

Hawker Britton

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Federal Budget 2012-13 Overview

May 2012

On 8 May 2012, the Deputy Prime Minister and Treasurer, the Hon. Wayne Swan MP, handed down the 2012-13 Federal Budget. In doing so, the Treasurer announced a \$1.5 billion surplus in 2012-13. This surplus is the first budget surplus since the 2009 Global Financial Crisis. The Budget further forecast strengthening surpluses in each of the next four years.

Mr. Swan identified the 2012-13 Budget as the appropriate time to bring the budget back to surplus, given the positive signs in the economy, including the return towards trend growth, relatively low unemployment and a record pipeline of investment. Returning the budget to surplus increases fiscal room and takes pressure off monetary policy and the exchange rate, allowing more flexibility for the Reserve Bank to respond to any further developments in the global economy.

The Reserve Banks cut the official cash rate by 50 basis points at its most recent meeting from 4.25 to 3.75.

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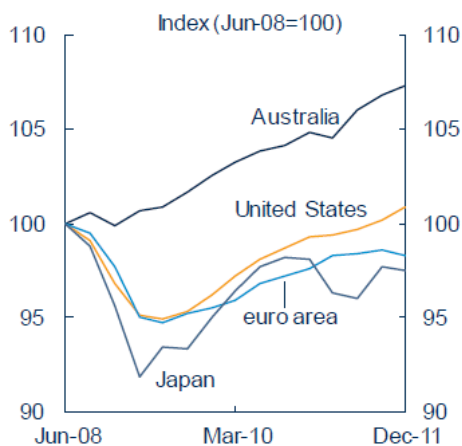
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Economic Context

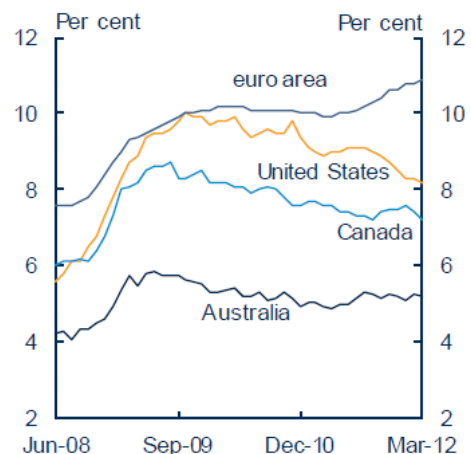
Heightened global turmoil towards the end of 2011 had a significant impact on government revenues. The December quarter of 2011 witnessed notable global financial instability, including an escalation of the European sovereign debt crisis with Italian and Spanish bond yields reaching euro-area highs, and a number of advanced economies contracting, including Germany, the UK, Japan and Italy. In contrast the Australian economy has been growing by 3% over the last year, and is now significantly larger than it was before the Global Financial Crisis.

Domestically in the December quarter, the dollar remained high despite the decline in the terms of trade, and consumers remained cautious. The combination of these factors, which were all at least partly influenced by global instability, meant that incomes were softer – most evident in the 6.5 per cent decline in company profits. Accordingly, Revenue write-downs were a significant feature of the 2011-12 Budget and Mid Year Economic Financial Outlook. In total, Government Revenue has decreased by \$150 billion since the Global Financial Crisis.

| | 2011-12 Forecast | 2012-13 Forecast | 2013-14 Forecast | 2014-15 Projection | 2015-16 Projection |
|-------------------|------------------|------------------|------------------|--------------------|--------------------|
| Real GDP Growth | 3% | 3.25% | 3% | 3% | 3% |
| Employment | 0.5% | 1.25% | 1.5% | 1.5% | 1.5% |
| Unemployment rate | 5.25% | 5.5% | 5.5% | 5% | 5% |
| CPI | 1.25% | 3.25% | 2.5% | 2.5% | 2.5% |
| Nominal GDP | 5.5% | 5% | 5.25% | 5.25% | 5.25% |



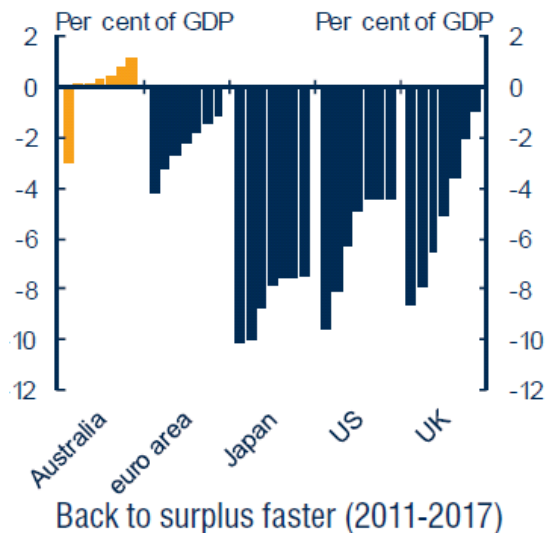
GDP levels for advanced economies



Unemployment rates for advanced economies

Despite \$150 billion in decreased revenue, the Government announced that it would return the budget to surplus as expected in 2012-13, with surpluses growing over the forward estimates.

