



# Budget 2018-19

Ensuring the  
Government lives  
within its means

© Commonwealth of Australia 2018

ISBN 978-1-925504-82-8

This publication is available for your use under a Creative Commons BY Attribution 3.0 Australia licence, with the exception of the Commonwealth Coat of Arms, third party content and where otherwise stated. The full licence terms are available from <http://creativecommons.org/licenses/by/3.0/au/legalcode>.



Use of Commonwealth of Australia material under a Creative Commons BY Attribution 3.0 Australia licence requires you to attribute the work (but not in any way that suggests that the Commonwealth of Australia endorses you or your use of the work).

### **Commonwealth of Australia material used 'as supplied'**

Provided you have not modified or transformed Commonwealth of Australia material in any way including, for example, by changing the Commonwealth of Australia text; calculating percentage changes; graphing or charting data; or deriving new statistics from published Commonwealth of Australia statistics – then Commonwealth of Australia prefers the following attribution:

*Source: The Commonwealth of Australia*

### **Derivative material**

If you have modified or transformed Commonwealth of Australia material, or derived new material from those of the Commonwealth of Australia in any way, then Commonwealth of Australia prefers the following attribution:

*Based on Commonwealth of Australia data*

### **Use of the Coat of Arms**

The terms under which the Coat of Arms can be used are set out on the Department of the Prime Minister and Cabinet website (see [www.pmc.gov.au/government/commonwealth-coat-arms](http://www.pmc.gov.au/government/commonwealth-coat-arms)).

### **Other Uses**

Inquiries regarding this licence and any other use of this document are welcome at:

Manager  
Media Unit  
The Treasury  
Langton Crescent Parkes ACT 2600

Email: [medialiaison@treasury.gov.au](mailto:medialiaison@treasury.gov.au)

### **Internet**

A copy of this document is available on the central Budget website at: [www.budget.gov.au](http://www.budget.gov.au).

Printed by CanPrint Communications Pty Ltd

# Contents

The Government is living within its means	2
Turning the corner on debt and deficit	4
Keeping a tight rein on spending	6
A 'speed limit' on taxes	7
Paying down debt	8
Paying our everyday expenses	9
Reducing welfare dependency	10
Ensuring everyone pays their fair share of tax	12
Tackling the black economy	14
Working together with the States and Territories	16

# The Government is living within its means

Sticking to our plan to return the Budget to balance

## Benefits of a balanced budget

A sustainable Budget supports economic growth, creates opportunity and boosts the living standards of Australians, while guaranteeing the essential services they rely on.

A balanced budget enables the Government to provide responsible tax relief to encourage and reward working Australians, to back businesses to invest and create jobs, and to invest in nation-building infrastructure that busts congestion, makes our roads safer and gets what we produce to market.

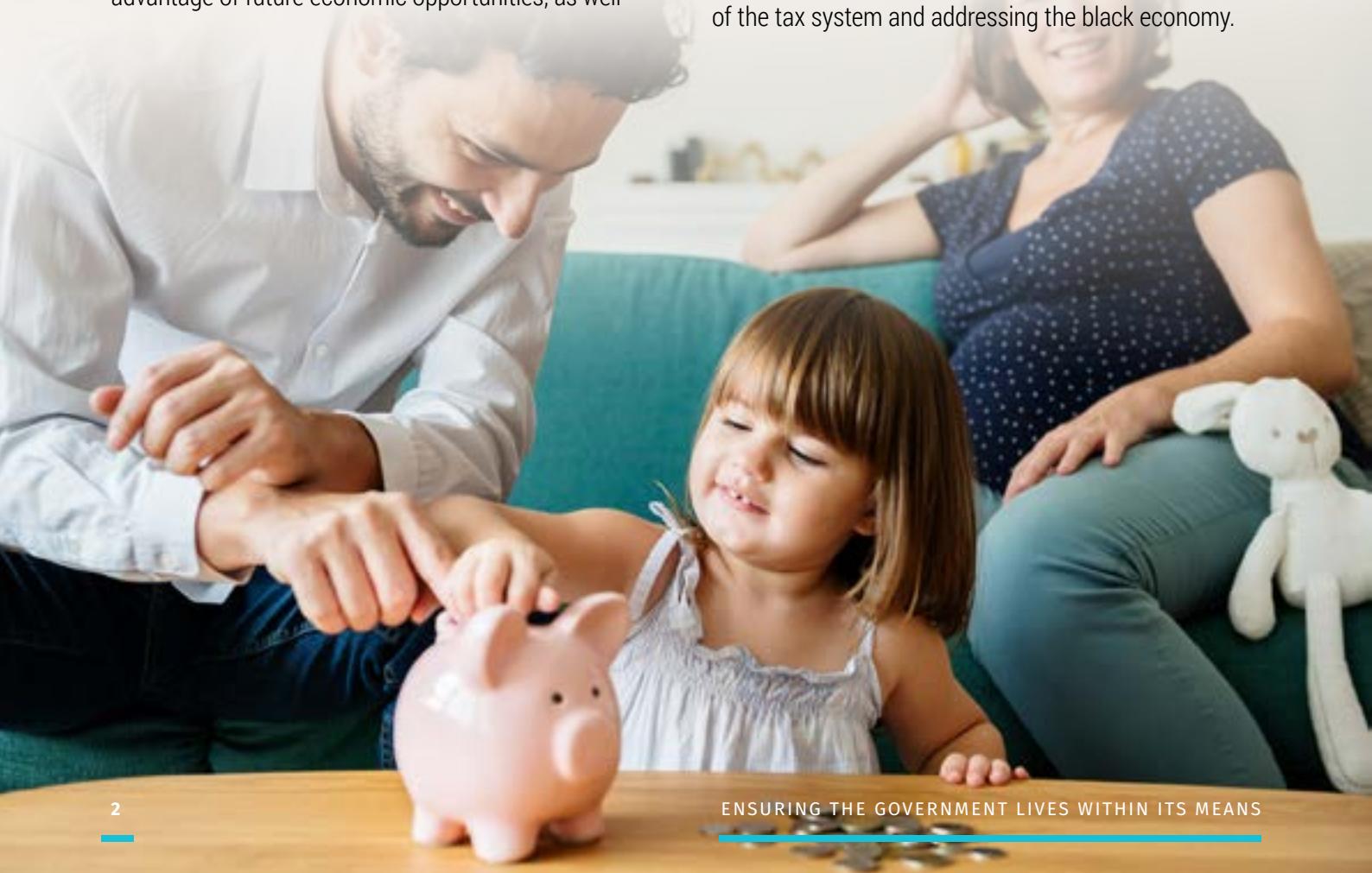
It puts the Government on the road to paying down debt, which will position Australia to take greater advantage of future economic opportunities, as well

