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2023-2024 Budget Brief - Walking the Budget Tightrope

Overview:

This year's budget required the Labor Government to balance their natural inclination towards greater expenditure on public services against the detrimental impact that growth in spending could have in counteracting the fight against inflation.

In 2022/23 (the current financial year) the Government had higher expenditure than expected, however growth in spending was far less than growth in revenue. Higher resource prices, high rates of employment, rising wages, and higher corporate profits all contributed to a windfall on the revenue side of the ledger, which provides the first budget surplus since the mid-2000's.

There is some truth to the opposition's claim that "a drover's dog could have achieved a budget surplus" in these circumstances, but exercising restraint in the face of vocal demands for increased spending requires fortitude on behalf of the Treasurer. Like someone who won the lottery, many a worthy cause would have been knocking on the door with a proposal to spend the unanticipated windfall. At this stage, it appears that the Treasurer is balancing the competing demands, but the road to budget repair is a long one.

Budget position

A revenue windfall provided for a modest surplus of $4.2 billion in the 2022/23 financial year. This is a remarkable turnaround when compared to the $37.9 billion deficit projected in this Government's first budget just seven months ago. It is customary for a new government to use their first budget 'clear the decks' and to use the platform to blame any issues on their predecessors. However, a revision of such magnitude within such a short period damages the credibility of the budgeting process.

Favourable revisions to assumptions about the key drivers of tax revenue improve the outlook for the budget over the forecast horizon. Nevertheless, the budget is expected to come under greater pressure in the years ahead as cost of efforts to contain inflation begin to bite. A budget deficit is projected to return in 2024/25, and to remain in deficit each year beyond 2033/34.

Slower economic growth and a rise in unemployment are expected slow growth in income tax receipts and contribute to an increase in welfare expenditure. Business profits are also likely to soften as GDP growth slows, which will see slow growth in corporate tax revenue. In 2024-25 the stage three tax cuts will also hand back some of the bracket-creep that has bolstered income tax receipts.

The causes of the structural budget deficits continue to prove difficult to reign in. Efforts are being made to curb the growth in expenditure on healthcare, aged care, defence, the NDIS and interest paid on government debt but collectively these line items continue to outpace revenue growth.

Boosting economic growth by improving productivity growth is key ambition of the Government. While some elements of the Government's policy platform will impact this positively, it remains to be seen whether their platform in its entirety will set Australia on a path to sustainable productivity improvements over the long term. Furthermore, productivity gains must be sufficient to overcome the structural budget deficit. Population growth, primarily through migration, will continue to play a prominent role in driving growth.

Summary of key budget measures:

Housing measures:

Despite housing costs being a prominent issue, housing was not a key focus of this year's budget. The Government's housing agenda is focused on getting the enabling legislation relating to measures announced in the October 2022 budget through parliament (establishing the Housing Australia Future Fund etc.), which is currently being blocked by cross bench Senators.

The housing measures in this year's budget are predominantly amendments to existing policies. The new measures introduced this year include:

- Support to grow the Build-to-Rent market
- Broadening eligibility criteria for the Home Guarantee Scheme
- Addressing the rise of silicosis in workers and develop a national strategy for the prevention of silicosis and silica-related diseases
- Increase in the guaranteed liability cap for the Affordable Housing Bond Aggregator
- An increase in the rate of Commonwealth Rent Assistance
- Improving the Nationwide House Energy Rating Scheme (NatHERS)
- Establish the Household Energy Upgrades Fund to improve energy efficiency of existing homes.

Industrial relations measures:

The Government is continuing to implement the industrial relations agenda outlined during the election campaign and at the Jobs and Skills Summit in 2022. Measures announced in this budget include several cuts to programs established by the previous government, with savings from these cuts directed towards the Government's priorities. Funding has been allocated to establish the National Construction Industry Forum, which will include representatives from key employer groups, unions and government to provide advice on major challenges facing the building and construction industry across issues relating to workplace relations, industry culture, skills and training, safety, gender equality and productivity.