| | 2011-12 Estimates | 2012-13 Estimates | 2013-14 Estimates | 2014-15 Projection | 2015-16 Projection |
|----------------------------|----------------------|----------------------|----------------------|-----------------------|-----------------------|
| Underlying Cash balance | -\$44.4 billion | \$1.5 billion | \$2.0 billion | \$5.3 billion | \$7.5 billion |



Treasurer’s Budget Speech

The Treasurer’s Budget speech emphasised the strength of the Australian economy, highlighting the ability of the Federal Government to deliver a budget surplus, only four years after the Global Financial Crisis, on the back of difficult savings measures. The Treasurer emphasised the unequal nature of the mining boom, and stressed that the 2012-13 Budget’s key initiatives would focus on sharing the benefits of the nation’s resources and reducing cost of living pressures on households.

Key investments in disability insurance, dental care, aged care, education, tax relief, infrastructure and clean energy were features of a Budget centred on Labor values and determined the spread the benefits of the mining boom to low and middle income families.

Tax Reform

Tax Reform Roadmap

The 2012-13 Federal Budget included the release of the ‘Tax Reform Roadmap’ publication. This document builds on the tax reform work already undertaken by this Government, including the *Australia’s Future Tax System* review, *Stronger, Fairer, Simpler* package and the 2011 Tax Forum. The Roadmap outlines the direction tax reform will take over the next decade to continue to improve the Australian tax system.

The reforms outlined in the Road Map are centred on three key principles:

- First, the tax system should seek to enhance productivity in the economy and lift growth.
- Second, the tax and transfer system should encourage participation in the workforce.
- Finally, the tax system should be fair and sustainable.

The Tax Reform Roadmap is available [here](#).

Individual Tax

The primary focus of individual tax reform in the 2012-13 Budget was to reduce tax concessions of benefit to high wage individuals, in order to fund tax relief for families and low wage earners.

This included:

- Reform of the Living Away From Home Allowance
- Reform of the fringe benefits tax treatment of motor vehicles
- Reform of the fringe benefits tax treatment of airline transport
- The removal of large tax concessions for generous executive salary packages by better targeting the Employment Termination Payment (ETP) tax offset
- Reducing the tax concession on superannuation contributions received by very high income earners (over \$300,000) from 30 to 15 per cent (excluding the Medicare levy)
- A two year deferral of the increase in the superannuation contribution cap

Other significant tax reforms for individuals include the introduction of a Low Income Superannuation Contribution of up to \$500 dollars for 3.6 million low-income earners from 1 July 2012.

Additionally, Tax Benefit Part A (FTB-A) Family Tax Benefit Part A (FTB-A) will increase for all eligible families from 1 July 2013.

Company Tax

The most significant inclusion in the 2012-13 Budget relating to company tax was the introduction of the Loss Carry-Back for business, which will allow businesses to 'carry back' up to \$1 million worth of losses from 1 July 2012 in return for a refund on tax paid on profits in the previous year. Previously, businesses are only able to 'carry forward' losses these losses.

Additionally, the Government announced that it would not proceed with the company tax cut that was proposed under the Minerals Resource Rent Tax package, after the Coalition and Australian Greens' refusal to support the legislation.

Health

The Government will invest \$61 billion in health care in 2012-13, particularly focusing on rural and regional facilities, aged care and dental health.

Regional

The 2012-13 Budget will deliver 76 new regional health infrastructure projects across Australia. The Government is providing \$475 million through the Health and Hospitals Fund to support clinical training capacity of regional hospitals, upgrade regional health infrastructure; and expand regional hospitals.

Mental Health

The National Mental Reform package is delivering services at a cost of \$2.2 billion, including \$200 million as part of a National Partnership with the States and Territories and a Ten Year Roadmap for Mental Health Reform.

Electronic Records

The Government announced it will invest \$233.7 million to deliver its e-Health agenda including \$161.6 million to operate the Personally Controlled Electronic Health Record (PCEHR) system. Also, the Government will provide \$67.4 million as the Commonwealth's share of joint funding with the States and Territories for the National E-Health Transition Authority (NEHTA) work program for the next two years. It has been estimated that net benefits from the current PCEHR program will reach \$11.5 billion over 15 years to 2025.

