



Budget  
2007-08

# OVERVIEW

8 MAY 2007  
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# Budget at a glance

The 2007-08 Budget will address productivity and participation imperatives to sustain Australia's long-term prosperity. The budget includes personal income tax relief to improve work incentives, substantial additional investment in Australia's education sector, including a new Higher Education Endowment Fund, along with increases in child care assistance. Australia's productive capacity will also increase through additional funding for transport and water infrastructure.

## Personal income tax relief

This budget includes personal tax relief worth \$31.5 billion over four years to reward effort, improve work incentives (particularly for lower income earners) and enhance Australia's international competitiveness.

## Supporting retirement savings

The Government will boost superannuation savings by putting an extra \$1.1 billion into the superannuation accounts of lower income earners through a doubling of the co-contribution paid for eligible contributions made in 2005-06.

## Realising Our Potential

This budget includes a comprehensive investment in Australia's education sector which will:

- provide a perpetual source of funding for universities for capital works and research facilities through a new \$5 billion Higher Education Endowment Fund
- assist universities to specialise and better respond to student demand
- provide additional support for VET
- focus on improving the quality of teaching in our schools and student learning outcomes.

## Child care assistance

From 1 July 2007, the Government is increasing the rates of Child Care Benefit by 10 per cent and ensuring more timely assistance by providing the Child Care Tax Rebate as a direct payment shortly after the end of the financial year. This will assist more than 700,000 families.

## Transport and water infrastructure

Funding of \$22.3 billion will be provided over the five years from 2009-10 for Australia's road and rail infrastructure. The Government will also invest \$10 billion over 10 years to conserve and sustain Australia's water supply.

## Budget aggregates

	Actual	Estimates		Projections		
	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
<b>Underlying cash balance (\$b)(a)</b>	<b>15.8</b>	<b>13.6</b>	<b>10.6</b>	<b>12.7</b>	<b>13.8</b>	<b>12.4</b>
Per cent of GDP	1.6	1.3	1.0	1.1	1.2	1.0
<b>Fiscal balance (\$b)</b>	<b>14.8</b>	<b>11.9</b>	<b>10.0</b>	<b>11.9</b>	<b>14.1</b>	<b>13.7</b>
Per cent of GDP	1.5	1.2	0.9	1.0	1.2	1.1

(a) Excludes expected Future Fund earnings from 2005-06 onwards.

## Major economic parameters<sup>(a)</sup>

	Forecasts		Projections		
	2006-07	2007-08	2008-09	2009-10	2010-11
Real GDP	2 1/2	3 3/4	3	3	3
Employment	2 1/2	1 1/2	1 1/4	1 1/4	1 1/4
Wage Price Index	4 1/4	4 1/4	4	4	4
CPI	2 3/4	2 1/2	2 1/2	2 1/2	2 1/2

(a) Year-average percentage change.

# Over a decade of economic expansion ...

The Australian economy is currently in the longest period of continuous expansion ever recorded. Strong growth has seen the unemployment rate reach 30-year lows while inflation remains low and stable.

## Economic growth

The Australian economy has grown strongly since March 1996, averaging 3.5 per cent annual growth. This is despite the economy being buffeted by a turbulent world economy and drought.

## High level of business investment

Business investment has grown at an average annual rate of 8.4 per cent since March 1996. Business investment is at its highest level as a share of GDP in 32 years and has grown by more than 70 per cent in real terms over the past four years. This is paving the way for future growth in the economy.

## Low unemployment

Equally impressive has been the strength of the labour market, with the unemployment rate falling to 4.5 per cent in the March quarter 2007. Over 2 million jobs have been created since March 1996.

## Low inflation

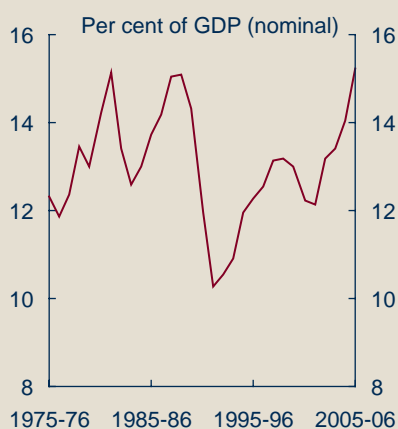
Over the period of uninterrupted expansion, annual inflation has averaged around 2½ per cent, right in the middle of the medium-term inflation target band. This has allowed interest rates to remain low by historical standards.

## Income and wealth

Australians are benefiting from the strong economy through increased income and wealth.

Strong income growth reflects strong employment and real wage growth. Since March 1996, real wages have increased by around 20 per cent. Profits have also grown strongly, particularly in the resources sector.

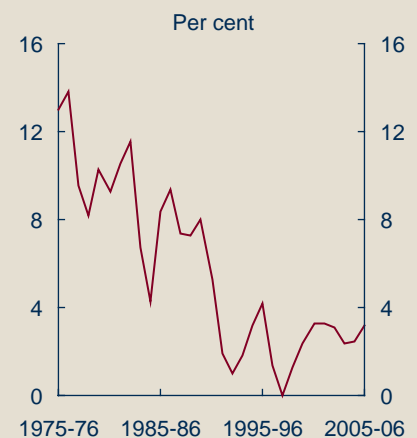
Total real household wealth has more than doubled over the past decade, reflecting strong growth in both dwelling and non-dwelling wealth.



High business investment



Low unemployment rate



Low inflation rate

# ... with strong growth expected to continue

Australia's impressive economic performance is set to continue, driven by solid growth in consumption and business investment and accelerating export growth.

## Strong growth

Australia's economic expansion is set to continue into its seventeenth year. In 2007-08, the economy is expected to grow by 3¾ per cent.

