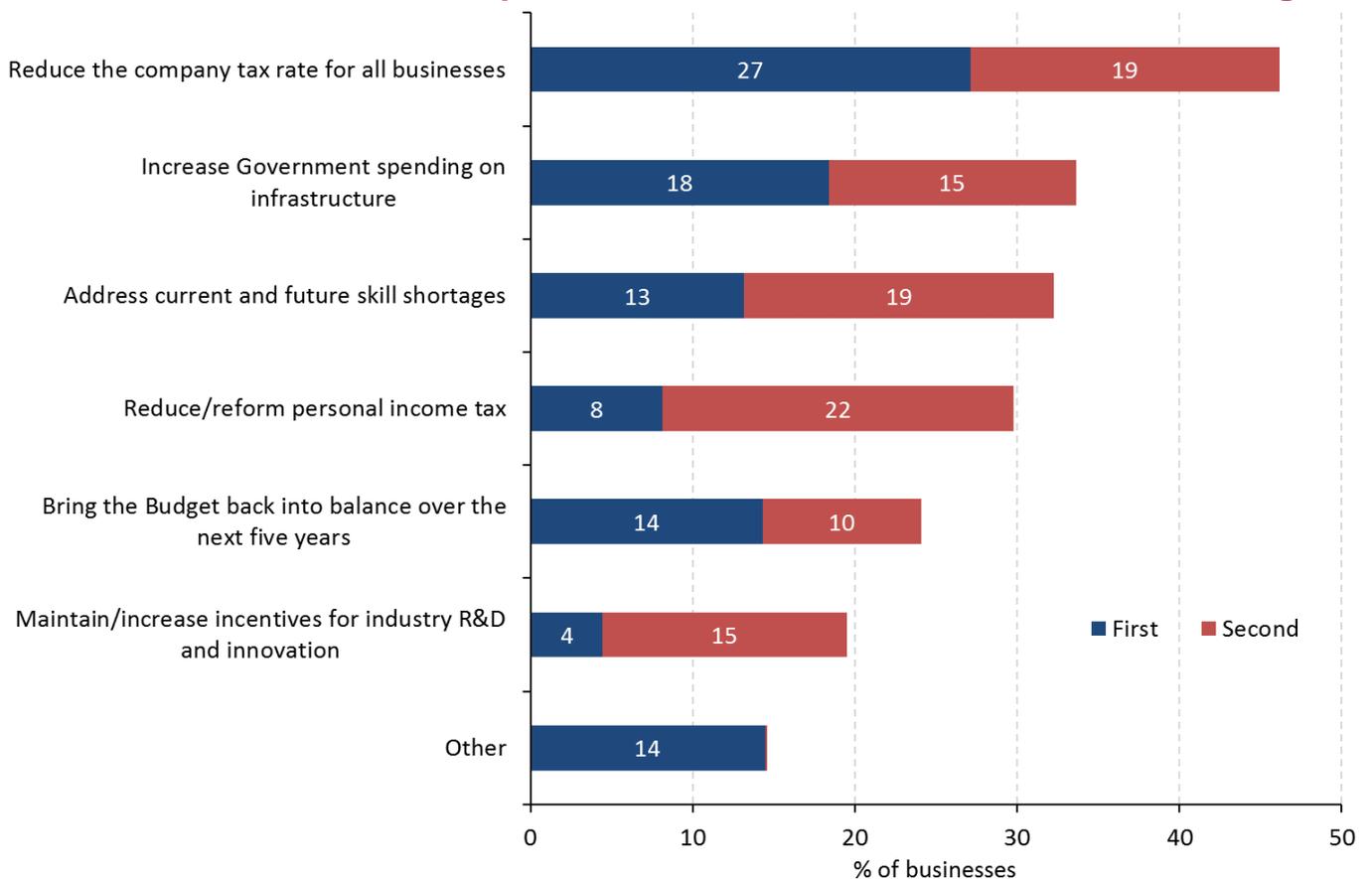


Business priorities for the 2018-19 Federal Budget

April 2018

Reducing Australia’s high company tax burden is the highest priority for businesses in the 2018-19 Federal Budget, according to Ai Group’s annual survey of Budget priorities for Australian businesses. This year, 27% of businesses rank the reduction of company tax for all businesses as their highest priority and 19% list this option as their second highest priority. A total of 46% of businesses rank company tax rate reductions as their first or second Budget priority.

