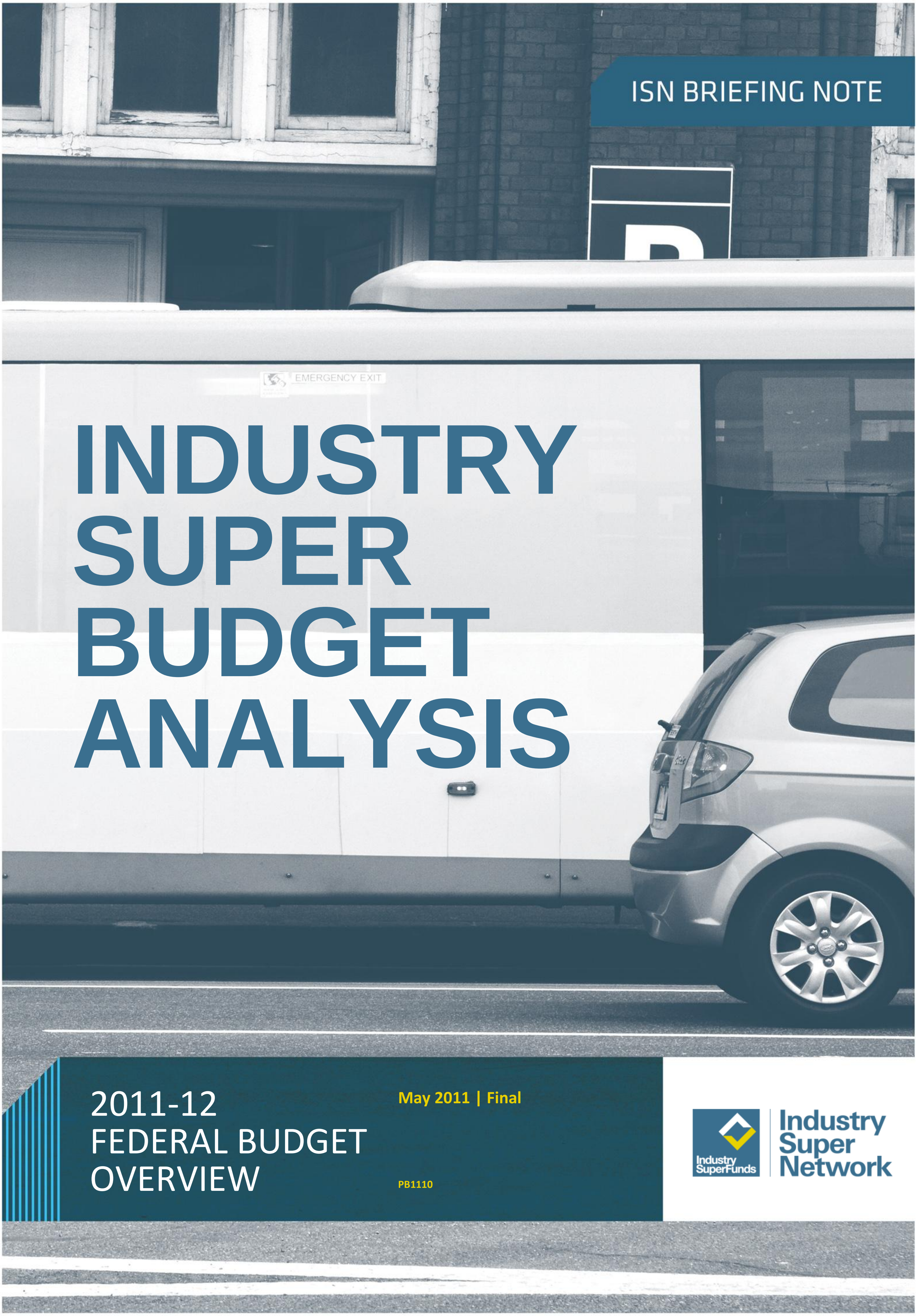

ISN BRIEFING NOTE

INDUSTRY SUPER BUDGET ANALYSIS

2011-12 FEDERAL BUDGET OVERVIEW

May 2011 | Final

PB1110

Industry SuperFunds

Industry Super Network

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About Industry Super Network

Industry Super Network (ISN) is an umbrella organisation for the industry super movement. ISN manages collective projects on behalf of a number of industry super funds with the objective of maximising the retirement savings of five million industry super members. Please direct questions and comments to:

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SUMMARY

The headline figure for Wayne Swan's fourth budget is a deficit of 1.5 per cent of GDP, primarily due to the effect of the high Australian dollar and the lagged effect of the GFC on company profits (and therefore company income tax receipts). However, the overall impression is of the strength of the Australian economy, particularly relative to comparable economies. Australia was in a far better starting position at the beginning of the GFC and is recovering much faster than almost all comparable countries.

