

Business as usual and back to school

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Impact on business

In a Budget in which the centrepiece is the 'Working Families Support Package', fewer new spending measures are aimed directly at assisting business and industry, although many businesses will benefit indirectly from the boost to household spending arising from tax cuts and welfare-related measures.

For industry, the key focus is on improving capacity and productivity in terms of labour, skills, transport and communications. In order to achieve this, the priority areas for government spending are participation, education and training (personal tax cuts, the Education Investment Fund and other measures) and infrastructure development (the Building Australia Fund).

Significant policy measures aimed at climate change and water resources will eventually affect all businesses, but will initially be felt most by utilities and regional businesses. These measures were announced well before the Budget and include the \$2.3bn climate change measures and the \$12.9bn national water package.

2008-09 Federal Budget - selected business measures

Programs (\$m)	2008-09	2009-10	2010-11	2011-12	total
Skilling Australia	232.6	412.2	620.3	620.3	1,918.6
Trade Centres in Schools	233.1	242.9	253.1	263.7	992.9
Urban water & desalination	14.0	158.0	244.0	392.0	808.0
Solar Australia	108.2	147.1	87.9	33.1	386.3
Clean Coal	34.8	108.6	124.5	97.8	380.7
Renewable Energy	-	55.5	71.0	101.0	227.5
First home saver accounts	156.0	241.2	341.4	437.5	1,178.8
Housing affordability fund	52.2	77.1	77.1	152.8	359.2
Rental affordability scheme	23.5	72.2	170.1	356.8	622.6
Broadband guarantee	90.0	76.0	59.9	44.9	270.7
Taxes & charges					
Reduced withholding tax for foreign investors	-60.0	-125.0	-210.0	-235.0	-630.0
Increased tax on alcopops	640.1	716.0	799.3	892.6	3,145.9
Increased excise on crude oil condensate	564.0	635.4	625.7	625.7	2,544.6
Software depreciation	15.0	300.0	681.0	318.0	1,314.0
FBT changes	164.0	320.0	425.0	520.0	1,429.0
Increased luxury car tax	130.0	140.0	140.0	145.0	555.0
Increased departure tax	106.3	111.2	117.7	124.1	459.3
Heavy road user charges	40.0	110.0	150.0	190.0	490.0

Source: Budget Paper No 1 and Budget Overview.

For further detail on the 2008-09 Budget, see ANZ's *Federal Budget Report*.

Budget measures for all businesses

Education and training

Increased spending on education and training will aim to address long-term skills shortages ...

The key area of new spending that will potentially benefit all businesses is education and training. Many of these measures were announced prior to the Budget or relate to election commitments. They are worth a total of \$5.9bn over the next five years and include:

- 'Digital Education Revolution', worth \$1.2bn to 2011-12, which will be spent mainly on providing computers and IT access to high school students
- 'Skilling Australia', worth \$232.6mn in 2008-09 and \$1.9bn to 2011-12, which will provide an extra 630,000 vocational training places
- 'Trades training in schools', worth \$233mn in 2008-09 and \$993mn to 2011-12
- 'Building better universities', worth \$533mn to 2011-12
- New tertiary scholarships worth \$447mn to 2011-12 and
- The Education Investment Fund, for capital investment in tertiary education institutions, which will get an additional \$5bn.

On the savings side, the Government will offset these education and training measures with a raft of related savings, including \$280mn on employment services, \$778mn on work skills vouchers, \$157mn on 'Industry Productivity Centres', \$99mn on Australian Technical Colleges, \$464mn on literacy and numeracy vouchers, \$96mn on summer schools for teachers and \$707mn on the Commercial Ready Program — or a total of \$2.6bn over the next 4 years. The benefits of this restructured education and training effort will potentially flow to all businesses, but are likely to take many years to be felt on the ground.