Training measures:

The government is in the process of implementing election promises which were committed to in the previous budget. The most significant budget item in the training portfolio is a reform of apprenticeship support services delivered by Australian Apprentice Support Network providers. The reforms aim to have services better targeted to improve the rate of apprentice and trainee completion. Grant funding of $5.0 million over 3 years from 2024–25 will be provided to organisations with appropriate expertise in supporting women in the workplace, to further support women in historically male dominated trade apprenticeships.

Business measures:

The budget contained few measures aimed at supporting businesses. The instant asset write-off scheme has been a perennial reannouncement in recent budgets and was last announced in the 2021-22 budget with an end date of 30 June 2023. This year's extension of the scheme will enable businesses with turnover up to $10 million to deduct the full cost of eligible assets costing less than $20,000 that are first used or installed ready for use between 1 July 2023 and 30 June 2024. Other measures include a scheme to lower energy costs and scheme to incentivise small businesses to improve energy efficiency.

Detailed information on the key budget measures are provided below.

Economic Outlook

Economic growth

The Australian economy is expected to be resilient during a period of slowing global growth. Real Gross Domestic Product is expected to have grown by 3.25 per cent in 2022/23 and is forecast to slow to 1.5 per cent in 2023/24 before recovering to an annual rate of 2.75 per cent in the out years of the forecast horizon. The forecast for slower growth in 2023/24 reflects a weaker outlook for economic growth globally as major economies take measures to contain inflation. Strong demand for Australia's resource exports following the reopening of China's economy should continue to support growth.

Key Treasury Forecasts underlying Budget 2023/24:

	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
	Final	Estimate	Projection	Projection	Projection	Projection
Underlying Cash Balance ($ billions)	-32.0	4.2	-13.9	-35.1	-36.6	-28.5
Underlying Cash Balance (% of GDP)	-1.4	0.2	-0.5	-1.3	-1.3	-1.0
Unemployment Rate	3.8	3.5	4.25	4.5	4.5	4.25
Consumer price index	6.1	6	3.25	2.75	2.5	2.5
Real GDP Growth	3.7	3.25	1.5	2.25	2.75	2.75
Dwelling Investment Growth	2.9	-2.5	-3.5	-1.5		

Population growth

Population growth, primarily through migration, will continue to play a prominent role in driving economic growth. Australia is currently experiencing a rebound in immigration following boarder closures. The strong level of population growth from net overseas migration is expected to continue in 2023/24 before reverting to pre-pandemic trend levels in 2024/25. The government has outlined their intent to implement reforms that include restoring pathways for migrants on temporary visas to become permanent residents, although there has been no indication on the extent to which these reforms are likely to affect aggregate numbers of temporary and permanent migrants residing in Australia.

CPI inflation

Inflation peaked at the end of 2022 and is now moderating. Supply constraints and the impact of Russia's invasion of Ukraine have begun to subside and the Government's Energy Price Relief Plan is expected to further reduce inflation in 2023–24. This should see inflation return to the RBA's target band in 2024–25, although cost-of-living pressures will remain a near term weight on households.

Labour market

The tight labour market has persisted but is expected to gradually soften in response to slowing demand. The unemployment rate is expected to increase modestly from a near 50-year low of 3.5 per cent to 4.25 per cent by the June quarter of 2024, and 4.5 per cent in the June quarter of 2025. Even with this modest rise, the unemployment rate is expected to remain low by historical standards.

Dwelling investment

Treasury note that as existing work in the pipeline is completed and the impact of earlier interest rate hikes and house price declines flow through the system, the value of residential building work done is expected to contract by 3.5 per cent in 2023–24. The downturn in activity is expected to extend into 2024–25, with a further 1.5 per cent decline anticipated, before recovering strongly from 2025 onwards. The recovery is expected to be driven by demand from net overseas migration, strong rental yields, lower interest rates and a reduction in building input costs, particularly in medium and high-density housing. Government initiatives to boost supply will also assist in supporting investment in new dwellings.

