

Victorian Budget Announcement 2022-23

**A review of the Victorian
Budget's major business
implications**

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Executive summary

The 2022-23 budget includes significant funding for Victoria's health sector following 2 years of the COVID-19 pandemic. This sets health as the centrepiece for the government's platform as it heads into an election later this year.

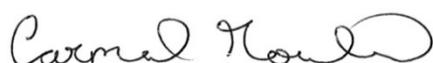
The Victorian Government's budget for 2022-23 forecasts a net operating deficit of \$17.6 billion this financial year. Net debt is projected to be \$101.9 billion currently, rising to \$167.5 billion by 2025-26.

As a percentage of gross state product (GSP), net debt is forecast to reach 19.8 percent this financial year and 26.5 percent in 2025-26.

The commitment of over \$12 billion in health spending is focused on health infrastructure and supporting recovery of the sector that bore the brunt of the pandemic.

This year's budget has allocated significant spending towards the ongoing COVID-19 pandemic response, with \$4.2 billion being provided to increase hospital capacity, purchasing and distributing rapid antigen tests and vaccines.

Separately, Victoria's health system will receive \$1.5 billion in funding to expand surgical operations to what are described as record-high levels under the 'COVID-19 Catch-Up' program.



Carmel Mortell
Victorian Chairman



Carmel Mortell
Victorian Chairman



Alia Lum
Partner, Tax Policy & Regulatory Engagement Lead

There is also around \$1.8 billion in funding for school infrastructure, including the construction of 13 new schools.

Victoria's public transport system and public roads will receive more than \$2.5 billion in funding. Elsewhere in the budget, there are allocations for more police officers and paramedics, and to facilitate low-interest loans for affordable housing.

As part of Victoria's Gender Responsive Budgeting initiative, the Gender Equity Budget Statement highlights \$940 million in initiatives primarily focused on improving outcomes for women.

In terms of new revenue measures, the Government has announced an increase to the maximum marginal tax rate for electronic gaming machines operated at casinos which would generate approximately \$85 million over the forward estimates.

With an economy in reasonable shape, it is not surprising this year's budget seeks to support spending measures that are likely to be popular in an election year, as well as get things back to an even keel in a post-pandemic world.



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Economic analysis



Brendan Rynne
Chief Economist

The Victorian economy is expected to achieve moderate growth over the next few years; outperforming national growth in the out years.

The Victorian economy is expected to grow by 3.25 percent during the next financial year; with virtually all the growth driven by household spending. While business investment and dwelling investment are expected to be positive, net trade and declining ownership transfer costs (associated with a softer housing market) will offset these gains.

Much of this higher consumption activity can be attributed to increased employment and positive population growth due to the resumption in overseas migration; albeit Victoria's population is not expected to reach the level forecasted pre-COVID-19 for 2021 before 2026.

The Victorian Government is forecasting inflation to peak this financial year at 3.0 percent, before declining to 2.50 percent and 2.25 percent respectively over the coming two financial years because of declining fuel prices, softer house prices and normalisation of supply chains.

The Victorian budget forecasts a deficit of nearly \$18 billion for financial year 2021-22 quite simply because government expenses outpaced government revenues. This is understandable given the pandemic environment and the government's policy response. The budget is not expected to come back into balance until the final year of the forward estimates.

Employee expenses remain elevated in the forward estimates while 'Other operating expenses' are projected to fall due to the reduction in expenditure commitments attributable to COVID-19.

Whether the Victorian Government will need to re-visit the question of the optimal size of the public service for a post-COVID-19 service delivery environment will depend, in part, on population growth.

This has implications for the net debt trajectory that is being forecast for the state; which as it stands is noticeably higher in absolute terms and a larger proportion of gross state product (GSP) compared to New South Wales. That is, by 2024-25 Victorian Government net debt is estimated to be around \$155 billion, and represent just over a quarter of Victoria's GSP. In comparison, General Government net debt in NSW is forecast to reach \$103 billion by 2024-25, which is expected to be the equivalent of 13.4 percent of GSP.

Overall, the Victorian economy appears in good shape, albeit still feeling the effects of the impact of the health policy response to the COVID-19 pandemic. Government budgeted measures are returning to normal, but there may be an overhang in employee expenses that will continue to impact the deficit and net debt position throughout the forward estimates.

Key Insights

- Victorian GSP growth to remain strong, albeit slightly below national growth forecasts for the next two years.
- Government expenditures are 'returning to normal', but employee expenses remain elevated and above pre-COVID-19 levels relative to population estimates.

Property tax



Robert Nguyen
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The Treasurer's focus on health, particularly healthcare infrastructure, was clear. Regional areas will benefit from new investment into hospitals and funding for Commonwealth Games infrastructure.

This year's budget continues the state's focus on health, education, infrastructure, and jobs, while building on the four-step fiscal strategy unveiled in the 2021-22 State Budget.

