

**BUDGET SPEECH 2001-02**

**DELIVERED ON 22 MAY 2001 ON THE SECOND  
READING**

**OF THE APPROPRIATION BILL (NO. 1) 2001-02**

**BY**

**THE HONOURABLE PETER COSTELLO, MP**

**TREASURER OF THE COMMONWEALTH OF  
AUSTRALIA**

Mr Speaker, I move that the Bill now be read a second time.

This Budget will build a stronger Australia. It begins the largest defence modernisation and upgrade program in over 25 years. It strengthens our borders in the fight against plant and animal disease. It overhauls the operation of our social welfare system. It invests in our health system, in our natural environment and in our most important resource of all — our people.

And this Budget will strengthen our economy. Most of all it will cut taxes. Tax cuts will bring benefits to business, investors, the young and to older Australians.

This Budget will cut taxes next year by over \$5 billion.

And the Budget I present tonight is in surplus for the fifth consecutive year — a cash surplus of \$1.5 billion.

Over the last 5 years we have worked hard to secure the nation's finances, first to get the Government to live within its means and then to pay back Labor's debt. At the end of this budget year we will have repaid nearly \$60 billion of Labor's \$80 billion debt spree.

As we pay off those debts — as we get the debt monkey off our back — we save on interest payments. Today the Government's interest bill is \$4 billion per annum less than it was under Labor. That \$4 billion of savings can be invested in better things like health and education.

Mr Speaker, last year's Budget cut income tax for every Australian taxpayer. It abolished wholesale sales tax and replaced it with GST. Every last dollar of GST has been paid to the State Governments. GST now funds the salaries of their policemen on the beat. It pays the salaries of all the teachers in all the classrooms of all the state education systems.

If we had not cut income tax last July a worker on average earnings would be paying a top tax rate of 43 cents per dollar today. Tax reform brought that down by a third. Today that worker on average earnings has a top tax rate no higher than 30 cents per dollar.

And tax reform cut tax on transport. Without tax reform Australia's 75,000 truckies would be paying 27 cents a litre more tax on their diesel pushing up the cost of all transport.

Without tax reform individuals would be paying twice as much tax on their capital gains as they are required to pay today.

## **FURTHER TAX CUTS**

And tax reform means that from 1 July taxes can be cut further.

On 1 July this year the company tax rate will be reduced again this time from 34 to 30 per cent. This will cut tax for business by around \$2 billion per year.

On 1 July this year Financial Institutions Duty (FID) will be abolished. This will benefit the 12 million Australians who are currently taxed when they deposit money in their bank accounts and taxed when they make payments on their credit card and taxed when they make their mortgage payments. The abolition of Financial Institutions Duty will save those individuals and other taxpayers about \$1.2 billion per year.

From 1 July this year state stamp duties on listed shares and other quoted securities will be abolished. They will be abolished because The New Tax System pays the money to the States to abolish them. This will save around \$675 million per year for the 5.7 million Australians who hold shares and the 7 million Australians who have superannuation funds invested in shares.

On 1 July this year low income Australians who own shares that pay franked dividends can get a lower tax rate. They can claim a refund of the tax paid on the shares which is over and above their own personal tax. This will save them over \$500 million per year in tax.

On 1 July this year The Simplified Tax System will commence and allow eligible small businesses to do their tax accounting on a cash basis with simpler depreciation and trading stock rules. It will reduce tax payable by small business by over \$1 billion in the first three years.

And tonight, I announce further measures that will reduce taxes for business.

From midnight tonight registered business will be able to claim full input tax credits on the purchase of motor vehicles. This was to be introduced from 1 July 2002, with an entitlement to half credits from 1 July 2001.

But the Government has decided to pull this forward — a tax cut of over \$600 million in 2001-02. This measure is taking effect from midnight tonight because the economy can benefit from it — it will stimulate investment — and because the Budget can afford it.

