

2015-16 BUDGET OVERVIEW

- \$5.5 billion Jobs and Small Business Package
- \$4.4 billion Families Package
- Additional \$1.2 billion to support military operations
- \$52 billion write down in tax receipts and the iron ore price almost halving since the 2014 Budget
- Deficits over the forward estimates decreasing annually from \$35.1 billion in 2015-16 to \$6.9 billion in 2018-19
- More than \$400 million in targeted support for farmers and communities impacted by drought

WINE SPECIFIC MEASURES

Tax

As expected, no budget measures were implemented from WFA Pre Budget Submission.

WET receipts are forecast to grow by 1.9 per cent in 2014-15 and 5.1 per cent in 2015-16. Since the 2014-15 MYEFO, forecast WET receipts have been revised down by 1.8 per cent, or \$60 million, over the four years to 2017-18, consistent with slightly lower expected prices.

Australian Government general government (cash receipts)						
	Actual		Estimates		Projections	
\$ million	13/14	14/15	15/16	16/17	17/18	18/19
Wine Equalisation Tax	766	780	820	850	890	940

Non-tax

Australian Grape and Wine Authority Budget (\$'000)

Estimated-Actual 2014-15	Budget Estimate 2015-16
30,088	30,843

DEMAND SIDE MEASURES

Free Trade Agreement Promotion

The Government will provide **\$24.6 million over two years from 2015-16 to promote business understanding** of the recently concluded Free Trade Agreements in North Asia and to assist businesses to access and maximise their benefits under these agreements. Advocacy and outreach activities will take place in both Australia and in target offshore markets. Funding of \$0.3 million will be met from within the existing resources of the Department of Foreign Affairs and Trade.

Foreign affairs and trade

The Government will provide **\$18.0 million over four years from 2015-16 to Austrade** to expand its current programme of Australia Week events. The events will be held in China, India, ASEAN countries and the United States to build Australia's reputation as a tourism destination and as a trade and investment partner. The Department of Foreign Affairs and Trade, the Australian Trade Commission and Tourism Australia will redirect \$8.8 million of existing funding over four years to support these events.

The Foreign Affairs and Trade portfolio will also continue the Restaurant Australia campaign which resonates strongly in regional Australia. It features some of our most appealing regions: wine making in the Australian Capital Territory and South Australia's Barossa Valley; Rottnest Island in Western Australia; Queensland's Whitsunday Islands; Uluru in the Northern Territory and Freycinet in Tasmania.

SUPPLY SIDE MEASURES

Small Business

Tax cuts for small business

The Government will deliver a tax cut to all small businesses through a **1.5 percentage point tax cut for small companies and a five per cent tax discount on income from unincorporated small business activity**. These tax cuts will be available from the 2015-16 income year, and are estimated to have a cost to revenue of \$3.3 billion over the forward estimates period.

The Government will reduce the company tax rate to 28.5 per cent for companies with aggregated annual turnover less than \$2 million. Companies with an aggregated annual turnover of \$2 million or above will continue to be subject to the current 30 per cent rate on all their taxable income.

The current maximum franking credit rate for a distribution will remain unchanged at 30 per cent for all companies, maintaining the existing arrangements for investors, such as self-funded retirees.

Individual taxpayers with business income from an unincorporated business that has an aggregated annual turnover of less than \$2 million will be eligible for a small business tax discount. The discount will be five per cent of the income tax payable on the business income received from an unincorporated small business entity. The discount will be capped at \$1,000 per individual for each income year, and delivered as a tax offset.

This measure will deliver lower taxes to both incorporated and unincorporated small businesses, improving their cash flow and assisting them to grow, compete and hire new workers.

Expanding accelerated depreciation for small businesses

The Government will significantly expand accelerated depreciation for small businesses by allowing small businesses with aggregate annual turnover of less than \$2 million to immediately **deduct assets they start to use or install ready for use, provided the asset costs less than \$20,000**. This will apply for assets acquired and installed ready for use between 7.30pm (AEST) 12 May 2015 and 30 June 2017. Assets valued at \$20,000 or more (which cannot be immediately deducted) can continue to be placed in the small business simplified depreciation pool (the pool) and depreciated at 15 per cent in the first income year and 30 per cent each income year thereafter. The pool can also be immediately deducted if the balance is less than \$20,000 over this period (including existing pools).

The Government will also suspend the current 'lock out' laws for the simplified depreciation rules (these prevent small businesses from re-entering the simplified depreciation regime for five years if they opt out) until 30 June 2017.

These changes will improve cash flow for small businesses and provide a boost to small business activity and investment.

Small businesses can access accelerated depreciation for the majority of capital asset types. Only a small number of assets are not eligible (such as horticultural plants and in-house software). In most cases specific depreciation rules apply to these assets.