Superannuation gets several mentions but there is little that has not already been announced or telegraphed. Given the growing backlog of major superannuation reforms that have been announced but not yet legislated, and the many reform processes still in consultation, this is perhaps more of a relief than a hindrance. To be specific, the budget includes:

- clarification of the indexation arrangement of the $50,000 concessional cap for those age 50 and over with under $500,000 in assets;
- a measure to allow excess *concessional contributions* to be taxed at a taxpayer's marginal rate rather than a punitive rate;
- funding for administration of measures flowing from the major Stronger Super policy areas – SMSFs, SuperStream and MySuper;
- freezing of the co-contribution income indexing for an additional 12 months;
- funding for compensation of Trio members; and
- provisioning for the (already announced) extension of CGT rollover relief until September.

Aside from these measures, the announcements of greatest specific relevance to superannuation funds will be those relating to infrastructure. The Treasurer has announced substantial spending on transport infrastructure, spending on regional infrastructure including hospitals, and a measure designed to allow indexation of tax losses from infrastructure projects (and for these to be transferred from one owner to another).

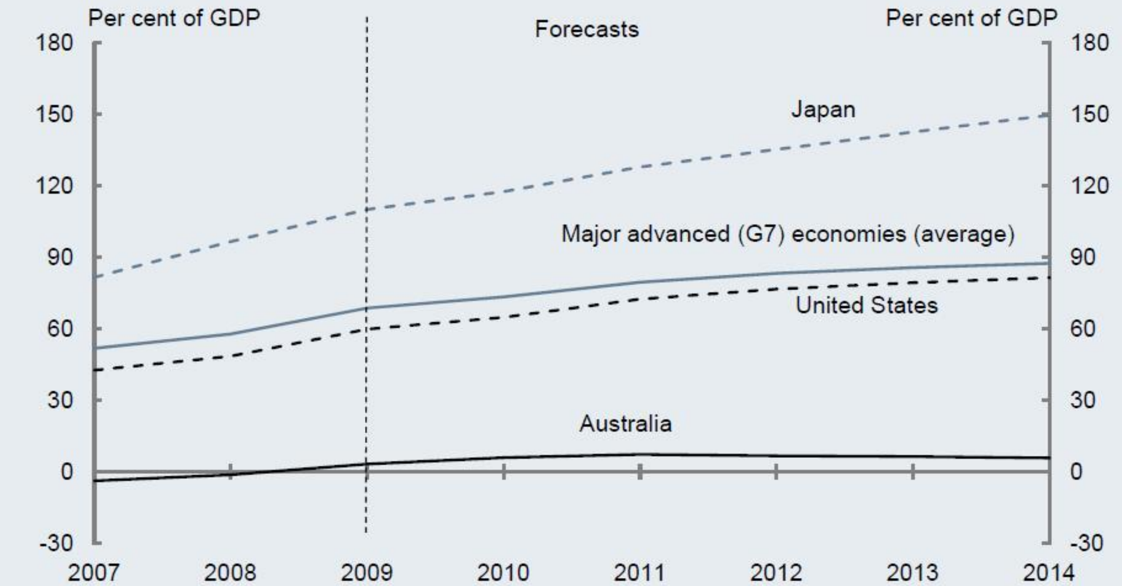
Of potentially greater significance is a commitment to provide Infrastructure Australia with more resources with the goal of introducing greater transparency and consistency to infrastructure planning, including through the publication of a 'national infrastructure construction schedule'.

1. General economic impact

The budget anticipates savings of $22b over 4 years, which contributes to a return to surplus in 2012-13 as previously forecast. Increased personal and company income tax will make a substantial contribution to the forecast return to the black.

The budget clearly illustrates Australia's strong financial position relative to other countries. Chart A, below, tells the story through the metric of Government net debt.

Chart A: Government net debt for Australia and selected economies



Note: Australian data are for the Australian Government general government sector and refer to financial years beginning 2007-08. Data for all other economies are total government and refer to calendar years beginning 2007.
Source: IMF *Fiscal Monitor* April 2011 and Treasury.

Importantly, a major focus of the budget is achieving future productivity gains, which are necessary to secure economic growth and a return to a sustainable budget position. There is new funding and approaches to addressing infrastructure bottlenecks and under-investment in the regions (dealt with below) and also new measures on training and skills, including $558m in funding for 130,000 quality training places and $200m in funding for apprenticeships.

The budget also includes a measure to help address issues related to the two-speed economy that attempts to strengthen links between the manufacturing sector and the booming resources sector.

