REIA BUDGET SNAPSHOT

8 May 2018

Budget 2018/19 Overview

The Government describes this Budget as a *Plan for a Stronger Economy.*

Across the four years of the forward estimates there will be a reduction in the size of the deficit from $18.2 billion in 2017/18 to a surplus of $2.2 billion in 2019/20.

Real GDP growth for 2018/19 is forecast at 3.0%, up from 2.75% for the current financial year and unemployment is forecast to decline to 5.25% from the present 5.5%.

Dwelling investment reduces from 2016/17 growth of 2.8% to -3.0% in 2017/18.

	2017/18	**2018/19**	**2019/20**
Underlying cash balance ($b) % of GDP	-18.2 -1.0	-14.5 -0.8	2.2 0.1
GDP growth (%)	2.75	3.0	3.0
Unemployment rate (%)	5.50	5.25	5.25
Consumer Price Index (%)	2.0	2.25	2.5
Private investment, dwellings (% change)	-3.0	1.5	0

Main Budget Points

- New infrastructure spending on transport projects of $24.5 billion across all state and territories including nonmetropolitan areas.
- Income tax cuts for lower income earners. From 1 July 2018, the $87,000 threshold has been increased to $90,000. Those below the $90,000 threshold will have a cut of $530 per year. Other tax cuts will be phased in over 6 years.
- “Baby boomer” package to assist retirees particularly those on the pension
    - A scheme enabling people of pension age to release equity in their homes. The Pension Loans Scheme will be expanded so eligible retirees can support their incomes by up to $17,800 per annum for couples and $11,800 for singles.

    - Funding for at least 14,000 extra home-care packages to help ease the current backlog of retirees wishing to age in their own homes.
    - The Pensioner Work Bonus, will be extended so pensioners can earn more money without having their benefit affected. The Pensioner Work Bonus enables pensioners to earn up to $300 a fortnight, or $7,800 a year, without affecting their pension.
    - Allowing recent retirees to make voluntary superannuation payments for a year after they are no longer working provided their super balance is below $300,000.
- A cap to stop tax revenue exceeding 23.9 per cent of the GDP

Housing

- No changes to negative gearing nor CGT.
- No new measures to address housing affordability.
- “Baby boomer” package to assist people stay in their homes for longer - refer to above Main Budget Points.
- $550 million over 5 years on remote housing in the Northern Territory.
- No longer allow deductions for expenses associated with holding vacant land from 1 July 2019.
- ABS to get funding ($1.2m pa) to construct better estimates of the stock of affordable housing.

Small to Medium Business

- The accelerated depreciation for small business has been extended. Businesses with a turnover of up to $40 million are able to immediately deduct the cost of eligible assets costing less than $20,000 for use by 30/6/2019.

Black Economy

- A number of measures targeting organized crime and tax evasion through the black economy including a limit on cash transaction of $10,000.

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

- Government takes a leadership role in taking a coordinated and holistic approach of all levels of government in objectively addressing all property taxes. Until all property taxes are addressed negative gearing and capital gains tax on property investments are retained in its current form.

  Negative gearing and CGT remain unchanged

- Government establishes a scheme to encourage young Australians to have access to their superannuation for the purpose of raising a deposit for a first home.

A scheme using pre tax salary-sacrifice contributions announced last year. This does not provide access to existing superannuation balances.

- Government takes 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.

- 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

- The appointment of a Minister for Property Services

  Not done.

- Ensure the availability of reliable data on housing demand and supply in order to formulate appropriate policies and to monitor their effectiveness

  ABS to get additional funding for estimating stock of affordable housing. This will not however provide a complete picture of demand and supply.

Commentary

The overall economic impact of the Budget will be mildly expansionary, particularly for regional economies. A boost to infrastructure spending, modest improvements in household income, continued tax write offs for small to medium business and growth in employment can be expected.

The additional commitments to infrastructure projects come at a time when infrastructure construction activity together with non – residential building is already on a rebound. By contrast residential building activity having peaked is now in decline. While the housing market is in a different stage of the cycle in each state/territory nationwide it is expected to fall over the next 2 to 3 years. Hence whilst non – residential building will take over a greater importance as a driver of economic growth it may also lead to some skill shortages particularly in regional areas.

Whilst housing, in particular affordability, was a centre piece of last year's Budget with improved supply of social housing, saving incentives for first home buyers, and superannuation incentives for down sizers, this year's shifts the focus to infrastructure.

Pleased that Government will not limit negative gearing or change the capital gains tax arrangements.

The expansionary nature of the Budget including increased growth and decreasing unemployment is not expected to put pressure on interest rates, as inflation is expected to remain within the RBA's target zone.

Whilst the "baby boomer" measures meet a social need they will reduce the movement of retirees to other accommodation and thus a less than optimal use of current housing stock.

The setting of a constraint on tax revenues whilst giving the appearance of fiscal responsibility has no economic justification. It is not a magic number or fundamental law.

There is little in this Budget that will assist in moderating what appears to be a pending cyclical downturn in Sydney and Melbourne markets.