

FEDERAL BUDGET 2009-2010

WHAT YOU GAIN AND WHAT YOU LOSE

Kamrul Islam CA, CPA

On May 13, 2009 Mr. Wayne Swan Treasurer of the Rudd Government delivered their 2nd financial blueprint with a \$57 billion deficit that gives with one hand and takes with the other. The budget will spend extra \$11 billion to cushion of recession, while clawing back an extra \$2.5 billion in savings.

The world economy is facing it's worst recession since the Great Depression of 1930, which also dragged down the Australian economy into recession. Australia is not immune from the global recession. The world economy is set contract in 2009, for the first time in six decades. Output is expected to decline, which will cost jobs and see a sharp rise in the unemployment rate. Australia enters this downturn from a position of relative strength and the government acted early to shore up confidence in the financial system provide stimulus to the economy and cushion the impact on growth and jobs. Australia seems to be a better place than most countries to weather the storm of the global recession and despite the forecast contraction, Australia is expected to perform better than almost all other advanced economies.

Handing down a much-anticipated budget, the Treasurer said the economy would shrink overall, unemployment would rise to 8.5% by mid 2011 and Australia's deficit would balloon to \$57.6 billion in 2009-2010, a record 4.9% of GDP. The global recession has led to successive downward revisions to taxes since the 2008-2009 budget, which together have reduced tax receipts by around an estimated \$210 billion over the forward estimates to 2012-2013.

The global economic downturn has put a significant pressure on the Australian Government Budget. The government is determined to assist Australians more vulnerable to the impacts of the downturn, but is equally committed to returning the Budget to surplus as the economy recovers. This will mean ensuring spending is directed to high-priority areas. Savings will be achieved in areas where sustainability of existing arrangements will come under pressure in the years to come. The changes announced in the Budget will bring greater fairness to these arrangements and support priority spending areas.

Budget at a glance:

Economy

- Deficit of \$57.6 billion in 2009-2010, will falls to \$57.1 billion the following financial year, and \$28.2 billion in 2012-13 and will continue for six years until 2015-2016
- Global recession has cost the government an estimated \$210 billion over three years
- Economic growth to fall by .05% in 2009-2010
- Employment will rise to 8.5% in 2010-2011
- Exports to fall 4% in 2009-2010
- Government revenue down \$23 billion this year, biggest downward revision since the depression year of 1930-31, which will be more bigger in \$50 billion next year
- States asked to hand back some GST \$302 million in GST transfer payments

Health

- Private health insurance rebate cut from 30% and means tested, which will save about \$1.9 billion over four years
- Singles earning more than \$120,000 and families above \$240,000 will no longer be entitled to the rebate
- Singles earning between \$75,000 and \$90,000, and families between \$150,000 and \$180,000 will get 20%, which will be rising to 25% for over 65s, and 30% for over 70
- The surcharge for those who do not have complying private health insurance will increase to 1.25%
- Public hospital will get \$3.2 billion to modernise facilities, including cancer treatment and research

Education

- Universities and research institutions get \$2.6 billion for infrastructure
- University places will be uncapped at cost \$491 million, creating an extra 50,000 places by 2013

Environment

- \$4.5 billion allocated for its Clean Energy initiative, part of its planned Carbon Pollution Reduction Scheme
- Government will establish Renewable Australia, a new agency to promote renewable technology

Infrastructure

- A total of \$22 billion has been allocated in planned spending on infrastructure across all portfolios
- Road, rail and ports get \$8.5 billion, including \$4.6 billion for metropolitan rail projects
- NSW receives just \$91 million of that – for the Sydney West Metro, from Central Station to Westmead Hospital

What you gain

- The First Home Owners Boost is extended for another three months at the full rate, and three months after that at half the full rate. Contracts entered into before September 30, the boost remains at \$14,000 for new homes and \$7,000 for established ones and between September 30 and December 31, the boost halves to \$3,500 and \$7,000 respectively
- This extension of scheme will cost government \$539 million
- Paid parental leave to begin on January 1, 2011 at the cost of \$731 million; where the primary carer parents earnings less than \$150,000 will be entitled to 18 weeks on the Federal Minimum Wages (\$544 per week)
- Pension payments to increase \$32.49 per week for singles and \$10.14 for combined couples; which will cost \$3.9 billion per year by 2012-2013, or \$14.2 billion over four years
- New \$600 a year Carer Supplement for all Carer Payment recipients, on top of an increase in their pension
- Asylum seekers will be given the right to work while their application are being assessed and for the first time they will receive access to Medicare
- The small Business Tax Break for assets ordered between December 2008 and December 2009 will increase to 50%
- Rural doctors will receive \$130 million for increased incentives of up to \$120,000 each to practice in remote areas

What you lose

- The cap on tax concessions for superannuation contributions falls from \$50,000 per year to \$25,000 per year for people aged less than 50 years and \$100,000 to \$50,000 per year for the over 50s

- Super co-contribution for low-income earners will fall temporarily from 150% to 100% saving \$1.3 billion, which will be increased to a maximum of \$1,250 in 2012-2013
- From July 1 next year, the 30% private health insurance rebate will be reduced for singles earning more than \$75,000 per year, and families with an income greater than \$150,000
- Baby bonus will no longer be available to parents claiming paid Parental Leave except in cases of multiple birth, where it is available for the first child only
- Qualification for the Age Pension to increase gradually to 67 years by 2023
- Payments under Family Tax Benefit A will fall, and income thresholds for Family Tax Benefit B and the Baby Bonus will freeze for three years
- For employee share schemes all discounts on shares and options provided under either a qualifying share scheme will be assessed in the income year in which they are acquired. Employee will no longer be able to elect to defer taxation on their discount to a later time & the \$1,000 tax exemption will only be available to those employees with a taxable income of less than \$60,000 per annum
- The foreign employment exemption is to be restricted to:
 - An aid or charitable worker employed by a recognised non-government organisation
 - A government aid worker; or
 - A specified government employee i.e defence and police force personnel deployed overseas
 - Other workers will only be eligible to a tax offset for any taxes paid overseas

The Government bank guarantees have helped maintain confidence in domestic financial markets, and enabled lending to continue to provide further support to economic activity. The Government's economic stimulus strategy has cushioned Australia from the worst effects of the global recession. Without these initiatives, the contraction in the Australian economy in 2009-10 would have been four times larger.

As well as supporting jobs and economic activity, the Government's fiscal stimulus measures are assisting first home buyers and building physical and social infrastructure. The Government has also supported jobs through its employment assistance measures.

Kamrul Islam CA, CPA, is the founder of Advance Accounting and Advisory Services.