From 1 July 2017, the thresholds for the immediate depreciation of assets and the value of the pool will revert back to existing arrangements.

The measure is estimated to have a cost to revenue of \$1.8 billion over the forward estimates period.

Youth Employment Strategy — intensive support for vulnerable job seekers

The Government will provide **\$105.7 million over five years from 2015-16 to improve employment, educational and social outcomes for parents and young people who are unemployed**, have a mental health condition, are refugees or are vulnerable migrants. This funding includes:

- \$55.2 million over five years for community and non-government organisations to implement up to 40 trials to identify and engage early with disadvantaged youth who have multiple barriers to employment and support them to engage with the labour market;
- \$19.4 million over four years for two employment support trials to help improve employment outcomes for young people up to the age of 25 with mental illness, who are at risk of disengaging from education and/or at risk of long term welfare dependency;
- \$22.1 million over four years to support young refugees and other vulnerable young migrants to build skills and confidence to equip them to participate in education or work; and
- \$8.9 million over four years for early intervention assistance in ten locations with high numbers of disadvantaged parents, to ensure that parents with barriers to employment are job ready. A two year trial commencing 1 April 2016 will extend eligibility to parents not on income support, with participation on a voluntary basis.

The Government's Growing Jobs and Small Business package will help small business invest more, grow, and employ more Australians.

Crowd-sourced equity funding for public companies

The Government will provide **\$7.8 million over four years from 2015-16 to the Australian Securities and Investments Commission** to implement and monitor a regulatory framework to facilitate the use of crowd-source equity funding (CSEF), including simplified reporting and disclosure requirements.

CSEF is an emerging form of funding that allows entrepreneurs to raise funds online from a large number of small investors and has the potential to increase funding options available for entrepreneurs to assist in the development of their business.

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Streamlining business registration

The Government will make a **provision of \$32.4 million over five years from 2014-15** (including capital of \$13.5 million over three years from 2014-15) for the Australian Taxation Office, Australian Securities and Investments Commission and the Department of Industry and Science, to develop a single online portal for business and company registration; publish new computer code to enable developers to build new registration software; and reduce the number of business identifiers.

Funding for this proposal is contingent on a second pass business case.

The Government's Growing Jobs and Small Business package will help small business invest more, grow and employ more Australians.

Allow immediate deductibility for professional expenses

The Government will allow businesses to immediately deduct a range of professional expenses associated with starting a new business, such as professional, legal and accounting advice. This measure will be available to businesses from the 2015-16 income year. This measure is estimated to have a **cost to revenue of \$30.0 million over the forward estimates period**.

Currently, some professional costs associated with a new business start-up are deducted over a five year period. Allowing start-ups to immediately deduct these expenses will provide much needed cash flow for these new businesses.

Capital gains tax roll-over relief for changes to entity structure

The Government will allow small businesses with an aggregated annual turnover of less than \$2 million to change legal structure without attracting a capital gains tax (CGT) liability at that point. This measure will be available for businesses that change entity type from the 2016-17 income year. This measure is estimated to **have a cost to revenue of \$40.0 million over the forward estimates period**.

CGT roll-over relief is currently available for individuals who incorporate but all other entity type changes have the potential to trigger a CGT liability. This measure recognises that new small businesses might choose an initial legal structure that they later find does not suit them when the business is more established.

AGRICULTURE

Supporting Drought Affected Communities — local infrastructure and management of pest impact

The Government will provide **\$60.8 million over four years as part of a package of measures to support drought-affected local communities.**

The package includes:

- \$25.8 million over four years from 1 July 2015 to assist farm businesses to manage the impacts of pest animals in drought-affected areas; and
- \$35.0 million over four years for a local council grants programme for infrastructure projects in drought-affected areas. Funding will be targeted at projects that offer the greatest potential to stimulate local community spending, use local resources and provide long-lasting benefits to communities and the agricultural industries on which they depend.

Supporting Drought Affected Communities — Immediate Assistance

The package includes:

- \$250.0 million in concessional loan funding to continue the drought-specific concessional loan schemes in 2015-16 — the extension will provide an additional \$150.0 million for Drought Concessional Loans and an additional \$100.0 million for Drought Recovery Concessional Loans;
- \$20.0 million in 2015-16 to extend the access to social and mental health services in communities affected by the drought element of the 2014-15 Budget measure titled Support to drought affected farmers — assistance will continue to be delivered through the existing Family Support and Targeted Community Care (Mental Health) programmes within the Social Services Portfolio, with an extension of services to include additional local government areas experiencing severe and prolonged drought; and
- \$1.8 million in 2015-16 for an additional ten counsellors to be available to be able to assist farmers through the Rural Financial Counselling Service.

The key features and loan settings for both concessional loan schemes will remain the same, except that loans will now be available in all jurisdictions on an as required basis. The Government will provide funding to state and territory governments for the administration costs associated with implementing the concessional loans.