As an example, a business that buys a \$35,000 car tomorrow will pay \$3,200 less in tax than it would today. A business that buys a large interstate trucking rig with a value of \$330,000 would save \$30,000 in tax.

The Budget also provides other tax measures of benefit to business. New capital gains tax concessions will be introduced for listed investment companies.

## **TAX CUTS FOR OLDER AUSTRALIANS**

Mr Speaker, tonight I am announcing measures to further cut income tax for older Australians.

Before the Liberal/National Parties were elected in 1996, older Australians who had saved for their retirement and who did not receive a pension began to pay income tax once their income passed the tax free threshold of \$5,400. They paid more income tax than pensioners even when they had the same income.

We thought that wasn't fair. So one of the first things this Government did in 1996 was to put the self-funded retiree on an equal tax footing with pensioners. It raised the tax free threshold for older Australians to \$11,185. A qualifying self-funded retiree did not pay income tax on his or her income below that amount.

With the introduction of the New Tax System these thresholds were increased. But tonight, I announce that the Government will go much further still. We will lift the low income aged persons rebate with effect for the current financial year — that is back dated to 1 July 2000.

The increase I am announcing tonight will mean that in the current financial year qualifying single self-funded retirees and age pensioners will have an effective tax free threshold of \$20,000. That is they will pay no income tax unless their income (including pension) exceeds that amount.

The effective tax free threshold for a couple on equal income will be lifted to \$32,612. Qualifying couples will pay no income tax until their combined income exceeds that amount.

In addition the Medicare levy threshold for senior Australians will be lifted from its 1999-2000 rate of \$13,550 to \$20,000 so a senior Australian pays no tax and no Medicare levy until he or she earns above that amount.

The combined effect of these measures and tax reform means that a senior Australian on an income of \$20,000 in 1999-2000 paid tax of \$2,688.25. This year they will pay nothing. Senior couples on \$20,000 each in 1999-2000 paid tax of \$6,140. This year they will pay tax of \$2,179.50, a combined tax cut of \$3,960.50 or over \$75 per week.

Because these measures are to apply to the current financial year, eligible senior Australians will receive the benefit of these tax cuts by way of a tax refund as soon as they lodge this year's income tax return.

## **ACKNOWLEDGING OLDER AUSTRALIANS**

Mr Speaker, the tax cuts I have announced will benefit self-funded retirees and age pensioners who have additional income.

I want to now announce a benefit for those on the full or part age pension. The Government has previously legislated to fix the age pension at 25 per cent of Male Total Average Weekly Earnings, and on 1 July last year it increased it 4 per cent and is maintaining it 2 per cent higher in real terms. But tonight I announce an additional payment for all those who receive income support and are over age pension age including service pensioners.

The Government will pay each person who receives a pension or part pension — this covers qualifying people with incomes up to \$29,263 for a single and \$48,880 for a couple — a non-taxable lump sum of \$300. After I have finished this Budget speech the legislation to make this payment will be introduced into the House. If the payment is to be made with the fortnightly pension payment next month it needs to pass the Parliament by Thursday. Any delay by the Opposition will mean the payment cannot be made next month. There are 2.2 million people eligible for this payment.

The Government is making this payment because the economy can benefit from it, the Budget can afford it this financial year and, most of all, our older Australians deserve it.

Mr Speaker, on 1 January 1999 the Government dramatically widened eligibility for the Commonwealth Seniors Health Card. The card enables holders to purchase pharmaceuticals on the Pharmaceutical Benefits Scheme for \$3.50 instead of the general rate of \$21.90. After 52 prescriptions all other scripts in a calendar year are free. From 1 January 1999 the income limit for eligibility for the card was raised from \$21,000 to \$40,000. Tonight I announce that on 1 July 2001 it will be lifted further with an income test of \$50,000 for singles and \$80,000 for couples. This is expected to extend the card to an additional 50,000 older Australians.