... in the meantime, skilled migration places will increase by 31,000, or 30%

In another (non-budgetary) measure aimed at addressing skill shortages more immediately, the government announced an increase in skilled migration places of 31,000 in 2008-09, taking the total permanent skilled migration places available to 133,500 for the year. The temporary skilled visa category (visa 457) will also be upgraded, although the number of places available may not change.

Regulation, taxes and charges

There are few, if any, changes to general business regulation arising from this Budget. The current non-final withholding tax of 30% for foreign investors in certain classes of property and capital funds is to be replaced with a reduced final withholding tax of 22.5% in 2008-09, reducing to 7.5% from 2011-12. This lower rate will apply only to investors resident in countries with which Australia has suitable information agreements. It is aimed at improving foreign investment in Australian managed funds and property trusts.

Tighter Fringe Benefits Tax exemptions, depreciation rates on software and tax arrangements for employee share schemes

For businesses that are bricks-and-mortar employers, tighter Fringe Benefits Tax exemptions (primarily on laptops) and depreciation arrangements for computer software (lengthening depreciation claims to four years) will raise an estimated \$179mn in 2008-09 and \$2.7bn to 2011-12. Employee share schemes will also be amended so as to close a perceived loophole around the timing of tax assessments for them. Other, more significant, changes to business taxes and charges are likely following the Government's broad taxation review due for completion in late 2009.

Budget effects for key industries

Agriculture and regional businesses

For agricultural and regional businesses, the main spending initiatives from this Budget are those relating to the \$12.9bn national water plan, although some of this money is to be allocated to urban water projects as well. \$1bn for example, is set aside for urban water and desalination investment, while \$255mn is for urban water security planning and \$250mn is for rebates of \$500 to households installing tanks and greywater systems.

Separate to the Water Plan, there is a 'Caring for our Country' program, worth \$2.2bn over 5 years, for environmental projects, and a 'Farming Future' program, worth \$130mn over 4 years. The latter includes \$60mn to help farmers respond to climate change, \$55mn for hardship assistance due to climate change and \$15mn for research work on climate change adaptation.

Rural and regional infrastructure are likely to benefit from both the 'Infrastructure Australia' fund and the 'Building Australia Fund', which will address high-priority bottlenecks and gaps in national transport, water, energy and communications infrastructure, to be identified by COAG. The national broadband network will be one of the first cabs off the rank. It is expected to extend broadband coverage to 98% of Australian population and businesses. The 'Broadband Guarantee' provides additional funding aimed at ensuring equitable access for regional, remote and technical blackspot locations. An additional \$22.3bn in road and rail investment will also appear through 'AusLink', including the Pacific Highway upgrade in Queensland and a feasibility study for a Melbourne-Brisbane rail freight link.

For smaller regional businesses, the Government is establishing a network of 'Enterprise Connect Innovation Centres', to assist with business development and technology. Offices will be opened in Geelong, McKay, Alice Springs and other locations. These will replace the existing network of national 'Industry Productivity Centres' and will focus more heavily on small to medium regional businesses and manufacturing businesses. The 'Commercial Ready' program of small business assistance will also be discontinued to help fund the new centres. The 'Growing Regions' and 'Regional Partnerships' programs are also slated for cuts totalling \$436mn to 2011-12.

Building and construction

With housing affordability continuing to make headlines, the Government intends to spend \$2.2bn over four years on this issue. It is introducing special savings accounts for first home buyers that will reward them \$850 (17%) for each \$5,000 they save per year and tax them at only 15% (worth \$1.2bn). Investors will be subsidised by \$623mn over 4 years to build up to 50,000 new rental properties, to be rented at '20% below market'. Another \$500mn will help pay for housing infrastructure costs for new housing developments. All of these measures can be expected to provide a small boost to the residential construction sector, which is currently failing to keep up with national underlying demand for new dwellings (see *ANZ Housing Snapshot*, April 2008). In such an historically tight housing market however, it remains to be seen whether they can materially affect the supply of low-cost housing.

