



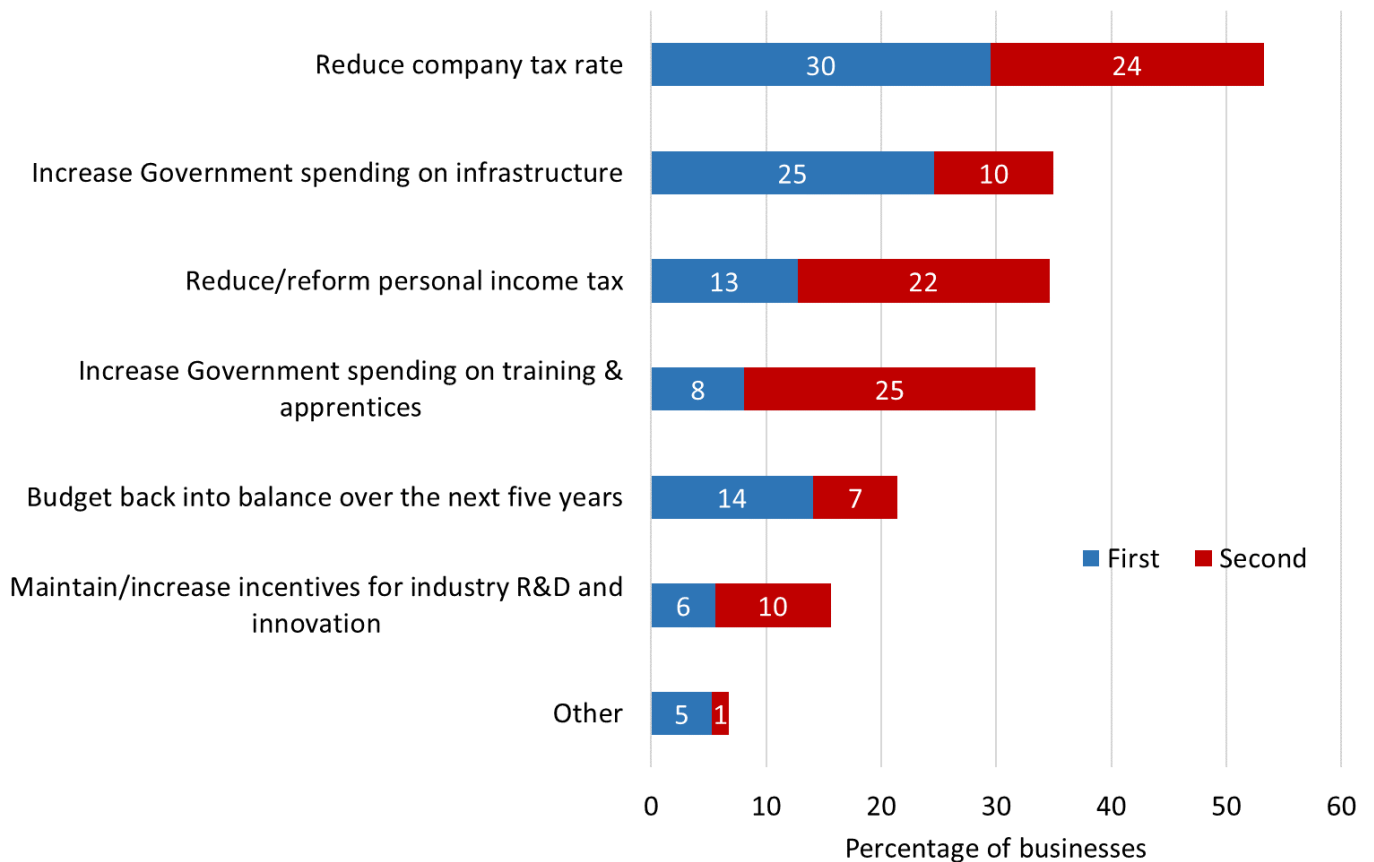
Business priorities for the 2017-18 Federal Budget

May 2017

Federal Budget priorities for business: tax, infrastructure and training

Reducing Australia’s high company tax burden remains the top concern for businesses in the 2017-18 Federal Budget, according to Ai Group’s annual survey asking businesses about their budget priorities. With the amended Enterprise Tax Plan Bill set to return to the House of Representatives, 30% of businesses ranked the reduction of company tax as their highest priority.