Further, older Australians who hold the Commonwealth Seniors Health Card will be extended the same concessions as pensioners on telephone costs. They will be entitled to a Telephone Allowance of \$17.20 per quarter as from September. The Commonwealth will also open negotiations with the States with a view to extending other pensioner concessions to Health Card holders over time.

For the first time the Government will also introduce twice a year indexation for those on Commonwealth superannuation pensions in line with the Consumer Price Index from 1 January 2002. This will assist those on such pensions to keep up with the cost of living.

Assistance will be provided to Australians seeking to maintain their superannuation savings in the years immediately prior to their retirement. Accordingly, superannuation assets are to be exempted from means tests for people aged between 55 years and the age pension age. This means they can receive income support without first expending part of their superannuation.

In recognition of the unique circumstances of their captivity, the Government will make a one-off payment of \$25,000 to former Australian Prisoners of War of the Japanese, and to civilian internees and detainees of the Japanese. For those who are no longer alive, payments will be made to their surviving spouses.

Compensation in similar amounts has been made by the Governments in Britain, Canada and New Zealand to their Prisoners of War. The Parliament will be asked to appropriate this sum before 30 June. No amount of compensation will ever make up for the pain and the loss these diggers suffered. But our nation should make a statement of recognition and thanks.

## **AUSTRALIANS WORKING TOGETHER**

This Government has begun a whole new approach to welfare and work. We have introduced mutual obligation: the obligation of the community to help those not in work and the obligation of those not in work to contribute to the community.

This has led to the very successful Work for the Dole program, where eligible people on benefits put back into the community and receive the chance to do useful work which will improve their skills and help them re-enter the workforce.

In this Budget the Government is making a substantial investment of \$1.7 billion over 4 years to improve the way our income support system works. The object is to help those of working age move from welfare to work and to give them assistance to do so.

Even though employment opportunities have improved in the last 5 years, we don't want people to be left behind. We don't want people to drop out of looking for work and we don't want the system to discourage participation in the workforce. The package of measures contained in *Australians Working Together* balances these objectives. It has major new incentives to take up work and reasonable requirements for people to take the opportunities on offer.

The new assistance includes over \$700 million to help people find jobs — more places for Job Search Training and more places in Work for the Dole. Training Credits of \$800 will be introduced for people who do Work for the Dole and community work. They can use these credits to pay for training which will qualify them for better jobs. Importantly \$147 million more assistance will be provided for people over 50 who are out of work and want to re-enter the workforce.

A new Working Credit initiative will be introduced to allow those out of work the right to accumulate up to \$1000 of earnings without losing income support. This removes a disincentive to take intermittent jobs or short term work which could open the door for them to get long term employment.

New requirements will be introduced to standardise arrangements for all job seekers aged up to 49. From July 2002, those not in work will receive Job Search Training after three months unemployment at the latest, and will be required after six months to do community work, study, or some other activity which for those aged up to 39 can be Work for the Dole. Parents on income support will be helped to prepare for a return to the workforce as their children approach teenage years through annual interviews with Personal Advisers. From July 2003 parents whose youngest child is in high school will be required to do the equivalent of one day a week of community work, part-time paid work, study, or training if they are receiving parenting payment.

*Australians Working Together* will deliver the right balance of assistance, incentives and obligations to help all Australians move forward. It will be a major overhaul of our income support system.

## **STRENGTHENING AUSTRALIA'S HEALTH SYSTEM**

This Budget aims to improve the health and medical care of Australian families. With an additional \$900 million we are enhancing Medicare, increasing health services in rural and regional Australia and introducing 5 initiatives to treat common health problems that affect Australian families.

The Government is committed to maintaining and improving Medicare for the benefit of all Australians. In this Budget the Government is increasing rebates for GP services, in particular for longer consultations which will assist the treatment of complex and chronic conditions.

