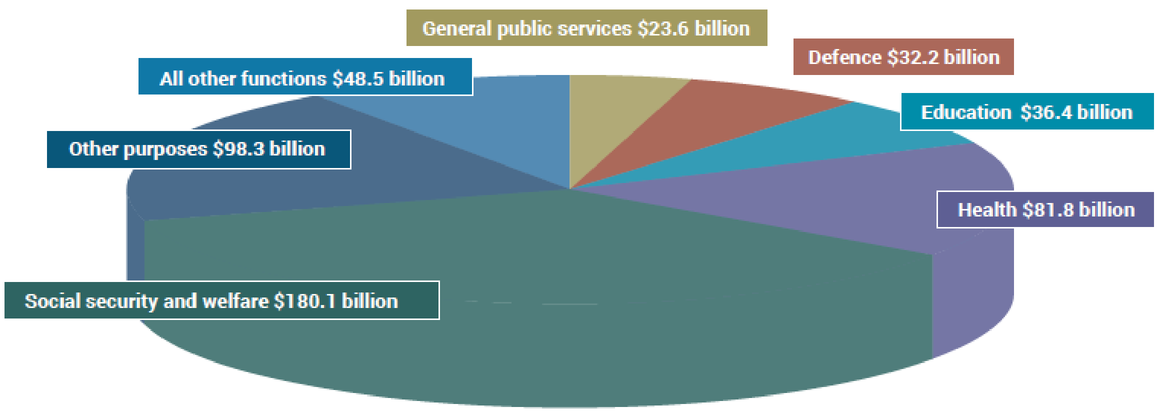
	2017/18	2018/19e	2019/20f	2020/21f	2021/22f	2022/23f
Underlying Cash Balance - $B	-$10.1	-$4.2	$7.1	$11.0	$17.8	$9.2
% of GDP	-0.5	-0.2	0.4	0.5	0.8	0.4
Net Debt - $B	$342.0	$373.4	$361.0	$349.5	$333.2	$326.1
% of GDP	18.5	19.2	18.0	16.8	15.3	14.4

Source: Budget Papers

Where revenue comes from (2019-20)



Where taxpayers' money is spent (2019-20) [(a)]



(a) Refer Statement 5: Expenses and Net Capital Investment of 2019-20 Budget Paper No.1 for further information.

3. The Economy

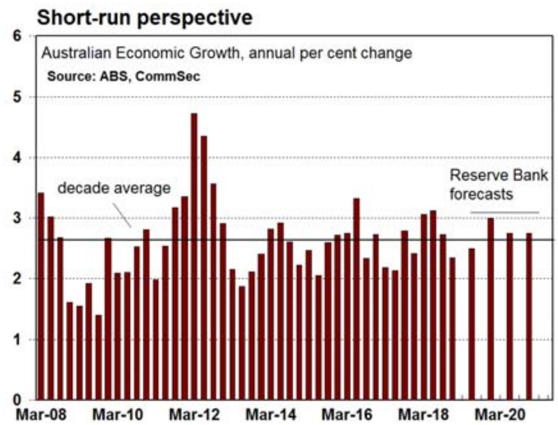
Economic Assumptions

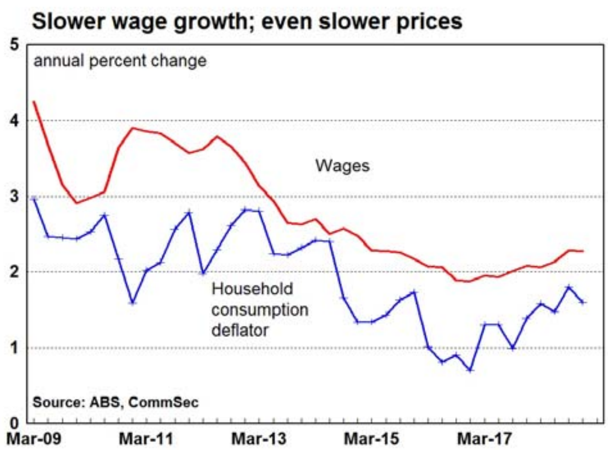
	Last year 2017/18	This year 2018/19	Next year 2019/20	And 2020/21
Economic growth (% change)	2.80	2.25	2.75	2.75
Inflation (% change to June quarter)	2.10	1.50	2.25	2.50
Wages (% change, year to June quarter)	2.10	2.50	2.75	3.25
Unemployment (%, June quarter)	5.40	5.00	5.00	5.00

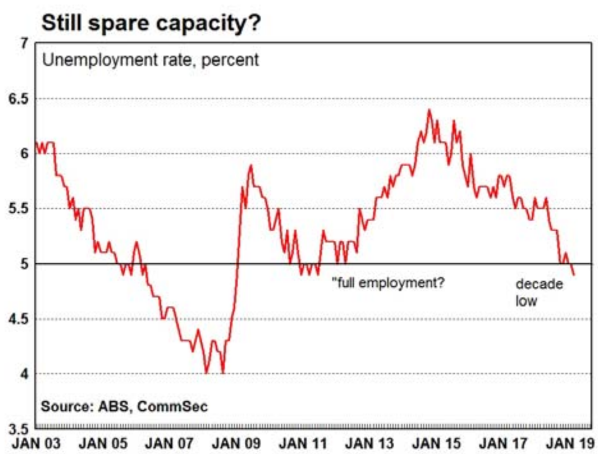
Source: Budget papers, CommSec

Are the economic assumptions reasonable?