A new drought preparedness framework — accelerated depreciation for primary producers

The Government will allow all primary producers to immediately deduct capital expenditure on fencing and water facilities such as dams, tanks, bores, irrigation channels, pumps, water towers and windmills. The Government will also allow primary producers to depreciate over three years all capital expenditure on fodder storage assets such as silos and tanks used to store grain and other animal feed.

These changes will be for income years commencing on or after 1 July 2016. Currently, the effective life for fences is up to 30 years, water facilities is three years and fodder storage assets is up to 50 years.

This measure is estimated to have a cost to revenue of **\$70.0 million over the forward estimates** period. This measure will improve resilience for those primary producers who face drought, assist with cash flow and reduce red tape by removing the need for primary producers to track expenditure over time. This measure will form part of the Government's White Paper on Agricultural Competitiveness.

Additional agriculture investment scrutiny

The Government is also delivering on its commitment to increase scrutiny and transparency around foreign investment in agriculture. From 1 March 2015, the screening threshold for agricultural land was lowered to **\$15 million (applying to total agricultural land investment by an investor) — down from \$252 million** — while the definition of agricultural land will be changed to better reflect common understanding. A new \$55 million screening threshold (based on the value of investment) will apply from 1 December 2015 to investments in agribusiness. Additional scrutiny of agricultural investments will provide confidence to the community that investments are not contrary to our national interest. It will also provide investors with greater certainty that foreign investment is welcomed.

Foreign ownership of land register

A **comprehensive land register will provide for greater scrutiny and transparency** around the level of foreign ownership in Australian agricultural land and real estate. The ATO will commence collecting data for the agricultural land register on 1 July 2015, with negotiation underway for the inclusion of state and territory land titles data to expand the register to all land by 1 July 2016.

The Government is also consulting on options to ensure Australia has a modern, streamlined foreign investment system.

Maintain funding for Quarantine Border Security — ongoing extension

The Government will **provide \$550.2 million over four years from 2015-16 to maintain funding for quarantine and border protection activities on an ongoing basis**. Funding will continue to be used to provide risk-based, intelligence-led interventions for the management of biosecurity and border risks across the passenger, cargo and mail pathways.

The funding comprises \$274.7 million for the Department of Agriculture and \$275.6 million for the Department of Immigration and Border Protection.

Funding for this measure has already been provided for by the Government.

Managing Biosecurity Risks — expanded surveillance and offshore audits

The Government will expand its current border surveillance and intelligence activities and increase the audits and assessments of **offshore biosecurity systems to better manage risks associated with the increasing complexity of international supply chains** and higher volumes of goods being imported to Australia. The expansion of activities will minimise the likelihood of incursions of exotic pests and diseases inside Australia's borders.

Expanded border activities will include: increased surveillance of air and sea cargo terminals; trapping and enhanced testing to monitor for animal and plant species of biosecurity significance; and implementation of a nationally consistent biosecurity intelligence system. Increased offshore risk management activities will include assessing and auditing the supply chain, focusing on verification of overseas governments' systems of biosecurity certification.

Mechanical Fuel Load Reduction Trial

The Government will provide **\$1.5 million over two years from 2015-16 for a mechanical fuel load reduction** trial to be funded from within the existing resources of the National Bushfire Mitigation Programme measure announced in the 2014-15 Budget.

Funding will be provided to undertake a research trial, in conjunction with state governments, which examines the effectiveness of mechanical fuel removal in forests where conservation values could be compromised by fuel reduction burning.

National Food Plan — saving

The Government will achieve savings of \$30.9 million over four years from uncommitted funding from the former Government's National Food Plan initiatives.

Savings for this measure have already been provided for by the Government.

The savings from this measure will be redirected by the Government to fund initiatives associated with the Agricultural Competitiveness White Paper.

Smaller Government — Agriculture Portfolio

The Government will further reduce the number of government bodies in the Agriculture portfolio by abolishing:

- the Aquaculture Committee;
- the Community Consultative Committee;
- the Industry Liaison Committee;
- the National Decision Making and Investment Working Group; and
- the Statutory Fishing Rights Allocation Review Panel.

The Freshwater Invertebrate Pests Subcommittee will merge with the Invasive Plants and Animals Committee.

Additionally, the following bodies have ceased operations: the SCAHLS Point-of-Care Tests Working Group; and the Sub-committee on National Forest Health (with its residual functions to be performed by other plant health sub-committees).

This measure is part of the fourth phase of the Smaller Government reforms which reduce the size and complexity of government.

The Smaller Government reforms are eliminating duplication and waste, streamlining services and reducing the cost of government administration.

