

WHEN BUSINESS WORKS,  
AUSTRALIA WORKS.

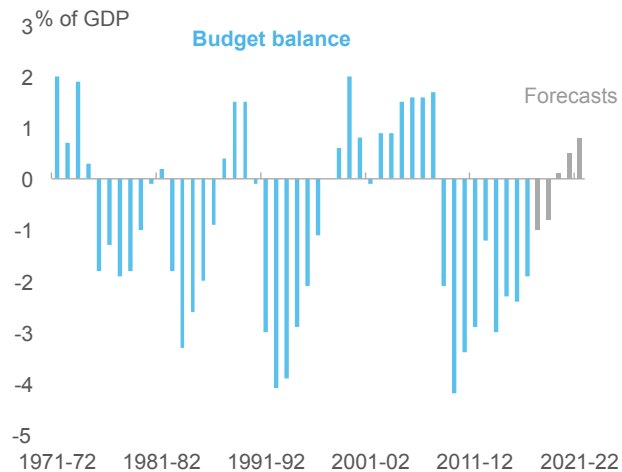


# 2018-19 Budget overview

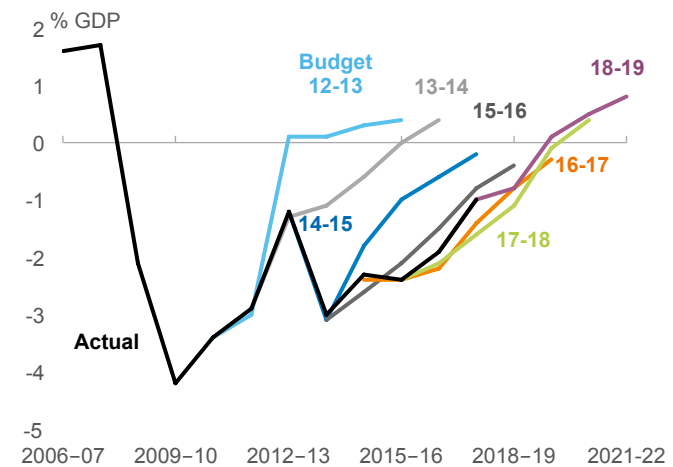
MAY 2018  
LISA GROPP

# An earlier surplus?

The **return to surplus** has been brought forward one year. The budget is now forecast to return to a slim surplus in 2019-20 after 11 years of deficit.



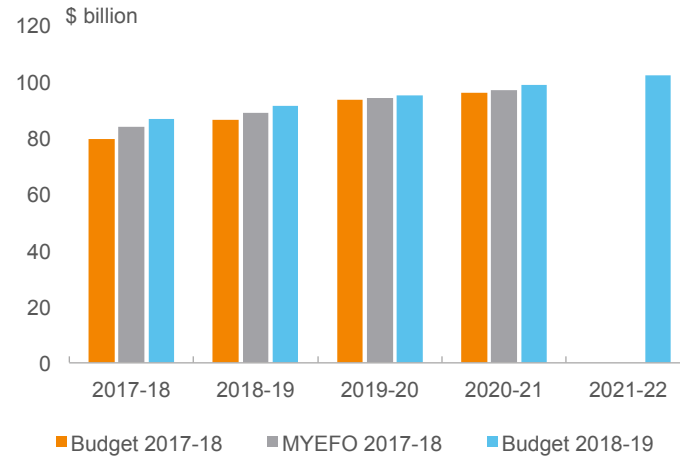
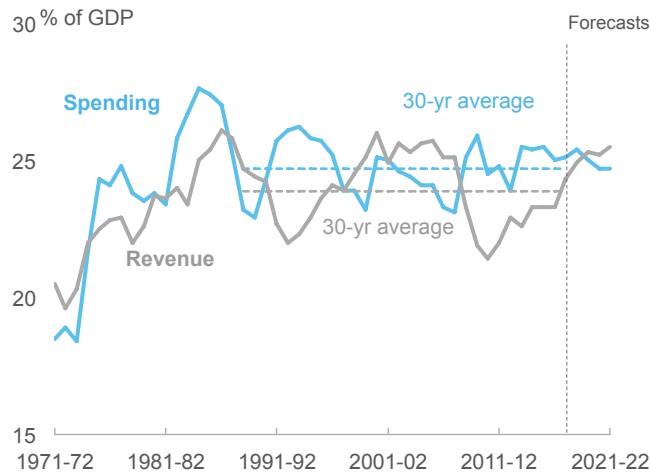
Yet the projected return to surplus over many past budgets has failed to materialise.



# Real spending growth slows to 1.6% while revenues increase sharply

**Spending** as a share of GDP is projected to rise then return to its long-term average of 24.7% by 2020-21. But **revenue** will continue rising strongly to 25.5% of GDP, exceeding the long-term average of 23.9% (with tax revenue now 'capped' at 23.9%).