- In short, yes. In part this reflects the absence of volatility in variables like economic growth and inflation in recent years. And the expectation is that the relatively stable positive numbers will continue over the next year.
- Last year Federal Treasury expected the economy to grow by around 3 per cent in 2018/19. Inflation was tipped to grow around 2.25 per cent with unemployment around 5.25 per cent while wages were tipped to lift around 2.75 per cent.
- All of these key variables are likely to end up below Treasury forecasts. Globally, inflation remains low. And that means business has had to limit wage increases. But modest wage growth has led to stronger job creation. And courtesy of a number of global worries, economic growth –both here and overseas – slowed over 2018/19.
- In 2019/20, Federal Treasury expects the economy to grow around 2.75 per cent. Inflation may edge into the bottom-end of the Reserve Bank's 2-3 per cent target band at 2.25 per cent while unemployment is expected to hold near 5 per cent and wages are tipped to lift by 2.75 per cent.
- The Reserve Bank currently expects economic growth to average 2.75 per cent in both 2019/20 and 2020/21. In the year ended June 2020 inflation is seen near 2 per cent and creep up just to 2.25 per cent a year later. Unemployment is seen at 5 per cent in June 2020 and 4.75 per cent in June 2021.
- One Treasury forecast worth focussing on is the estimate of nominal GDP – the assumption that is important for projected tax receipts. Treasury expects nominal GDP to grow by just 3.25 per cent in 2019/20. In calendar 2018, nominal GDP grew by 4.9 per cent while 5 per cent growth is expected in the current 2018/19 year. The slow rate of expected nominal GDP growth shows why there will still be some work to do to secure a budget surplus.



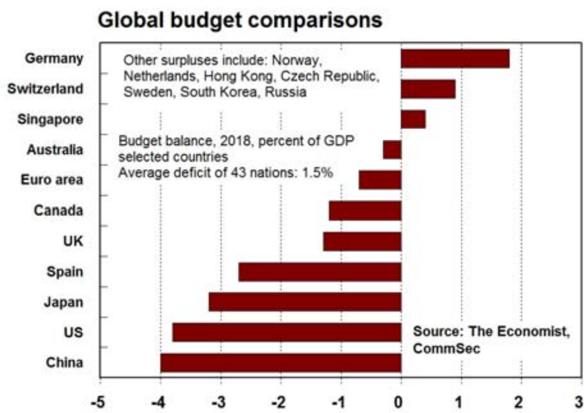


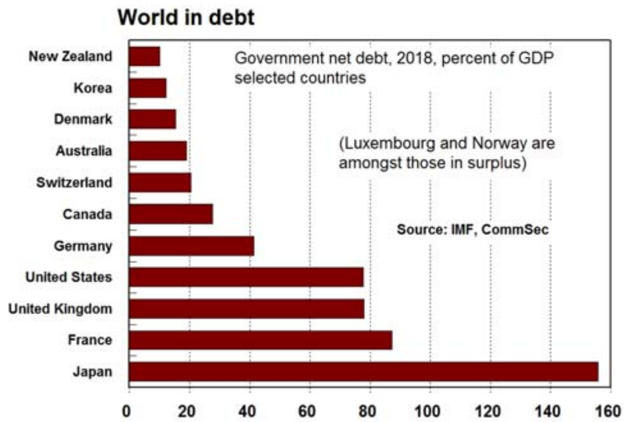


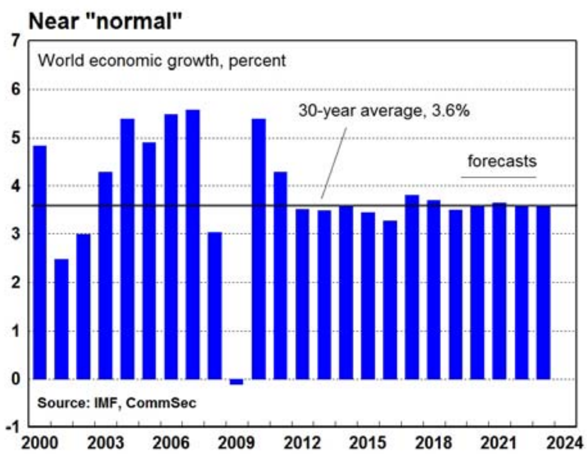
4. Global backdrop

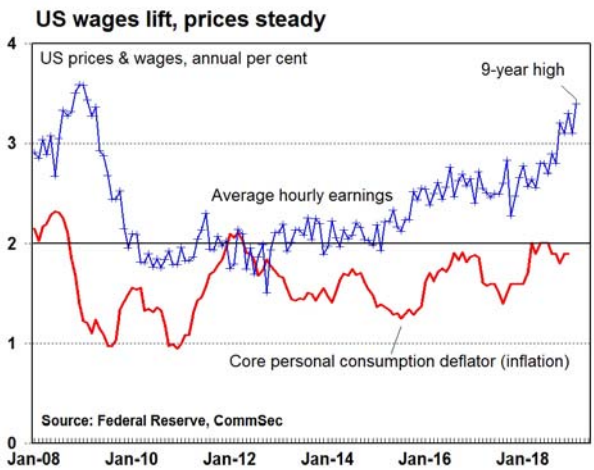
Global economy slows on litany of worries