Chart 1¹: First and second priorities for business, 2018-19 Federal Budget



¹ See appendix for methodology.

Lifting public spending on infrastructure ranks as the second most important priority for business in 2018, with 18% ranking it as their leading priority and 15% ranking it as their second highest. In total, one third of respondents nominate government spending on infrastructure as either their first or their second highest priority.

Addressing current and future skill shortages is the third most prevalent priority for businesses in the 2018-19 Budget, with 31% of respondents ranking it as either their first or their second highest priority.

Investing to address skill shortages is closely followed by personal income tax reductions as the fourth ranking measure. An acceleration of budget consolidation and lifting the budgetary focus on innovation also figure as priorities for businesses.

The ranking of Budget priorities in this year's survey reinforces the directions highlighted in [Ai Group's 2018-19 Budget Submission](#). Our policy recommendations for this year's Federal Budget support the enactment of the remaining provisions of the Government's Enterprise Tax Plan which would see a company tax rate of 25 per cent for all businesses phased in over the coming decade. In our Budget Submission we argue that this should be accompanied by a program of broader tax reform measures - including personal tax reform targeted to lower and middle-income households – to support the integrity, equity and sustainability of Australia's taxation arrangements.

With the prospect of looming skills shortages, Ai Group also recommends that the Federal Budget include stronger investment in skills, training, apprenticeships and education for our current and future workforce. We argue that these recommendations should be supported by:

- increased funding for rigorously-assessed public infrastructure projects; and
- continued budget consolidation, with a focus on finding efficiencies and investing the savings in productivity enhancing initiatives including on innovation and developing business capabilities.

Top priorities in 2018

Looking at the number one priorities in this year's Budget, Australian businesses wish to see:

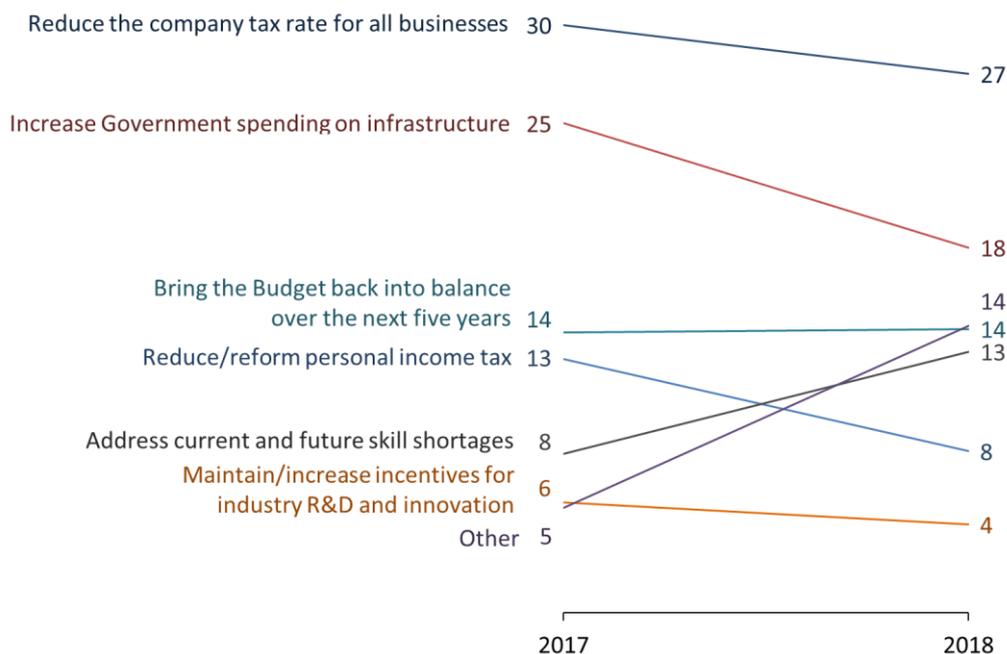
1. **A reduction in the company tax rate for all businesses** - 27% of businesses rank this as their top priority (30% last year);
2. **Increased Government spending on infrastructure** - 18% of businesses rank this as their top priority (25% last year);
3. **Energy and other action items** - 14% of businesses rank 'other' as their top priority (5% last year). Many respondents who selected 'other' as their highest priority said this relates to energy policy. These respondents want to see the Government urgently address energy affordability and energy reliability in the electricity and gas markets. Other policy areas mentioned as priorities for the 2018-19 Budget include:
 - Reform or eliminate payroll tax;
 - Eliminate red tape and regulatory burden for business;
 - Review immigration policy;
 - Standardise OH&S regulations; and
 - Revise Australia's trade tariffs.
4. **Bringing the Budget back into balance** over the next five years was the fourth most common top priority, with 14% of businesses ranking this as their top priority.
5. **Addressing current and future skills shortages** was the fifth placed top priority.
6. **reducing/reforming personal income tax** and maintaining/increasing incentives for industry R&D and innovation came sixth and seventh as the top priorities for business in 2018.