as creating a buffer to withstand any future economic shocks that could impact on the living standards of Australians.

All of this is reliant on a Government that builds a strong economy and lives within its means.

## Ensuring the Government is living within its means

The Government has kept a tight rein on spending and is now no longer borrowing to pay for everyday expenses. Spending is being directed to more productive uses such as infrastructure and the Government is taking further action to ensure that everyone pays their fair share by protecting the integrity of the tax system and addressing the black economy.





The Budget returns to balance in 2019-20, with the surplus increasing in 2020-21 and beyond to more than one per cent of GDP over the medium term. This is achieved while delivering much-needed tax relief and investing to further strengthen our economy and deliver a more prosperous future for all Australians.

The Government will continue to pursue savings where it can, in addition to keeping a tight rein on spending, to ensure the Budget is sustainable.

These savings include better targeting payments to those in genuine need.

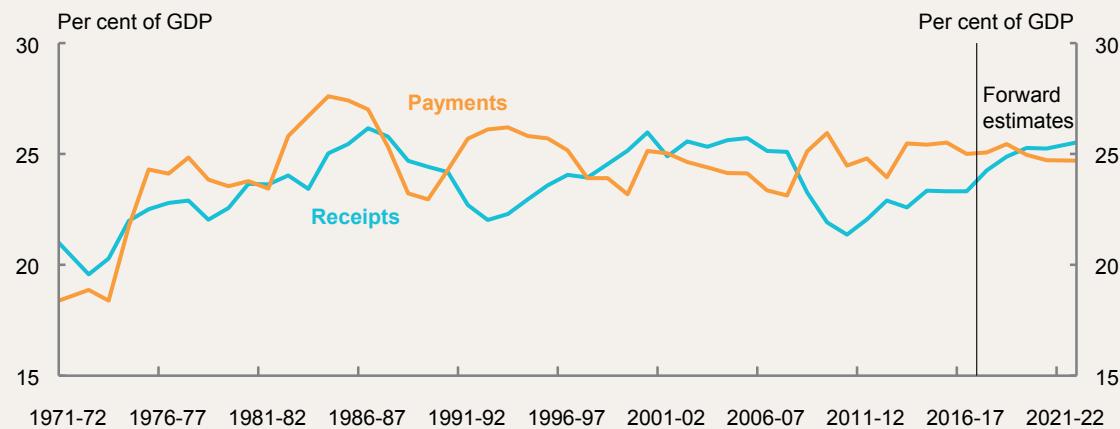
Since the 2016 election, the Government has legislated over \$41 billion of budget repair measures that have strengthened the bottom line.

This is consistent with the Government's budget repair strategy requiring that all new spending is offset.

The Government is also keeping taxes under control so higher taxes do not slow our economy down, costing jobs. The Government is committed to staying under the tax 'speed limit' of 23.9 per cent of GDP.

The Government is continuing to make policy decisions that improve the bottom line. As a result of our responsible economic management we have retained our AAA credit rating from all three major credit rating agencies, making Australia one of only ten countries in the world to do so.

### Keeping a tight rein on spending and a 'speed limit' on taxes



# Turning the corner on debt and deficit

A strict discipline on spending and a commitment to achieve savings

## Budget on track to return to balance

The Budget remains on track to return to balance. The underlying cash deficits of \$18.2 billion and \$14.5 billion forecast for 2017-18 and 2018-19 are the smallest since the surpluses delivered under the Howard Government.

The underlying cash balance is forecast to return to balance in 2019-20 at \$2.2 billion, before increasing to a projected surplus of \$11.0 billion in 2020-21 and \$16.6 billion in 2021-22. Budget surpluses are projected to continue into the medium term, building to a projected surplus of over one per cent of GDP by 2026-27 consistent with the Government's budget repair strategy.