- In April 2018, the International Monetary Fund (IMF) forecast the global economy to expand by 3.9 per cent in 2018 and 2019. In October the IMF revised down estimated growth in both years to 3.7 per cent. In January 2019, the IMF forecast that growth would slow from 3.7 per cent in 2018 to 3.5 per cent in 2019. At this early stage growth of 3.6 per cent is tipped for 2020.
- Over the past 40 years, global growth has averaged 3.6 per cent. So the global economy is tipped to grow at a slower pace than in recent years but not too far away from 'normal" or longer-term averages.
- The US-China trade dispute; Brexit; concerns about the US Federal Reserve lifting rates too far, too quickly; and high oil prices have all served to slow growth across the globe, including in Australia.
- **China** is tipped to grow by 6.2 per cent in 2019 and 2020 after growth of 6.6 per cent in 2018. Part of that slowdown in cyclical (trade dispute) and also structural (reflecting the maturing of the economy. CBA tips growth of 6.3 per cent – in the middle of the Chinese government's 6.0-6.5 per cent target band.
- The **Euro area** is expected to slow from 2.4 per cent in 2017 to 1.8 per cent in 2018. 1.6 per cent in 2019 and 1.7 per cent in 2020. Flat to negative population growth restrains growth potential.
- **For the US**, the IMF tips growth of 2.5 per cent in 2019 and 1.8 per cent in 2020 after the tax cut-driven growth of 2.9 per cent in 2018. But the Federal Reserve has now indicated rates are on hold for 2019. Inflation remains below 2 per cent and unemployment is near 50-year lows. Resolution of the trade dispute with China is the major uncertainty.
- If the Australian economy was to grow by around 2.5 per cent as we expect in 2019 and 2020, growth would be close to the fastest of the major developed economies.









5. Nation building funds and GST

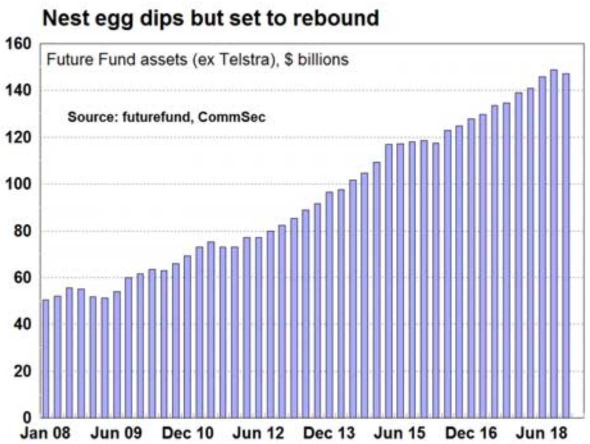
Government investments

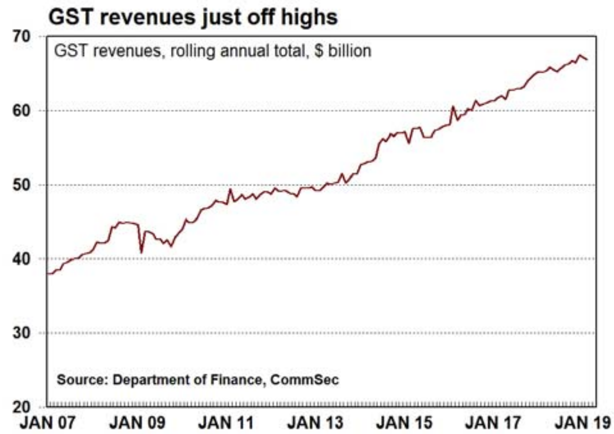
Investing for the future Assets as at December 31 2018	$billion
FutureFund	$147.00
DisabilityCare	$14.40
Medical Research	$9.40
Education Investment	$3.90
Building Australia	$3.90
Source: futurefund	

- The value of all the nation-building funds currently stands at $178.6 billion, up from $163.6 billion a year ago.
- The **Future Fund** was set up to provide for the unfunded superannuation liabilities of Commonwealth public servants. As at December 31 2018, the Future Fund stood at $147 billion, up $8.1 billion over the past year or 5.8 per cent.
- The **Building Australia Fund** was set aside for *"the creation or development of transport, communications, energy, and water infrastructure and in relation to eligible national broadband matters".* As at December 31 2018, the Building Australia Fund stood at $3.9 billion.
- The **Education Investment Fund** was set aside to make payments for education infrastructure. As at December 31 2018 the Education Investment Fund had assets of $3.9 billion. Over the past year the Building Australia Fund generated a return of 2.6 per cent against a benchmark target of 2.0 per cent. The Education Investment Fund generated a return of 2.6 per cent, meeting its benchmark target of 2.0 per cent.
- The **Medical Research Future Fund (MRFF)** was set up on January 1 2015 with the aim to grow the fund to $20 billion. As at December 31 2018 the MRFF was valued at $9.4 billion, up from $6.7 billion a year ago.
- The **Disability Care Australia Fund (DCAF)** was established to provide support for Australians with significant and permanent disability. The DCAF received its first contribution on November 26 2014. As at December 31 2018 the DCAF had received contributions of $14.4 billion, up from $10.4 billion over the year.