Looking at the policy areas ranked second, reducing/reforming personal income tax is the most common action item to be ranked second by business in 2018 (22%). This probably reflects respondents shifting this policy area from their first to their second highest priority. The next most common second priority areas are reducing the company tax rate for all businesses and addressing current and future skill shortages (19% each). The relative rise in the proportion of businesses that rank 'addressing current and future skills shortages' second in 2018 is consistent with results in [Ai Group's 2018 CEO Report](#) and [Ai Group's monthly performances indices](#) and with the strength of employment growth over the past year.

How do these priorities compare with previous years?

The order of priorities in 2018 is similar to survey results in 2017, with the top two action items - reducing the company tax rate for all businesses and increasing Government spending on infrastructure - remaining the highest and second highest priority. However, the distribution of priorities is wider in 2018 than in previous years, with the proportion of businesses ranking ‘other’ reasons and addressing current and future skills shortages as their top priority rising by 9 percentage points and 5 percentage points respectively (see chart 2).

Chart 2: First priorities for business by proportion of businesses, 2017-18 and 2018-19 Federal Budget



These top priorities have remained relatively consistent over the past five years (see chart 3). In some cases, changes in the proportions of businesses’ top priorities reflect the introduction of new options to answer this question, as new issues came into play. In 2014-15 and 2015-16 for example, this Budget survey asked businesses to rank five policy options. This was expanded to six policy options in the 2016-17 Budget survey and seven policy options in the 2017-18 Budget survey.²

² ‘Reduce/reform personal income tax’ was added to the survey options in 2016 and ‘other (please specify)’ was added in 2017.

Despite these updates to the survey over the years, some key themes are apparent over time including:

- **Reducing the company tax rate for all businesses** has remained the highest budget policy priority over the past five years. Businesses continue to see a reduction in company tax rates as key to improving their performance and competitiveness.
- **Infrastructure spending** remains the second most pressing area of policy concern for businesses (despite the proportion of businesses highlighting this as their top priority falling from 25% in the 2017-18 Budget survey to 18% in the 2018-19 Budget survey).
- **Addressing current and future skill shortages by improving the effectiveness of training, upskilling and apprenticeship programs** (or skills more generally) is rising over time as a priority for business. Skills as a top priority has risen from 4% of respondents in the 2016-17 Budget survey to 13% of respondents in the 2018-19 Budget survey. Strong employment growth throughout 2017 and early 2018 has seen skills shortages emerge in many locations and/or specialisations. These results are consistent with respondent feedback in [Ai Group's 2018 CEO Report](#) and [Ai Group's monthly performance indices](#).
- **Bringing the Federal Budget back into surplus within the next five years** appears to have slipped behind other concerns for businesses over the last few years, with 14% of businesses ranking this as their top priority in 2018-19 Budget survey compared to 27% in the 2015-16 Budget survey. This possibly reflects a better than expected fiscal position reported in the 2017-18 MYEFO and the 2017-18 Federal Budget. Alternatively, this could reflect the reality of necessary trade-offs between increased spending on infrastructure and reduced corporate tax rates versus bringing the Budget back into surplus in the short-term. On average, businesses tend to favour more stimulatory measures (spending or tax cuts) over a fiscal surplus in the short term.
- Of particular concern for future growth, the proportion of businesses nominating **maintaining/increasing incentives for industry R&D and innovation** as their top priority have fallen steadily since the 2015-16 Budget survey, relative to other policy areas. Having the right set of policies is vital to encouraging Australian innovation and R&D, in order to improve productivity and competitiveness (and hence incomes and living standards) in the longer term.

