

REIA BUDGET SNAPSHOT

3 May 2016

Budget 2016-17 Overview

The Government describes this as an economic plan rather than a budget.

Across the four years of the forward estimates there will be a reduction in the size of the deficit from \$40.0 bn in 2015-16 to \$ 6.0 billion in 2019-20.

Real GDP growth for 2016-17 is forecast at 2.5%, up from 2.2% for the current financial year and unemployment is forecast to decline to 5.75% from 6.1% for 2015-16.

	2015-16	2016-17	2017-18
Underlying cash balance (\$b)	-40	-37	-26
% of GDP	-2.2	-1.4	-0.8
GDP growth (%)	2.5	2.5	3.0
Unemployment rate (%)	5.75	5.5	5.5
Consumer Price Index (%)	1.25	2.0	2.25
Private investment, dwellings (%)	8.0	2.0	1.0

Main Budget points

- From 1 July the upper limit of the middle income tax bracket will increase from \$80,000 to \$87,000.
- Increased tax avoidance measures especially of multinationals.
- Reduction in superannuation concessions.
- A \$1.1 bn National Innovation and Science Agenda.
- Infrastructure investment in roads, rail, airports and dams of \$50bn – much of this has been previously announced.
- An \$840 m Youth Employment Package targeted at vulnerable young people to secure jobs.

Housing

- No changes to negative gearing nor CGT as announced at the end of April reiterated in budget.
- No other housing measures including for first home buyers or housing affordability in general.

Small to Medium Business

- Small to medium business is a big winner from this Budget.
- From 1 July 2016 the small business tax rate will be lowered to 27.5 % and the turnover threshold increased to \$10 million.
- The unincorporated small business tax discount is increased to 8% and the threshold increased from a turnover of \$2m to less than \$5m.
- From 1 July the instant write off for equipment purchases of up to \$20,000 that is to expire on 30 June 2017 will be available to businesses with a turnover of less than \$10m.
- The turnover threshold for access to the lower tax rate of 27.5% will continue to be increased. From \$10m to \$25m in 30 June 2017 and to \$50m in 2018-19 and \$100m in 2019-20.

Training and Education

- Funding under the Industry Skills Fund will be cut by \$247m or more than half over 5 years or around \$50m per annum through “improved efficiencies”. Funding of \$207m over 5 years will continue.

Superannuation

- Less generous treatment of superannuation for some
 - Introduction of a transfer balance cut of \$1.6 m on amounts moving into the tax free retirement phase from 1 July 2017
 - from 1 July 2017 extending the 30 % tax on contributions to those earning over \$250,00 compared to the current threshold of \$300,000
 - Reducing the annual cap on concessional superannuation contributions to \$25,000 from 1 July 2017
 - From 3 May 2016 establishing a lifetime non-concessional contributions cap of \$500,000.
- The changes should, other things remaining equal, make investment in housing more attractive as a savings/investment vehicle.



REIA's Pre-Budget Submission and responses as contained in the Budget statements:

- As part of the Government's commitment to address housing affordability ensure the availability of reliable data on housing demand and supply to formulate appropriate policies and to monitor their effectiveness

Unchanged

- Ensure the data on first home buyers is reliable

Unchanged

- The Federal Government take a leadership role in urging all states and territories to take the same approach to the provision of assistance to first home buyers regardless of whether the dwelling is new or established

Unchanged

- Allowing first home buyers access to their superannuation for the purchase of a home

Unchanged

- Improve the supply of housing for social housing tenants transitioning to private rental by utilising private investment

Unchanged

- Retention of current arrangements for negative gearing of property investments

Yes

- No increase in Capital Gains Tax on property investments

Yes

- Removal of stamp duty on property transactions

Unchanged

- Ensure that funding of the Industry Skills Fund is adequate to meet all skills shortages.

Funding cut by half.



Commentary

The overall economic impact of the Budget will be slightly expansionary with modest cuts to personal income taxes, a boost to small to medium businesses and infrastructure spending.

With forecasts of moderate growth, a slight decrease in unemployment and inflation well within the RBA's target zone, the budget should continue to have a benign impact on interest rates.

Changes to superannuation arrangements when combined with a low interest rate outlook and maintenance of current taxation arrangements for property investment will provide a modest boost in demand for property.