HEALTH MEASURES

headspace

The Australian Government is providing \$14.9 million from 2014-15 to 2017-18 to bring the expanded headspace network to 100 sites across Australia. **The headspace initiative provides a national, coordinated focus on youth mental health and related drug and alcohol problems** and aims to improve access for young people aged 12-25 years to appropriate services and ensure better coordination between services. Of the 100 headspace centres announced to date, 44 sites will be located in rural and regional areas across Australia.

Smaller Government — Health Portfolio

The Government will achieve savings of \$113.1 million over five years from 2014-15 through:

- creating operational efficiencies in the delivery of corporate services by amalgamating the corporate and legal services of the Therapeutic Goods Administration into the corporate functions of the Department;
- ceasing activities in the Department that mirror the work of specialist agencies such as the Independent Hospital Pricing Authority; Australian Organ and Tissue Donation and Transplantation Authority; National Blood Authority; National Health Performance Authority; Australian Commission on Safety and Quality in Health Care; National Health and Medical Research Council; and the **Australian Institute of Health and Welfare**;

- ceasing the National Lead Clinicians Group from 1 July 2015;
- rationalising the structure of the Department to more effectively respond to the Government's health policy priorities;
- rationalising business and financial management support functions across the Department;
- reducing contractor costs by recruiting ongoing staff to replace IT contractors; and
- reducing the Department's property footprint and consolidating staff into current locations.

The Government will reinvest \$10.0 million over four years to further develop the in-house data analytical, economics and research capacity of the Department, including engaging external expertise and developing data links with other Government agencies as necessary.

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OTHERS

Reducing red tape — reforms to the Australian Taxation Office

The Government will provide \$130.9 million over four years (including capital of \$35.6 million) to deliver an improved experience for clients in their dealings with the Australian Taxation Office (ATO).

Red tape will be reduced and future administrative savings delivered through investment in three foundational initiatives: a digital by default service for provision of information and making payments, improvements to data and analytics infrastructure and enhancing streamlined income tax returns through the myTax system for taxpayers with more complex tax affairs.

The package of service improvements supports the Government's commitment to reduce red tape and forms part of the Government's digital transformation agenda.

The costs of this measure will be met from within the existing resourcing of the ATO. The measure has no net impact on total ATO resourcing over the forward estimates period.

This measure delivers on the Government's election commitment.

Research and Development tax incentive — introducing a \$100 million expenditure cap

The Government has **introduced a cap of \$100 million on the amount of eligible research and development (R&D) expenditure for which companies can claim a tax offset at a concessional rate under the R&D tax incentive.** Expenditure beyond the \$100 million cap will receive a lower offset at the company tax rate.

These changes apply in relation to assessments for income years commencing on or after 1 July 2014. This measure also includes provisions for the changes to be reviewed five years following Royal Assent and to sunset 10 years following the start date of 1 July 2014.

Under the R&D tax incentive, companies can claim a refundable tax offset of 43.5 per cent if their turnover is less than \$20 million or a non-refundable tax offset of 38.5 per cent.

This measure replaces the measure announced by the previous Government in the 2013-14 Budget, A Plan for Australian Jobs — Research and Development tax incentive — better targeting, and was included as a 'decision taken but not yet announced' in the 2014-15 Mid-Year Economic and Fiscal Outlook.

This measure is estimated to have a financial impact similar to the measure it replaced; therefore, it will have no impact on the Budget bottom line.

Strengthening Australia's foreign investment framework

The Government will strengthen Australia's foreign investment framework through improved compliance and enforcement, stricter penalties, the introduction of application fees, and more scrutiny and greater transparency for agricultural investment.

The introduction of application fees on all real estate, business and agricultural foreign investment proposals from 1 December 2015 is estimated to raise \$735.0 million in revenue over the forward estimates period.

The Government will provide \$19.7 million over four years from 2015-16 to the Department of the Treasury and \$47.5 million to the Australian Taxation Office to improve compliance and strengthen the enforcement of Australia's foreign investment framework. The Government will also provide \$0.6 million to the Department of Agriculture to advise on specific agricultural foreign investment proposals.

Under the new arrangements, increased criminal penalties and a new civil pecuniary penalties regime will be introduced for breaches of the Foreign Acquisitions and Takeovers Act 1975. A reduced penalty period for foreign investors that have previously breached the foreign investment rules in relation to residential real estate has been provided until 30 November 2015. These investors may avoid prosecution, but will be required to divest the property.

Increased scrutiny and transparency around the levels of foreign investment in agriculture will be achieved by lowering screening thresholds and introducing a foreign ownership register.

In addition, the Government will provide \$15.8 million over four years to establish a Treasury office in Sydney. Establishing an office in Sydney will enable the Treasury to engage with the private sector more effectively on a range of issues, including foreign investment. It will also enable the Treasury to attract talented people with specialist skills and experience to augment the current skills of the department.