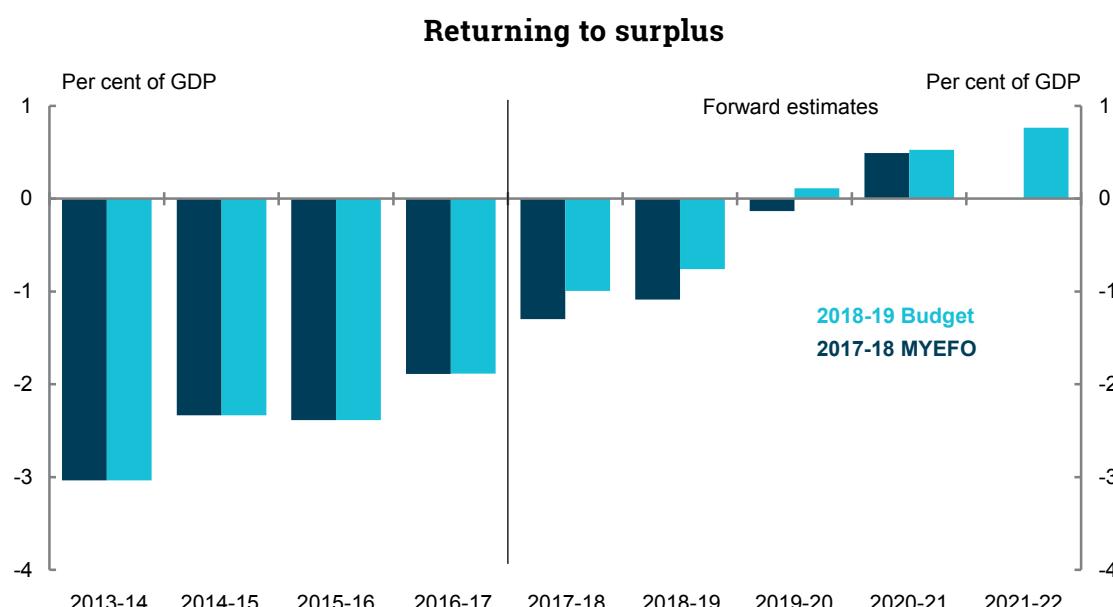
This is the sixth successive Budget update where the underlying cash balance has remained on track to reach a surplus in 2020-21.

## Net debt is expected to have peaked this year

The return to surplus in 2020-21 and continuing projected surpluses over the medium term will enable a reduction in debt.

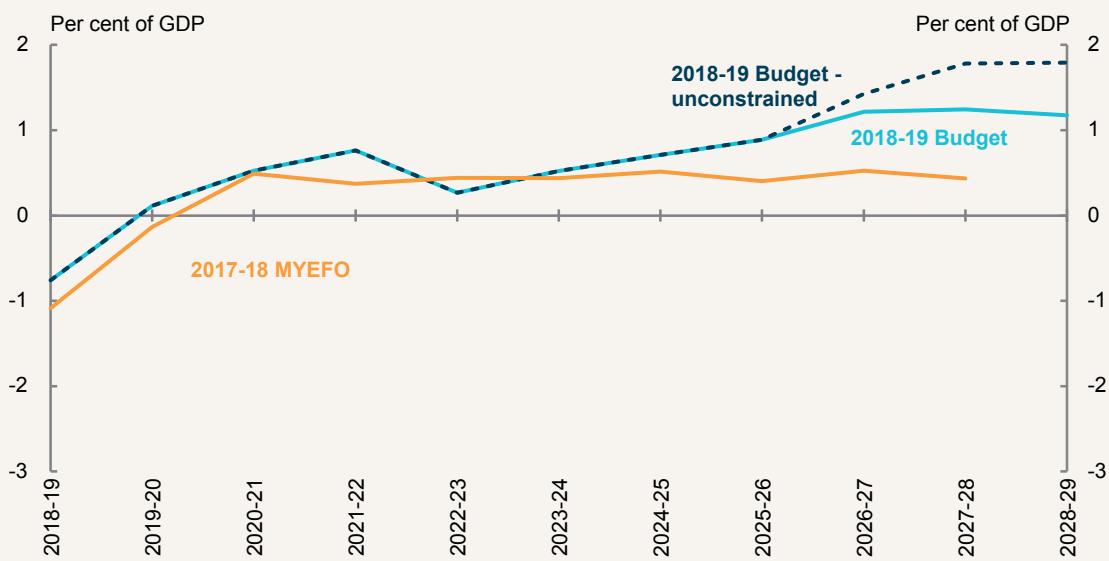
As a result of living within our means, the Government has turned the corner on debt. Net debt as a share of GDP is expected to peak at 18.6 per cent of GDP in 2017-18 and is projected to fall to 14.7 per cent by 2021-22.

Gross debt will peak in 2019-20 at less than 30 per cent of GDP. Over the medium term gross debt will fall and be \$126 billion less in 2027-28 than was estimated at MYEFO last December.