Policy detail:

Housing measures:

Housing (Build-To-Rent Developments)

For eligible new build-to-rent projects where construction commences after 7:30 PM (AEST) on 9 May 2023 (Budget night), the Government will:

- increase the rate for the capital works tax deduction (depreciation) to 4 per cent per year
- reduce the final withholding tax rate on eligible fund payments from managed investment trust (MIT) investments from 30 per cent to 15 per cent.

Addressing Silicosis and Silica-Related Diseases

The Government will provide $10.0 million over 4 years from 2023–24 (and $1.9 million per year ongoing) to address the rise of silicosis in workers and develop a national strategy for the prevention of silicosis and silica-related diseases. Funding includes:

- $4.7 million over 4 years from 2023–24 (and $0.8 million per year ongoing) to establish a dedicated occupational lung diseases team to oversee implementation and investigate long-term reforms for an improved national framework for occupational lung diseases
- $4.2 million over 4 years from 2023–24 (and $1.1 million per year ongoing) to extend the Asbestos Safety and Eradication Agency's remit to include the prevention of silicosis and other silica related occupational diseases and broaden the functions of the Asbestos Safety and Eradication Council
- $1.2 million over two years from 2023–24 to Safe Work Australia's social partners to increase awareness and support better work practices relating to managing silica dust in the workplace.

Home Guarantee Scheme amendments

Broadening eligibility criteria for the Home Guarantee Scheme to enable any 2 eligible borrowers (not only married and de facto couples), and non-first home buyers who have not owned a property in Australia in the preceding 10 years to access the scheme. Eligibility is also extended to permanent residents, rather than limiting eligibility to Australian citizens. Amendments to the scheme will also enable legal guardians of children to access the Family Home Guarantee, rather than limiting eligibility to only parents.

National Housing Supply and Affordability Council

The Government is also enabling up to 3 additional members to be appointed to the National Housing Supply and Affordability Council to provide a greater breadth of policy expertise.

Increasing the Supply of Social and Affordable Housing

The Government will increase guaranteed liability cap of the National Housing and Finance Investment Corporation (NHFIC) by $2.0 billion to $7.5 billion to enable NHFIC to increase its support for social and affordable housing through loans from the Affordable Housing Bond Aggregator.

The Government will also amend NHFIC's Investment Mandate to require NHFIC to take reasonable steps to allocate a minimum of 1,200 homes to be delivered in each state and territory within 5 years of the Housing Australia Future Fund commencing operation. An amendment will also enable NHFIC to redirect interest earnings on unallocated funds to support more social and affordable housing and delivery of housing priorities.

Increased Support for Commonwealth Rent Assistance Recipients

The Government will increase the maximum rates of the Commonwealth Rent Assistance (CRA) allowances by 15 per cent to help address rental affordability challenges for CRA recipients.

Household Energy Upgrades Fund

The Government will provide $1.3 billion in funding to establish the Household Energy Upgrades Fund to support home upgrades that improve energy performance and save energy. Funding includes:

- $1.0 billion in funding to the Clean Energy Finance Corporation to provide low-cost finance and mortgages in partnership with private financial institutions for home upgrades that save energy
- $300.0 million over 4 years from 2023–24 held in the Contingency Reserve to support upgrades to social housing, in collaboration with states and territories, that save energy
- $36.7 million over 4 years from 2023–24 (and $2.1 million per year ongoing) to develop further initiatives to improve energy performance, including expanding and modernising the Greenhouse and Energy Minimum Standards program and the Nationwide House Energy Rating scheme.

Industrial relations measures

Safe and Fair Workplaces

The Government will provide $27.4 million over 4 years from 2023–24 (and $1.1 million per year ongoing) to improve the safety and fairness of workplaces and continue detailed consultation with key industries.