2. Superannuation

On superannuation, the budget primarily includes references that are clarifications and/or provisioning for previously announced policies.

2.1 Adjustment to contribution cap indexation

This measure clarifies the approach to indexation for the $50,000 concessional cap for those over 50 with less than $500,000 in assets. The cap will be increased by the same dollar amount as the $25,000 cap, which is indexed to CPI. The cap for those over 50 with less than $500,000 in assets will continue to be $25,000 more than the base level cap, as it increases due to indexation.

This measure will represent a saving to Government of $65m in 2013-14 and $90m in 2014-15. (See Budget Paper 1, ch5 p20)

2.2 Refund of excess concessional contributions

This measure changes the treatment of excess concessional contributions. Under the measure excess contributions can be refunded to the taxpayer and taxed at the taxpayer's marginal rate, instead of, as is currently the case, taxed at 46.5% (31.5% + 15%).

This treatment is only available:

- from 2011-12;
- for breaches up to $10,000; and
- in the first year in which a breach occurs.

This measure will have a marginal cost to Government in net terms.

This measure does not relate to non-concessional contributions in excess of the $150,000 cap, to which much publicity has recently been applied, around the purported 93% punitive tax rate.

2.3 Co-contribution

The Government will extend for a further 12 months the freeze on the indexation of the income threshold above which the maximum super co-contribution begins to wind down.

This measure will represent a gain to Government revenue of $25m for the three financial years from 2012-13 onwards (see Budget Paper 2, p326).

The Government is also reporting a significant saving because take-up of the co-contribution has been lower than previously predicted (saving is $143 million in 2011-12 and $588 million over four years to 2013-14) (see Budget Paper 1, ch3, p21).

2.4 Stronger Super SMSF measures

The budget announces funding of $40.2m to the ATO and $8.4m to ASIC over the next five years to implement announced SMSF measures, including the introduction of administrative penalties, enhanced regulation and competency requirements.

This is to be funded by an increase to the SMSF levy and the introduction of a new SMSF auditor registration fee.

2.5 Other Stronger Super measures

The budget includes provision for the Stronger Super announcements, funded via an increase in the APRA levy. The $26.2m raised will be used to increase funding to APRA, ASIC and the ATO for announced MySuper and SuperStream initiatives.

The Government will provide $14.6m to the ATO to design and develop new IT systems to support the SuperStream measures.

2.6 Trio members compensation

The budget includes provision of $55m (in 2010-11), previously announced as compensation for members affected by the Trio scandal, to be funded by an APRA levy (in 2011-12).

2.7 CGT rollover extension for 3 months

The budget includes provisioning for the recent announcement of an extension of CGT rollover relief for merging super funds. The Government expects no material cost or gain from this measure.

2.8 CGT trading stock exception for super funds

The Government will remove the trading stock exception to the 'capital gains tax (CGT) primary code rule' for complying superannuation entities for specified assets, effective immediately, which will ensure gains or losses on specified assets (primarily shares, units in a trust and land) are subject to CGT. The measure will increase revenue by $15m over three years.

3. Infrastructure

3.1 Improved governance and more transparent and consistent planning

The Government will increase funding for Infrastructure Australia (IA) by $36m over four years. IA is to endeavour to work more closely with States and Territories and the private sector to promote better targeted investments. The Government will also create a National Infrastructure Construction Schedule which lists large economic and social infrastructure to give investors a better sense of the project pipeline.

3.2 Spending

Notwithstanding the fact that an important source of budget savings is the deferral of some infrastructure spending, the budget includes much detail on new and ongoing investment in infrastructure.

The Government is investing $36.2b in transport infrastructure over six years, including an additional $1b over four years on duplication of the Pacific Highway, and investment in the National Broadband Network is continuing.

The budget provides $1b to commence work on projects from the $6b Regional Infrastructure Fund. This is designed to reinvest the proceeds of the mining boom (through the MRRT) in booming mining regions.

The Government is investing $4.3b in regional hospitals, health care, universities and roads. The budget also includes a $1b Regional Development Australia Fund to finance regional investment including in bridges, child care centres and sporting facilities.

Finally, the budget includes provision for the National Urban Policy, *Our cities, our future*, which includes $20m for planning development, $100m to develop suburban employment precincts, and $61.4m for a smart managed motorways trial to reduce congestion, expand capacity of city road infrastructure networks.

3.3 Tax provisions

The budget includes announcement of a change to infrastructure tax treatment.

The initiative involves indexation of tax losses on projects of national significance at the Government bond rate and a change to laws to allow these losses to be transferred with ownership of the underlying assets.

This measure may be expected to slightly increase the risk-return on domestic infrastructure investment relative to other asset classes.