

Budget 2009

What the Federal Budget means for business

13 May 2009

Budget overview

From a big picture viewpoint, this Budget is very much a big spending affair with surprisingly few “nasties”. The focus is spread across a number of areas, but principally infrastructure – where a total of \$22 billion is to be spent (\$3.4 billion on roads, \$4.6 billion on rail, \$3.5 billion on clean energy, \$3.2 billion on hospitals, \$2.6 billion on universities and \$4.7 billion on broadband).

Pensions were raised significantly as promised (costing around \$3 billion a year), tax cuts delivered, a new carers’ payment was introduced and a paid parental leave scheme introduced from 2011. The first home owners’ scheme was temporarily extended and small business investment allowance increased.

The Government has utilised \$20 billion from the infrastructure schemes set up under last year’s Budget. The main savings areas are in tighter rules for superannuation (for the higher paid), increased means testing for middle income welfare, increasing the pension qualifying age and reprioritising defence spending.

This stimulus is estimated to add ¾% to GDP next year and is forecast by the Government to lower unemployment by 1½% in 2011.

Key winners

Small Businesses

Small Business and General Tax Break increased to 50 per cent for orders made this calendar year. Key winners include new motor vehicle dealers, car manufacturers, and farm & office equipment suppliers.

Education

\$2.7 billion for tertiary education, research and innovation, \$1.5 billion for the Jobs and Training Compact, and \$2.6 billion for projects focused on universities and research from the Education Investment Fund. Key winners include universities and research centres, along with building contractors and building materials firms.

Hospitals

\$3.2 billion in hospitals and health infrastructure. Key winners include public hospitals, building contractors and medical equipment suppliers.

Transport Infrastructure

\$3.4 billion on roads, \$4.6 billion on rail, and \$389 million for ports and freight infrastructure. Key winners include engineering contractors and building materials firms.

Communications

Initial equity investment of \$4.45 billion (with \$750 million allocated for 2009/2010) for the proposed \$43 billion National Broadband Network. An additional \$250 million is allocated to upgrade regional black spots. Key winners include building contractors and some network providers.

Green Energy

\$4.5 billion over 9 years (including \$1 billion of previously announced funding). Key winners include clean coal technologies and solar energy generators and equipment providers.

Residential Property & Construction

\$539 million to extend the first home owners grant for an additional six months with a staged reduction. Key winners include residential builders, trades, some real estate agents, property developers and building materials firms.

Defence

Government commitment to a long term strategy for defence spending in line with the 2009 Defence White Paper. Total spending over the next decade is to reach \$308 billion (excluding operations). Key winners include manufacturers and suppliers of military equipment, along with construction related industries through the upgrades to defence bases and other facilities.

Health

Key Initiatives:

- Means testing for the 30% private health insurance rebate from 1 July 2010, with progressive reductions in returns for individuals with incomes of \$75,000 & above and couples with combined incomes of \$150,000 & above, with three tiers based on income. Means testing will save the Government \$1.9 billion over five years.
- Investment of \$3.2 billion in hospitals and health infrastructure – including \$1.3 billion (over 6 years) for cancer infrastructure through the Health and Hospitals Fund, with a focus on rural and regional areas, as well as public hospital upgrades and clinical training facilities valued at \$1.5 billion (over 7 years).
- An additional \$2.5 billion for hospital and health workplace reform.
- Reductions in fees for the pathology sector, which will not be fully offset by incentives to bulk bill. The reduced payments will save the Government \$763.4 million over four years, with the incentives valued at \$348 million over the same period.
- Increased incentives for out-of-hospital, bulk billing diagnostic imaging providers, with a 10% increase in the Medicare Benefit Schedule fee – valued at \$600.4 million over four years, commencing on 1 November 2009.
- A series of programs valued in total at \$134.4 million over four years under the Rural Health Workforce Strategy to provide incentives for health professionals to work in rural and remote areas.
- Introduction of a cap of Medicare benefits payable under the Extended Medicare Safety Net for a range of items with excessive fees from 1 January 2010. Savings of \$257.9 million over four years will be derived from a cap on procedures such as reproductive technology, hair transplants and cataract surgery. An additional net saving of \$193.7 million over four years will be derived from obstetric services.
- Funding of \$60 million over four years to provide experienced nurse practitioners access to the MBS and PBS from November 2010.
- Government owned private health insurer Medibank Private will become a for-profit government owned business from the end of 2009.

