

BUDGET SPEECH 2018-19
DELIVERED ON 8 MAY 2018 ON THE
SECOND READING
OF THE APPROPRIATION BILL (NO. 1) 2018-19
BY
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TREASURER OF THE COMMONWEALTH
OF AUSTRALIA

Thank you Mr Speaker, I move that this Bill now be read a second time.

“What have you achieved? What are you going to do now? What does it mean for me?”

These are the questions Australians want answered tonight.

So let me get to it.

A stronger economy. More jobs. Guaranteeing essential services. The Government living within its means. That is what this Budget is about.

The Australian economy is now pulling out of one of the toughest periods we have faced in generations.

The Global Financial Crisis was significant. But coming off our once in a hundred years mining investment boom had an even bigger impact, ripping \$80 billion out of our economy.

This directly impacted Australians and their families, including holding back wages.

During this difficult time, the Government has been working to strengthen the Australian economy and get the budget back on track.

And we’ve been making real progress.

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The Australian Bureau of Statistics figures show that almost a million jobs have been created since we were first elected, as promised. This includes 415,000 jobs last year alone. More than a thousand jobs a day, three quarters of which were full time.

Businesses are responding to improved conditions by investing again, confidence is up. More new businesses are being started.

We've backed small and medium sized businesses with legislated tax cuts and investment incentives.

We have invested at record levels to build the roads, railways, airports and energy infrastructure Australia needs for the future.

Landmark export trade deals are backing our farmers, miners, manufacturers and service industries to crack new markets.

We have made responsible Budget savings – \$41 billion legislated since the last election – to get spending under control.

We are no longer borrowing money to pay for everyday expenditure like welfare payments.

We have retained Australia's international AAA credit rating from all three agencies, one of only ten countries in the world to do so.

Our national economy is strengthening, but it is also true that the benefits are yet to reach everyone. This will take more time.

That is why it is important to stick to our plan. There is more to do.

We cannot take a stronger economy for granted.

We live in a very competitive world. If we make the wrong calls, other countries will 'cut our lunch'.

There is a lot to gain and much to lose. We can't ease off.

In this year's Budget there are five things we must to do to further strengthen our economy to guarantee the essentials Australians rely on.

1. **Provide tax relief to encourage and reward working Australians** and reduce cost pressures on households, including lowering electricity prices,
2. **Keep backing business to invest and create more jobs**, especially small and medium sized businesses,

3. **Guarantee the essential services that Australians rely on**, like Medicare, hospitals, schools and caring for older Australians,
4. **Keep Australians safe**, with new investments to secure our borders, and, as always,
5. **Ensure that the Government lives within its means**, keeping spending and taxes under control.

That's our plan.

Turning first to the key financial outcomes in this year's Budget.

In 2017-18, the Budget deficit will be \$18.2 billion, less than half what it was just two years ago.

This will be the best budget outcome since the Howard Government's last budget a decade ago.

The deficit will fall again to \$14.5 billion in 2018-19.

The Budget is forecast to return to a modest balance of \$2.2 billion in 2019-20 and increase to projected surpluses of \$11.0 billion in 2020-21 and \$16.6 billion in 2021-22.

The Turnbull Government has now stayed on track for a surplus for six successive budget updates.

Over the medium term the projected Budget surplus rises to over one percent of GDP, without breaching our tax cap, consistent with our fiscal strategy.

The forecast outcome for 2019-20, as always, is subject to Treasury's assessment of economic conditions at the time of the Budget.

As a Government we have put constraints on how much we spend and how much we tax, to grow our economy and responsibly repair the budget.

Real expenditure growth remains below two per cent, the most restrained of any Government in more than 50 years.

This will see Government spending fall to 24.7 per cent of GDP, below the 30 year average at 24.8 per cent over the forward estimates.

We are also keeping taxes under our policy speed limit of 23.9 per cent of GDP set out in our fiscal strategy.

Higher taxes to chase higher spending never ends well. Australians always end up paying for it one way or another.

With the budget returning to balance we will start paying down debt.

Net debt will now peak at 18.6 per cent of GDP in 2017-18 and will fall by around \$30 billion over the forward estimates. Over the medium term net debt will fall to 3.8 per cent of GDP by 2028-29.