Chart 3: Top priority of businesses, 2014 to 2018

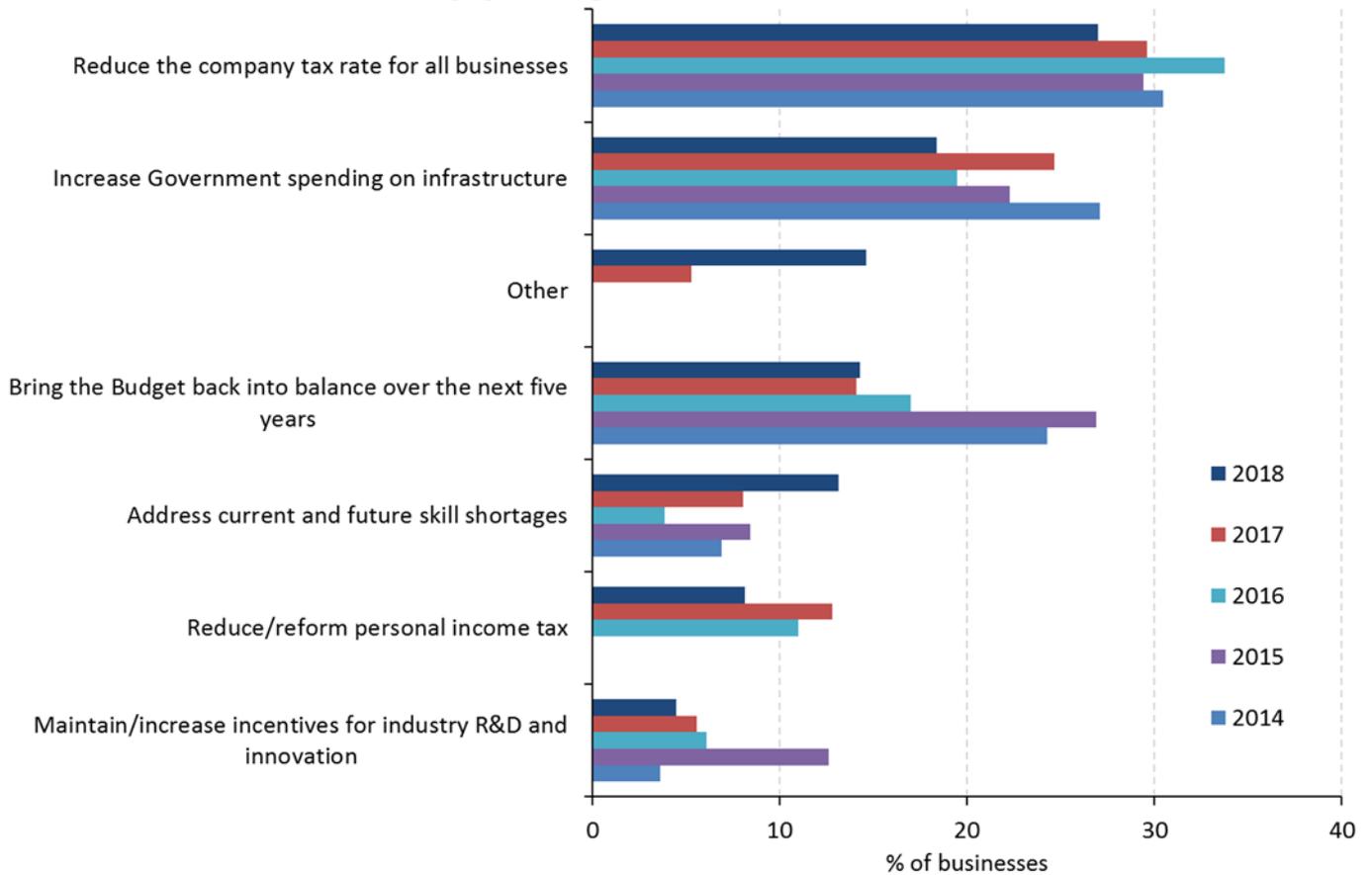


Table 1: Top priorities for business, 2018-19 Federal Budget