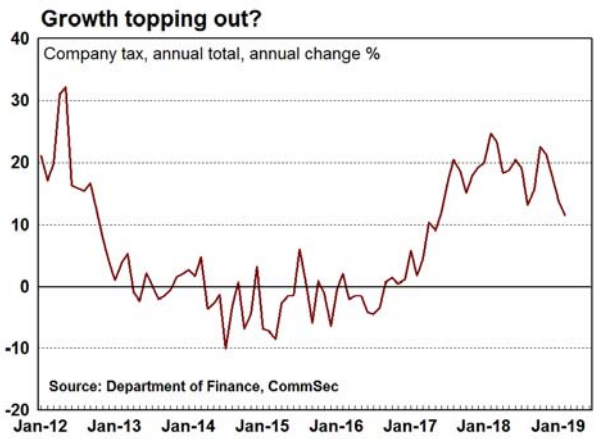
Goods and services tax (GST)

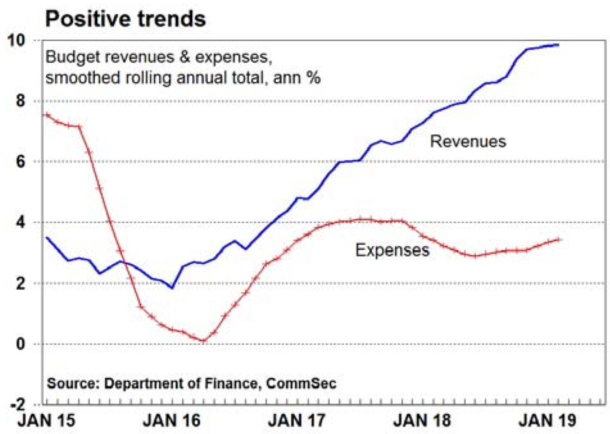
- To some extent this is the "forgotten" tax (unless you live in Western Australia). Despite the fact that the GST is the third biggest revenue generator behind personal tax and company tax, it tends not to feature in budget analyses. All of the revenue goes to the states and territories so it certainly has a major influence on the ability of governments to spend across the community.
- Receipts from the **Goods and Services Tax** stood at a record high of $67.57 billion in the twelve months to December 2018 before easing to $66.96 billion in the year to February 2019. The government has forecast GST receipts of $69.18 billion for the entire 2018/19 year.
- Actual GST receipts for the eight months to February stood at $46.93 billion, just below the Budget 'profile' of $47.43 billion.
- *"Receipts from GST are forecast to grow by 4.0 per cent in 2018-19 (equivalent to $2.5 billion), and by 2.4 per cent (equivalent to $1.6 billion) in 2019-20. Compared with the 2018-19 MYEFO, receipts are expected to be around $1.0 billion lower in 2018-19, $1.8 billion lower in 2019-20 and $10.3 billion lower over the four years to 2022-23. The downward revisions reflect weaker-than-expected collections, and the downward revisions to forecasts for growth in consumption and dwelling investment."*