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

It has been a long road back from where we started in 2013.

We are close to our destination. We must stick to the plan.

Mr Speaker, I turn now to the measures in tonight's budget that form part of our plan for a stronger economy.

In this Budget we are providing tax relief to encourage and reward working Australians and reduce the cost pressures on households.

Tonight I announce a seven year personal tax plan to make personal income tax lower, fairer and simpler.

The plan will result in more working Australians paying lower rates of tax. It will be enshrined in legislation.

The plan has three parts.

One. Tax relief for middle and low income earners now. Two. Protecting what Australians earn from bracket creep. Three. Ensuring more Australians pay less tax by making personal taxes simpler.

Under our personal tax plan, 94 per cent of Australian taxpayers will pay no more than 32.5 cents in the dollar. That compares to 63 per cent if we leave the system unchanged.

This means more working Australians paying lower taxes on every extra dollar they earn.

The Turnbull Government believes that to create a stronger economy there must be reward for effort. You must not punish people for working hard and doing well. This is what underpins our plan.

Step one starts permanent tax relief to middle and lower income earners of up to \$530 on what they will pay in tax next year, and every year after that.

This is what can be responsibly afforded, while keeping the Budget on track.

Those earning up to \$37,000 paying 19 cents in the dollar will have their tax reduced by up to \$200 on what they have paid in tax. The average tax paid by Australians in this tax bracket is \$1,900 per year.

For those earning more than \$37,000 paying 32.5 cents in the dollar, their tax will be reduced up to a maximum of \$530 per year. The average tax paid by Australians in this tax bracket was \$10,400 per year in 2015-16.

4.4 million taxpayers with an income between \$48,000 and \$90,000 will receive the maximum tax relief of \$530.

For middle income households with both parents working on average wages, this will boost their 'kitchen table' budget by more than \$1,000 every year.

For those earning above \$90,000 the tax relief reduces to zero at just over \$125,000.

Step one will be delivered by an additional targeted tax offset through annual tax returns.

This tax relief will not be clawed back by other tax increases, including the Medicare levy, which will remain unchanged.

Step two of the plan ensures that a pay rise, extra overtime or working more hours does not get eaten up by higher tax rates.

In the 2016-17 Budget we increased the top threshold for the 32.5 per cent tax bracket from \$80,000 to \$87,000. This kept 500,000 Australians from paying more tax at 37 cents in the dollar.

This threshold will now be set at \$90,000 from 1 July 2018. This will stop an additional 210,000 Australians paying 37 cents in the dollar.

In 2022-23 we will make more substantial changes.

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The \$37,000 threshold will be lifted to \$41,000, stopping half a million Australians facing a marginal rate of 32.5 per cent and the \$90,000 threshold will be raised again to \$120,000, preventing 1.8 million Australians paying 37 cents in the dollar.

Step three of the plan makes our tax system simpler.

In 2024-25 we will simplify the personal tax system by abolishing the 37 per cent tax bracket entirely.

Australians earning more than \$41,000 will only pay 32.5 cents in the dollar all the way up to the top marginal tax rate threshold which will be adjusted to \$200,000, to account for inflation and expected wage movements over the next seven years.

Under the Turnbull Government's personal tax plan most working Australians earning above \$41,000 are likely to never face a higher marginal tax rate through their entire working life.

The plan is affordable and funded. The total revenue impact on the Budget and forward estimates is \$13.4 billion. The overwhelming majority of this cost commences in 2019-20, the same year the Budget is forecast to return to balance.

This is not spending or a give-away. We are simply enabling Australians to keep more of what they have earned.

Our tax cuts are also not being achieved by increasing taxes elsewhere.

Everyone pays the price of higher taxes. It weakens the economy and costs jobs.

You don't have to punish some people with higher taxes, who are already paying the majority of tax, to give others tax relief.

In this Budget there are other ways we are reducing cost pressures on Australian households.

Through the ATO we will be proactively **finding your lost super** and have it sent to your active superannuation account, ensuring it doesn't get eaten up in ongoing fees.

We're **banning exit fees** on superannuation accounts for when you want to change funds.

We will stop superannuation funds from forcing young people under 25 or with low balances to pay for life insurance policies they have not asked for or do not need.