## Drought

The forecast for 2007-08 assumes a return to average seasonal conditions and a partial recovery from the drought, which is expected to add ½ of a percentage point to GDP growth.

## Terms of trade

The terms of trade have moved strongly in favour of Australia since 2001. Unlike earlier improvements in the terms of trade, this has not led to high inflation and unsustainable wage growth, reflecting the flexibility and resilience of the Australian economy as a result of continuing reform.

## Accelerating exports

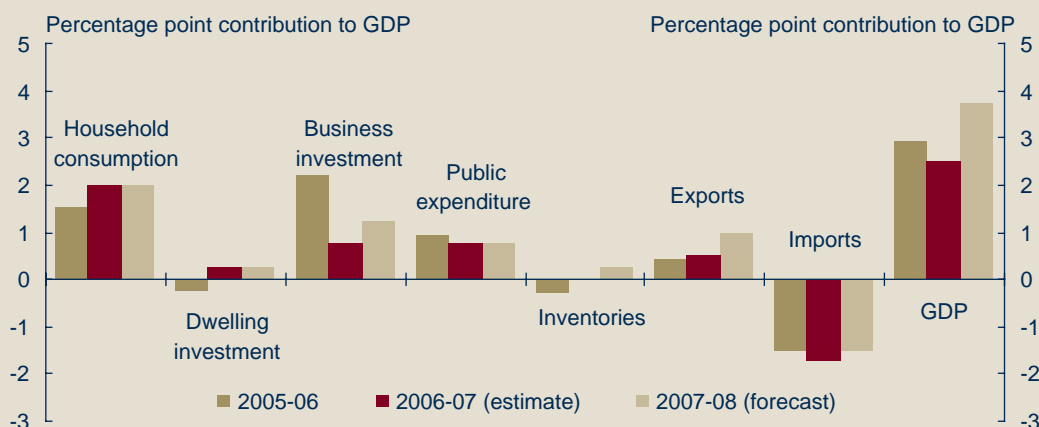
Since the start of 2000, more than \$70 billion has been invested by the mining industry to enhance its productive capacity. This is expected to translate into accelerating mining exports in 2007-08 and beyond.

## Increasing productivity

Productivity is expected to increase in 2007-08. Strong business investment is boosting the economy's productive capacity and laying the foundations for sustainable economic growth in the years ahead.

## Increasing participation

The participation rate was at a near-record high of 64.8 per cent in the March quarter 2007 and is expected to remain high. Increased labour force participation is a reflection of the strong economy and policy reforms such as Welfare to Work and tax cuts.



Strong and broadly-based economic growth to continue

# Building on a strong fiscal position ...

Through sound economic and fiscal management the Government eliminated net debt in 2005-06 and will deliver its tenth budget surplus in 2007-08. Net worth is expected to be positive in 2008-09.

Responsible budget management has seen Australia's fiscal position remain strong with a budget surplus of \$10.6 billion forecast in 2007-08. This is consistent with the Government's medium-term fiscal strategy of maintaining budget balance, on average, over the course of the economic cycle.

In 2005-06 the Government eliminated net debt. As a result, we no longer have net interest payments, which have fallen around \$8.8 billion since 1996-97. Australia is part of a very small group of OECD countries that has no net debt.

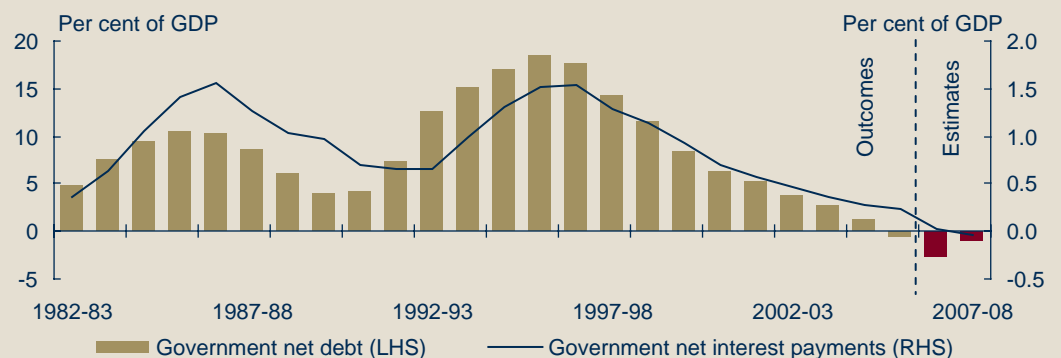
Net worth, which is a broader measure of the Government's financial position, is expected to be positive in 2008-09.

The ageing of the population, together with rising age pension, health and aged care spending, will open a gap between revenue and expenses in the long run. A strong financial position means that the Government is well placed to deal with these emerging fiscal pressures.

## 10 budget surpluses



## Net interest payments have fallen as a result of the elimination of net debt





# ... and managing future spending pressures

The Future Fund is well placed to meet the Government's objective of fully funding its superannuation liability by 2020. This is part of the Government's strategy to improve the long-term sustainability of its finances.

## Building a pool of financial assets

With net debt eliminated, the Future Fund was established to manage unfunded Government liabilities for superannuation. Proceeds from budget surpluses and from the sale of Telstra shares are expected to bring the Fund's total assets and earnings to around \$52 billion by June 2007.

The unfunded superannuation liability is currently estimated at \$103 billion and is expected to grow to around \$148 billion by 2019-20.