**A surplus of greater than 1 per cent  
projected over the medium term**



# Keeping a tight rein on spending

The lowest spending growth of any government in more than 50 years

## Getting spending under control

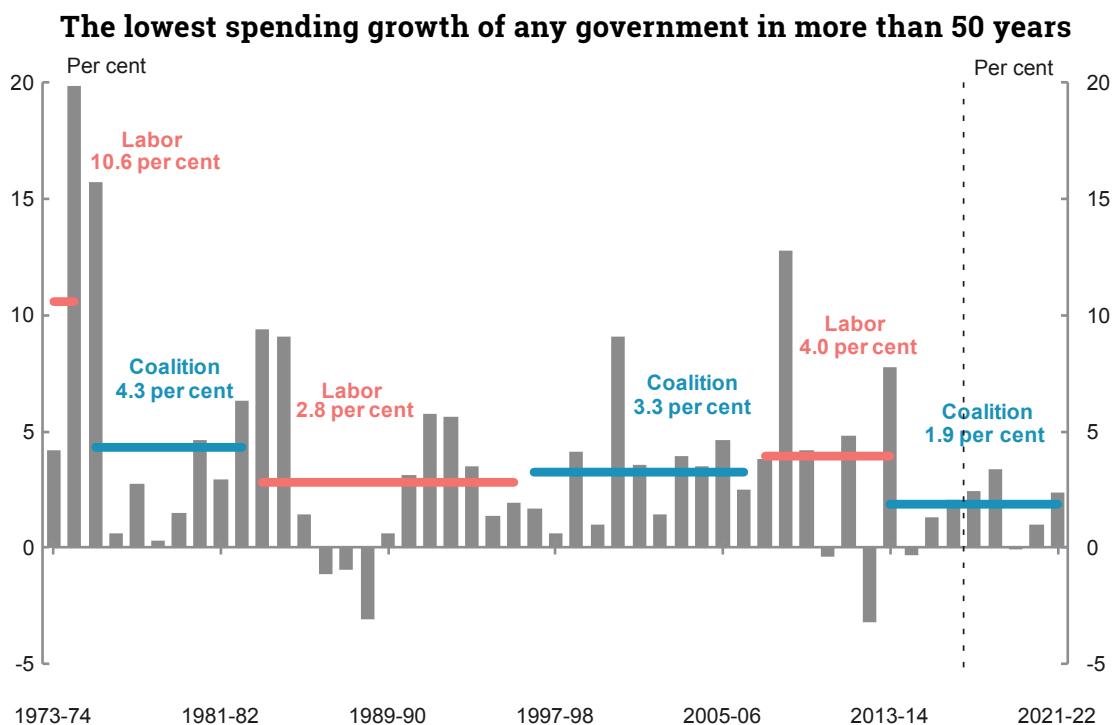
Through careful management of the nation's budget, average annual real expenditure growth remains below two per cent, which is the lowest of any government in the last 50 years. Average growth in real payments is expected to average 1.9 per cent over the period 2013-14 to 2021-22.

Government payments are forecast to fall to 24.7 per cent of GDP by 2021-22. This is one of the few times since the Global Financial Crisis that payments are projected to fall below their historical average in a sustainable manner. This represents a significant decline from the high levels of spending following the Global Financial Crisis.

Since the 2016 election, the Government has legislated over \$41 billion of budget repair measures that have strengthened the bottom line.

This is consistent with the Government's budget repair strategy requiring that all new spending is offset.

In this Budget, spending decisions will have a net positive impact of \$404 million over the four years to 2021-22.



Note: First six months of 2013-14 attributed to previous government, last six to the following government.

# A 'speed limit' on taxes

Ensuring that the tax system does not drag on economic growth



## Keeping taxes under control

The greater the tax burden on Australians and our businesses, the greater it will cost jobs and restrain economic growth.

This is why the Government has imposed a sensible 'speed limit' on taxes. It is a clear rule on the level of tax we are prepared to ask Australians to pay and the economy to carry.

Keeping taxes as a share of GDP below 23.9 per cent will mean we do not unfairly burden Australians, allow taxes to chase ill-disciplined spending, nor undermine economic growth.

Keeping taxes within this limit ensures that Budget repair is sustainable and that spending is kept under control.

## Tax relief for working Australians

The Government believes in lower taxes. It's your money and keeping more of what you earn is a reward for working hard.

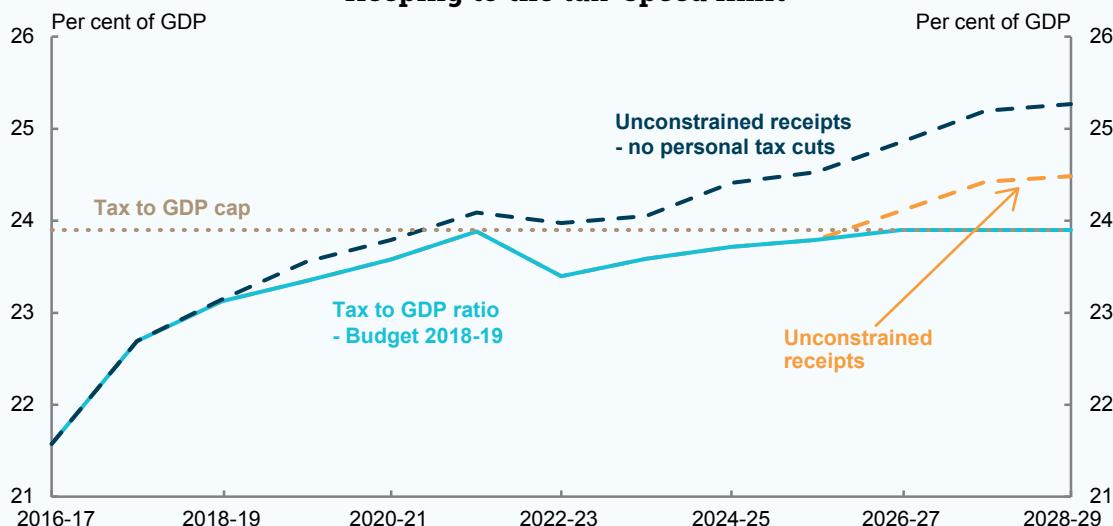
Our personal tax plan will make personal income tax lower, fairer and simpler.

The Government is committed to a tax system that is internationally competitive, rewards effort and supports innovation and achieves these outcomes in a responsible manner.

