

2016-17 FEDERAL BUDGET SNAPSHOT & RBA INTEREST RATES DECISION

The 2016-17 Federal Budget has just been released and it sets the tone for the forthcoming election campaign.

National UDIA President, Michael Corcoran, said, “UDIA is pleased to see that the budget features and confirms several positive and stimulatory outcomes for our industry, including a commitment to the current status of negative gearing and capital gains tax as well as key investments in infrastructure for our growing cities.”

“Our research and policy advocacy over the past six months via the Prime Minister, the Treasurer and the Cities Minister has focused heavily on gaining support for these two outcomes. It is pleasing to see the government support for these initiatives in this budget,” said Mr Corcoran.

UDIA has prepared the following summary for members from the government’s budget lock-up.

Budget Summary & Forecasts

Economic growth is expected to remain relatively robust, with real GDP growth forecast to grow by 2.5 per cent in 2016-17 and is projected to increase to 3 per cent in each of the out-years to 2019-20.

The underlying budget deficit is expected to fall modestly in 2016-17 to \$37.1 billion (2.2 per cent of GDP), down from \$39.9 billion (2.4 per cent of GDP) in 2015-16. The deficit is forecast to fall consistently over the forward estimates and is projected to be \$6 billion (0.3 per cent of GDP) in 2019-20.

Dwelling investment is expected to remain at high levels, although growth will slow to 2 per cent in 2016-17 and 1 per cent in 2017-18. This follows 7.9 per cent growth in 2014-15 – the largest growth in a decade – supported by low interest rates and an increase in the level of work under construction. The easing in growth is largely due to a record number of dwellings reaching completion.

Reserve Bank reduces interest rates by 0.25pp

Earlier today, the Reserve Bank announced a cut to the official interest rate of 0.25 percentage points, taking the official interest rate to a record low 1.75 per cent, followed by the government releasing its budget with a focus on longer term transition to a more diverse, new economy.

The Reserve Bank and the government acknowledged uncertainties and softening that continue to pose risks to the Australian economy, including an acknowledgement that the heat is coming out of the housing market.

The uncertain global economic environment also continues to pose risks to the Australian economy. Similar to the Reserve Bank’s concerns, the government highlighted the uncertainties around the transition facing the Chinese economy, the possibility of renewed

volatility in financial markets, and risks that low inflation, wage growth and productivity growth being experienced in many advanced economies could become embedded in lower potential global growth over time.

Key Budget Measures

There are several significant measures in this year's budget that will have a direct impact on the development industry.

Key measures include:

- In support of ongoing growth in housing supply, the government announced its commitment to leave the negative gearing and capital gains tax regimes unchanged. In addition, the government has confirmed that there will be no changes made to the GST base or rate.
- The government will provide \$4.6 million in 2016-17 to continue and expand the Cities Taskforce within the Department of the Prime Minister and Cabinet. This funding will drive implementation of the government's agenda for Australian cities. This builds on the initiatives announced in the Mid-Year Economic and Fiscal Outlook in 2015-16.
- The budget includes more than \$33 billion over the forward estimates in infrastructure funding to improve the economy's productive capacity. Infrastructure highlights include:
 - a commitment to the Melbourne to Brisbane Inland Rail project, providing \$594 million to buy land and to continue pre-construction activities
 - \$2.9 billion Western Sydney Infrastructure Plan
 - an additional \$115 million to continue preparatory works for the Badgerys Creek airport.
 - helping to upgrade Victorian roads and rail by reallocating \$1.5 billion (subject to matching by the Victorian government) in funding originally for the East West Link. This will include the Murray Basin Freight Rail network, the Monash Freeway, the M80 Ring Road, a rural and regional roads package and an urban congestion package. Meanwhile, the government remains committed to the East West Link with the offer of \$3 billion to the Victorian government to deliver the project remaining.
 - \$1.2 billion for the Perth Freight Link
 - an additional \$490 million towards the construction of the \$2 billion Forrestfield Airport Link in Western Australia
 - \$6.7 billion in Bruce Highway safety upgrades
 - \$1.137 billion for the Toowoomba Second Range Crossing
 - \$200 million for the Ipswich Motorway
 - \$496 million for the North-South Corridor – Darlington Interchange in Adelaide
 - \$400 million for the Midland Highway in Tasmania
 - \$77 million Northern Territory Roads package

In addition, the Asset Recycling Initiative, worth \$3.3 billion, will unlock over \$23 billion in state and territory infrastructure spending, including for the Sydney and Melbourne Metro projects.

Additional measures that will support growth and confidence in our economy include:

- a modest tax cut for individuals earning more than \$80,000 to ensure average full time wage earners do not move into the second top tax bracket
- a ten year enterprise tax plan comprising
 - a tax cut for small businesses with a turnover of less than \$10 million from 28.5 per cent to 27.5 per cent. Each year the turnover threshold for access to the lower company tax rate of 27.5 per cent will continue to step up, from \$10 million to \$25 million in 2017-18, to \$50 million in 2018-19 and \$100 million in 2019-20.
 - extending the lower tax rate of 27.5 per cent to all businesses, by continuing to step up the threshold each year until 2023-24
 - reducing the 27.5 per cent rate for all businesses to 25 per cent at the end of ten years in 2026-27
- extending access to instant write off for equipment purchases of up to \$20,000 to businesses with a turnover of less than \$10 million. This measure will expire on 30 June 2017.

Supporting the South Australian economy, the government reaffirmed its \$89 billion commitment to build the next generation of Australian submarines in Adelaide.

In savings measures, the government announced new measures to combat multinational tax avoidance, raising an additional \$3.9 billion in revenue over the next four years as well as changes to superannuation that will save \$2.9 billion over the next four years.

Key Figures

- Budget Position: Estimated deficit for 2016-17 of \$37.1 billion, down from last year's estimate of \$39.9 billion, and projected to shrink to \$6 billion in 2019-20.
- Real GDP Growth: 2.5% projected for 2016-17, unchanged from last year's and projected to grow to 3 per cent in 2017-18.
- Dwelling Investment: 2% growth in 2016-17 and falling to 1% in 2017-18, down from 8% in 2015-16
- Inflation: 2% up from 1.25% in 2015-16, rising to 2.25% in 2017-18
- Unemployment: 5.5% in 2016-17 and 2017-18, down from 5.75% in 2015-16

UDIA National will provide additional information to members on significant Federal budget initiatives as it becomes available.