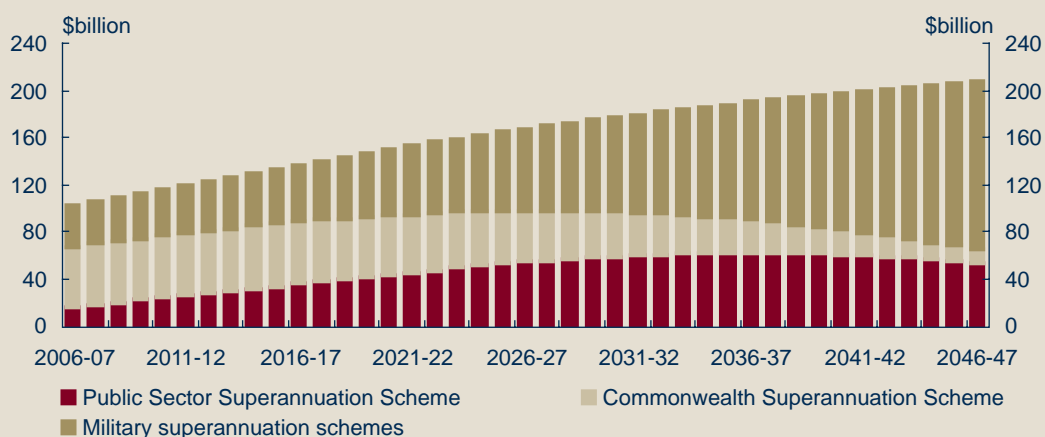
The liability is projected to continue to increase out to 2046-47 and beyond. The growing component is for Australia's Defence Force personnel.

## Future Fund assets secure

Future Fund assets can only be drawn from the Fund to meet superannuation payments and expenses of the Fund. Earnings accumulate in the Fund. Payments can only be made from the Fund from 2020 or once the Fund has accumulated enough to meet the unfunded liabilities.

## Intergenerational benefits

The Future Fund is part of the Government's broader strategy to improve the long-term sustainability of its finances to meet the challenges of the future. By making provision for future superannuation payments — currently the largest liability on the Government's balance sheet — the Government will free up resources in the future when other pressures are expected to emerge, particularly with the ageing of the population.



The Government's superannuation liability is projected to continue to increase to over \$200 billion by 2046-47

# Long-term economic and fiscal challenges ...

Substantial challenges need to be overcome if Australia is to maintain and build its prosperity into the future.

Australia's strong fiscal position is expected to continue over the next four years. However, the *Intergenerational Report 2007* shows that, although long-term fiscal sustainability has improved since the first *Intergenerational Report* in 2002, Australia continues to face significant long-term economic and fiscal challenges.

By 2047, a quarter of the Australian population is projected to be aged 65 and over, nearly double the current proportion. Falling fertility rates and rising life expectancies are the main factors contributing to population

ageing. Australia's fertility rate has fallen from 3.5 births per woman in 1961 to a current rate of 1.8 births per woman (slightly higher than in 2001). Life expectancies are projected to increase over the next 40 years.

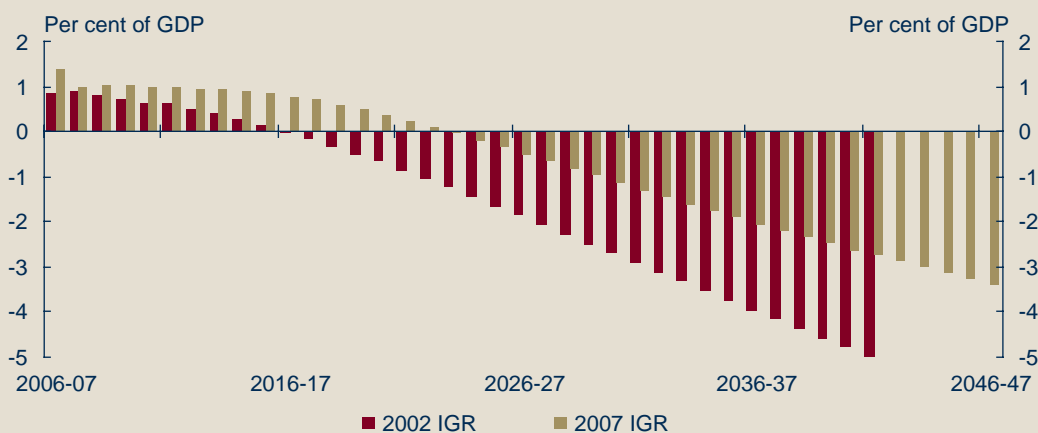
The ageing of the population means that over the next 40 years living standards are projected to rise at a slower rate than in the past 40 years.

At the same time, government spending is projected to increase, primarily in the areas of health, age pensions and aged care.

In the absence of policy changes, this is projected to lead to a fiscal gap of around 3½ per cent of GDP by 2046-47.

In addition to demographic challenges, Australia's future prosperity will depend on how we respond to developments in the environment, technology and the world economy.

These challenges will require continued reforms to improve Australia's ability to adapt and grow.



Government spending is projected to exceed revenue over the long term

# ... require a long-term plan for the future

Growth in real GDP can help narrow the projected fiscal gap. This budget includes measures to improve Australia's long-term economic growth and prosperity.

The task of reforming the economy to meet identified long-term challenges is ongoing. The 2007-08 Budget builds on Australia's sound economic and fiscal position by continuing to invest in our growth capacity.

A high quality and responsive education system is vital to boosting workforce participation and productivity. This budget includes a \$5 billion endowment for Australia's universities and a further \$3.5 billion to promote flexibility and diversity in the higher education sector, increase assistance for vocational education and training students and support high quality teaching in Australian schools.

The Government is also providing significant additional investment in transport infrastructure and initiatives to encourage innovation and improve links between Australian businesses and global markets.