Our tax plan provides tax relief for working Australians in three stages over seven years, starting with permanent tax relief for low and middle-income earners. As the budget improves further, the plan begins targeting bracket creep and simplifying the personal income tax system.

This tax plan complements the Government's Enterprise Tax Plan that will keep our businesses competitive. Combined, these measures build a better tax system that rewards effort and boosts growth.

## Keeping to the tax 'speed limit'



# Paying down debt

Delivering benefits to all Australians now and into the future

After the budget returns to balance in 2019-20, a surplus of \$11 billion is projected in 2020-21 and Budget surpluses are projected to continue into the medium term, building to a projected surplus exceeding one per cent of GDP by 2026-27, consistent with the Government's budget repair strategy.

By sticking to the plan for a stronger economy, additional revenue to the Budget means the Government can continue to guarantee essential services and provide tax relief, whilst tackling debt and ensuring future generations do not have to pay for today's everyday spending. It means all Australians can look forward to a strong economy into the future.

## Paying down debt

The Government's ongoing commitment to fiscal discipline has reduced debt as a share of the economy to more manageable levels.

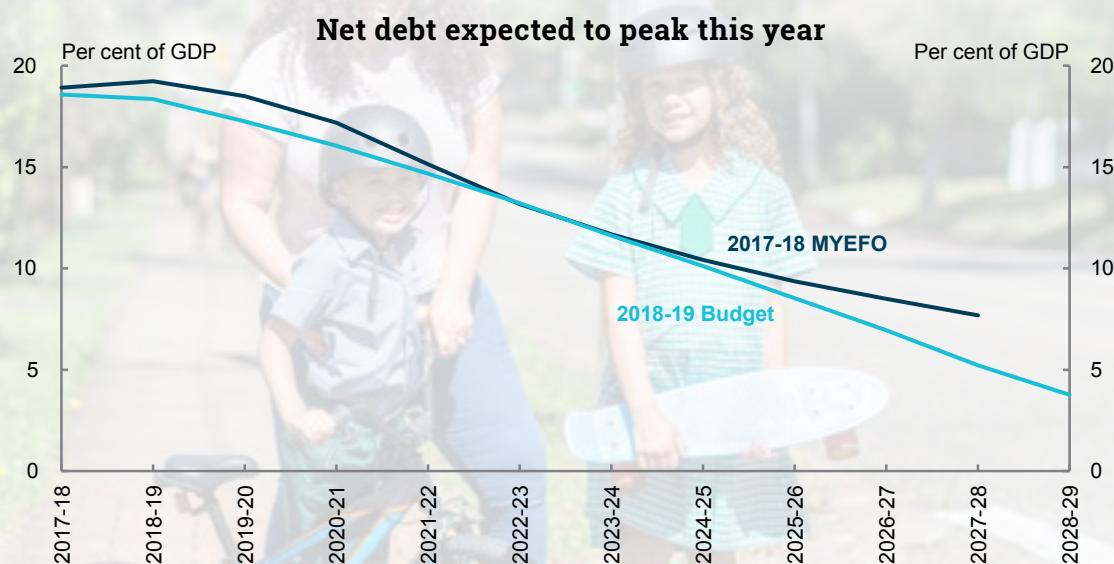
The Government has turned the corner on debt, with net debt expected to have peaked this year at 18.6 per cent of GDP and is projected to fall to 14.7 per cent by 2021-22.

Gross debt will peak in 2019-20 at less than 30 per cent of GDP. Over the medium term gross debt will fall and be \$126 billion less in 2027-28 than was estimated at MYEFO.

Reducing debt is both fair and responsible. It means we are not burdening future taxpayers with ever higher interest costs.

Reducing debt strengthens the Commonwealth's balance sheet. This will provide the Government with the flexibility to respond to economic shocks and continue to make productive investments.

Lower debt compared with MYEFO means taxpayers save, on average, \$2.7 billion per year on interest payments over the medium term.



# Paying our everyday expenses

The Government is no longer borrowing to meet everyday expenses

For the first time since the Global Financial Crisis, the Government no longer needs to borrow to pay for everyday expenses.

Important programs – such as Medicare, medicines, the NDIS, schools funding and hospital funding – are the essentials Australians rely on, which is why the Government is ensuring they are funded sustainably and not through debt.

The Government is committed to prudent budget management. Australians know that while it can be wise to borrow for investment, you don't put everyday expenses on the credit card.