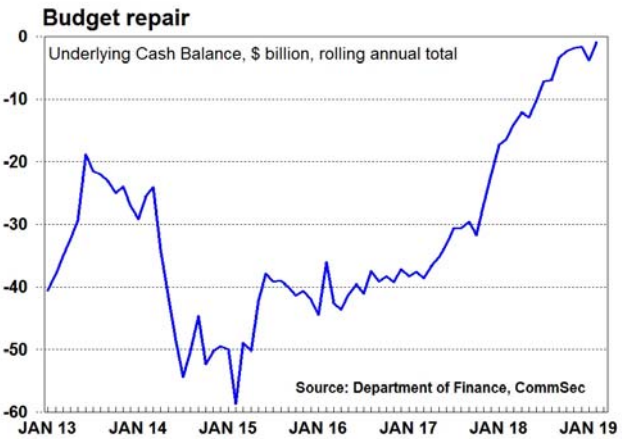


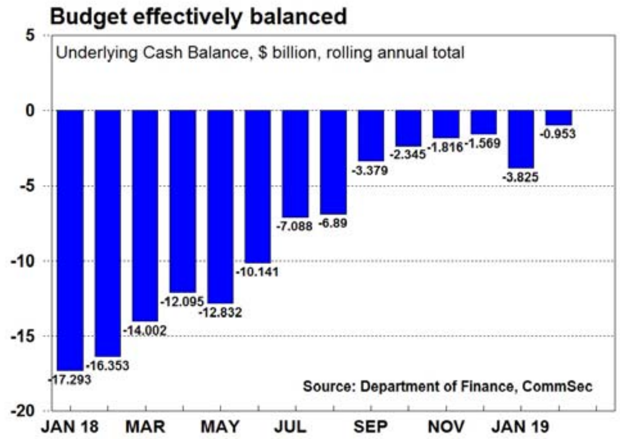


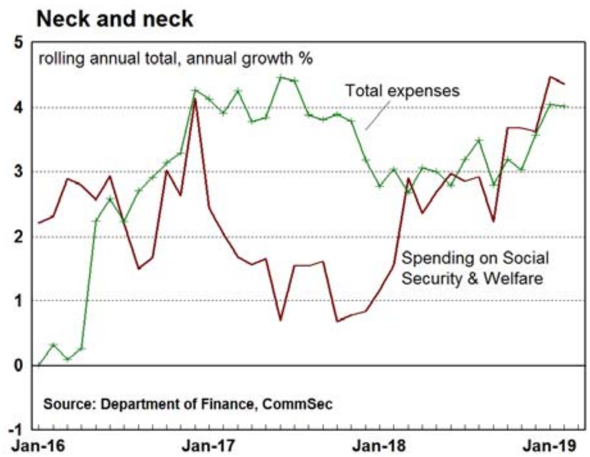
6. Selected Charts

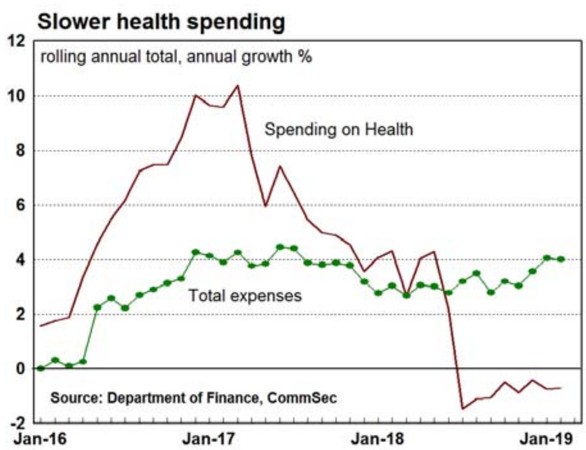












7. Impact – Interest rates, Currency & Shares

Interest rates

- The Federal Budget has few implications for interest rate settings. The budget deficit has been slowly contracting over the past few years and is about to push into surplus. But the economy has lost momentum recently, due especially to global concerns. So it is appropriate for the Government to ease fiscal policy in order to boost economic growth. Targeted fiscal stimulus is preferable to 'blunt' monetary stimulus.
- The Reserve Bank has left interest rates unchanged for 32 straight months – the longest period of stability for the cash rate. It's important to remember that the 1.5 per cent cash rate is at a record low – and still at "emergency" levels. The Reserve Bank recently changed the policy stance to "neutral", meaning that the next move in interest rates could be either up or down depending on the economic circumstances.
- The Reserve Bank expects the job market to tighten, leading to higher wages, prices and, in turn, higher interest rates. But the process remains gradual. The Bank also notes that if the job market was to deteriorate due to falling home prices in Sydney and Melbourne, and the global economy continued to slow, there could also be a case to cut interest rates in future.
- The Reserve Bank says it will set policy to support sustainable economic growth and achieve the inflation target band. CommSec expects no change in rates for the foreseeable future but the leaning is in favour of rate cuts.

Australian dollar

- The Federal Budget has few implications for the currency. The more important influences on the Aussie dollar over the next year are global economic growth (especially the contribution from China); trade issues; US monetary policy; commodity prices; and the path of Australian interest rates.
- The Chinese economy has slowed but the Government and monetary authorities assure that they will maintain accommodative policy settings.
- The US Federal Reserve has indicated that interest rate settings are likely to remain unchanged over 2019. Certainly the economy is in good shape, inflation is low as is the jobless rate. And higher wage growth will support consumer spending while low interest rates will support housing demand.
- CBA group currency strategists expect the Aussie dollar to continue to hold in the low 70s against the US dollar over the next year.

Sharemarket implications

- The Federal Budget can be seen as a mild positive for the Aussie sharemarket and is pretty neutral from a corporate profitability perspective. Tax cuts for low-to-middle income earners – which will double from $530 from July 1 to $1,080 – should benefit consumer discretionary and staples' companies, such as Harvey Norman, Breville, JB Hi-Fi, Wesfarmers, Coles and Woolworths. Aussies may also decide to book a holiday which could be good news for airlines, such as Qantas and Virgin, together with travel agent, Flight Centre.
- Shares of Transurban, Boral, Adelaide Brighton and Downer EDI could benefit from the public-transport related infrastructure boom.
- So while investors will take note of the latest Federal Budget, reaction is expected to be muted by election uncertainty ahead of the Federal election in May. And opinion polls suggest that the opposition Labor Party could win office. This could lead to changes in tax treatment for capital gains, negative gearing and dividend imputation credits – potentially negatively impacting highly franked shares and residential property-focused shares.
- That said, growing investor expectations for interest rate cuts and falling bond yields are driving the performance of bond proxies, such as listed Real Estate Investment Trusts (A-REITs) and infrastructure shares. But shares of financials may continue to underperform the broader market as declining interest rates and the property downturn impact profit margins and earnings growth.
- Bigger issues for the sharemarket are the health of US and Chinese economies; Brexit; trade issues between the US and China and trade issues between the US and Europe.
- Mining and energy shares are benefiting from Chinese stimulus, rising commodity prices, supply disruptions, attractive valuations and earnings growth prospects.
- The S&P/ASX200 index is reasonably priced at a Price/Earnings (PE) ratio of 15.5x – broadly in-line with the long-term average.
- The recent February corporate reporting season was mixed with businesses expressing some caution amid a slowdown in economic growth, drought and a weaker consumer environment. Earnings Per Share (EPS) growth is expected to fall to around 5 per cent in financial year 2019.

