

## Budget 2015: The rumours, predictions and reality

On May 13 when Treasurer Joe Hockey delivers the 2014/2015 Federal Budget, he will be either one of the most respected men in the country for instigating much needed structural reform or one of the most unpopular, if predictions of a slash and burn approach to social welfare come true.

The Treasurer has been laying the foundation for reform for some time. Australia's economic growth - once a point of pride during the GFC - is now looking a little flaccid at 2.8% in 2013. We've come through the GFC but we've failed to do much more than just survive since. The Government's challenge is to ensure that they do not hinder productivity and do as much as possible to encourage growth. Any reforms will be measured against this philosophy.

One of the first moves by the Government when it came to power was to appoint the National Commission of Audit headed by Business Council of Australia President and former Transfield Chairman Tony Shepherd. The Commission's function is to look at how to improve the efficiency and productivity of Government expenditure. In other words, help identify how the Government can get a better 'bang for its buck' in the impending Budget.

In mid February, the Commission of Audit completed the first phase of its review and presented it to the Government. While the report and the Government's response to it have not been made public, key recommendations of the report have already been leaked to the media. It's not uncommon for Government to leak its own bad news before delivering the Budget to prepare the population for what's to come and in some circumstances to 'test check' how a particular measure is likely to be received before it's confirmed.

This month, we look at the Budget rumours and what might occur.

### Rumour - The end of 'middle class welfare'

Mr Shepherd was recently quoted as saying that "People who can look after themselves should look after themselves. They shouldn't rely on government ... If people are getting welfare who are well and truly able to look after themselves, that's not fair. When our report comes out you'll see it all."

The question is, how reform be structured? The rumour is that the income test for Family Tax Benefit B will be reduced. Previous proposals have recommended combining family payments including Family Tax Benefit A and B, into one.

Our view is that access will be tightened to family payments. There is also a high likelihood of a restructure to how family payments are applied.

### Rumour - Sale of Government assets

Treasurer Joe Hockey has said that the Government needs to look at: "How we can recycle assets; sell existing government assets... and recycle precious taxpayer money into new productive assets that are going to facilitate growth in the non-mining sector".

The sale of MediBank Private has been discussed for some time. The ABC and SBS are also possibilities.

### Rumour - Means testing Medicare

A Health Department plan leaked to the *Australian Financial Review* recommends changes to how GPs are compensated by Medicare. Under the scheme bulk billing would be limited to concession card holders and children. The tiered system would provide doctors with a full concession for children, less for adults receiving Family Tax Benefit A, and even less for everyone else - creating a gap in the bulk billing system for people in tiers 2 and 3.

The Government has not ruled out the tiered system but repeats the line that Health Minister Peter Dutton has been using "...our 1980s Medicare model health system is tracking on an unsustainable path".

### Rumour - Prime Minister Tony Abbott's maternity leave scheme scrapped

The Commission of Audit is reportedly not happy with the cost of the Prime Minister's paid parental leave scheme. Due to commence on 1 July 2015 and costing \$5.5bn per annum, the scheme would see recipients receive their full salary for up to 6 months capped at \$75,000 plus super. The scheme is to be funded by a 1.5% levy on large business.

The Greens support the scheme but not the cap – their scheme has a \$50,000 cap.

Whether in the Budget or during its negotiated passage through the Senate, the Government's paid parental leave scheme will be watered down. It sits uncomfortably with the terms of reference of the Commission of Audit and does not have the broader support of the other political parties to make the passage through Parliament untouched.

As one commentator pointed out though, all of the debate is focussed on 'rich women on high incomes' being paid to stay at home. Statistically, women in the Australian workforce are neither rich nor high income earners with around 2% of all women earning over \$100,000 compared to just below 8% of males.

### Rumour - Increasing the GST to 12%

Former Treasury boss Ken Henry has been talking up the idea of increasing the GST stating that it is inevitable.

Our prediction is that while it is inevitable, it won't be in this budget. The Government will seek to manage the budget in other ways. It's more likely that the debate on the GST rate will be part of the impending White Paper on Tax Reform promised within the first 2 years of the Abbott Government.

### Rumour - Increasing tax on super

Australians currently have over \$1.3 trillion invested in superannuation. Assuming you stick to the rules, the tax paid on superannuation is relatively light compared to the tax on other forms of investments. While it would be tempting for any Government looking to raise revenue to take a larger percentage of superannuation, our view is that it's unlikely for now.

If there was a change, the most likely area is to uniformly tax gains inside a superannuation fund. At present, no CGT is payable on gains made by a fund when it is in pension phase.

### Rumour - No age pension until 70

Treasurer Joe Hockey is quoted as saying that the eligibility age for the pension was "...set at that level in Australia in 1908 when life expectancy was 55". The previous Government increased the pension age by six months every 2 years from July 2017 until it hits 67 in 2023. The Productivity Commission called for the pension age to rise to 70 – a view supported by the Treasurer.

While unlikely, if there was a change, the Government might speed up the timeframes for the increase to the pension age.

### What's missing?

Very little has been leaked that's directly relevant to business. The Government has already stripped out much of the excess concessions

available to business when they decided to repeal the mining tax and the associated spending measures such as the loss carry back rules and generous deductions. One of the simple reasons is that business reforms or business related spending cuts are not vote winners or losers compared to say family tax benefits or superannuation. Reforms to Government spending on business barely register unless they are job killers.

The last remaining vestige is the small business CGT concessions that allow, in some circumstances, small business to reduce the capital gains tax they pay on the sale of assets to nothing. The Henry Review back in 2009 recommended changes to these concessions to remove the active asset 50% reduction and 15-year exemption. Our prediction is that these concessions won't be removed just yet but will remain a potential target in the Government's upcoming white paper on tax reform.

For business, it is more likely that we will not see the structural reforms needed to grow productivity, jobs and investment – such as reducing the company tax rate to 28.5% from 1 July 2015 as promised by the Government during the election and the changes to the GST take that would see State Governments remove payroll tax.

Outside of business a potential area of change is the general 50% CGT discount. The discount currently applies to assets that have been held for more than 12 months. The discount has already been removed for foreign and temporary residents from 9 May 2012. The question is whether it will be scaled back or scrapped for residents.

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