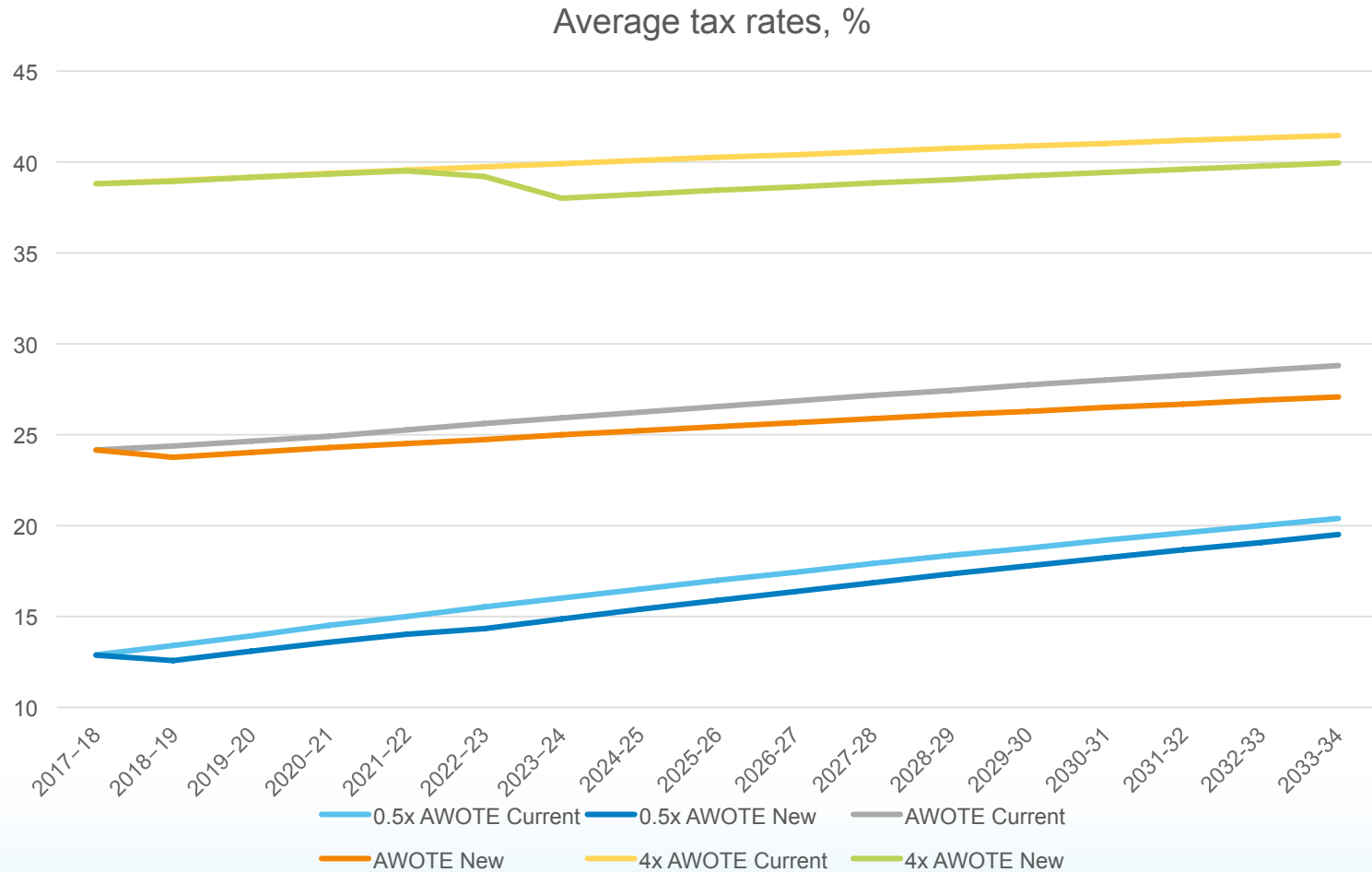
**Company tax revenue** has been revised up in each year of the forward estimates. There will be an extra \$16.4 billion of company tax revenue over the four years to 2020-21 compared to the last budget.



## Major measures

- **Black Economy Package, including illegal tobacco, \$10,000 cash transaction limit and new/enhanced ATO powers (raise >\$6 billion)**
- **R&D tax changes including link to R&D intensity**
- **Multinational tax integrity measures – thin cap and stapled structures (raise \$640m)**
- **Infrastructure spend \$24 billion**
- **Aged care package**
- **3-stage personal income tax package**

# 3-stage tax plan: Growth in average tax rates due to inflation with and without budget tax changes



## Underlying economic assumptions and risks

- **Real GDP returns to 3% by 2018-19 and stays there. Real GDP growth has been higher than 3% once in the last 9 years.**
- **Nominal GDP growth is expected to be over 4% in most years, lower than in 2016-17 and the long-term average**
- **Terms of trade decline slightly**
- **Nominal wages growth still expected to pick up to 3.5% by 2020-21 from 2.25% this year**
- **Unemployment falls gradually to 5% by 2021-22**
- **Labour productivity growth assumed to be 1.6%. It has been averaging 1.2% for the last decade (and fell by 1.0% through-the-year to December 2017)**
- ***“As ever there are a number of risks around the forecasts. Globally these risks are broadly balanced in the short term, although they are tilted to the downside in the longer term.”***  
*Budget Paper No. 1, p. 1-9*
- ***Domestic risks relate to investment, the labour market and household savings/consumption***

# Beyond the forwards? Current GDP and productivity growth (with IGR 3.1% real spending growth) would lead to a growing fiscal gap (8% of GDP or more than \$140 billion in today's terms)