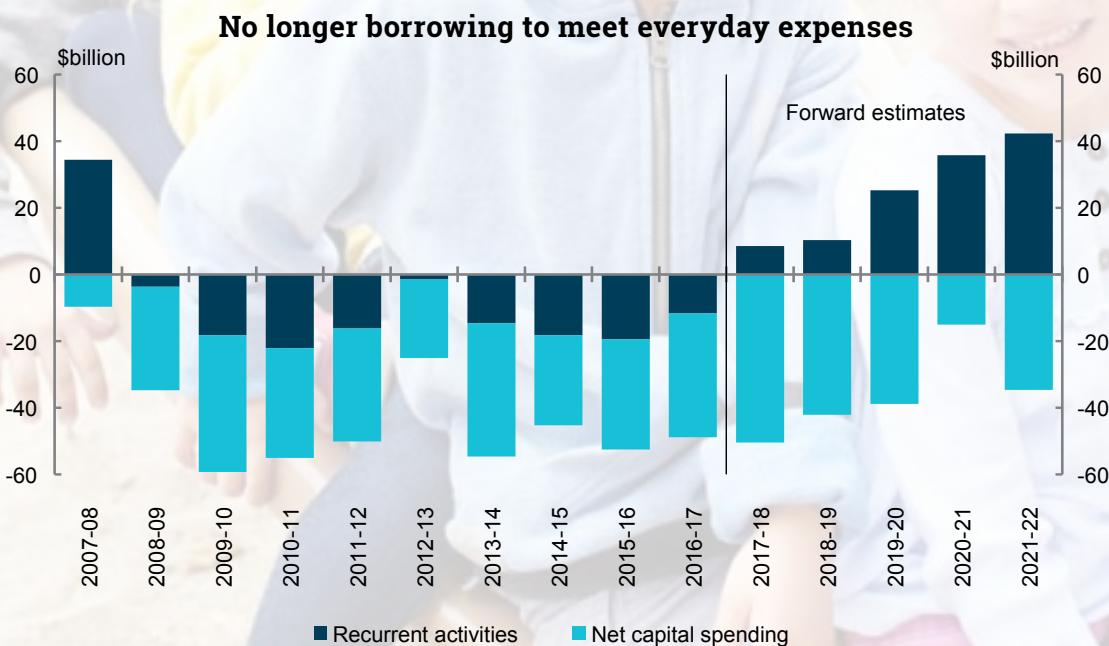
Government borrowing is instead funding productive investment in priority infrastructure and upgrading our defence forces, key components of our national economic plan, which will create jobs, strengthen the economy and ensure Australia remains internationally competitive.

## Investing in infrastructure for future growth

This Budget includes funding of \$24.5 billion for new major projects and initiatives that will benefit every State and Territory. These form part of the Government's \$75 billion investment in transport infrastructure over the next decade.

Strategic road, rail and public transport projects will boost productivity, reduce congestion and improve safety.

The Government is investing in a stronger economy and living within its means so that the burden of today's spending is not simply passed on to future generations.



# Reducing welfare dependency

## Supporting more Australians into jobs

A strengthening economy along with the Government's action to ensure our welfare system is well-targeted have resulted in welfare dependency for working age Australians falling to its lowest level in 25 years.

It is important we have a strong safety net to protect all Australians. The system must support those who are most vulnerable and genuinely in need – it must not be taken for granted.

Stronger economic growth and Government policies have resulted in a decrease in welfare recipients across most categories of working age payments since 2015.

Around 15 per cent of Australia's working age population are currently receiving some form of welfare payment. This is down from around 25 per cent two decades ago.

The Government remains committed to ensuring the welfare system is targeted to those who need it most while ensuring that those who are able to work are

encouraged to do so. This has seen welfare payments fall from around 7 percent of GDP in 2014-15 to a forecast figure of around 6 per cent of GDP in 2018-19.

This Budget builds on a number of measures the Government has introduced to strengthen the integrity of the welfare system.

The Government will save around \$300 million over three years from 2019-20 by extending fraud detection and debt recovery activities. The extended debt recovery activities will focus on high value debts and individuals who are no longer receiving welfare payments. Income data matching activities between the Department of Human Services and Australian Taxation Office will be extended to enhance the integrity of social welfare payments.

This helps to ensure the sustainability of the welfare system for those who most need it.

The Government is continuing to strengthen the integrity of the welfare system. This helps to ensure the sustainability of the welfare system and support those who need it most



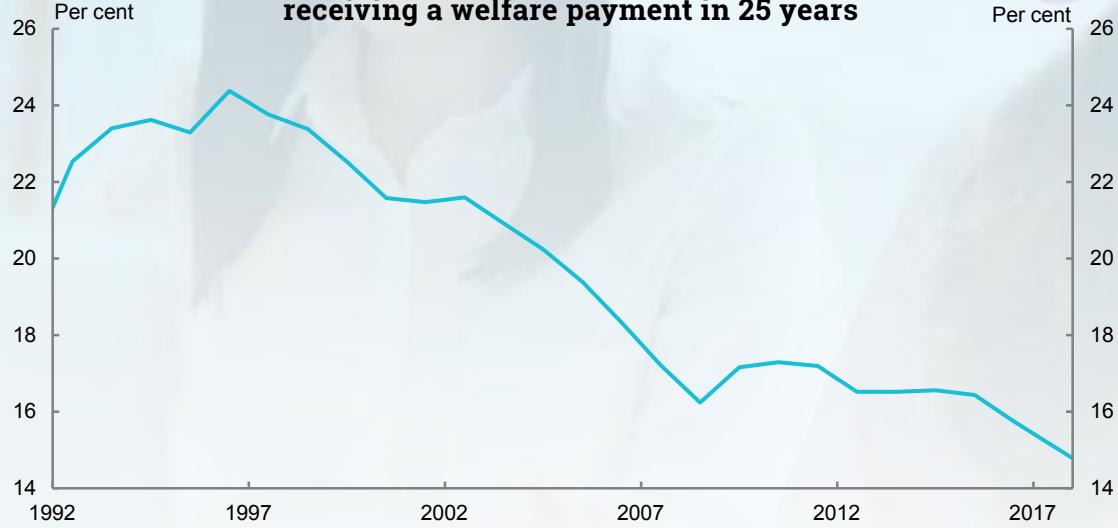
Lowest welfare dependence in 25 years

A record  
415,000 more  
jobs in 2017





**Lowest proportion of the working age population receiving a welfare payment in 25 years**



Source: DSS administrative data and ABS. Ratio of income support payment recipients to working age population.  
Does not include Department of Veterans' Affairs income support recipients.