Impacts:

- Treasury modelling suggests little impact on private health insurance membership, with the Medicare Levy surcharge for high income (above threshold), uninsured individuals & couples progressively increasing, from 1.0% to 1.5% for the highest income bracket. Coverage is forecast to remain around 99.7% of current levels, due to the increased tax liability from the surcharge.
- Improvements in hospital infrastructure will modernise major public hospitals, increasing the elective surgery capacity, improving emergency department facilities and improving access to hospital services. The focus on cancer infrastructure will improve the detection, survival and treatment outcomes of patients.
- The Hospital and Health Workforce Reform agenda – a national partnership between the Federal and State Governments – aims to improve the efficiency of public hospital services, enhance health workforce capability and supply, increase the volume and quality of sub-acute care services, and improve the operations of emergency departments.

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- The cut in pathology funding was not unexpected, with the industry returns increasing strongly – in part due to increasing consolidation within the sector. That said, a net reduction of \$415 million in spending is a major negative for the industry.
- Increased payments under the Medicare Benefit Schedule may increase the number of out-of-hospital diagnostic imaging operators providing bulk billed services.
- Under the programs of the Rural Health Workforce Strategy, more than 2400 general practitioners will become eligible for support payments.
- Doctors may be somewhat negatively impacted through nurse/midwives access to MBS for services and PBS for drugs.
- Caps on the Medicare benefits payable under the Safety Net scheme may modestly impact on the revenues of some medical specialists, or the willingness of patients to seek elective treatment.

Agribusiness

Key Initiatives:

- Continuation of exceptional circumstance funding (\$429 million) plus additional funds for continuation of interim income support, professional business and financial planning advice, exit grants and Newstart allowance.
- A series of programs valued in total at \$134.4 million over four years under the Rural Health Workforce Strategy to provide incentives for health professionals to work in rural and remote areas.
- \$300 million on a new scheme to cut water use in the southern basin and any water saved is considered to be outside the cap.
- The Budget also makes good on various water promises made since the last Budget: \$500 million has been brought forward to buy farmers' water rights; \$200 million for local councils to plan how to use less water; and \$200 million for stormwater harvesting.
- More farms are eligible for top-up payments if they sell their water to the Government.
- Abolishment of Land and Water Australia, saving the Government \$45.9 million over four years.
- Funding cuts for Rural Industries and Research and Development Corporation (RIRDC), saving the Government \$12 million over 4 years.
- Funding cuts for Department of Agriculture Fisheries and Forestry (\$12 million) over 4 years.

Impacts:

- Continuation of drought assistance policies for some of the hardest hit communities.
- Further reductions in water availability to further constrain irrigated agriculture.
- Indirectly, improvements in rail, road, communications and port infrastructure have the potential to reduce bottlenecks associated with the movement of agricultural commodities and information.

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Education

Key Initiatives:

- Overall, \$5.3 billion on tertiary education, research and innovation.
- The Government's Jobs and Training Compact gets \$1.5 billion, providing education and services to support young people, retrenched workers and local communities.
- \$1.25 billion over 4 years for Student Start-Up Scholarship for all university students receiving student income support, with eligible students receiving an initial \$2,254.
- Additional \$577.6 million over three years to higher education institutions as a result of changes in the indexation arrangements.
- \$490.6 million over four years for the introduction of a demand-driven funding system, uncapping the number of university places (2012).
- \$934.2 million over four years from the Education Investment Fund (EIF) to contribute funding to successful projects (11 teaching, 8 research, 12 vocational).
- \$901 million for 21 research projects in space, marine, climate and nuclear science.
- \$436.9 million over 4 years to support university education for the disadvantaged/low socio-economic status backgrounds.
- \$206.4 million over two years from 2011-12 to reward higher education institutions for the achievement of performance targets.
- \$82.6 million over four years to reduce the required HELP debt repayments for education and nursing graduates working in these professions.
- \$559 million increase in youth allowance parental income threshold and adjustment to the family taper rate (January 2010).
- The \$436.9 million provides \$324 million for new financial loading for students and \$108.2m for universities to build long term partnerships with schools and communities.

Impacts:

- Tertiary (particularly Universities) and research centres are key winners from this Budget along with building contractors and building materials firms.
- Whilst there is little in the Budget for schools, the states and territories have already been allocated \$14 billion over four years for government schools, and private schools secured funding of \$28 billion over four years in December. Moreover, as part of the stimulus package, \$14.7 billion is to be spent erecting and upgrading school buildings.
- The primary and secondary education sectors will also benefit from additional trained staff under the measure to reduce the required HELP debt repayments for education graduates.
- Students from low socio-economic backgrounds, nurses and education staff will be direct beneficiaries.

