

Mid Year Economic and Fiscal Outlook (MYEFO) 2012-13

October 2012

On Monday 22 October 2012, Deputy Prime Minister and Treasurer the Hon. Wayne Swan MP released the 2012-13 Mid Year Economic and Fiscal Outlook (MYEFO). MYEFO is prepared in accordance with the *Charter of Budget Honesty Act 1998*, which requires that the Government provide a mid-year budget report assessing the Government's performance against its fiscal strategy as set out in its the Federal Budget.

The MYEFO is available in full [here](#).

The 2012-13 Federal Budget, released on 8 May 2012, is available [here](#). Hawker Britton's overview of the 2012-13 Federal Budget is available [here](#).

Contents

Budget Aggregates	1
Economic Parameters.....	2
Savings Initiatives	3

Budget Aggregates

The 2012-13 MYEFO shows that Australia remains on track to return to a budget surplus this financial year, despite a significant write-down in total tax receipts of almost \$22 billion. The expected underlying cash surplus for 2012-13 is \$1.1 billion (0.1 per cent of GDP), increasing to \$2.2 billion (0.1 per cent of GDP) in 2013-14.

This expected surplus in 2012-13 is smaller than the \$1.5 billion predicted at the Federal Budget, driven in large part by the weaker global outlook and the consequent substantial write-down in tax receipts. Over the five years since the onset of the GFC there has been a write-down in tax receipts totalling almost \$160 billion.

In releasing the MYEFO, the Treasurer pointed out that Australia would be returning to surplus ahead of all major advanced economies. The average net debt position of the major advanced economies (G7) is projected to peak at 95 per cent of GDP in 2016, almost 10 times higher than the peak in Australia's net debt of 10.0 per cent of GDP in 2011-12.

The Treasurer also noted that returning to surplus in 2012-13 is appropriate given current economic conditions, including trend growth and strong unemployment figures.

Table 1.1 presents the fiscal and underlying cash balances for 2012-13 to 2015-16.

Table 1.1: Budget aggregates

	Estimates			
	2012-13		2013-14	
	Budget	MYEFO	Budget	MYEFO
Underlying cash balance(\$b)(a)	1.5	1.1	2.0	2.2
Per cent of GDP	0.1	0.1	0.1	0.1
Fiscal balance(\$b)	2.5	1.2	2.6	4.3
Per cent of GDP	0.2	0.1	0.2	0.3
	Projections			
	2014-15		2015-16	
	Budget	MYEFO	Budget	MYEFO
Underlying cash balance(\$b)(a)	5.3	3.3	7.5	6.4
Per cent of GDP	0.3	0.2	0.4	0.4
Fiscal balance(\$b)	7.0	6.9	9.5	9.8
Per cent of GDP	0.4	0.4	0.5	0.5

(a) MYEFO figures report net Future Fund earnings, whereas Budget figures report gross Future Fund earnings. This is further explained in Appendix B.

Economic Parameters

The MYEFO shows that the Australian economic parameters are strong. Real GDP is forecast to grow at around trend at 3 per cent in 2012-13 and 2013-14. This is a downgrade of ¼ of a percentage point in 2012-13 compared to Budget, but follows stronger than expected growth in 2011-12. The unemployment rate is forecast to remain low at 5½ per cent in 2012-13 and 2013-14.

However, the recent decline in global commodity prices has contributed to a larger than expected decline in Australia's terms of trade, which are forecast to decline by 8 per cent in 2012-13, compared to a forecast decline of 5¼ per cent at Budget.

The moderation in world Gross Domestic Product (GDP) growth has contributed to a greater-than-expected easing in global prices of Australia's non-rural bulk commodities. This has been the primary driver of a substantial write-down in total tax receipts of \$4 billion in 2012-13 and almost \$22 billion over the forward estimates. The write-downs in 2012-13 have been offset in part by non-tax receipts and payments variations of around \$2 billion.

Table 1.2: Major economic parameters^(a)

	Forecasts		Projections	
	2012-13	2013-14	2014-15	2015-16
Real GDP	3	3	3	3
Employment	1	1 1/4	1 1/2	1 1/2
Unemployment rate	5 1/2	5 1/2	5	5
Consumer Price Index	3	2 1/4	2 1/2	2 1/2
Nominal GDP	4	5 1/2	5 1/4	5 1/4

(a) Real and nominal GDP are year-average growth. Employment and CPI are through-the-year growth to the June quarter. The unemployment rate is the rate for the June quarter.

Source: Treasury.

Savings Initiatives

The Government has responded to the write-down in tax revenue with a package of savings worth \$16.4 billion in 2012-13 and over the forward estimates. This is in addition to the more than \$130 billion in savings identified in the past five Budgets.

While these savings initiatives are primarily a response to lower than expected revenue, they have also been put in place to fund some policy announcements made since the 2012-13 Federal Budget was released in May. Significantly, they fund the \$4.1 billion Dental Health Reform Package announced by Health Minister the Hon. Tanya Plibersek in August 2012. More information on the Dental Health Reform Package is available [here](#).