Chart 1¹: First and second priorities for business, 2017-18 Federal Budget



¹ Based on 399 survey responses and weighted by industry output (real value added output, derived from ABS *National Accounts*). Previous years’ results have been reweighted on the same basis for comparison purposes.

One quarter of businesses ranked greater public sector investment in infrastructure as their highest priority while 14 per cent of businesses gave top priority to a relatively rapid (within five years) return to budget balance.

Other prominent issues for business for this year's Budget include reducing or reforming personal income tax arrangements.

This ranking of priorities is similar to 2016, with the top three issues remaining the same, although this year more businesses say that increased spending on infrastructure is their top priority. In this year's Federal Budget, Australian businesses wish to see:

1. **Reduced company tax rate.** 30% of businesses rank this as their top priority (34% last year);
2. **Increased government spending on infrastructure.** 25% of businesses rank this as their top priority (19% last year); and
3. **Bringing the Federal Budget back into balance over the next five years.** 14% of businesses rank this as their top priority (17% last year).

13% of businesses view reducing or reforming personal income tax as a top priority, followed by increasing government investment in workforce development in the form of training and apprenticeships (8%) and maintaining or increasing spending on research, development and innovation (6%).

Investing in workforce development ranked as the highest second priority for business (25 per cent) followed closely by reducing the company tax rate which was the second highest priority for 24 per cent of businesses. Reducing personal income taxes was also prominent among businesses' second priorities with 22 per cent of businesses ranking this as their second highest priority.

Other policy areas mentioned as budget priorities for businesses included reforming the Goods and Services Tax (GST) and payroll tax; reducing red tape and regulatory burdens for businesses; improving Australia's immigration policy; trade tariff reform; developing standardised OH&S regulations; and urgently addressing energy affordability and energy reliability in electricity and gas markets.

This ranking of budget priorities reinforces the directions highlighted in Ai Group's [2017-18 Budget Submission](#) (January 2017). Our policy recommendations for this year's Federal Budget include stronger investment in skills, training, apprenticeships and education for our current and future workforce; reducing Australia's high corporate tax burden – with an initial emphasis on small and medium-sized businesses; increased funding for rigorously assessed public infrastructure; and continued budget consolidation, with a focus on finding efficiencies and investing savings in productivity enhancing initiatives.

Detailed findings

Tax Reform & a Balanced Budget

- **Reducing the company tax rate** is considered the most urgent reform for the upcoming Federal Budget this year, with 30% of businesses nominating this as their top priority and another 24% nominating this as their second-highest priority (Chart 1 and Table 1). Reducing the company tax rate is particularly urgent for construction and services businesses, with 32% of construction businesses and 30% of services businesses nominating this as their single highest priority.
- Businesses also pointed to the importance of **reducing or reforming personal income tax**, with 13% of businesses nominating this as their top priority and 22% nominating this as their second priority. This is a key priority for construction and services businesses, with 15% and 13% nominating personal income tax reform as their top priority respectively.
- Businesses are less concerned with the deficit compared to last year, although reducing the **Federal Budget deficit** remains a prominent concern, with 14% nominating 'balancing the Federal Budget over the next five years' as their top priority and 7% nominating this as their second highest priority.
- Also related to tax reform, a small number of businesses nominated other taxation reforms, including changes to the GST and payroll tax, as their top priority.

Infrastructure

- **Increasing spending on infrastructure** is the top priority for 25% of businesses for the 2017-18 Federal Budget, with another 10% listing this as their second highest priority.
- Infrastructure spending is a particular priority for manufacturing and services businesses with 26% and 25% respectively nominating this as their highest priority this year. This reflects a growing concern about the state of local infrastructure (e.g. in transport, utilities and telecommunications) and its ability to promote business productivity and competitiveness.