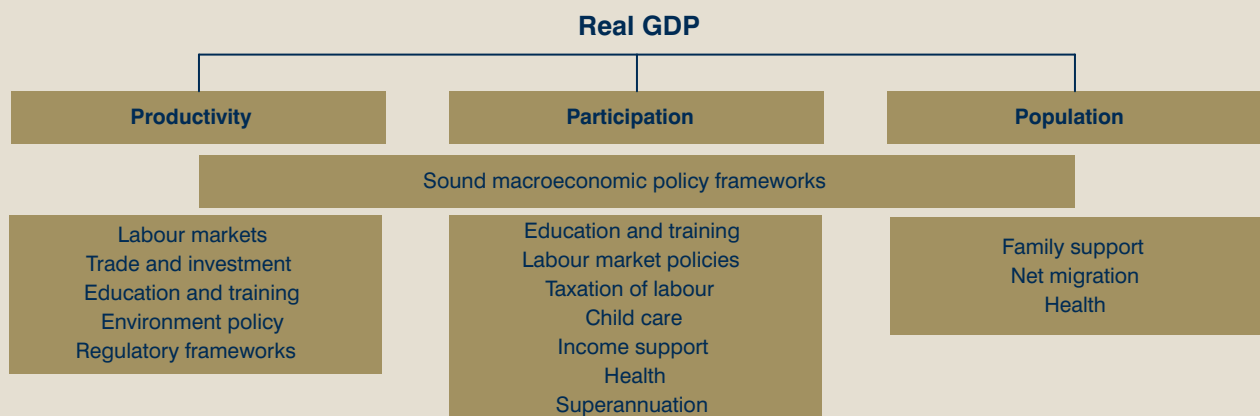
These policies build on reforms already introduced to boost productivity, such as the new workplace relations system, *WorkChoices*, which has added flexibility and choice to Australia's labour market, and the Government's recent \$837 million investment in *Skills for the Future*.

Building on previous tax reforms, the Government will further reduce personal

income tax by increasing tax thresholds and the Low Income Tax Offset.

An increase in the net migration intake will also assist in meeting challenges from the ageing of the population.

Achieving sustainable economic growth also requires that appropriate environmental conditions are maintained as natural resources are essential inputs into Australia's productive capacity. The Government is taking further action, including by investing \$10 billion over 10 years in a comprehensive plan to better allocate scarce water resources.



Fiscal sustainability will be improved by policies that enhance participation and productivity

# Work incentives from income tax reform

All Australian taxpayers will share in new personal tax cuts worth \$31.5 billion. This builds on the \$36.7 billion in personal tax cuts provided in the last budget.

The tax cuts are aimed at improving work incentives for lower income and part-time workers. In combination with the changes in child care benefits, the tax cuts significantly improve work incentives for mothers.

This tax package will increase disposable incomes and provide additional incentives to participate in the workforce.

From 1 July 2007:

- The 30 per cent threshold will be raised to \$30,000
- The Low Income Tax Offset (LITO) will be increased from \$600 to \$750 per year and phase out from \$30,000, up from \$25,000.

The increase in the LITO creates an effective tax-free threshold of \$11,000 for low income earners.

The increase in the 30 per cent threshold and the LITO allows low income earners, including part-time workers, to keep more of their earnings and provides further incentives to enter the workforce or work additional hours.

Senior Australians who are eligible for the Senior Australians Tax Offset will now pay no tax on their annual income up to \$25,867 for singles and \$43,360 for couples.

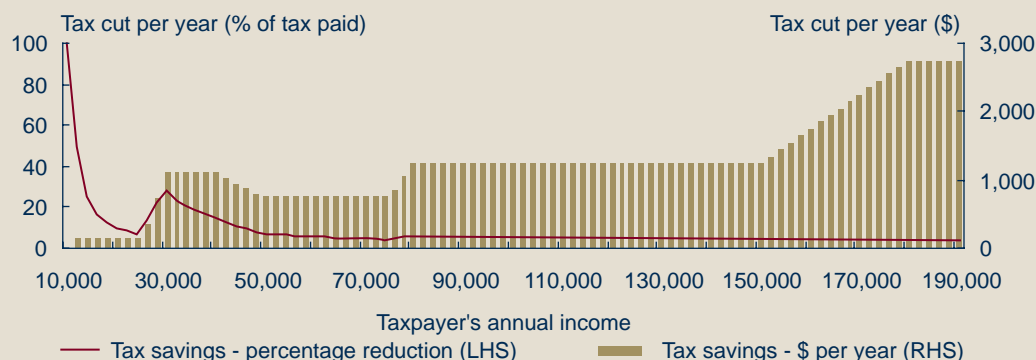
From 1 July 2008:

- The 40 per cent threshold will be raised to \$80,000
- The 45 per cent threshold will be raised to \$180,000.

## New tax scale

Current tax thresholds	Tax rate	New tax thresholds from 1 July 2007	Tax rate	New tax thresholds from 1 July 2008	Tax rate
Income range (\$)	%	Income range (\$)	%	Income range (\$)	%
0 - 6,000	0	0 - 6,000	0	0 - 6,000	0
6,001 - 25,000	15	6,001 - <b>30,000</b>	15	6,001 - 30,000	15
25,001 - 75,000	30	<b>30,001</b> - 75,000	30	30,001 - <b>80,000</b>	30
75,001 - 150,000	40	75,001 - 150,000	40	<b>80,001</b> - <b>180,000</b>	40
150,001 +	45	150,001 +	45	<b>180,001 +</b>	45

Tax savings from 1 July 2008 compared with tax payable now



# Continuing personal tax reform

The tax cuts provided in this and the last two budgets assist low and average income earners and bolster the international competitiveness of Australia's personal income tax system.

Over the last three years, low income earners have enjoyed substantial decreases in income tax.

Since 2004-05:

- The first marginal tax rate has been reduced from 17 to 15 per cent
- The 30 per cent threshold has increased from \$21,600 to \$30,000
- The Low Income Tax Offset has increased from \$235 to \$750.