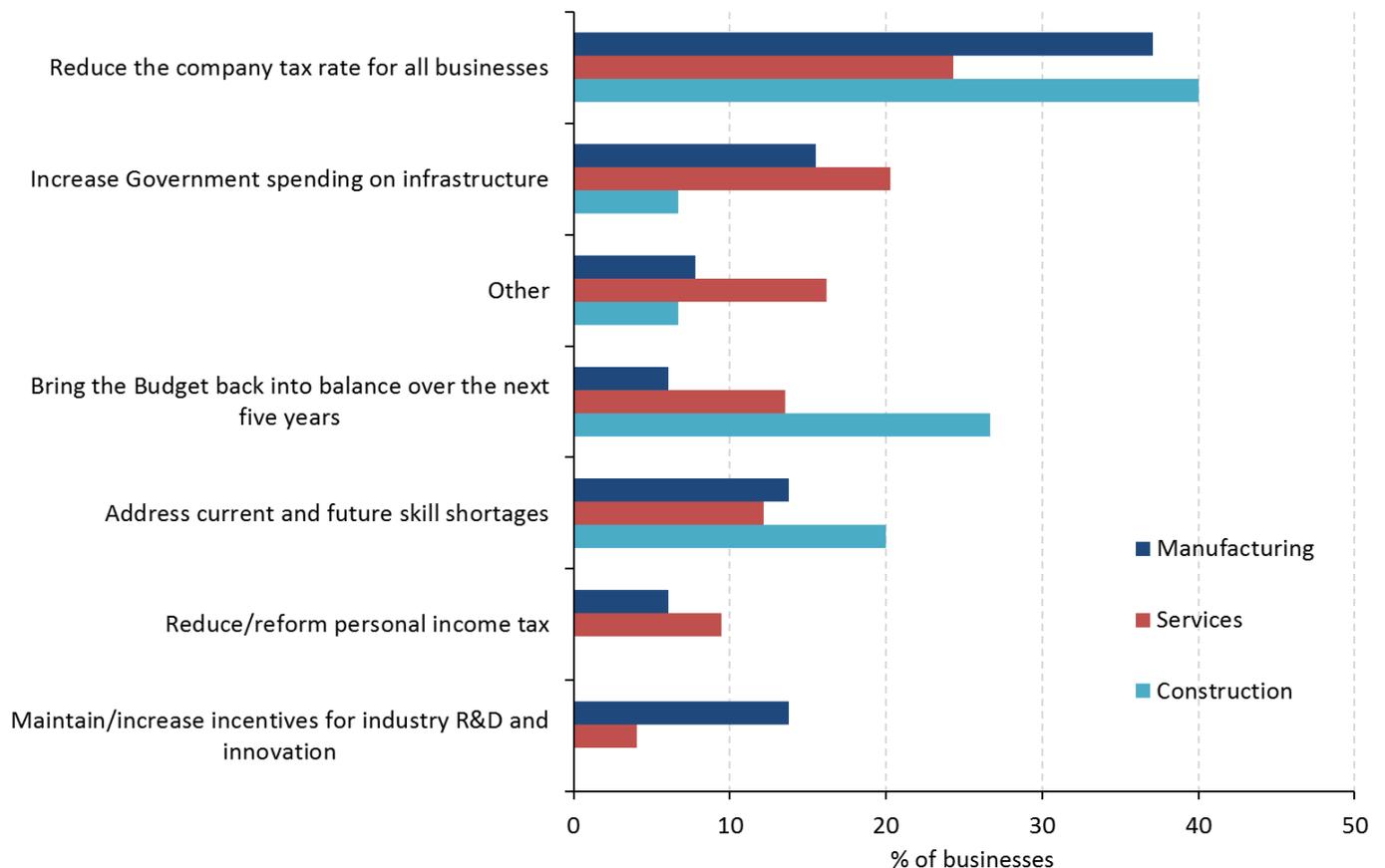
% of businesses that ranked each budget measure as their single highest priority