Training, R&D and Innovation

- 8% of businesses say that **maintaining/increasing spending on training and apprentices** is their top priority for this year's Budget, with another 25% nominating this as their second highest priority. This support is especially valued by construction and manufacturers, with 15% and 12% listing this as their most important budget priority respectively.
- 6% of businesses nominate **maintaining/increasing incentives for industry R&D and innovation** as their top priority, and 10% nominate this area of expenditure as their second highest priority. Manufacturers are more concerned about adequate support for innovation than other businesses, with 11% of manufacturers nominating this as their top priority.

Other Priorities

Businesses from the manufacturing and services industries nominated several other high-priority issues for this year's Federal Budget including:

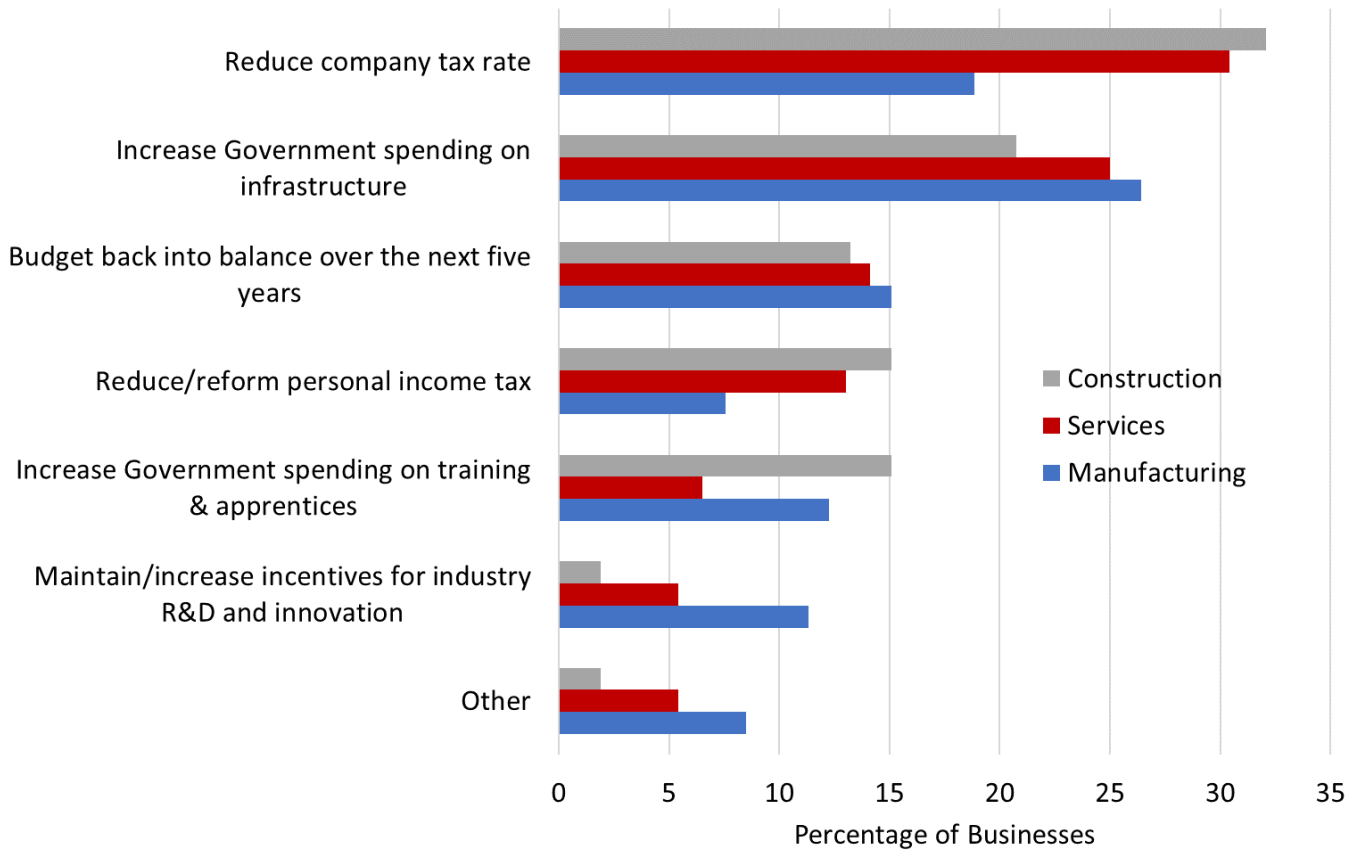
- Urgently undertake energy market reform to reduce energy costs and improve reliability;
- Reform or eliminate payroll tax;
- Reform the GST;
- Eliminate red tape and regulatory burden for business;
- Review immigration policy;
- Standardise OH&S regulations; and
- Revise Australia's trade tariffs;