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Property

Key Initiatives:

- \$539 million to extend the first home owners grant for an additional six months to December 2009 with 2 staged reduction in grant – from \$21,000 for new homes and \$14,000 for existing homes to \$14,000 and \$10,500 respectively with the final grant amount remaining at \$7,000 post December 2009.
- Government to provide additional \$30.9 million over four years for defence force members to retain rental accommodation while on deployment (cost met from existing sourcing).
- Government to provide \$271.7 million in 2009/10 in solar homes and community housing rebates of up to \$8,000 for the installation of solar panels in homes and grants of half the cost of a 2 kilowatt system for community buildings.

Impacts:

- Continue to assist first home buyers to enter market, bolstering new housing starts and benefiting residential builders, trades, some real estate agents, property developers and building materials firms.
- Assist Servicemen with accommodation requirements.
- Increase viability in alternate energy sources whilst promoting reduction in national greenhouse gas emissions.

Construction: Road, Rail & Ports

Key Initiatives:

- \$3.4 billion on roads, \$4.6 billion on rail, and \$389 million for ports and freight infrastructure.
- Initiatives include bringing forward \$479.7 million local government financial assistance grants from Q1 2009 into Q4 2008.
- Providing \$488 million (including \$176 million in '08-'09) over 4 years to enlarge Bruce Highway (between Cooroy and Curra) to provide 4 lane freeway.
- Investing in Metro Rail – Government to provide \$3.9 billion (incl. \$263 million in '08-'09) over six years as a contribution towards 5 major rail projects: West Metro, Sydney (\$91 million) Regional Rail Express, Vic (\$3.225 billion), East/West Rail Tunnel, Melbourne (\$40 million), Gawler Rail Line, SA (\$293.5 million), Noarlunga to Seaford, SA (\$291.2 million)
- \$3.0 billion over 6 years (incl. \$742m in '08-'09 and \$1.034 billion in '13-'14) as contribution to 3 road projects: Hunter Expressway, NSW (\$1.451 billion), Pacific Highway, Kempsey NSW (\$618 million), Ipswich Motorway improvements, QLD (\$884 million).
- Provide \$317.0 million (incl. \$32 million in '08-'09 and \$37 million in '13-'14) over 6 years as contributions towards Brisbane City Rail Feasibility Study (\$20 million), O-Bahn track extension, Adelaide (\$61 million), Northbridge Rail Link, Perth (\$236 million).

Impacts:

- Key winners include engineering contractors and building materials firms.
- Will also assist local governments' immediate capacity to provide services to the community.
- Improve capacity, modernisation and efficiency of rail network including new stations, dual track service and extended rail lines.
- Provide improved national transportation network and increased rural access via dual carriageways, highways and construction of new highways.
- Allow provisions for future urban growth, dedicated tracks and improvements and the sinking of a central city rail hub in Perth resulting in new land development opportunities and commencement of the hub urban redevelopment project.

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Communications

Key Initiatives:

- The Government will make an initial equity investment of \$4.45 billion (with \$750 million allocated for 2009/2010). This will be in the form of an equity stake in a company set up to operate the National Broadband Network whose total long term infrastructure cost is estimated to be \$43 billion. Public Debt interest cost will be drawn from the Building Australia Fund.
- An additional \$250 million is allocated to upgrade regional black spots.
- New housing estate developments from July 1 2010 will be required to install fibre-to-the-premises (FTTP) technology.

Impacts:

- The FTTP network is expected to reach 90 per cent of Australian homes and businesses and deliver broadband speeds of up to 100 megabits per second.
- Tasmania will be the initial beneficiary of the Government's equity injection.
- The FTTP will also impact the current strategy of those Telcos which currently own and operate both network infrastructure and retail businesses.

Defence

Key Initiatives:

- In line with the plan set out in the 2009 Defence White Paper, Force 2030, the Government has focused on a long term strategy for defence spending. Under the plan, the Government will provide the Department of Defence with \$25 billion of funding in 2009-10 (excluding operations), with total spending over the next decade reaching \$308 billion – maintaining a commitment to increase real funding at 3 per cent a year to 2017-18.
- Within this funding model, \$1.5 billion over the next decade will support the addition of 700 full time Navy personnel. Defence facilities and bases across the country will also be upgraded.
- The Department of Defence has been required to generate cost savings of \$2 billion over the three years to 2012-13.
- For operations, almost \$1.3 billion over 4 years has been allocated to Australia's expanded military commitment to Afghanistan, and \$211.2 million over 3 years to expanded operations in Timor-Leste.