Appendix: The Budget Detail
Fiscal Strategy & Outlook (Statement 3)

Receipts estimates
Policy decisions

- Policy decisions since the 2018/19 Mid-Year Economic and Fiscal Outlook Statement (MYEFO) are expected to reduce receipts by $18.2 billion over the four years to 2022/23. And policy decisions are expected to reduce tax receipts by $3.2 billion over the four years to 2022/23.
- Excluding policy decisions, tax receipts have been revised down by $15 billion over the four years to 2022/23, as revisions to the outlook for household consumption, dwelling investment and average wages weigh on the forecasts.
- Expected GST receipts have been revised down since the 2018-19 MYEFO, including by $1.8 billion in 2019-20.
- Total tax receipts will rise from $485.2 billion to $505.5 billion in the year to June 2020.
- Receipts as a proportion of GDP are expected to increase over the forward estimates, broadly in line with forecasts at the 2018-19 MYEFO, with tax receipts remaining below the Government's tax-to-GDP cap of 23.9 per cent.
- Since 2013-14, the Government has implemented savings measures with a combined effect of more than $200 billion through to 2022-23.
- The Building on the Personal Income Tax Plan measures will provide additional tax relief of $19.5 billion over the four years to 2022-23, reduces tax receipts by $5.7 billion over the four years to 2022-23, owing to the inclusion of a provision in the 2018-19 MYEFO. The Government's decision to extend and expand the Australian Taxation Office's Tax Avoidance Taskforce increases tax receipts.
- The biggest single revenue measure in the budget is a $2.1 billion saving from 2018/19 resulting from automating Centrelink's income assessment processes. Secondly, the Government will increase its multinational tax avoidance team, investing $1 billion over four years, but projects to save $3.6 billion with the initiative.
- Tax receipts from superannuation funds are expected to grow by 5.1 per cent in 2018/19 but fall by 14.5 per cent in 2019-20. Tax receipts from superannuation funds are expected to grow by 5.1 per cent in 2018-19 but fall by 14.5 per cent in 2019-20. Compared with the 2018-19 MYEFO, receipts are expected to be around $650 million higher in 2018-19, $800 million higher in 2019/20 and $2.1 billion higher over the four years to 2022-23.
- Petroleum resource rent tax (PRRT) receipts are forecast to grow by 3.1 per cent in 2018/19 and 21.7 per cent in 2019-20. Since the 2018-19 MYEFO, receipts are expected to be $200 million lower in 2018/19, $100 million lower in 2019-20 and $450 million lower over the four years to 2022-23, consistent with weaker-than-expected collections.
- Receipts from GST are forecast to grow by 4.0 per cent in 2018/19 (equivalent to $2.5 billion), and by 2.4 per cent (equivalent to $1.6 billion) in 2019/20. Compared with the 2018-19 MYEFO, receipts are expected to be around $1.0 billion lower in 2018-19, $1.8 billion lower in 2019-20 and $10.3 billion lower over the four years to 2022-23.
- Excise and customs duty receipts are forecast to grow by 3.7 per cent in 2018-19 and 14.9 per cent in 2019-20. The strong growth in 2019-20 partly reflects the commencement of the 2018-19 Budget measure Black Economy Package — combatting illicit tobacco. Since the 2018-19 MYEFO, excise and customs duty receipts have been revised down by $340 million in 2018-19, $420 million in 2019-20 and $2.6 billion over the four years to 2022-23.
- Major bank levy receipts are forecast to increase from $1.6 billion in 2018-19 to $1.9 billion in 2022-23.
- Since the 2018-19 MYEFO, non-taxation receipts have been revised up by $1.9 billion in 2018-19, largely reflecting upward revisions in Future Fund earnings. Non-taxation receipts have been revised down by $247.9 million in 2019-20, largely reflecting lower than expected State and Territory contributions to the National Disability Insurance Scheme (NDIS) and lower than expected receipts from the Pharmaceutical Benefits Scheme.

Payments Estimates

Policy Decisions

- In cash terms, Government spending is forecast to grow by an average of 1.3 per cent per annum in real terms over the four years to 2022-23.
- Payments as a proportion of GDP are expected to fall to 24.5 per cent by the end of the forward estimates, slightly lower than forecast at the 2018/19 MYEFO and remaining lower than the 30-year average of 24.7 per cent of GDP.
- The combined impact of policy decisions and variations to program estimates has decreased expenses by $8.9 billion over the four years from 2018-19 to 2021-22 compared to the 2018-19 MYEFO. In the same period, program specific parameter variations, public debt interest and other variations have decreased expenses by $7.6 billion, and economic parameter variations have decreased expenses by $11.2 billion compared to the 2018-19 MYEFO.
- Payments will grow from $482.7 billion to $493.3 billion in the year to June 2020.
- The key payments, include tax cuts are estimated to cost the Government $19.5 billion over four years, or $158 billion over 10 years.
- The Coalition has promised a $100 billion spend over 10 years on infrastructure.
- $500 million for a "commuter car park fund" that will improve access to key public transport hubs, getting more cars off roads.
- $400 million small and medium-sized asset write-off.
- The Government will end the indexation on Medicare rebates a year earlier than planned, costing $187 million.
- $448 million for a new primary care funding model aimed at people living with complex and chronic conditions.
- New drugs will be listed on the PBS costing $331 million over five years.
- Total expenses for the defence sub-function are estimated to increase by 1.9 per cent in real terms from 2018-19 to 2019-20, and by 8.8 per cent in real terms over the period 2019-20 to 2022-23, reflecting funding to deliver the 2016 Defence White Paper, and the Government's commitment to increase Defence's funding including through the 2019-20 Budget measure Additional funding to support Defence Capability. $679.4 million will be provided in the 2019-20 Budget to support major Australian Defence Force Operations in the Middle East and the protection of Australia's borders and offshore maritime interests.
- Aggregate schools funding expenses are expected to increase by 4.2 per cent in real terms between 2018-19 and 2019-20, and by 13.2 per cent in real terms from 2019-20 to 2022-23. Expenses in the schools — non-government schools sub-function are expected to increase by 2.9 per cent in real terms between 2018-19 and 2019-20.