# Ensuring everyone pays their fair share of tax

## Protecting the integrity of our tax system

While the Government believes taxes should be lower and simpler, everyone should pay their fair share.

In this Budget, the Government will build on existing reforms to ensure individuals and businesses comply with the tax law. These reforms will close loopholes and ensure taxpayers pay their fair share of tax. This protects all taxpayers against the need to impose ever-increasing taxes.

### Targeting the Research and Development Tax Incentive

The Government will reform the Research and Development Tax Incentive (R&DTI) to improve the integrity, transparency and fiscal affordability of the program. The R&DTI will be refocussed towards additional eligible business research and development.

The Government will also provide more resourcing for compliance and administration to improve guidance for claimants and help ensure ineligible R&DTI claims are denied.

### Tightening the rules on stapled structures

The Government is making multinationals pay their fair share of tax and is tightening access to tax concessions for foreign investors through the use of stapled structures. This will level the playing field for Australian investors, particularly when investing in land.

### An effective Multinational Anti-Avoidance Law

The Government is continuing to obtain strong results from the Multinational Anti-Avoidance Law (MAAL), which prevents large multinationals from avoiding tax by artificially booking their revenue offshore. The ATO expects an additional \$7 billion in corporate income each year will be returned to the Australian tax base.

## A powerful Diverted Profits Tax

Since 1 July 2017, the Diverted Profits Tax (DPT) is protecting Australia's tax base by imposing a 40 per cent tax on Australian profits artificially shifted offshore by large multinationals. The DPT reinforces Australia's position as having some of the toughest laws in the world to combat corporate tax avoidance.

## Further action on multinational tax integrity

Building on the success of the MAAL and the DPT, the Government has introduced further measures to ensure that businesses are paying their fair share of tax. Strengthening the rules that limit interest deductibility to stop companies shifting profits out of Australia, and broadening the scope of large multinationals being subject to the MAAL and the DPT will ensure that Australia's tax laws remain robust while still providing scope to ensure Australia's tax settings remain globally competitive.

## Ensuring taxpayers meet their tax obligations

The Government is providing \$130.8 million in additional funding to the ATO to help ensure individuals are paying the right amount of tax.

An additional \$133.7 million will also be provided to strengthen the ATO's ability to ensure that debts accrued by individuals and businesses are paid.

## Additional funding for the Tax Practitioners Board

The Tax Practitioners Board will receive ongoing additional funding to police tax agents and help ensure they are providing services in accordance with professional and ethical standards.

# Tackling the black economy

Paying tax on what is earned

The Black Economy Taskforce Final Report found that honest businesses are being penalised by the black economy. In response, the Government is delivering a range of measures to crack down on the black economy.

The measures will ensure that all Australians receive a 'fair go' and that exploitative and illegal behaviour is stopped in its tracks.

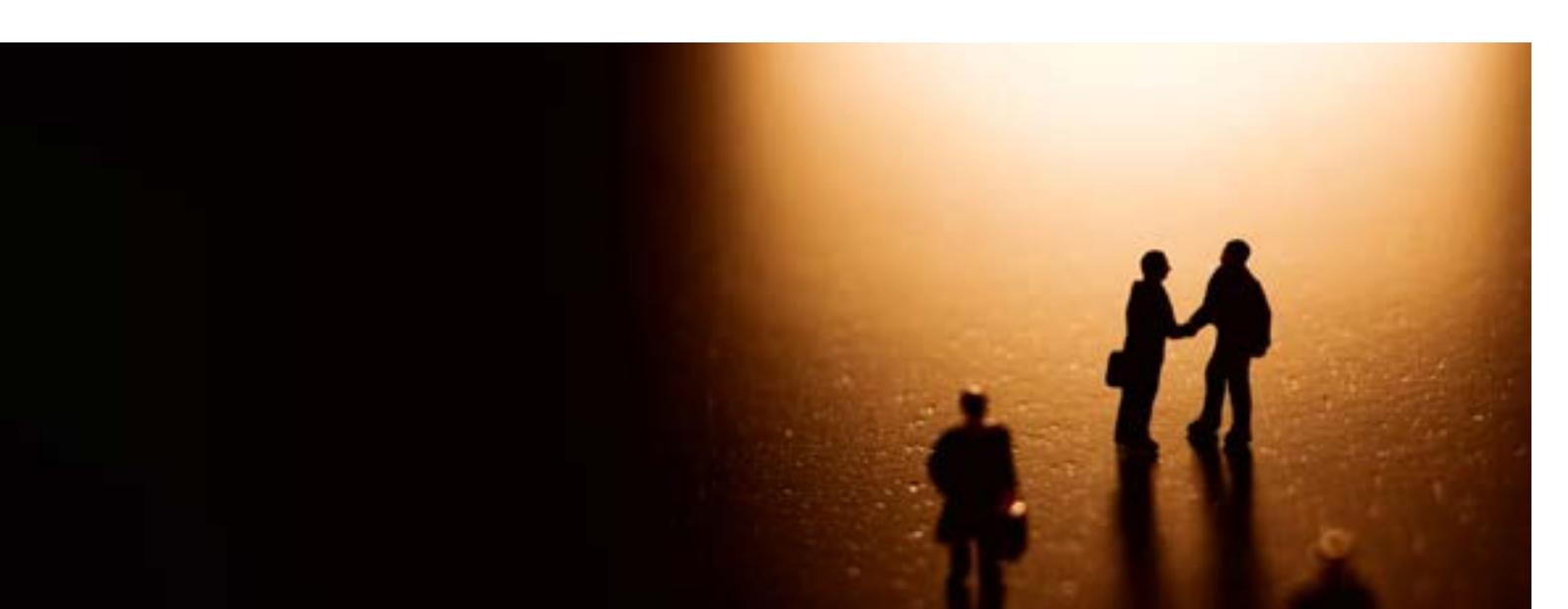
At the same time, by protecting the sustainability and integrity of the tax base and ensuring everyone pays their fair share, the Government can keep taxes as low as possible – reducing the burden on the economy.