Table 1: Top priorities for business, 2017-18 Federal Budget

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

%	Reduce the company tax rate	Increase spending on infrastructure	Bring the Budget back into balance over next five years	Reduce / reform personal income tax	Increase spending on training & apprentices	Maintain / increase incentives for industry R&D & innovation	Other
Manufacturing	19	26	15	7	12	11	8
Services	30	25	14	13	7	5	5
Construction	32	21	13	15	15	2	2
Small (<20 employees)	25	23	16	18	10	2	6
Medium (20-100 employees)	25	27	15	4	13	12	5
Large (>100 employees)	37	26	0	11	5	11	11
Weighted total	30	25	14	13	8	6	5

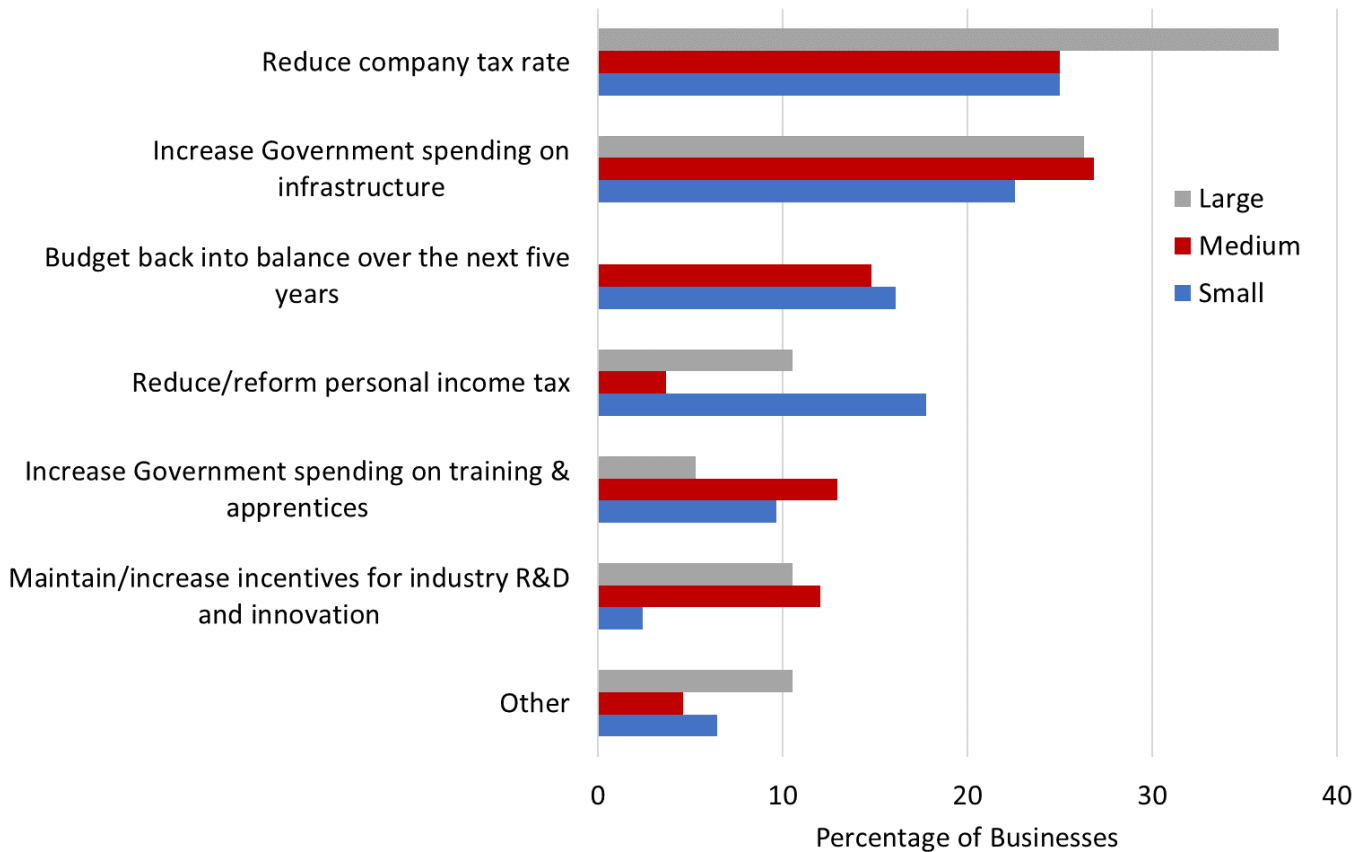
Chart 2: First priority of businesses, by industry