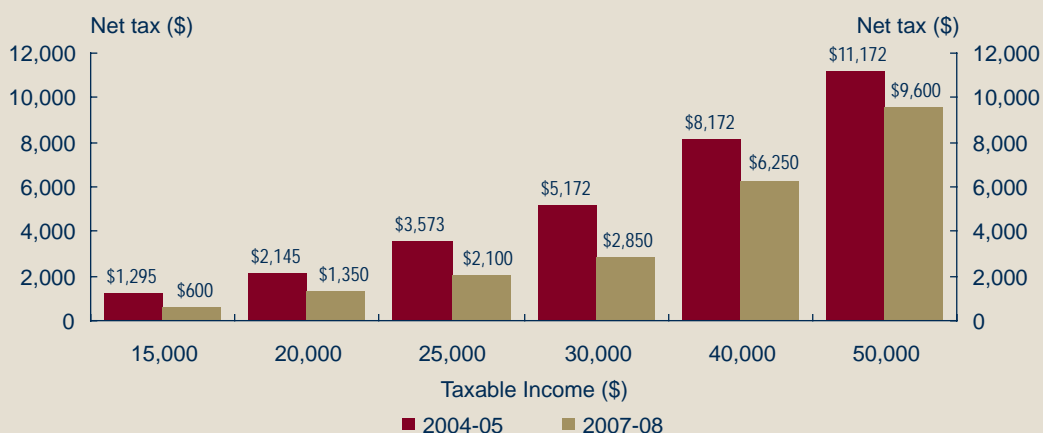
The combined effect of these improvements mean that taxpayers earning \$15,000 a year will have had their income tax more than halved between 2004-05 and 2007-08.

The income tax cuts announced in this budget ensure that over 80 per cent of taxpayers will continue to face a top marginal tax rate of 30 per cent or less.

The increase in the top tax threshold to \$180,000 further improves Australia's international tax competitiveness. In 2008-09, Australia's top threshold, relative to an average wage, will be the eighth highest in the OECD, compared to twentieth in 2004-05.

From 2008-09, the top marginal rate will apply to around only 2 per cent of taxpayers.

In addition, the Government will provide the Australian Taxation Office (ATO) with \$20 million to make it easier for taxpayers to complete their tax return. This will be available to around 9 million taxpayers who lodge returns electronically, either themselves or through an agent. From 2007-08, the ATO will pre-fill returns with information including salary and wages, interest, dividends, information on private health insurance and any benefits paid from the Government, including family tax benefit.



Reducing the income tax payable for low and average income earners

# Realising Our Potential — the HEEF

*Realising Our Potential* is a comprehensive package of reforms across the university, vocational education and training and school sectors. The centrepiece is an unprecedented investment in the university sector by establishing a perpetual \$5 billion Higher Education Endowment Fund (HEEF) funded from the 2006-07 surplus.

A high quality and responsive education system is vital to increasing skills, which, in turn, boost workforce participation and productivity – the key components of the economy's productive capacity.

The centrepiece of *Realising Our Potential* is the establishment of a new, perpetual HEEF that will provide an additional guaranteed source of funding for Australia's universities forever.

The initial \$5 billion in the HEEF will be invested to earn income which will be distributed on an annual basis to individual universities for capital works and research facilities. This will

supplement funds that universities have in their own endowment funds.

The Fund's investments will be managed by the Future Fund Board of Guardians as a separate fund.

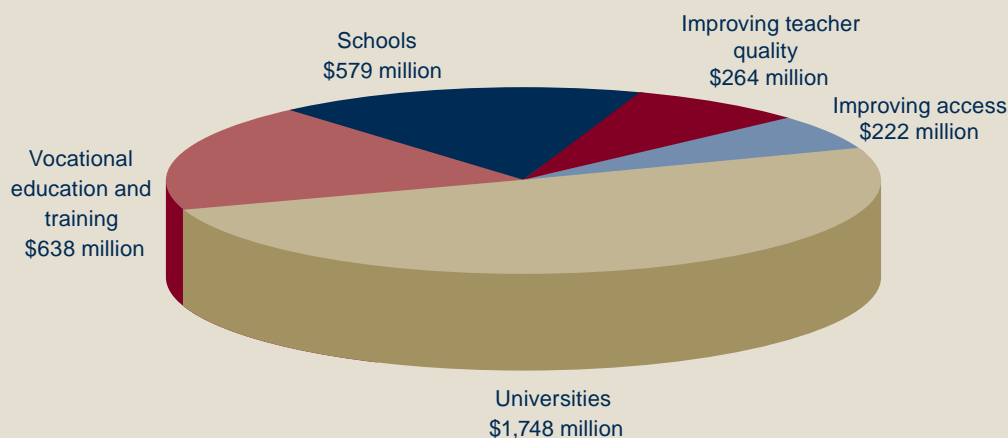
Distributions from the Fund's earnings will be made on a competitive basis to universities annually by the Minister for Education, Science and Training on advice from an expert advisory board.

The HEEF will be structured so that it can receive philanthropic donations from the private sector and, on request, manage individual institutions' endowments.

The Fund will encourage philanthropic support for universities from individuals and the corporate sector.

The Government's initial investment in the HEEF broadly doubles the financial investments and endowments accumulated by universities (that is, financial assets such as shares and bonds which universities use to supplement their funding).

It is intended that further capital contributions to the HEEF will be made from future budget surpluses to grow, over time, a Fund which will finance the building of first class institutions in the Australian higher education sector.



*Realising Our Potential* delivers \$3.5 billion additional education expenditure

# Realising Our Potential — universities

*Realising Our Potential* invests an additional \$1.7 billion over four years to give universities the flexibility they need to underpin Australia's future productivity growth. *Realising Our Potential* will promote a diverse and internationally competitive education sector, containing both specialised and broader institutions, some focused on particular fields of excellence, others meeting local needs.