Funding includes:

- $20.0 million over two years from 2023–24 to increase to the Productivity, Education and Training Fund, to support engagement and practical activities of worker and employer representatives with workplace reforms as they progress and the implementation of the Government's Workplace Relations agenda
- $4.4 million over 4 years from 2023–24 (and $1.1 million per year ongoing) to establish the National Construction Industry Forum including representatives from key employer groups, unions and government to provide advice on major challenges facing the building and construction industry including workplace relations, industry culture, skills and training, safety, gender equality and productivity
- $2.0 million over two years from 2023–24 to develop a targeted training package on workplace psychosocial hazards, to be provided to organisations that train health and safety representatives in the Commonwealth jurisdiction
- $0.8 million in 2023–24 to conduct a review of modern awards in the context of new gender equality and job security objects and the updated modern awards and minimum wages objectives in the Fair Work Act 2009, the review will also consider opportunities to make awards simpler to use
- $0.3 million in 2023–24 for a specialist review into the operations of the Office of the Fair Work Ombudsman.

The Government is continuing its comprehensive consultation with stakeholders on the implementation of election commitments and Jobs and Skills Summit outcomes to close loopholes in the workplace relations system, including the Same Job, Same Pay principle, the regulation of employee-like forms of work, and legislating a fair, objective definition of casual employment.

The Government will also engage with stakeholders to explore the design and implementation of a national labour hire licensing scheme in Australia.

Employment and Workplace Relations – reprioritisation

The Government will achieve savings of $212.9 million over 5 years from 2022–23 (and $41.4 million per year ongoing) across the Employment and Workplace Relations portfolio which will be redirected to fund other portfolio policy priorities.

Savings include:

- $111.6 million over 4 years from 2023–24 by reducing place allocations for the Self-Employment Assistance Small Business Coaching program to more accurately reflect utilisation of places
- $27.5 million over 4 years from 2023–24 by temporarily reducing uncommitted Industry Workforce Training program funding
- $22.8 million over 4 years from 2023–24 by ceasing the Entrepreneurship Facilitators Program from 1 July 2023
- $20.0 million over 4 years from 2023–24 by temporarily reducing uncommitted funding to support Job and Skills Councils
- $15.8 million over 4 years from 2023–24 by reducing the departmental operating funding of the Office of the Fair Work Ombudsman by 2.5 per cent
- $10.4 million over two years from 2022–23 by not proceeding with the Accelerating Australian Apprenticeships Pilot program
- $3.9 million over two years from 2022–23 by rescoping the Skills Assessments Pilots to align with current demand trends
- $1.1 million in 2023–24 by ceasing the Career Revive program on 30 June 2023

Training measures:

Australian Skills Guarantee

The Government will provide $8.6 million over 4 years from 2023–24 (and $1.5 million per year ongoing) to implement the Australian Skills Guarantee, ensuring one in 10 workers on major Australian Government-funded projects is an apprentice, trainee or paid cadet.

The Australian Skills Guarantee will apply from 1 July 2024 to projects with contracts valued at $10.0 million or more in the construction and information and communications technology sectors and will include sub-targets for women. More ambitious targets will be set for flagship construction projects with contracts valued at $100.0 million or more. Targeted Support for Apprenticeships

The Government will provide additional funding of $54.3 million over 5 years from 2022–23 to introduce a new non-financial support model for Australian Apprenticeships from 1 July 2024. The model will redesign and refocus key support services currently delivered by the Australian Apprenticeship Support Network to increase apprenticeship completion rates and the diversity of the apprentice workforce.

Grant funding of $5.0 million over 3 years from 2024–25 will be provided to organisations with appropriate expertise in supporting women in the workplace, to further support women in historically male dominated trade apprenticeships. This will include providing education, advice or support to increase culturally safe and inclusive workplaces, reduce the cultural barriers to women's participation, address workplace challenges and support businesses to attract and retain women. The new model will also provide support to women who commence their non-traditional trade apprenticeships prior to 1 July 2024 during their transition to new service arrangements.

This measure delivers on the Government's commitment from the Jobs and Skills Summit to explore options to improve the apprenticeship support system and drive-up completions. It will also assist employers linked to major and flagship construction projects to meet their targets for apprentices and women under the Australian Skills Guarantee. The cost of this measure will be offset by savings achieved from streamlining Australian Apprenticeships Incentive System service arrangements by transferring the processing of wage subsidy claims from Services Australia to the Department of Employment and Workplace Relations and providers.