Second, the Government is taking direct practical measures to boost health services in rural and regional Australia by:

- Providing \$104 million over four years to assist GPs in rural Australia to employ practice nurses. Practice nurses support GPs by providing a range of medical services, managing chronic disease treatment, doing health assessments, and providing clinical support on minor surgery.
- Funding 100 Rural Nursing scholarships of \$10,000 per annum to educate rural students at a rural campus. Rural students are more likely to end up serving patients in rural and regional areas. An additional ten scholarships will be provided for indigenous students or Aboriginal health workers to undertake nursing education.

Third, this Budget introduces 5 initiatives to address health problems which affect Australian families. It targets treatments for asthma, mental health, diabetes, cervical cancer and alcohol education and rehabilitation.

- Asthma affects over two million Australians, including one in four primary school children and one in seven teenagers. The Government will establish a 3 stage programme for GPs to intervene early to diagnose asthma, develop a care plan and review that plan with the patient. If we treat asthma early we can minimise the risk of hospitalisation for sufferers, particularly our children.
- The Government will allocate \$120 million over four years to improve the quality of care given by general practitioners to those suffering a mental illness which will help them and the families who suffer with them. This funding will be used to educate and train GPs on mental health issues and will provide support for GPs to deliver quality mental health care.
- Amongst Australians over 25, 3 in 100 have diabetes and know it, 3 have it and don't know it and another 16 are likely to develop it later in life. This Budget introduces an Integrated National Diabetes Programme which will provide incentive payments to GPs to improve the diagnosis and management of people with diabetes.
- A new programme will be introduced to increase screening for cervical cancer among high risk women. General practices which reach overall screening targets will receive additional funding. And this is designed to identify problems early and reduce risks before it is too late.
- The Government will also provide \$115 million over four years for a new Alcohol Education and Rehabilitation Foundation to help prevent alcohol and other substance misuse. Alcohol abuse is a problem that causes suffering in many families and the Government's new measures are designed to address it.

## **BUILDING AUSTRALIA'S RESOURCES**

In January this year the Government released an Innovation Action Plan for the future called *Backing Australia's Ability*.

It is a plan to build Australia's human resources, to support university research infrastructure, to invest in major national research facilities and finance the establishment of world class centres of excellence in biotechnology, and information and communications technology.

Backing Australia's Ability will encourage R&D and commercialisation of new ideas. Backing Australia's ability added 5500 targeted university places over 4 years and tonight I announce that the Government will in addition, fund up to 1800 undergraduate student places in regional higher education institutions from 2002. This will increase access and participation in higher education in regional Australia.

In November last year the Government announced additional funding of \$1.6 billion over five years to rebuild Australia's road network. The majority of the funding (\$1.2 billion) is being distributed to local councils to build local roads. The remainder is being spent on the National Highway and Roads of National Importance such as the Scoresby Freeway in outer Melbourne. This investment in roads is building Australia's infrastructure.

In December 2000, the Government announced an assistance package of \$216 million over two years for farmers and businesses in the flood-ravaged cropping zones of New South Wales and southern Queensland. The package helps those people get back on their feet. As a preventative measure, the Government is providing an additional \$31 million over four years to implement flood mitigation works to reduce the risk and damage caused by floods.

## **SAFEGUARDING AUSTRALIA'S NATURAL ENVIRONMENT**

It is vital that we conserve our environment and natural resources.

Environmental degradation poses a long-term threat to our quality of life, the quality of future water supplies, and the fragile environment we share as Australians.

This Government established Australia's first Natural Heritage Trust of \$1 billion. Tonight I announce that the Government will invest a new \$1 billion to extend the Natural Heritage Trust by five years to 2006-07.

This Trust is the largest ever Government investment in Australia's natural environment.

It provides a long-term, integrated and comprehensive approach to the conservation of Australia's land, vegetation, biodiversity, coasts and oceans.

This new investment builds on the \$700 million provided over seven years for the *National Action Plan for Salinity and Water Quality* announced in October 2000. The National Action Plan is the first comprehensive strategy to address salinity and water quality problems in Australia. To work this plan will require co-operation between all levels of government.