New personal tax rates and thresholds

Rate (%)	2017-18 tax thresholds Income range ($)	Current tax thresholds From 1 July 2018 Income range ($)	New tax thresholds From 1 July 2018 Income range ($)	New tax thresholds From 1 July 2022 Income range ($)
Tax free	0 - 18,200	0 - 18,200	0 - 18,200	0 - 18,200
19	18,201 - 37,000	18,201 - 37,000	18,201 - 37,000	18,201 - 45,000
32.5	37,001 - 87,000	37,001 - 90,000	37,001 - 90,000	45,001 - 120,000
37	87,001 - 180,000	90,001 - 180,000	90,001 - 180,000	120,001 - 180,000
45	>180,000	>180,000	>180,000	>180,000
Low and middle income tax offset	-	Up to 530	Up to 1,080	-
LITO	Up to 445	Up to 445	Up to 445	Up to 700

Budget Overview (Statement 1)

The Government has delivered a Budget surplus for the first time in over a decade. The Budget reinforces the Government's commitment to investing in Australia's future by strengthening the economy and guaranteeing essential services, while keeping taxes low. The plan involves:

- Returning the budget to surplus;
- Delivering more jobs;
- Providing lower taxes;
- Guaranteeing essential services like Medicare, schools, hospitals and roads.

With the budget returning to surplus, the Government is strengthening its focus on paying down debt to reduce the fiscal burden on future generations. The plan involves:

- The underlying cash balance is forecast to be a surplus of $7.1 billion in 2019-20, with surpluses projected to build to more than 1 per cent of GDP in the medium term – the first in 12 years;
- Surplus forecast rising to $11 billion In 2020-21 and then $17.8 billion in 2021/22 before dropping to $9.2 billion in 2022/23;
- Over the medium term, net debt is projected to be eliminated entirely and gross debt is projected to fall to 12.8 per cent of GDP.

The Government is delivering lower taxes for individuals and small businesses by:

- A pledge to deliver $158 billion of tax relief for more than 10 million Australians;
- Providing tax relief to hard-working low-and middle-income Australians from July 1, with immediate relief of up to $1,080 for singles, or up to $2,160 for dual income families, and structural reform so a projected 94 per cent of Australian taxpayers will face a marginal tax rate no higher than 30 per cent in 2024-25 (down from 32.5 per cent) for all taxpayers earning between $45,000 and $200,000;
- The Government had already legislated lower tax rates for companies with turnover below $50 million and by 2021/22 they will pay 25 per cent;
- Increasing access to finance with a new $2 billion fund;
- Providing lower taxes to small and medium-sized businesses by increasing the instant asset write-off for new equipment (worth up to $30,000) and expanding access to it alongside the lower tax rates the Government has already legislated;
- Additional $60 million for Export Market Development Grants;
- Safeguarding the integrity of the tax system by ensuring everyone, including multinationals and big business, pay their fair share.

A major focus of the Budget is the significant increase in infrastructure spending to $100 billion over the next decade, including:

- A new fast rail plan for Australia including a $2 billion contribution to the Melbourne-Geelong fast rail project;
- A $3 billion increase in the Urban Congestion Fund including $500 million for a new Commuter Car Park Fund;
- An additional $1 billion for the next phase of the Roads of Strategic Importance initiative (freights and access to ports);
- $15.6 billion for additional road and rail projects across the country;
- $100 million for regional airports.

The Government is continuing to guarantee the essential services on which Australians rely by:

- Strengthening Medicare to ensure that Australians can access quality and affordable healthcare;
- Providing more affordable access to medicines through additional listings on the Pharmaceutical Benefits Scheme, including $80 billion for more MRI machines, more life-changing medicines on the PBS, more funding for mental health, better access to GPs, hospitals and dental services;
- Continuing to strengthen the safety, quality, integrity of and access to Australia's aged care system;
- $725 million for 10,000 new home care packages;
- $461 million for youth mental health and suicide prevention strategy;
- One-off Energy Assistance Payment for pensioners of $75 for singles and $125 for couples;
- $84 million to enable carers to leave a loved one in safe hands and take a break
- $500 million for a Royal Commission into the mistreatment of people with disability;
- Helping to build a new Brain and Spinal Ward in South Australia;
- Establishing Australia's first comprehensive children's cancer centre in Sydney;
- Funding upgrades to regional hospitals, including Townsville;
- Providing $291.6 billion to the end of 2029 for government and non-government schools, while working with states and territories to lift student outcomes, including committing around $30 million to all schools for

upgrades to libraries, classrooms and play equipment, new scholarship program for over 1,000 students a year to study in regional Australia;
- $453 million to extend pre-school education, enabling 350,000 children to receive 15 hours of quality early learning per week in the year before school;
- Investing $525.3 million to modernise the vocational education and training sector, including 80,000 new apprenticeships, to ensure that workers and employers are equipped with the skills they need today and in the future;
- Incentive payments to employers up to $8000 per placement;
- New apprentices to receive a $2000 incentive payment;
- $62 million to boost literacy, numeracy and digital skills;
- Funding to increase participation for women and girls in STEM (science, technology, engineering and maths) industries;
- $9 billion for science, research and technology, including commercialisation;
- $400 million for genomics research to unlock the secrets of DNA;
- $160 million for research to improve the health of indigenous Australians.