Some differences in priorities are evident across businesses of different sizes:

- **Larger businesses** show a higher preference for reducing the company tax rate, with 37% nominating this as their highest priority. Notably, no large businesses in the survey nominated bringing the budget back into surplus within the next five years as their first priority.
- **Medium sized businesses** are more concerned than other businesses to increase spending on training and apprentices (13% nominating this as a top priority) and increase support for industry R&D (12% nominating this as a top priority). They are relatively less concerned with personal income tax reform (only 4% nominating this as a top priority).
- **Small businesses** show a higher preference for reforming personal income tax, with 18% nominating this as their highest priority. They are less concerned than larger businesses to increase support for industry R&D (only 2% nominating this as a top priority).

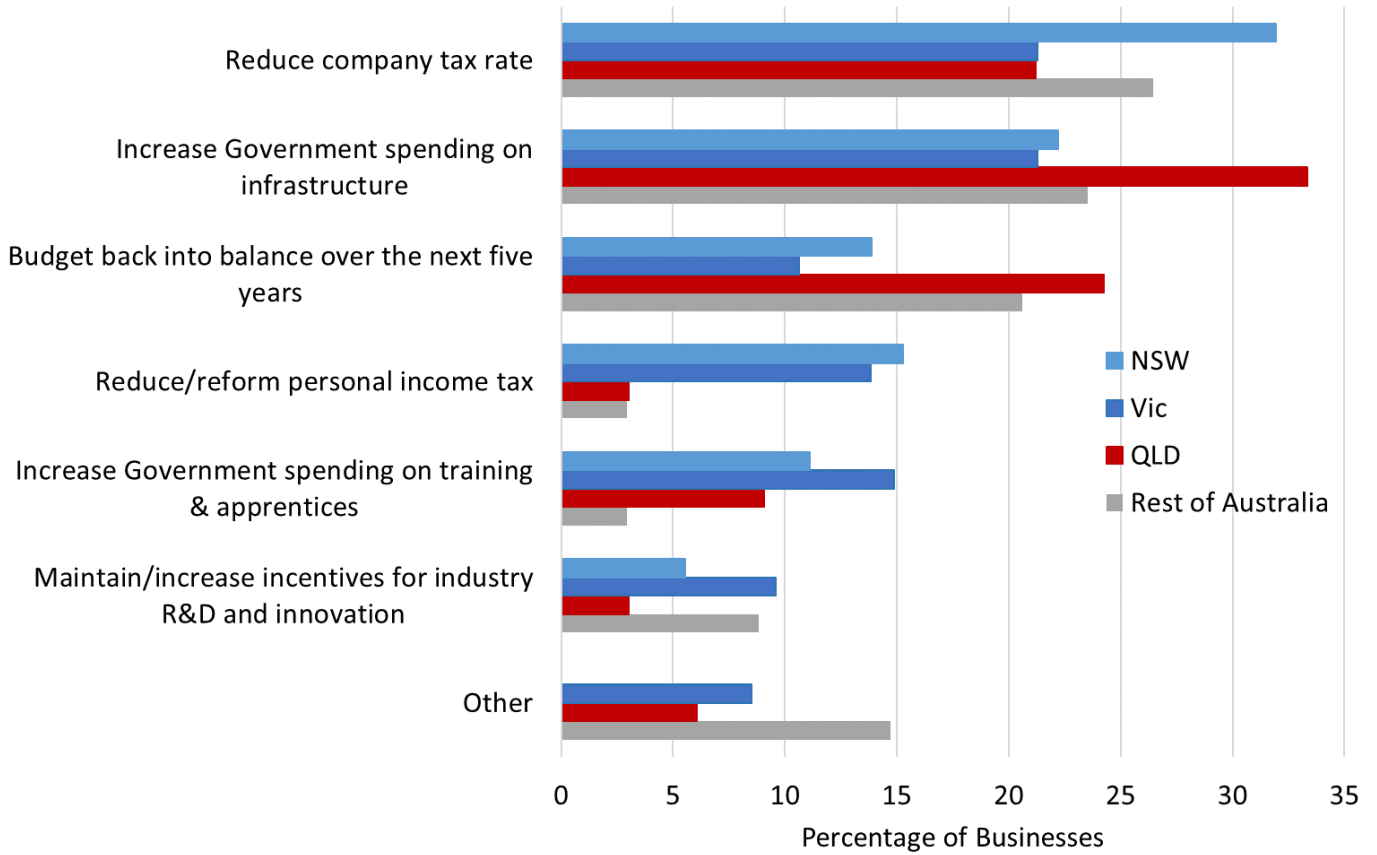
Chart 3: First priority of businesses, by size (number of employees)