%	Reduce the company tax rate for all businesses	Increase Government spending on infrastructure	Other	Bring the Budget back into balance over the next five years	Address current and future skill shortages	Reduce/reform personal income tax	Maintain/increase incentives for industry R&D and innovation
Manufacturing	37.1	15.5	7.8	6.0	13.8	6.0	13.8
Services	24.3	20.3	16.2	13.5	12.2	9.5	4.1
Construction	40.0	6.7	6.7	26.7	20.0	0.0	0.0
Small (<20 employees)	33.3	17.5	14.3	14.3	4.8	9.5	6.3
Medium (20-100 employees)	33.3	14.9	12.6	5.7	14.9	9.2	9.2
Large (>100 employees)	41.9	12.9	3.2	12.9	16.1	0.0	12.9
Weighted total	27.1	18.4	14.5	14.3	13.2	8.1	4.5

Industry priorities in 2018

- **Manufacturers** show a higher preference than other businesses for reducing the company tax rate in 2018, with 37% nominating this as their highest priority. A larger proportion of manufacturers also prioritised addressing current and future skill shortages and maintaining/increasing incentives for industry R&D and innovation than other sectors (chart 4 and table 1).
- **Services businesses** are more concerned than other industries with increasing Government spending on infrastructure in 2018, ‘other’ reasons, and reducing/reforming personal income tax. They are relatively less concerned with maintaining/increasing incentives for industry R&D and innovation (only 4% nominating this as a top priority).
- **Construction businesses** show a higher preference for reducing the company tax rate for all businesses, with 40% nominating this as their highest priority. Construction businesses also want the Government to priorities bringing the Budget back into balance over the next five years and addressing current and future skill shortages. They are less concerned about reducing/reforming personal income tax and increasing support for industry R&D.

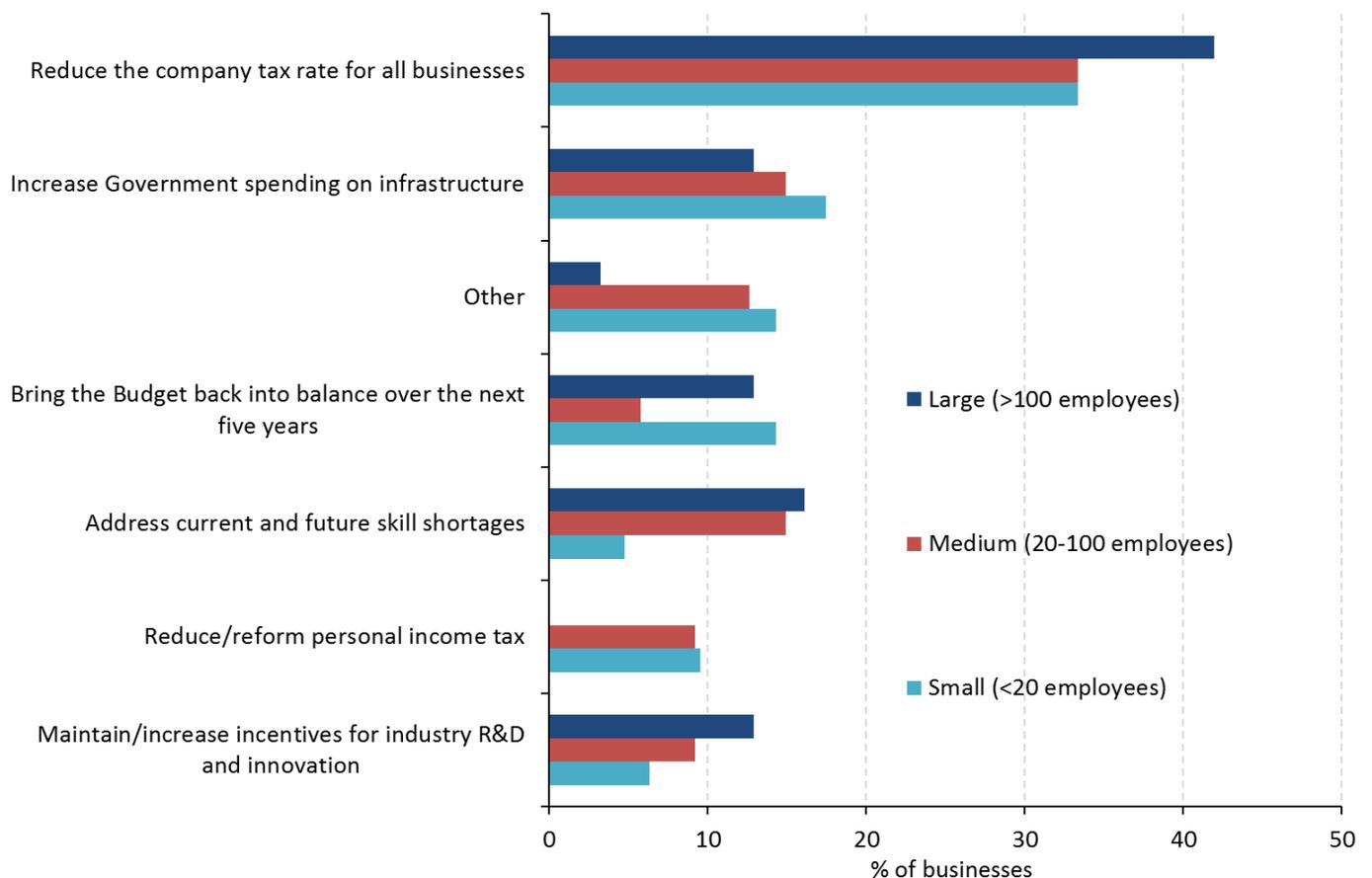
Chart 4: First priority of businesses, by industry