The **Pension Loans Scheme** will be opened to all older Australians, including full rate pensioners and self-funded retirees, so they can boost their retirement income by up to \$17,800 for a couple, without impacting on their eligibility for the pension or other benefits.

An expanded **Pension Work Bonus** will allow pensioners to earn an extra \$1,300 a year without reducing their pension payments. For the first time, the bonus will be extended to self-employed individuals who can now earn up to \$7,800 per year.

And we will oppose unfair tax grabs on retirees and pensioners, by enabling everyone who has invested in Australian companies that issue franked dividends, to keep their tax refunds.

We will ease financial pressures on families in regional areas, by relaxing the **Parental Income Test** for access to **Youth Allowance** for independent students from January 1, 2019 by an additional \$10,000 per annum and an additional \$10,000 for each additional child.

The National Energy Security Board estimates annual power bills will fall by \$400 on average for every Australian household from 2020, following the introduction of our **national energy guarantee**.

We will maintain our responsible and achievable **emissions reduction target** at 26-28 per cent, and not the 45 per cent demanded by the Opposition. That would only push electricity prices up.

And we will not adopt the 50 per cent **renewable energy target** demanded by the Opposition that will also only put electricity prices up.

All energy sources and technologies should support themselves without taxpayer subsidies. The current subsidy scheme will be phased out from 2020.

And we will keep the pressure on the big energy companies to give you a better deal. Already this has led to households saving several hundred dollars a year.

In this Budget the Turnbull Government is backing business to create more jobs.

We have already legislated tax cuts for small and medium sized businesses.

Full implementation of our **enterprise tax plan** is needed for our businesses to remain internationally competitive, invest, create more jobs, boost wages and increase trade for smaller businesses.

For small business we will once again extend the **instant asset write off** for businesses with a turnover up to \$10 million for purchases of up to \$20,000.

In this Budget we are making sure small businesses don't get ripped off by other businesses who deliberately go bust to avoid paying their bills, with tough new **anti phoenixing measures**.

And we will invest more in our people, providing an additional \$250 million for the **Skilling Australians Fund** to deliver business with the people and skills they need to grow their business.

Tonight we announce a new **21st century medical industry plan** to create more jobs in this fast growing sector of our economy. The health sector represents 7 per cent of our economy and 14 per cent of jobs.

Our plan will provide more support for medical research projects, new diagnostic tools, clinical trials of new drugs, scientific collaboration, and development of new medical technologies that can be sold overseas.

In particular we will **back in Australian medical scientists** through the largest single investment of the Medical Research Future Fund to date of \$500 million over ten years for Australia to become a world leader in genomic research.

This is about building another strong and competitive industry in Australia that will generate income and jobs, from the white coats in the labs to the workers making new medical devices on the shop floor.

But it's not just science and technology in the medical industry we're supporting.

The Government will invest more than \$2.4 billion in Australia's public **technology infrastructure**. This includes supercomputers, world class satellite imagery, more accurate GPS across Australia, upgrading the Bureau of Meteorology's technology platform, a national space agency and leading research in artificial intelligence.

It's exciting, setting up our manufacturing, agriculture, transport and service industries for success. They rely on this public infrastructure to do their own research, develop new products and services and run their businesses more efficiently.

To support companies genuinely investing in R&D we are **refocusing the R&D tax incentive** to give more support to companies that invest a higher proportion of what they spend in R&D, over and above what others would just do anyway.

We're backing farmers to create more jobs.

In addition to better weather and GPS services, there will be additional funding to protect against pests, disease and weeds. We are funding new technology to better detect biosecurity risks and we will increase our efforts to negotiate away technical trade barriers to agricultural exports in more countries.

Our \$75 billion ten year rolling infrastructure plan will continue – strengthening our economy, busting congestion in our cities, making rural roads safer and getting our products to market.

Tulla Airport Rail. Western Sydney Airport rail. Brisbane Metro. Perth Metronet. The M1 upgrade on the Gold Coast.

At a more local level. The Shoalhaven Bridge. Avalon Airport. New works on the Geelong line and an electrification upgrade for the Frankston to Baxter rail line.

The Bridgewater Bridge. The Coffs Harbour Bypass. The Bunbury Outer Ring Road.

