## Earn more, spend less ... a simple formula for balancing the budget

David Uren, ANALYSIS, 11:00PM November 27, 2018

Surging company and capital gains tax payments alongside restraint on government spending are powering the budget's return to surplus.

Scott Morrison spent his first two years as treasurer stuck in the same bog as Joe Hockey, Chris Bowen and Wayne Swan before him, with Treasury's forecasts of a revenue revival proving hopelessly optimistic.

In the decade leading up to the global financial crisis, the government's revenue averaged in excess of 25 per cent of GDP, enough to deliver regular large budget surpluses.

A blissful period of soaring revenues, light-touch regulation and a rocketing stock price looks about to end at Afterpay.

But revenue crashed to a low of 21.5 per cent of GDP following the GFC, mostly as a result of a collapse in company and capital gains tax revenue. Personal income tax receipts were also depressed, not so much by the economy as by the delivery of tax cuts promised in the sunnier times of the 2007 election.

The fall in revenue, equivalent to about $40 billion a year at the time, was compounded by rising government spending both on the Rudd government's stimulus programs and added welfare costs. Spending rose by an average of about 3 per cent on top of inflation over the course of the Labor government.

The Abbott government's ill-fated 2014-15 budget envisaged a return to budget surplus by 2018-19 as cuts to government services put a lid on spending while economic recovery brought revenue back to 25 per cent of GDP. Most of the spending cuts failed to get through parliament while revenue remained stuck at about 23 per cent of GDP.

In the last year of the Howard government, company tax raised $65bn while total capital gains receipts surpassed $17bn. When Mr Morrison presented his first budget nine years later, company tax was unchanged at $65bn while capital gains revenue had dropped to $10bn. Deficits remained stuck at more than $30bn a year and Australia's AAA credit rating was in jeopardy.

The resources sector has always been a great source of super profits for the tax office, but it was hurt by a cooling Chinese economy. Much of the rest of the

corporate sector was still suffering the after effects of an over-valued Australian dollar, and weak consumer spending, while investors were still writing down capital losses from the GFC.

Although most of the spending cuts failed to be legislated, the Coalition managed to restrain spending under the tight rein of finance minister Mathias Cormann with growth of about 2 per cent above inflation, despite the rollout of the National Disability Insurance Scheme and increased defence spending.

The revenue turnaround began in the second half of last year and has gathered pace. Company tax revenue was boosted by a surprise leap in coal and iron ore prices while business profits elsewhere in the economy strengthened. Deloitte Access Economics tips company taxes will reach almost $100bn this year. Capital gains tax revenue is also coming back.

Treasury now finds its forecasts are unduly pessimistic.

The outlook is not assured. Commodity prices are under pressure amid concerns about the global economy, but the momentum in the budget will carry well into next year.