National Bowel Cancer Screening Program

In the 2012-13 Budget the Government is providing \$49.7 million over four years to fund a phased expansion of the National Bowel Cancer Screening Program. The program, which at present provides for the free screening of individuals aged 50, 55 and 65 years of age, will utilise additional funding to extend screenings to individuals aged 60 and 70.

Dental

The Government announced it will invest \$515.3 million in a dental health package. This includes \$345.9 million over three years to help reduce public dental waiting list.

Furthermore, the Government will provide \$77.7 million over four years for grants to support the relocation of dentists to regional, rural and remote areas and to improve access to services beyond urban areas.

Building on commitments announced in the 2011-12 Budget, the Government is expanding the voluntary dental graduate program by \$35.7 million over three years and introducing an oral health therapist graduate year program at a cost of \$45.2 million over four years.

Aged Care

The Government confirmed the inclusion of a \$3.7 billion package of new and redirected funding for aged care reform. The package, entitled Living Longer Living Better, was originally announced in April of this year and comes as a response to the Productivity Commission's Caring for Older Australia report. To access Hawker Britton's occasional paper on the Living Longer Living Better package, click [here](#).

Education

School-kids Bonus

From 1 January 2013, the Education Tax Refund will be replaced by the School-kids Bonus at a cost of \$400 million, in addition to the \$830 million already set aside in the 2012-13 Budget. Previously, families were required to apply through their tax return for this payment however, under the new scheme, families receiving Family Tax Benefit A will collect an automatic payment of \$410 for each child in primary school and \$820 for each child in secondary school to aid in the costs of school-related expenses.

Science and Mathematics Participation

The Government announced it has allocated \$54 million over four years to improve participation in the study of science and mathematics at school and university. This includes \$5 million over four years to the Australian Academy of Science's primary and secondary school programs 'Primary Connections' and 'Science by doing'.

Infrastructure

Pacific Highway (NSW)

An additional \$3.56 billion in Federal Government's Nation Building Program was announced. The funds have been earmarked for the specific purpose of the completion of the upgrade and full duplication of the Pacific Highway in NSW. This completion is estimated to require an additional \$7.1 billion in funding, of which this new Federal funding represents half. In order for the project to be completed, the NSW Government will be required to match Federal Government spending.

Moorebank Intermodal (NSW)

The Federal Government has committed to commissioning the private sector to design, build and operate a new intermodal in Sydney's south-west, to be completed by 2017. It is anticipated this intermodal will lead to the removal of 1.2 million trucks a year off Sydney's roads with a specific focus of decreasing gridlock around Port Botany.

Torrens and Goodwood Junctions Upgrade (SA)

The Federal Government has announced \$232 million to fund the Torrens and Goodwood rail project, designed to help ease congestion along Adelaide's suburban and freight rail networks.

Black Spot Program

A further \$60 million per year for five years has been invested in the *Black Spot Program*, aimed at targeting road locations where crashes are most prevalent.

Roads to Recovery Program

Funding for the Federal Government's *Roads to Recovery Program* has been provided for in the 2012-13 Budget until 2019 at a cost of \$1.75 billion. The program supplements funding received by councils and shires across the nation for the upgrading and maintenance of local roads.

Heavy Vehicle Safety and Productivity Package

\$140 million has been included in this year's budget for the provision of safe roadside facilities for truck drivers.

Social Policy

NDIS

The Government committed \$1.0 billion over four years to the first stage of a National Disability Insurance Scheme (NDIS). The NDIS will begin operating in launch locations across Australia from July 2013, incorporating 10,000 people. This will be 20,000 people from mid-2014. Negotiations with states and territories will begin immediately on selected sites to be announced in late-2012. Implementation of this first stage will inform discussion with states and territories on future steps.

Childcare

The Gillard Government has announced an additional \$225.1 million over four years for child care assistance under the Jobs, Education and Training Child Care Fees Assistance (JETCCFA) program as an incentive for, predominantly, single parents to improve their skills and return to work. The additional resources will fund an increase in the Child Care Rebate from 30 to 50% of out-of-pocket expenses (up to \$7,500 per child per year) however, stricter eligibility criteria for courses undertaken by parents have been enacted.

Foreign Aid

The Government's previous commitment to provide 0.5% of Gross National Income (GNI) as aid by 2015-16 has been deferred for a further year in an effort to save an additional \$2.9 billion across the forward estimates. This will ensure Australia's Official Development Aid (ODA) remains steady at 0.35% of GNI, a total of \$5.2 billion in the year 2012-13.