*Realising Our Potential* will allow the higher education sector to become more demand driven and responsive. It will promote more competition between universities for students and ensure a higher quality university system.

The Government will provide \$211 million over four years to increase the flexibility of the funding of university places. This will allow funding to reflect actual enrolments within 5 per cent of a university's funding allocation (the current limit on over-enrolments is 1 per cent).

This will mean that students with the capacity to benefit from a university place can obtain one.

*Realising Our Potential* recognises that ultimately it is students themselves who are in the best position to judge what education opportunities they wish to pursue. It will provide \$557 million over four years to increase and simplify funding for a number of disciplines. This will make it easier for universities to modify the mix of courses they offer to better reflect student and employer demand and to continue to provide high quality courses.

The cap on the HECS-HELP fee and the public subsidy for Accounting, Administration, Economics and Commerce will be aligned with Law to

reflect the high salaries that graduates in these disciplines receive.

A new Diversity and Structural Adjustment Fund of \$209 million will support greater specialisation and responsiveness to local labour market needs, particularly among regional and smaller metropolitan universities.

## Student support

\$222 million over four years will be provided for increased income support and for an extra 3,500 Commonwealth Learning Scholarships, focused on assisting students from low-income backgrounds to attend university.

Disciplines in new clusters	Funding in 2007	Funding in 2008*
Law	\$1,642	\$1,674
Accounting, Administration, Economics, Commerce	\$2,703	
Humanities	\$4,556	\$4,647
Maths and Statistics	\$5,381	\$8,217
Behavioural Science and Social Studies	\$7,233	
Education	\$7,950	
Computing, Built Environment, other Health	\$8,057	
Clinical Psychology	\$7,233	\$10,106
Allied Health	\$8,057	
Foreign Languages, Visual and Performing Arts	\$9,908	
Nursing	\$10,953	\$11,280
Engineering, Science, Surveying	\$13,411	\$14,363
Medicine, Dentistry and Veterinary Science	\$16,810	\$18,227
Agriculture	\$17,870	

\*Estimates based on current rates of indexation (HEIF) and increases in 2008.

## Increased funding and simplified funding clusters

# Realising Our Potential

## — VET

*Realising Our Potential* will deliver an additional \$638 million over four years to Australia's vocational education and training (VET) system, which creates vital technical skills to support Australia's future economic growth. This builds on the \$837 million investment made in *Skills for the Future*.

*Realising Our Potential* will provide additional assistance of \$549 million over four years to Australian Apprentices in skill shortage trades.

From 1 July 2007, eligible Australian Apprentices under the age of 30 will receive an additional tax exempt payment of \$1,000 per year as a wage top-up paid in six-monthly instalments during the first and second years of the apprenticeship. Around 228,000 apprentices will benefit over four years.

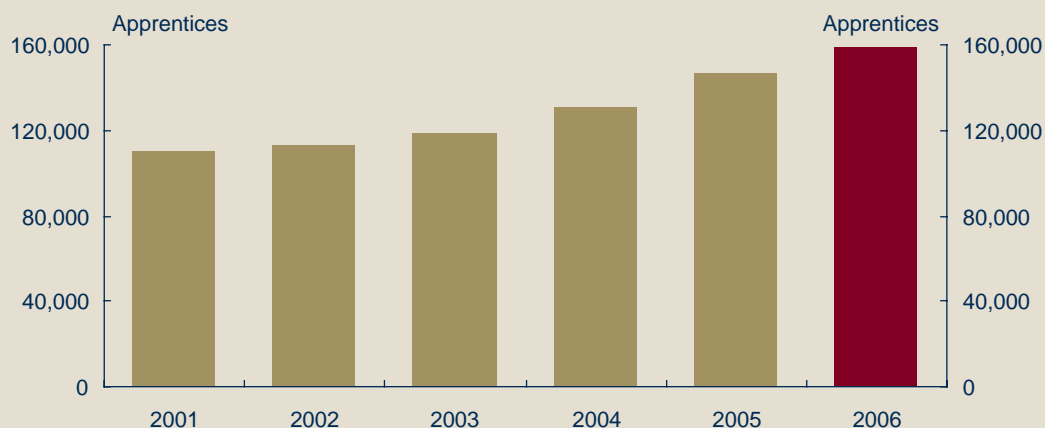
Eligible Australian Apprentices will also receive a voucher worth up to \$500 per year toward their course

fees. This voucher will be available to Australian Apprentices in both the first and second year of their Australian Apprenticeship in a skill shortage trade. Around 252,000 apprentices will benefit over four years.

The *Realising Our Potential* package includes a further three Australian Technical Colleges in the Brisbane, Sydney and Perth areas, at a cost of \$84 million over five years. This will build on the Government's existing commitment of \$468 million to support 25 Australian Technical Colleges.

The Government will also provide funding of \$59 million over four years to Registered Training Organisations to partner with industry and local employers to develop and implement fast-track apprenticeships with competency-based, rather than time-based, progression.

This wage and fee support will attract more apprentices and allow them to complete their training more quickly. These measures are part of the Government's plan to restore the true value of VET.



Traditional apprentice numbers continue to grow (NCVER 2007)



# Realising Our Potential — schools

A quality school education is critical to every student's future. Through *Realising Our Potential* the Government will provide an additional \$843 million over four years to improve the quality of teaching and the learning outcomes of all Australian children.

Parents are entitled to expect that their children will receive a high quality school education and develop the core skills they need to realise their potential.

Australian schools generally perform well by international standards. However, too many students are failing to acquire the basic skills they need to succeed throughout their lives.

The Australian Government provides significant funding for schools, some \$33 billion over 2005-08, and has an important role to play in improving the quality of education and helping those students currently falling behind.