Differences in priority were apparent across major states:

- **New South Wales** businesses show a higher preference for reducing the company tax rate, with 32% nominating this as their highest priority.
- **Victorian** businesses were relatively more concerned about increasing government spending on training and apprentices, with 15% nominating this as their top priority.
- **Queensland** businesses showed a higher preference for increasing government spending on infrastructure, with 33% nominating this as their highest priority. Also, bringing the Federal Budget back into surplus was relatively more prominent as a top priority for Queensland businesses (24%). Queensland businesses appear relatively less concerned with reforming personal income tax (only 3% nominating this as a top priority).

Chart 4: First priority of businesses, by state



Comparison with previous years

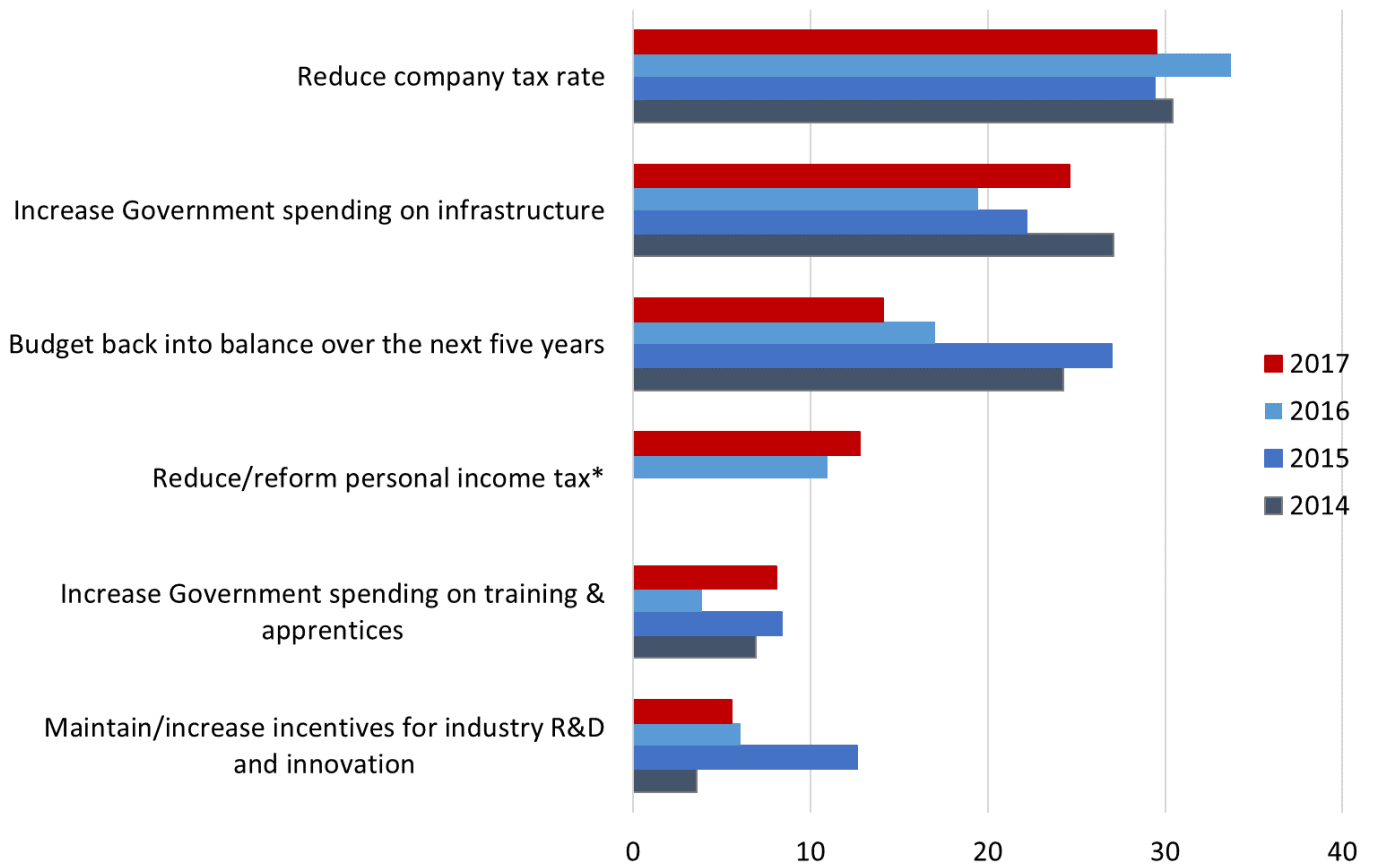
Reducing the company tax rate has remained the highest priority for all businesses over the past four years. Businesses continue to see a reduction in company tax rates as key to improving their performance and competitiveness.