In the non-residential construction sector, the big news will be the new 'Building Australia Fund', which will pay for new national transport and communications infrastructure out of current and future budget surpluses. National broadband upgrading has already been flagged. On the transport infrastructure side, if the aim is to improve industry capacity, then roads and ports will need to be the primary focus, particularly to the north of Australia where lack of infrastructure is causing major production bottlenecks.

Transport

While transport will benefit from increased public infrastructure investment in road, rail and ports, greater cost recovery from the private sector will also be sought. In particular, heavy vehicle road user charges will be phased up over several years. It will cost the trucking industry an additional \$40mn in 2008-09, rising to \$190mn in 2011-12. It is likely these additional charges will be passed on to wholesale and retail trade businesses, which form the main customer base for the road freight transport fleet, and thence on to consumers.

For passenger transport, the Budget announced an increase in the passenger movement charge (or departure tax), which will net an additional \$106mn in 2008-09, rising to \$124mn by 2011-12.

The excise tax exemption on crude oil distillate (made from natural gas) will be removed, adding \$2.5bn to tax revenues over the next 4 years. Australia

produced 7,000 megalitres of condensate in 2006-07, compared with 20,300 megalitres of crude oil. Condensate is mainly used as an additive to diesel rather than as a fuel in its own right. The end of this excise exemption is likely to raise the cost of some types of industrial and automotive diesel fuels.

Energy

This Budget includes \$2.3bn worth of measures aimed at tackling climate change over the next five years. Much of this is targeted at the energy sector, and especially at electricity generation. In addition to introducing an emissions trading scheme by 2010 and a renewable energy target of 20% by 2020, the Government will spend:

- \$500mn over the next 8 years on 'clean coal' projects for coal-fired electricity generators
- \$150mn over 4 years for an energy innovation fund and a 'solar institute and
- \$240mn for a 'clean business' program to help businesses improve their energy efficiency.

In a separate Budget item, \$7mn is set aside for the Australian energy Market Operator that will operate the national energy market for gas and electricity.

Retail trade

For most retailers, there are no changes to GST or other retail taxes. The exceptions are increased taxes for ready to drink alcoholic beverages and luxury cars. Ready to drink alcopops will now be taxed at the same (higher) rate as bottled spirits. This change is ostensibly for public health reasons not for revenue raising purposes, but it will raise an estimated \$640mn in 2008-09, rising to \$892mn by 2011-12. It will add at least \$1 to the price of most drinks.

For new car retailers, the 'luxury' car tax will increase from 25% to 33% for new passenger cars costing more than \$57,000. In 2006-07 (the year Australia first clocked up 1 million new vehicle sales), this tax raised \$371mn. The Government expects it to raise an additional \$130mn in 2008-09. The industry estimates this tax will apply to 105,000 cars per year (90% of them imported), or around 17% of the 635,000-odd new cars currently sold each year.

These numbers imply an average increase of around \$1,300 per car to which the luxury tax applies. While this increase is unlikely to change the total number of new cars sold, it may affect buyer preferences with regard to which models and/or optional extras they choose to buy, particularly just over the threshold amount. This 'luxury car' tax does not apply to commercial vehicles and is thus unlikely to affect many business or fleet buyers.

For automotive fuel retailers, there will be no change to taxes and charges, but a national Fuelwatch scheme will commence in December 2008. This will require all petrol stations to notify their prices to the ACCC daily, for the following day. LPG and diesel prices will also be monitored informally. This scheme will cost \$20.9mn over 4 years to implement.

Services industries

Of the service industries, the most directly affected by this Budget is the health sector. Health insurance companies are likely to suffer reduced membership due to the increase in the Medicare levy thresholds, which will make an estimated 400,000 people no longer liable for the Medicare Levy Surcharge. For public hospitals and health services there is a new 'health and hospitals reform plan', which will increase spending on preventative health, aged care and indigenous health as well as public hospitals. The Health and Hospitals Fund — like the Education Investment Fund — will provide capital investment in public hospitals, health facilities and research projects.

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