Impacts:

- The spending under the Defence White Paper will enhance Australia's defence capabilities, reform the Defence organisation and improve infrastructure & support systems.
- Key winners include manufacturers and suppliers of military equipment (including submarines, warships, jet fighters, spy planes, artillery systems, light vehicles, weapons and command & control systems), along with construction related industries through the upgrades to defence bases and other facilities.

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Superannuation

Key Initiatives:

- The Government has reduced the cap on salary sacrificed contributions into superannuation. For individuals aged under 50, the maximum contribution has been reduced from \$50,000 p.a. to \$25,000. For over 50s, the cap has been reduced from \$100,000 p.a. to \$50,000 until 2011/12.
- Superannuation co-contributions for lower income earners will be temporarily reduced – down from 150% contributions up to the cap to 100%. The rate will increase to 125% for 2012/13 and 2013/14, before rising to the initial rate. The maximum contribution over the next two years will be \$1000.
- Reducing the co-contribution payments over the next four years is estimated to save almost \$1.4 billion.

Impacts:

- Salary sacrificed contributions into superannuation are taxed at 15 per cent, below the normal income tax rates of 30 per cent and above. Higher income earners – the main super contributors under this scheme – will therefore be exposed to higher taxation rates on disposable income.
- Whilst the changes will impact net inflows into superannuation, it will only impact a relatively small number of high income earners.

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SME's

Key Initiatives:

- Funding of \$141 million to increase the Small Business and General Business Tax Break (The Government Investment Allowance).
- Small business will have access to 50 per cent tax deduction for eligible assets costing \$1,000 or more purchased between 13 December 2008 and 31 December 2009 and installed before 31 December 2010. This is up from 30 % announced in February 2009, which cost \$2.7 billion.
- To benefit from this tax break a small business must turn over \$2 million a year or less.
- The February announcement of the initial 30% bonus deduction will continue to apply to all other businesses for eligible assets greater than \$10,000 until the end of June 2009.
- \$10 million to be provided to help eligible organisations improve e-commerce capabilities.
- Additional \$50 million of funding will be provided for the Government's Export Market Development Grant scheme, in addition to \$50m provided in the 08/09 Budget.
- \$10 million over two years to establish a Small Business Support Line which will link Business Enterprise Centres and provide initial advice and referral services for small business on matters such as obtaining finance and cash flow management.
- ATO receives \$168 million to assist small businesses and help them remain viable.
- There is no net revenue impact from the Government's cash flow relief for small business by reducing Pay As You Go (PAYG) instalments for the 2009-10 income year for all taxpayers who pay quarterly PAYG instalments.
- The new \$1.4 billion tax credit scheme for R&D will be launched in 2010/11, which provides a 45% tax refund for R&D for business with a turnover less than \$20 million. Businesses with a turnover greater than \$20 million have access to a 40% non refundable tax concession.
- For 2009/10 the government has lifted the expenditure cap on eligible R&D that makes a tax loss from \$1 million to \$2 million at a cost of \$65 million.
- An extra \$65 million for R&D tax concessions. The Tax credit scheme will increase to \$1.4 billion, up from \$700 million.
- Contractors and trades are likely to benefit from the significant infrastructure investments committed to by the Government. These include road, rail, port, hospital and broadband projects.
- The Government is offering a range apprenticeship and educational support for employees and employers.
- The do not call register has been expanded to include business and fax numbers.

Impacts:

- Eligible small businesses will receive tax deductions on new investment, even in instances where an asset is jointly held. This will bring forward some planned capital investment.
- Other winners include new motor vehicle dealers as vehicles are replaced (with a resultant fall in used car prices), car manufacturers, and farm & office equipment suppliers.

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“Green” Business

Key Initiatives:

- Clean Energy Initiative to spend \$4.5 billion over 9 years (including \$1 billion of previously announced plans). Carbon capture and storage (CCS) will receive \$2 billion (over 9 years) to support the development of industrial scale coal fired electricity generation projects with CCS technology. Four solar projects will receive \$1.5 billion over 6 years to research and demonstrate the viability of industrial scale solar products.
- Investment of \$465 million to establish Renewables Australia, an independent innovation investment body to promote the development, commercialisation and deployment of renewable energy technologies.

Impacts:

- The Clean Energy Initiative will provide some incentive for investment in the clean energy sector.
- The Government aims to contribute one-third of the cost of selected carbon capture and storage projects, with the remainder financed by private industry.
- However, the deferral of the Carbon Pollution Reduction Scheme until 1 July 2011, and the reduction in carbon prices under the scheme from \$40 a tonne to \$10 a tonne, may impact on the investment incentive structure.