After accounting for new spending decisions reported in MYEFO, the net improvement to the budget bottom line from these savings is \$10.5 billion. Significant savings initiatives include:

- **Visa Application Charges**

The Government will increase a number of Visa Application Charges from 1 January 2013. These increases will apply to:

- skilled graduates;
- partners;
- working holiday makers; and
- temporary overseas workers.

A list of visa application charges is available on the Department of Immigration and Citizenship website www.immi.gov.au.

This measure is estimated to increase revenue by \$520.5 million over four years. Increased revenue from this measure will be redirected to support other Government priorities.

Visa Application Charges — targeted increases

Revenue (\$m)	2011-12	2012-13	2013-14	2014-15	2015-16
Department of Immigration and Citizenship	-	52.2	143.0	156.2	169.0

- **Indexing of Private Health Insurance Rebate**

The Government's contribution to private health insurance will be calculated using commercial premiums as at 1 April 2013 and then indexed annually by the lesser of CPI or the actual increase in commercial premiums. This will be used to determine an individual's private health insurance rebate.

In conjunction with this measure, the Government will make changes commencing from the 2013 premium setting round. The Government will undertake a consultation process with industry and consumer groups on options for further simplification of premium setting, in order to drive competition and deliver strong consumer protection from 2014.

These initiatives will result in savings of \$699.7 million over four years. These will be redirected to partially offset the cost of the Dental Health Reform Package.

Private Health Insurance Rebate — indexing the Government's contribution

Expense (\$m)	2011-12	2012-13	2013-14	2014-15	2015-16
Department of Health and Ageing	-	3.0	-36.5	-218.9	-451.7
Australian Taxation Office	-	2.2	1.6	0.1	0.1
Department of Human Services	-	0.2	0.3	..	-
Total — Expense	-	5.3	-34.6	-218.8	-451.6

- **Monthly Company Tax Instalments for Large Companies**

The Government will align tax instalments for large companies with their income and trading conditions by requiring them to make Pay As You Go (PAYG) income tax instalments monthly, rather than quarterly. Importantly, this will also align large companies' PAYG instalments with their GST payments. This measure is estimated to have a gain to revenue of \$8.3 billion over the forward estimates period.

This reform will be phased in over three years, with companies moving to monthly PAYG instalments:

- from 1 January 2014 for companies with a turnover of \$1 billion or more (around 350 companies);
- from 1 January 2015 for companies with a turnover of \$100 million or more (around 2,500 companies); and
- from 1 January 2016 for companies with a turnover of \$20 million or more (around 10,500 companies).

The Government will consult on the implementation of this measure and on further improvements to the operation of the instalment system.

Monthly PAYG instalments for large companies

Revenue (\$m)	2011-12	2012-13	2013-14	2014-15	2015-16
Australian Taxation Office	-	-	5,500.0	1,600.0	1,200.0
<i>Related expense (\$m)</i>					
<i>Australian Taxation Office</i>	-	2.4	4.0	2.6	2.5

- **Fringe Benefits Tax**

The Government will remove the concessional fringe benefits tax (FBT) treatment for in-house fringe benefits if they are accessed by way of a salary sacrifice arrangement. This measure will apply from 22 October 2012 for salary sacrifice arrangements entered into from its announcement on 22 October 2012, and from 1 April 2014 for salary sacrifice arrangements entered into prior to its announcement on

22 October 2012. This measure is estimated to have a gain to revenue of \$445.0 million, and an increase in GST payments to the States and Territories of \$85.0 million over the forward estimates period.

Fringe benefits tax — removal of concessional treatment of ‘in-house’ fringe benefits if accessed through a salary sacrifice arrangement

Revenue (\$m)	2011-12	2012-13	2013-14	2014-15	2015-16
Australian Taxation Office	-	20.0	55.0	180.0	190.0
<i>Related expense (\$m)</i>					
<i>Department of the Treasury</i>	-	5.0	10.0	35.0	35.0

- **Baby Bonus**

From 1 July 2013 the Government will reduce the Baby Bonus payment for second and subsequent children to \$3,000. The Baby Bonus will remain at \$5,000 for the first child of eligible families and for multiple births. The payment will continue to be paid in 13 fortnightly instalments.

In addition to the Baby Bonus, which helps with the upfront costs of having a baby, eligible families will remain able to claim Family Tax Benefit Part A and/or Part B, as well as the Child Care Rebate and the new Schoolkids Bonus, to assist them with the costs of raising their child.

This measure is estimated to provide savings of \$505.9 million over four years from 2012-13. Savings from this measure will be redirected to support other Government priorities.

Baby Bonus — reduce to \$3,000 for second and subsequent children

Expense (\$m)	2011-12	2012-13	2013-14	2014-15	2015-16
Department of Human Services	-	6.0	1.8	0.5	0.3
Department of Families, Housing, Community Services and Indigenous Affairs	-	0.3	-169.2	-170.0	-175.7
Total — Expense	-	6.3	-167.4	-169.5	-175.4

All tables in this Occasional Paper are taken from the 2012-13 MYEFO <http://www.budget.gov.au/2012-13/content/myefo/html/index.htm>