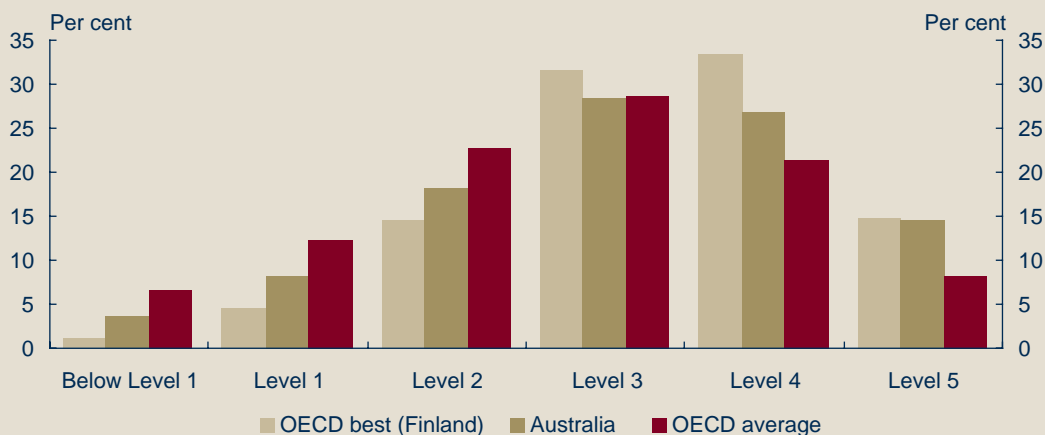
*Realising Our Potential* guarantees that children who need help can get it by providing \$632 million in direct assistance for schools and students.

This includes \$700 tutorial vouchers for parents to help children who do not meet national literacy and numeracy benchmarks and rewards of up to \$50,000 a year for schools that improve literacy and numeracy outcomes.

A further \$211 million of initiatives focus on providing greater national consistency in the delivery of schooling and improving teaching quality, including through the establishment of Summer Schools for Teachers.

Australian Government funding through the next schools funding agreement will be tied to States, Territories and other education authorities improving quality by:

- introducing national teacher training and registration standards and core curricula standards in Years 10-12
- providing greater principal autonomy
- providing performance-based remuneration to encourage and reward quality teaching
- requiring comprehensive reporting of school and student performance.



Proportion of students at each level of reading proficiency (OECD standardised testing), 2003

# Improving child care assistance

The Government recognises that child care is vital for many families to participate effectively in the workforce. This budget builds on the Government's long-standing commitment to help families meet their child care needs. It includes \$2 billion in additional support to provide families with increased, more timely child care assistance.

In 2007-08, the Government will spend more than two and a half times the amount spent on child care assistance in 1996-97. During this period, the Government has introduced the Child Care Benefit (CCB) and the Child Care Tax Rebate (CCTR), which covers 30 per cent of out-of-pocket costs, and also expanded child care places.

## Increase in Child Care Benefit

From 1 July 2007, rates of CCB will increase by 10 per cent, on top of indexation. This will provide additional assistance to over 700,000 families. A family on maximum rate CCB with one child in Long Day Care for 40 hours per week will receive \$134.80 per week — an extra \$16.40.

## More timely assistance

From 1 July 2007, families will receive the CCTR — up to \$4,200 per child — as a direct payment shortly after the year in which they incur child care costs.

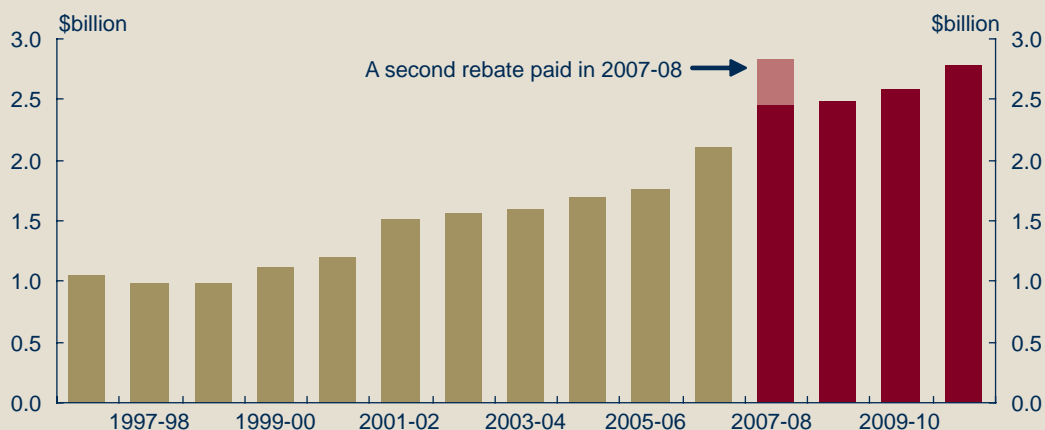
Families with out-of-pocket costs in both 2005-06 and 2006-07 will receive two rebates in 2007-08, one through the tax system under current arrangements and the other as a direct payment.

The increase in CCB and more timely provision of the CCTR will cost \$1.9 billion over five years from 2006-07.

## Meeting special needs

The Government will also increase child care access for families and communities with special needs, including additional funding of:

- \$44 million over four years for child care services in regional and remote communities
- \$62 million over four years for child care services that provide care for children with ongoing high support needs (such as children with disabilities)
- \$15 million over four years to support parents studying, looking for, or returning to work.



More than doubling child care assistance since 1996-97 (cash basis)

# Boosting investment in transport infrastructure

With demands on Australia's transport network projected to grow significantly over the next two decades, the Government will provide funding of \$22.3 billion over five years from 2009-10 for Australia's road and rail infrastructure.

High-quality, efficient land transport infrastructure is essential to Australia's productivity, economic growth and future prosperity. The Government will invest \$19.1 billion in road and rail infrastructure under the second AusLink national land transport plan (AusLink 2), and around \$3.2 billion in other local roads grants over five years from 2009-10.