Priorities of small, medium and large businesses in 2018

- **Larger businesses** show a higher preference for reducing the company tax rate for all businesses, with 42% nominating this as their highest priority. Large businesses also show a higher preference for addressing current and future skill shortages and maintaining/increasing incentives for industry R&D and innovation (see chart 5).
- **Medium sized businesses** show a relatively high preference for increased Government spending on infrastructure and addressing current and future skills shortage, with 15% ranking these options as their top priority. They are relatively less concerned with bringing the Budget back into surplus, with only 6% nominating this as a top priority.
- **Small businesses** show a higher preference for increased Government spending on infrastructure (14%), bringing the Budget back into surplus within the next five years (14%) and reducing/reforming income tax (10%). They are less concerned than larger businesses about increasing support for industry R&D and addressing current and future skill shortages.

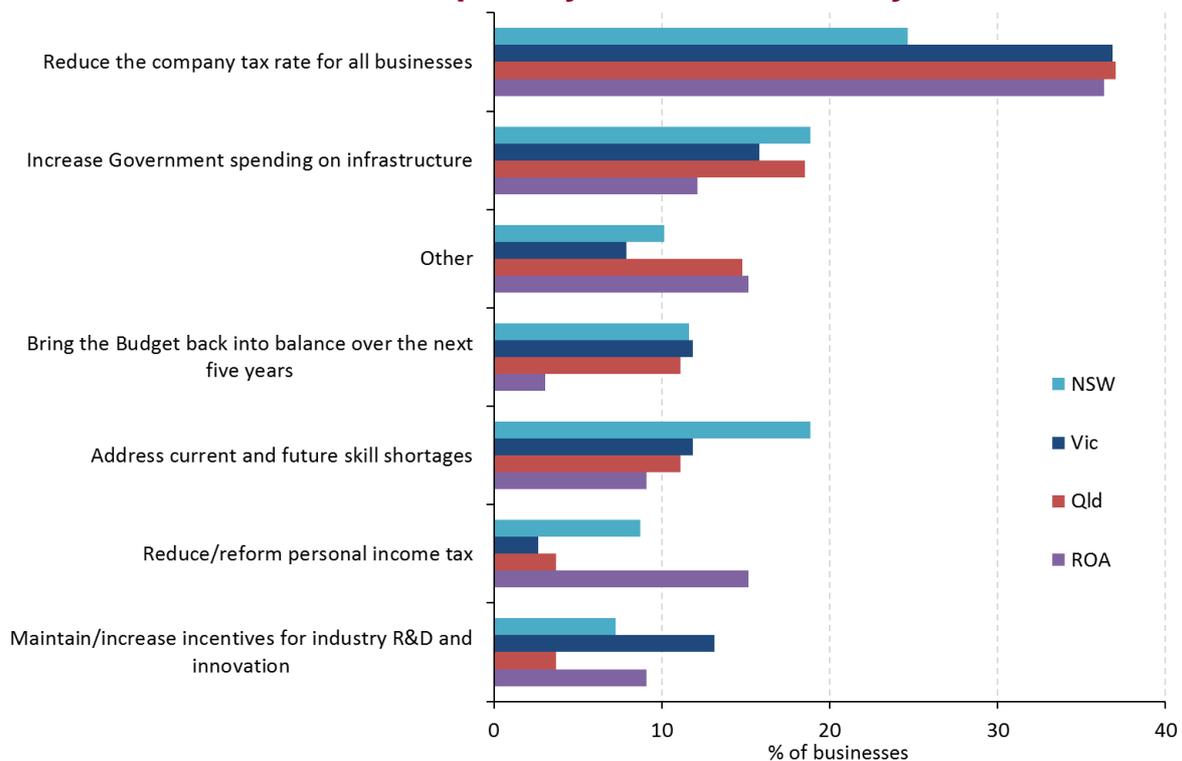
Chart 5: First priority of businesses, by size (number of employees)