## **PROTECTING AUSTRALIAN AGRICULTURE**

Mr Speaker, we have seen the damage caused in other countries by the outbreak of foot and mouth disease.

Australia's farmers are the best in the world. We must help them to stay that way. We must protect our country from the risk of plant and animal disease.

Tonight I announce a dramatic upgrade in the Australian Quarantine and Inspection Service, the Australian Customs Service, Australia Post and airports to strengthen Australia's quarantine protection against foot and mouth disease and other risks to our environment and agriculture. An additional \$593 million over five years will be used to increase the inspection of mail and cargo entering Australia. We will increase the inspection of passengers and their baggage so that all passengers from all countries that could bring this disease have their baggage inspected. We will work to minimise undue delays for passengers arriving in Australia but we think these steps are necessary.

To meet these necessary costs, the Government has decided to increase the Passenger Movement Charge by \$8 to \$38 and continue the policy of full cost recovery for Australian Quarantine and Inspection Service and Australian Customs Service programmes involving cargo and seaports.

## **BUILDING AUSTRALIA'S DEFENCE**

Protecting our borders against plant and animal disease is important. One of the principal responsibilities of any national government is the defence of the nation and national security.

In my last Budget I reported on the outcome of Australia's contribution to peace and security for the people of East Timor. With that experience behind us, and an appreciation of how quickly events can unfold and the uncertainty in our immediate region, the Government commissioned the most specific and detailed defence plan put together in the last 3 decades.

After reviewing that plan, we have budgeted for the largest and most comprehensive investment in our defence capabilities for any Australian government in peacetime. Additional funds totaling \$27.6 billion are planned over the next ten years in addition to previous budgeted funding. This will allow major capital investment projects including the purchase of Airborne Early Warning and Control aircraft, the upgrading

of the Collins class submarines to high level capability and an increase in the capacity of land forces through the maintenance of six battalion groups.

## **ECONOMIC OUTLOOK**

The Australian economy is forecast to strengthen in the year ahead, with a rebound in growth to around 3 ¼ per cent in 2001-02 reflecting sound fundamentals and ongoing benefits of reform.

Following a very sharp downturn in the second half of 2000 residential construction, aided by the First Home Owners Scheme and low interest rates, is expected to contribute strongly to growth in 2001-02. Growth will be supported by household consumption, business investment and net exports.

The average unemployment rate is forecast at 7 per cent in 2001-02 which is around current levels. Unemployment has substantially fallen under the 5 years of Liberal-National Government with over 820,000 jobs created over our term in office.

In addition, inflation is expected to decline as the one off increase in the price level caused by tax changes washes out of the index. The current account deficit as a percentage of GDP will remain well below its average level of the last decade.

Australia's growth performance over the second half of the 1990s has been exceptionally strong. And our policy of economic responsibility, budget balance and debt repayment has kept interest rates low.

High interest rates turn the dream of homeownership into a nightmare. Nothing helps Australian families more than cutting their largest bill, their monthly mortgage payment.

When the Government was elected the home mortgage interest rate was 10.5 per cent. Today it is 6.8 per cent. A family on an average mortgage of \$100,000 has had their interest payments cut by over \$300 a month.

A return of failed policy which brought the high interest rates of the past would be paid by every family, every month, on every mortgage payment.

## **CONCLUDING COMMENTS**

The first Commonwealth Budget was delivered by Sir George Turner 100 years ago. He said on that occasion:

“...While we should spend all that is reasonably necessary for the purpose of defending and developing our country we must see, at all events in the early stages of our career, that there is no extravagance...”

It was good advice then. It is good advice today. We are still in the early stages of our career as a nation. We are still building in defence, in welfare reform, in tax reform, in innovation, in agriculture, building health care to help our families. We are looking after those who spent their lives in the building of the last century. This budget sets out a program to build a stronger Australia over the next.

I commend this Budget to the House.