## Ensuring honest business get a fair go

The Government will take immediate action to:

- Prevent businesses claiming deductions for payments to employees and contractors where they have disregarded their withholding obligations.
- Make Australian supply chains fairer by preventing businesses tendering for large government contracts if they do not meet their taxation obligations.
- Begin consultation on reforms to the Australian Business Number system to provide improved confidence in the identity of businesses.





## Removing the risk of unreported cash

The Government will introduce an economy-wide cash payment limit of \$10,000. This will support Australians to transition to a digital economy as well as reducing opportunities for criminals to convert the proceeds of crime into goods and services or to fund their illegal activities.

## Targeting black economy operators

The Government will target the black economy by delivering stronger enforcement through new approaches to data sharing, analytics and on-the-ground resources. The new Black Economy Standing Taskforce will take action against offenders, including organised crime.

## Disrupting illegal tobacco activity

The Government will disrupt the illicit tobacco trade by breaking the ability of criminal gangs to operate. The Illicit Tobacco Taskforce will protect future revenue and remove a key source of funding for organised crime.

*“Taxes should be lower, simpler and fairer, but taxes must also be paid.”*

The Hon Scott Morrison MP  
Treasurer



Source: Australian Border Force

# Working together with the States and Territories

The Government is providing a range of payments to the States and Territories to help them deliver essential services

## Payments to the States and Territories

The Government will provide the States and Territories with \$126.8 billion in 2018-19 – including funding of \$58.6 billion for specific purposes such as hospitals and schools, and \$67.3 billion in GST revenue for the States and Territories to spend on their own priorities.

Government payments generally support around 46 per cent of State and Territory spending each year, and will account for around 47 per cent of total State and Territory revenue in 2018-19.

## GST

Over recent years, the Government has taken action to protect the integrity of the GST base and clamp down on tax fraud, increasing the GST pool for the States and Territories by around \$6.5 billion over the four years to 2021-22.

The Government has also provided additional support to Western Australia and the Northern Territory, in recognition of changes in their GST shares. Additional funding of \$1.4 billion has been provided to Western Australia since 2014-15. This includes \$1.2 billion for transport infrastructure and \$190 million for hospital infrastructure. An additional \$260 million is also being provided in this Budget to boost essential services in the Northern Territory.

The Government looks forward to working with the States and Territories on the future of Australia's GST distribution system once it receives the Productivity Commission's final report into the system, due in May 2018.

**GST payments  
\$67.3 bn**

**Funding for education  
\$20.1 bn**

**Funding for health  
\$21.5 bn**

**Other funding  
\$17.9 bn**

**Total payments to the States of \$126.8 bn, accounting for around 47 per cent of State revenues in 2018-19**

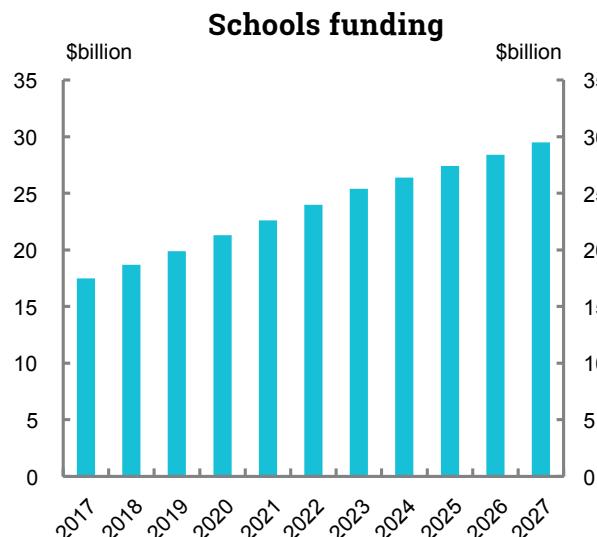


## Supporting excellence in education

The Government will work with States and Territories to deliver the recommendations of the *Review to Achieve Educational Excellence in Australian Schools*, led by David Gonski AC. These reforms will ensure the Government's genuine needs-based funding will deliver the best outcomes for Australian students.

The Government has also committed \$440 million to extend the National Partnership Agreement on Universal Access to Early Childhood Education until the end of 2019, giving 348,000 children access to preschool.

The Government is working with the States and Territories to deliver the Skilling Australians Fund, providing an additional \$250 million to ensure that Australians have the skills that Australian businesses need.



## A new public hospital agreement

In this Budget, the Government is fully funding a new five-year public hospital agreement from 2020-21 that will provide \$130.2 billion to the States and Territories.

Six of Australia's eight States and Territories have now committed to signing the agreement, which will deliver more than \$30 billion in additional funding compared with the previous five years.

As part of the agreement, the Government will provide \$100 million to establish a Health Innovation Fund to fund trials that support preventative health care and the better use of health data.

To top up Western Australia's share of the GST, the Government is investing an additional \$189 million in the state's hospital infrastructure. This includes \$158 million towards the Joondalup Health Campus expansion.