Boosting the Bruce Highway from Pine River to Caloundra and Section D from Cooroy to Curra. The Buntine Highway in the NT. The Adelaide North South Corridor.

But we always know that more needs to be done.

That's why tonight I am announcing a \$1 billion **Urban Congestion Fund** to support projects at a State level to fix pinch points and improve traffic flow and safety in our cities.

There will also be a \$3.5 billion **Roads of Strategic Importance** initiative upgrading key freight routes. This initiative will boost our regional economies, backed by a new funding round for the **Building Better Regions Fund**.

A strong economy also needs a strong, accountable and competitive 21st century banking and financial system.

We will continue to roll out our stronger penalties, powers and enforcement to take action on misconduct in the sector. The legislated **major bank levy** will continue and the **Australian Financial Complaints Authority** will stand up on 1 November and our **Banking Executive Accountability Regime** starts on July 1.

In this Budget we are also moving forward with our **Open Banking Regime and consumer data right**, giving small businesses and households more control, more choice and better deals.

Mr Speaker, our plan for a stronger economy means the Turnbull Government can guarantee the essential services that Australians rely on.

Just because you are getting older does not mean you should have to surrender your dignity or your choices.

We're living longer. It's a good thing.

We want to preserve and increase the choices of older Australians.

To support the choice of older Australians who wish to stay at home and avoid going into residential aged care the **Government will be increasing the number of home care places by 14,000 over 4 years at a cost of \$1.6 billion.**

By 2021-22, over 74,000 high level home care places will be available, an increase of 86 per cent on 2017-18.

We will also be providing \$146 million to improve access to aged care services in rural, regional and remote Australia.

We will also provide \$83 million for increased support for mental health services in residential aged care facilities, especially to combat depression and loneliness.

And we will stand up for older Australians to keep them safe and prevent elder abuse, with new support services and a national online register for enduring powers of attorney.

In addition to the **Pension Loans Scheme** and **Pension Work bonus** changes, the Government will back the choices of older Australians who choose to stay in work.

This will be done by supporting them to transition their skills, providing **wage subsidies** of up to \$10,000 for employers who take them on, and combat age discrimination in the workforce.

We will expand the **Entrepreneurship Facilitators program**, and create a new **Skills and Training Incentive** to provide mature age workers with the opportunity to update their skills.

We will help Australians plan for a longer and healthier life with new online skills and health check-ups at ages 45 and 65 years, linked to programs that can help them better prepare.

We will fund targeted programs run by local sporting organisations and community groups to encourage older Australians to remain physically active for longer.

For parents and students, our legislated needs based funding for schools delivers \$24.5 billion more over the next 10 years. That's 50 per cent more funding per student, on average, over a decade.

This year schools will receive a record \$18.7 billion, with a legislated rise to around \$30 billion in 2027.

The issue now is to focus on how the money can be best spent to give teachers the tools to equip students to grow and succeed. That is now our focus.

In this Budget we are extending the **National Schools Chaplaincy** programme on a permanent basis, with a special new **anti-bullying** focus. The National Partnership Agreement on universal access to **early childhood education** will be extended for a further year at a cost of \$440 million.

On July 2, the Turnbull Government's **new child care package** will come into effect.

Our new five year hospitals agreement, which is being signed onto by the States and Territories, will deliver \$30 billion in additional funding, a one third increase over the previous five years.

And following last year's Budget, funding for **Medicare** and the Pharmaceutical Benefits Scheme or **PBS** has been guaranteed in legislation.

This Budget includes **an extra \$1.4 billion for listings on the PBS**, including medicines to treat spinal muscular atrophy, breast cancer, refractory multiple myeloma, and relapsing-remitting multiple sclerosis, as well as a new medicine to prevent HIV.

Lifeline Australia will receive additional support as will funding for Mental Health Research, with \$125 million over 10 years from the Medical Research Future Fund.

The Government will also provide \$20.9 million to **support parents and infants** by funding tests for new conditions and ensure that debilitating conditions are picked up at the earliest opportunity.

The Government will provide \$154 million to promote active and healthy living, including \$83 million to improve existing community sport facilities, and to expand support for the **Sporting Schools** and **Local Sporting Champions** programs.

In rural and regional areas we have funded a plan to get more doctors to where they are needed through a new **workforce incentive** programme. This plan includes the establishment of a new network of **five regional medical schools** within the broader Murray Darling Region.