National Skills Agreement

The Government will provide $5.5 million in 2023–24 to continue supporting negotiations on a long-term skills funding agreement with the states and territories. Subject to the outcome of these negotiations, the Government has also retained $3.7 billion in the Contingency Reserve for a 5-year National Skills Agreement that will commence on 1 January 2024.

National Careers Institute

The Government will provide additional funding of $5.1 million in 2023–24 to continue functions of the National Careers Institute and to evaluate its role in supporting Australians to access careers information. Funding will ensure the Your Career website is based on the latest labour market data and will continue the delivery of the School Leavers Information Kit to enable young people to make informed decisions about their education, employment, and training pathways.

Making more TAFE and vocational education places Fee-Free

The government will provide additional funding to states to subsidise existing training places, making these 'fee-free'. This policy aims to reduce cost-of-living pressures for students enabling a greater number to complete their qualifications.

Business measures:

Small Business Support – $20,000 instant asset write-off

The Government will improve cash flow and reduce compliance costs for small businesses by temporarily increasing the instant asset write-off threshold to $20,000, from 1 July 2023 until 30 June 2024.

Small businesses, with aggregated annual turnover of less than $10 million, will be able to immediately deduct the full cost of eligible assets costing less than $20,000 that are first used or installed ready for use between 1 July 2023 and 30 June 2024. The $20,000 threshold will apply on a per asset basis, so small businesses can instantly write off multiple assets.

Assets valued at $20,000 or more (which cannot be immediately deducted) can continue to be placed into the small business simplified depreciation pool and depreciated at 15 per cent in the first income year and 30 per cent each income year thereafter.

The provisions that prevent small businesses from re-entering the simplified depreciation regime for 5 years if they opt-out will continue to be suspended until 30 June 2024.

Small Business Support – Small Business Energy Incentive

The Government will support small and medium businesses to save on energy bills through incentivising the electrification of assets and improvements to energy efficiency.

Small and medium businesses, with aggregated annual turnover of less than $50 million, will be able to deduct an additional 20 per cent of the cost of eligible depreciating assets that support electrification and more efficient use of energy. Up to $100,000 of total expenditure will be eligible for the Small Business Energy Incentive, with the maximum bonus deduction being $20,000.

A range of depreciating assets, as well as upgrades to existing assets, will be eligible for the Small Business Energy Incentive. These will include assets that upgrade to more efficient electrical goods such as energy-efficient fridges, assets that support electrification such as heat pumps and electric heating or cooling systems, and demand management assets such as batteries or thermal energy storage. Full details of eligibility criteria will be finalised in consultation with stakeholders.

Eligible assets will need to be first used or installed ready for use between 1 July 2023 and 30 June 2024. Eligible upgrades will also need to be made in this period.

Tax Integrity – improving engagement with taxpayers to ensure timely payment of tax and superannuation liabilities

The Government will provide funding over 4 years from 1 July 2023 to enable the ATO to engage more effectively with businesses to address the growth of tax and superannuation liabilities.

The additional funding will facilitate ATO engagement with taxpayers who have high-value debts over $100,000 and aged debts older than two years where those taxpayers are either public and multinational groups with an aggregated turnover of greater than $10 million, or privately owned groups or individuals controlling over $5 million of net wealth.

A lodgement penalty amnesty program is being provided for small businesses with aggregate turnover of less than $10 million to encourage them to re-engage with the tax system. The amnesty will remit failure-to-lodge penalties for outstanding tax statements lodged in the period from 1 June 2023 to 31 December 2023 that were originally due during the period from 1 December 2019 to 29 February 2022.

Driving Collaboration with Small Business to Reduce the Time Spent Complying with Tax Obligations

The Government will provide $21.8 million over 4 years from 2023–24 (and $1.4 million per year ongoing) to the Australian Taxation Office (ATO) to lower the tax-related administrative burden for small businesses.