Relevantly, the budget outlines the State Government's new investment in health infrastructure (including \$0.9–\$1.0 billion to construct the new Melton Hospital, \$500–\$525 million for the Barwon Women's and Children's Hospital in Geelong, \$300 million for the Regional Health Infrastructure Fund, and \$236 million to expand the Casey Hospital and the Werribee Mercy Hospital emergency departments), \$2.6 billion in funding for the 2026 Commonwealth Games over forward estimates (i.e. to run the games and build and upgrade sporting venues, accommodation and supporting infrastructure). There is also a further \$1 billion in low interest loans and government guarantees to be made available in the community housing sector to create up to 6,000 more homes, and \$779 million to recruit 1,900 more teachers across the State.

The following key revenue and state tax measures were mentioned, which had been previously launched:

Land Tax

From 1 January 2022 until 31 December 2031, eligible Build to Rent developments receive a 50 percent land tax concession for up to 30 years and a full exemption from Absentee Owner Surcharge over the same period.

Stamp Duty

First home buyers may be exempt from paying stamp duty if they buy a property for \$600,000 or less, with concessions available for properties valued up to \$750,000.

In 2021, over 51,000 stamp duty concession and exemption claims totalling nearly \$900 million were granted to Victorians. The First Home Owner Grant provides eligible first home buyers \$10,000 to help them purchase a newly constructed home. Over 21,000 grants valuing \$275 million were provided in 2021, a 23 percent increase in number compared to 2020.

Key Insights

The following key revenue and state tax measures were mentioned:

- Despite the current deficit, no new property taxes or increases to property taxes were outlined in the Budget.
- Continued strength in the Victorian property market drives the recovery from the pandemic-affected taxation revenue in 2022-21.
- Land transfer duty revenue is forecast to decline in 2022-23, with the property market cooling.
- The 2021 strong price growth in Victoria's residential property market is expected to support 2022-23 land tax revenue, which is based on land valuations as at 1 January 2022.

Payroll tax

The Victorian Government's budget reveals payroll tax revenue is expected to grow to \$6.8 billion in 2022-23, which has been driven by a stronger outlook for labour markets, as indicators of employment are at near record highs. The growth in revenue from these factors have outweighed the reduction in payroll tax expected from New Jobs Tax Credit initiatives for small businesses announced in the 2020-21 state budget.

The budget estimates payroll tax revenue to grow to \$6.8 billion this financial year and continue to grow by an average of 6.5 percent per year over the forward estimates.

The unemployment rate is at a record low and labour force participation near a record high. Further, employment indicators such as job advertisements and vacancies remain very strong and employment has risen by 280,000 since its trough in September 2020. All these figures point to the resilience of the Victorian labour market, which is in a strong place as it enters 2022-23.

Revenue growth from payroll tax is further supplemented by the Government's Mental Health and Wellbeing Levy, which



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commenced on 1 January 2022 and continues to operate in 2022-2023 as a payroll tax surcharge on wages paid by Victorian businesses with a national payroll of over \$10 million per year.

The revenue from this levy must be spent on mental health services. This levy is expected to generate an estimated \$819 million in 2022-23 with expectations this will grow by an average of 4.7 percent per year over forward estimates.

Finally, employers will be pleased to hear that payroll tax rates and thresholds remain unchanged this year. Payroll tax will continue to be liable on wages paid in Victoria for employers with national taxable wages which exceed the annual threshold of \$700,000. Further, the payroll tax rate of 4.85 percent continues to apply for metropolitan employers, whereas a lower payroll tax of 1.2125 percent continues to apply for regional employers.

Key Insights

- Significant growth in payroll tax revenues come during a time of strong employment indicators. This growth is further supported by revenue collected through Victoria's Mental Health and Wellbeing Levy, which is set to generate \$819 million in 2022-23 for mental health services.
- Key payroll tax thresholds and rates remain unchanged this year, however employers who have national wages of more than \$10 million a year should continue to ensure their taxable wages paid in Victoria have been subject to the Mental Health and Wellbeing Levy.

Summary of key expenditure / revenue raising items

This table summarises the Budget's larger expenditure measures, and also shows the most significant revenue-raising proposal. Figures are rounded to the nearest \$0.1 billion.

Key expenditure items	\$ billion
State public health response to the COVID-19 pandemic	4.2
Increased surgical activity in hospitals and funding for regional health infrastructure	1.8
School infrastructure including upgrades, expansions, and building of new schools	1.8
Support for disabilities services, aged care, at home care and the mental health system	1.4
Metropolitan and regional road infrastructure, maintenance and safety programs	1.3
Public transport services, infrastructure and associated safety and strategy initiatives	1.2
Low-interest loans and government guarantees for social and affordable housing	1.0
Investment in additional police officers, paramedics and equipment	0.7
Extra literacy and numeracy support for students and kindergarten services	0.3

Key revenue raising measure	\$ billion*
Increase the maximum marginal tax rate for electronic gaming machines operated at casinos	0.1

*Over the forward estimates



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