And we have moved to guarantee rural and remote access to dental, mental health and emergency medical services through increased financial support for the **Royal Flying Doctor Service**.

Indigenous Australians also benefit from our \$550 million commitment to address remote housing needs in the Northern Territory and \$1.7 billion through our primary health care model.

Our veteran centric reform package will continue with a planned additional \$112 million in this Budget, as will our support for ongoing veterans' mental health and employment initiatives.

Finally, every dollar and every cent committed to delivering the **National Disability Insurance Scheme** remains in place and always will.

The Liberal and National parties can always be trusted to keep Australians safe.

Stopping the boats and keeping them stopped.

Protecting Australians from the threat of terrorism.

Hunting down criminals.

Giving our defence forces what they need to do their job to protect our values and our freedom.

Protecting Australia from those who seek to do us harm and exert unwelcome influence on our soil.

This is what the Turnbull Government is doing.

In this Budget we are taking further action, directly investing \$294 million to harden up **security at our airports**.

- \$50 million to **upgrade security infrastructure** at 64 regional airports.
- \$122 million to **enhance screening capability** for inbound air cargo and international mail.
- \$122 million to **increase police and border force presence** and capability at nine major domestic and international airports.

There is also additional investment to improve **scrutiny of visa processing** and passenger screening, and clearance of visitors and goods at our borders.

And we are investing more than \$160 million to help our police, criminal intelligence and domestic security agencies **fight crime and prevent terrorism**, including \$68.6 million to disrupt, prevent and investigate child exploitation and abuse.

New powers will also be sought to back in States and Territories to crack down on offenders and criminals with outstanding warrants and fines by withholding their welfare payments.

Lastly, in this year's Budget, the Turnbull Government will ensure that the Government lives within its means.

A stronger economy keeps spending under control by getting Australians off welfare and into work. After record jobs growth, the proportion of working age Australians now dependent on welfare has fallen to 15.1 per cent – the lowest level in over twenty five years.

Improved compliance and better targeting has also assisted in getting welfare spending under control and we will continue to take action in this area.

This Budget includes new measures to further improve the integrity of our tax system.

We are cracking down to ensure that **R&D tax incentives** are used for their proper purpose, with enhanced integrity, enforcement and transparency arrangements, saving taxpayers \$2 billion over the next four years.

Our crack downs on multinationals have already brought around \$7 billion a year in sales revenue by multinationals into our tax net. But we need to do more.

We will close down another tax loophole opened up by the Rudd Government back in 2008 that gave foreign companies a tax break over Australian companies, by changing the **tax treatment of stapled structures**.

We are also further tightening **thin cap rules** to stop multinationals from fiddling with how they account for debt, to reduce their tax liabilities.

The next big challenge is to ensure big multinational digital and tech companies pay their fair share of tax.

Over the past year I have been working with counterparts at the G20 to bring the **digital economy** into the global tax net. In a few weeks' time I will release a discussion paper that will explore options for taxing digital business in Australia.

At home we also need to shine a light on the black economy.

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

Honest and fair businesses and taxpayers are being ripped off by those who think they are above paying tax.

In response we will be implementing the recommendations of our **Black Economy Taskforce**, targeting sectors where there is higher risk of under reporting of income.

This is expected to bring in \$5.3 billion over the next four years.

These measures include **outlawing large cash payments** of greater than \$10,000 in the Australian economy.

This will be bad news for criminal gangs, terrorists and those who are just trying to cheat on their tax or get a discount for letting someone else cheat on their tax.

It's not clever. It's not OK. It's a crime.

Mr Speaker, our plan for a stronger economy will create more jobs and guarantee the essential services that Australians rely on.

Our record of financial responsibility means that under our plan, Australians can plan for their future with confidence.

We must stick with this plan because it's working. We can't afford to risk the alternative.

So to be clear, our plan for a stronger economy is:

- Tax relief to encourage and reward working Australians,
- Backing business to invest and create more jobs,
- Guaranteeing the essential services Australians rely on,
- Keeping Australians safe, and
- Ensuring the Government continues to live within its means.

Once again, Mr Speaker, I commend our plan for a stronger economy and this Budget to the House.