The Government is investing in the prosperity, security and resilience of communities by:
- Taking decisive action to ensure a more affordable, reliable and sustainable energy system;
- Investing in communities to improve local infrastructure, upgrade regional communications connectivity, address local environmental issues and boost tourism;
- Providing $328 million for women's and children's safety as well as programs to keep children safe online;
- $570 million for the Federal Police and ASIO;
- Additional $680 million to support service men and women deployed abroad;
- $337 million in extra funding to tackle drug crime, specifically the drug supply chains of outlawed motorcycle gangs.
- Better supporting Australians through drought and natural disasters with the creation of new drought resilience and emergency response funds, including $6.3 billion in drought support, $3.3 billion for those affected by flood, $3.9 billion Emergency Response Fund and the new North Queensland Livestock Industry Recovery Agency;
- $400 million to the Australian Securities & Investments Commission (ASIC).
- $152 million funding boost to the Australian Prudential Regulation Authority (APRA).

The Government's environmental initiatives include:
- $3.5 billion Climate Solutions Package including emission reduction activities;
- $100 million Environment Restoration Fund.

Infrastructure (Statement 4, p14-15)

The Government's investment in transport infrastructure

- The Australian Government will provide a record $100 billion in funding for its infrastructure plan over the next decade, an increase of around a third compared to the 2018-19 Budget;
- The Government is committing $2 billion to help deliver a fast rail connection between Geelong and Melbourne. This funding will provide commuters on this key transport corridor with faster and more reliable journey times, cutting travel time in half to just over 30 minutes. The Government will also co-fund five business cases with state governments for fast rail from Sydney to Wollongong, Sydney to Parkes (via Bathurst and Orange), Melbourne to Albury Wodonga, Melbourne to Traralgon, and Brisbane to the Gold Coast. These will build on the fast rail business cases already underway for Sydney to Newcastle, Melbourne to Greater Shepparton, and Brisbane to the regions of Moreton Bay and the Sunshine Coast;
- The Government is contributing an additional $3 billion to the Urban Congestion Fund, increasing total funding to $4 billion. This will include $500 million for a Commuter Car Park Fund, which will improve access to public transport by funding park and ride facilities at rail stations. Urban Congestion Fund projects will target congestion in some of the worst affected urban areas and address local pinch points;
- Australians expect their roads to be safe. The Government is providing $2.2 billion for a Local and State Government Road Safety Package. This includes additional funding of $1.1 billion for the Roads to Recovery Program; $550 million for the Black Spots Program; $275 million for the Heavy Vehicle Safety and Productivity Program; and $275 million for the Bridges Renewal Program;
- An additional $1 billion is being provided for the next phase of the Roads of Strategic Importance initiative, increasing total funding to $4.5 billion. This includes further investment in strategic corridors, associated feeder roads and other rural roads across the country. This will facilitate additional upgrades of key freight routes to better connect the agriculture and resource sectors to export markets and improve road safety;
- The Princes Highway will benefit from a further investment of $1 billion across New South Wales, Victoria and South Australia;
- By state, New South Wales will receive an additional $6.1 billion for projects including $1.6 billion for the M1 Pacific Motorway Extension to Raymond Terrace and $400 million to upgrade the Newell Highway;
- Victoria will receive an additional $2.8 billion for projects including $1.1 billion for upgrades of south eastern and northern suburban roads and $700 million for a rail upgrade from South Geelong to Waurn Ponds (Stages 2 and 3);
- Queensland will receive an additional $2.6 billion for projects including $800 million for upgrades to the Gateway Motorway between Bracken Ridge and Pine River and $500 million to ease congestion and improve safety on the M1 from Daisy Hill to the Logan Motorway;
- South Australia will receive an additional $1.8 billion for projects including $1.5 billion for the North-South Corridor and $260 million for a South Australia Regional Roads Package;
- Western Australia will receive an additional $933 million for projects including $349 million for Tonkin Highway upgrades and $140 million for construction of stages 2 and 3 of the Albany Ring Road;
- Tasmania will receive an additional $68 million for the Tasmanian Freight Rail Revitalisation Program – Tranche 3;
- The Australian Capital Territory will receive an additional $50 million for projects with $20 million for the duplication of William Slim Drive;
- The ACT and NSW will benefit from a $30 million upgrade of the Kings Highway; The Northern Territory will receive an additional $60 million for Tiwi Island Road upgrades;
- City Deals with a total Commonwealth contribution of $5.7 billion are being delivered in Townsville, Launceston, Western Sydney, Darwin, Hobart, Geelong and Adelaide. The Government is continuing to negotiate a deal for Perth while also pursuing a new City Deal for South East Queensland;
- Building on the success of the City Deals model the Government is rolling out Regional Deals in the Barkly region in the Northern Territory ($45.4 million), the Hinkler region covering the Bundaberg and Hervey Bay area in Queensland ($172.9 million), and Albury Wodonga on the New South Wales and Victorian border ($3.2 million for initial planning);
- The Government is increasing support to regional Australians with an additional $1 billion available through the Building Better Regions Fund, Stronger Communities Programme, Stronger Regional Connectivity Package, Regional Airports Program, Communities Environment Program and tourism.