Infrastructure spending is emerging as a top priority for businesses, as infrastructure gaps widen and become increasingly urgent across the country (particularly for transport and telecommunications infrastructure). The proportion of businesses nominating infrastructure spending as their top priority increased significantly in 2017, from 19% in 2016 compared to 25% in 2017.

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% in 2017 compared to 17% in 2016 and 27% of businesses ranking this as their top priority in 2015. This reflects 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 fiscal balance in the short term.

Of possible concern for future growth, the proportion of businesses nominating increased R&D spending as their top priority remains low at 6% in 2017 (the same as in 2016), down from 13% in 2015. It is vital to support Australian business innovation and R&D, in order to improve productivity and competitiveness (and hence incomes and living standards) in the longer term.

Chart 5: Top priority of businesses, 2014 to 2017



* 'Reduce/reform personal income tax' was added to the survey question options in 2016 and 2017.

Appendix: Survey question and respondents

In early March 2017, 399 Australian businesses responded to this survey question:

The Federal Budget for 2017-18 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):

- Bring the Federal Budget back into balance over the next five years;
- Reduce/reform personal income tax;
- Reduce company tax rate for all businesses;
- Maintain/increase financial incentives for industry R&D and innovation;
- Develop our current and future workforce by increasing Government spending on training, upskilling and apprenticeships;
- Take advantage of low interest rates to increase Government spending on infrastructure (e.g. energy, water, telecomms and transport), even if it adds to Government debt;
- Other (please specify): _____

Table 2: Ai Group survey respondents, March 2017

	No. of respondents	% of total respondents
Manufacturing	130	32.6%
Services	120	30.1%
Construction	149	37.3%
Small (<20 employees)	248	62.2%
Medium (20-100 employees)	131	32.8%
Large (>100 employees)	20	5.0%
New South Wales	111	27.8%
Victoria	145	36.3%
Queensland	63	15.8%
Rest of Australia	80	20.1%
Total	399	100%

Ai Group Economics and Research Team

Julie Toth	Chief Economist	(03) 9867 0124
David Richardson	Senior Economist	(02) 9466 5456
Jesse Oliver	Economist	(03) 9867 0231
Colleen Dowling	Senior Research Analyst	(03) 9867 0251
Elle Spyropoulos	Research Assistant	(03) 9867 0108

economics@aigroup.com.au

www.aigroup.com.au/policy-and-research/economics/