Fiscal strategy – a comment

In the near term the Budget deficit blows out to around \$57 billion. Budget deficits remain sizeable (\$44 billion in 2012/13) and are not eliminated until 2015/16 – and then only if the economy seriously bounces up (4½% per annum) for a number of years post the recession. On the near term forecasts (out to 2011/12) we have few real quibbles. Our issue is that the Government seems to be largely relying on the economy to self correct the problem – our structural deficit in fact sees no noticeable retrenchment over the next 3 years.

While the net debt position increases significantly it still looks reasonable compared to most other nations (a peak of 13.8% in 2013/14). Our real concern is that the Budget does not lay out a credible medium term policy to return the Budget to more sustainable footing. It may well happen naturally but at some point down the track a more aggressive policy stance will probably be needed.

Fiscal outcome

The underlying cash deficit is estimated at \$57.6 billion (4.9% percent of GDP). The Budget remains at broadly similar levels in 2010/11 and is not erased until 2015/16. That improvement, however, is very much related to the impact of the economy recovering strongly from 2011/12.

Economic, inflation & interest rate outlook

NAB has similar forecasts to the Government (and the RBA) out to 2010/11 – as far out as we are reasonably prepared to forecast. At the moment the Government is even more bearish on private investment than NAB partly offset by stronger public sector demand. We on the other hand have larger falls in exports, commodity prices and hence a larger current account deficit. At the moment we are more bearish on employment but surprisingly have a marginally lower unemployment rate. This may in part reflect timing – we see unemployment rising to 8% by late 2010 and edging higher into 2011 (around 8¼%). The Government gets to a peak of 8½% in mid 2010 and essentially stays at that level. We also suspect the Government is being deliberately conservative in its unemployment forecast (as has been the case in the past). As noted previously a big issue relates to what happens after 2011/12. It is possible that GDP could sustain rates at or above 4% for some time but one wonders about the wisdom of relying on these types of assumptions as the key means to return the Budget to medium term health.

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How NAB can help

Government Investment Allowance update

Could your business benefit from a tax deduction?

The Government Investment Allowance offers businesses a great incentive to purchase new assets and will provide:

- an additional tax deduction of 30 per cent of the cost (GST exclusive) of eligible new depreciating assets acquired under a contract, or started to be constructed, after 13 December 2008 and before the end of June 2009 and installed ready for use by the end of June 2010; or
- an additional tax deduction of 10 per cent of the cost of eligible new depreciating assets acquired under a contract, or started to be constructed, between 1 July 2009 and 31 December 2009 and installed ready for use by the end of December 2010.

The allowance will be applicable to most new tangible depreciating assets – which includes vehicles and equipment – over \$10,000 which are acquired or ordered by the end of the current financial year (for the 30% deduction) or 31 December 2009 (for the 10% deduction).

In order to claim the Investment Allowance, businesses can either pay cash for new vehicles and/or equipment, or fund assets through other finance solutions, such as a NAB Equipment Loan or NAB Hire Purchase. Following the acquisition, the business as owner of the asset is eligible to claim the Investment Allowance by making a claim equivalent of up to 30% of the net of GST purchase price (and net of on road costs if the purchase relates to the acquisition of a Motor Vehicle), in their next applicable tax return.

For leased assets, banks can claim the Investment Allowance and pass on the benefit to businesses through reduced interest rates.

For small businesses with turnover less than \$2 million p.a. the Investment Allowance differs slightly. The tax break increases from 30 per cent to 50 per cent for eligible assets over \$1,000 that were purchased between 13 December 2008 and 31 December 2009, and installed and ready for use by 31 December 2010.

Eligibility criteria apply. Tax deductions depend on your individual circumstances. You should seek independent tax advice on taxation matters. Applicable legislation has yet to be passed.

Budget gives exporters extra funding

The **Export Market Development** Grant scheme has been given a \$50 million boost in the Federal Budget for 2008-09, along with the previously promised \$50 million for the 2009-10 year. The Government says the extra funding means those businesses will now receive 100% of their costs returned, with payments to begin next month. The grant is designed to help small and medium exporters by reimbursing them for promotional costs. NAB provides **Export Finance** to assist businesses who need pre or post shipment finance to fund their export business transactions.

Budget provides support for small business to improve e-commerce capabilities

NAB offers business a range of e-commerce business banking tools like NAB Transact, which allows you to accept credit or charge card payments via your website, phone or mail using an easy web based administration and reporting system. NAB can also provide you with a range of online banking tools to help you manage your everyday finances, like NAB Connect.

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