State priorities in 2018

- Priorities for **New South Wales** businesses in the 2018-19 Budget are relatively more spread out than other states. New South Wales businesses show a higher preference for addressing current and future skill shortages than other states (chart 6).
- **Victorian** businesses are mostly concerned with reducing the company tax rate for all businesses, with 37% nominating this as their top priority. Victorian respondents are also relatively more concerned about maintaining/increasing incentives for industry R&D and innovation than the other states.
- **Queensland** businesses show a higher preference for reducing the company tax rate for all businesses, with 37% nominating this as their highest priority. Also, increasing Government spending on infrastructure is an important top priority for Queensland businesses (19%). Queensland businesses appear relatively less concerned with reforming personal income tax and maintaining/increasing incentives for industry R&D and innovation, with only 4% nominating these options as a top priority.
- The **Rest of Australia (Western Australia, South Australia and Tasmania)** show a relatively higher preference for tax reform with 36% ranking reducing company tax rate for all businesses as their top priority and 15% ranking reducing/reforming personal income tax as their top priority. The rest of Australia appear relatively less concerned with bringing the Budget back into balance over the next five years and addressing current and future skill shortages, with only 3% and 9% nominating these options as a top priority, respectively.

Chart 6: First priority of businesses, by state*



* ROA = rest of Australia including Western Australia, South Australia and Tasmania.

Appendix: Survey question and respondents

In March 2018, 205 Australian businesses responded to this survey question:

The Federal Budget for 2018-19 will be announced in May. Please rank the following objectives in order of their importance to your business (1 = most important objective and 7 = least important):

- Address current and future skill shortages by improving the effectiveness of training, upskilling and apprenticeship programs;
- Reduce company tax rate for all businesses;
- Increase Government spending on infrastructure (e.g. energy, water, telecomms and transport)
- Reduce/reform personal income tax;
- Maintain/increase financial incentives for industry R&D and innovation;
- Bring the Federal Budget back into balance over the next five years;
- Other (please specify): _____

Table 2: Ai Group survey respondents, March 2018

	No. of respondents	% of total respondents
Manufacturing	116	56.6%
Services	74	36.1%
Construction	15	7.3%
Small (<20 employees)	63	30.7%
Medium (20-100 employees)	87	42.4%
Large (>100 employees)	31	15.1%
Size not provided	24	11.7%
New South Wales	69	33.7%
Victoria	76	37.1%
Queensland	27	13.2%
Rest of Australia	33	16.1%
Total	205	100%

Note: Based on 205 survey responses and weighted by industry output (real value-added output, derived from ABS *National Accounts*). Previous years' results have been weighted using the preceding financial year's industry output.

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