Funding includes:

- $12.8 million over 3 years from 2023–24 to trial an expansion of the ATO independent review process to small businesses (with aggregated turnover between $10 million and $50 million) subject to an ATO audit. The trial will commence on 1 July 2024 and run for 18 months
- $9.0 million over 4 years from 2023–24 (and $1.4 million per year ongoing) for 5 new tax clinics from 1 January 2025 to improve access to tax advice and assistance for 2.3 million small businesses.

Eligibility for funding will be extended to TAFE institutions to improve access to tax clinic services in regional areas.

The measure also delivers reforms to cut paperwork and reduce the time small businesses spend doing taxes:

- from 1 July 2024, small businesses will be permitted to authorise their tax agent to lodge multiple Single Touch Payroll forms on their behalf, reducing paperwork for small businesses
- from 1 July 2024, small businesses will benefit from faster, safer and cheaper income tax refunds by reducing the use of cheques
- from 1 July 2025, small businesses will be permitted up to 4 years to amend their income tax returns, reducing the burden of making revisions.

Enhanced Support for Small and Medium-sized Businesses and Startups

The Government will provide $431.9 million over 4 years from 2023–24 (and $79.2 million per year ongoing) to improve support for small to medium enterprises (SMEs) and startups.

Funding includes:

- $392.4 million over 4 years from 2023–24 (and $68.2 million per year ongoing) to establish the Industry Growth Program to support Australian SMEs and startups to commercialise their ideas and grow their operations. Support will be targeted towards businesses operating in the priority areas of the National Reconstruction Fund
- $39.6 million over 4 years from 2023–24 (and $11.0 million per year ongoing) to continue the Single Business Service, supporting SMEs engagement with all levels of government.

This measure replaces several programs established by the previous government.

GST compliance program – four-year extension

The Government will provide $588.8 million to the ATO over 4 years from 1 July 2023 to continue a range of activities that promote GST compliance. This measure is estimated to increase GST receipts by $3.8 billion, and other tax receipts by $3.8 billion, over the 5 years from 2022–23.

These activities will ensure businesses meet their tax obligations, including accurately accounting for and remitting GST, and correctly claiming GST refunds. Funding through this extension will also help the ATO develop more sophisticated analytical tools to combat emerging risks to the GST system.

This measure is estimated to increase receipts by $7.6 billion and increase payments by $3.8 billion over the 5 years from 2022–23.

Other measures:

Migration – uplift of Visa Application Charges

The Government will increase Visa Application Charges (VACs) from 1 July 2023. In addition to the regular CPI indexation, VACs will increase by 6 percentage points for visa applications, as well as an additional 15 percentage points for select visitor and temporary visa subclasses and an additional 40 percentage points for business innovation and investment visas.

The select visitor and temporary visa subclasses include visitor, working holiday, work and holiday, training, temporary activity, and temporary work (short stay specialist). The increased revenue generated will fund costs associated with improving visa processing and other Government priorities.

Visa and Migration System

The Government will provide $125.8 million over 4 years from 2023–24 to continue implementing outcomes from the Jobs and Skills Summit to strengthen the migration system in order to ease critical skills shortages across the economy and build a more productive workforce.

Funding includes:

- $75.8 million over two years from 2023–24 to extend the current surge in visa processing resources to ensure timeliness of visa processing and improve existing visa processing systems
- $50.0 million over 4 years from 2023–24 (and $15.3 million per year ongoing) for additional enforcement and compliance activities to maintain the integrity of the migration system. Funding from 2025–26 will be held in the Contingency Reserve, pending an evaluation of the effectiveness of the activities.

Incentivise pensioners into the workforce – six months extension

The Government will provide $3.7 million in 2023–24 to extend the measure to provide age and veterans pensioners a once-off credit of $4,000 to their Work Bonus income bank and temporarily increase the maximum income bank until 31 December 2023.

Under this measure, pensioners can earn up to $11,800 before their pension is reduced, supporting pensioners who want to work, or work more hours, to do so without losing their pension. There is expected to be a minor increase in personal income tax receipts in 2024–25 as a result of this measure.