The Government will also increase funding under AusLink 1 by \$695 million — including \$250 million in 2006-07 — bringing investment in land transport infrastructure to \$15.8 billion over the five years to 2008-09.

A number of key AusLink 1 projects on Australia's major freight corridors are already open to traffic, including the Albury-Wodonga Bypass, Westlink M7 and Craigieburn Bypass.

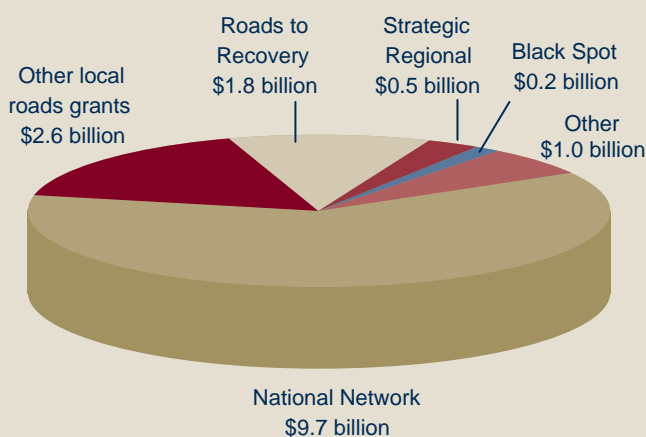
Under AusLink 2, the Government will continue to work with the States and Territories to further improve the efficiency, adequacy and safety of the national land transport system.

Around \$16.8 billion will be provided for the national network linking Australia's major population and economic centres. This includes funding for the \$2.3 billion Goodna Bypass, which will address long-term traffic needs on one of

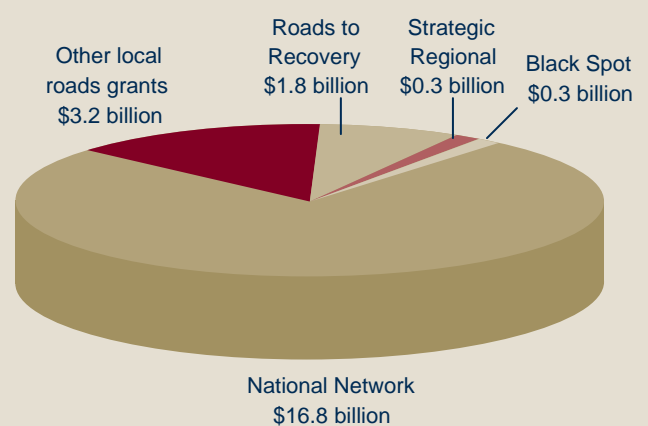
South-East Queensland's busiest routes.

The Government will also continue its commitment to local roads through AusLink's Roads to Recovery (\$1.8 billion) and Strategic Regional (\$300 million) programmes. The Black Spot Programme (\$300 million) will continue to save lives by fixing road crash sites around Australia.

The additional funding, combined with reforms to improve the efficiency and productivity of road and rail freight, will position Australia to meet projected growth in demand on Australia's transport network.



\$15.8 billion over 2004-05 to 2008-09



\$22.3 billion over 2009-10 to 2013-14

## Land transport funding

# Supporting retirement savings

The Government will boost superannuation savings by putting an extra \$1.1 billion into the superannuation accounts of lower income earners by doubling the co-contribution paid for eligible contributions made in 2005-06.

A robust and sustainable retirement income system is critical to meet the challenges faced by the ageing of Australia's population.

The age pension in combination with compulsory superannuation savings are the foundations of the retirement income system.

The Government has built on these foundations by encouraging greater participation by individuals in the retirement income system.

The introduction of the superannuation co-contribution is a significant commitment by the Government to

improving the retirement income of low to middle income earners.

The co-contribution commenced in 2003-04 with a one-for-one match by the Government. In 2004-05 the Government increased the matching rate to \$1.50 and made more people eligible.

In recognition of the effort people have already made to save for their retirement the Government will double the co-contribution for eligible contributions made in 2005-06.

This measure builds on the major improvements the Government has made to the superannuation system.

As of 1 July 2005, the Government abolished the superannuation surcharge.

The Government's Simplified Superannuation reforms will take effect from 1 July 2007. Under these reforms benefits paid to retirees aged 60 or above from a taxed fund will be exempt from tax.

These reforms significantly simplify superannuation, improve retirement income, increase incentives to save for retirement and extend full tax deductibility for contributions and the co-contribution to the self-employed.

Average weekly income (\$)	Projected retirement lump sum		
	Before co-contributions no Simplified Super (\$)	With co-contributions <sup>1</sup> no Simplified Super (\$)	With co-contributions <sup>1</sup> with Simplified Super (\$)
500	220,000	381,000	402,000
650	280,000	419,000	449,000
800	339,000	443,000	480,000

Note: Table based on 25 year old male starting work on 1 July 2005 and remaining in the workforce for 40 years. All projection amounts are in real terms (2007-08) and after applicable taxes.

1. Annual nominal personal undeducted contribution of \$1,000 with eligible co-contribution.

Increasing incentives to save for retirement

# Rewarding older Australians and carers

This budget continues the Government's support for older Australians and carers in recognition of their important contribution to our society. More than \$1.9 billion helps meet the needs of these important groups.

## Seniors bonus payment

The Government recognises that older Australians have played a key role in creating our economic growth. To ensure that they share in this growth, this year the Government will provide a bonus of \$500 to individuals eligible for either the Utilities Allowance or the Seniors Concession Allowance. Both eligible members of a couple will receive the bonus.

These bonuses, worth \$1.3 billion, will be paid to recipients by 30 June 2007.

## Continued help for carers

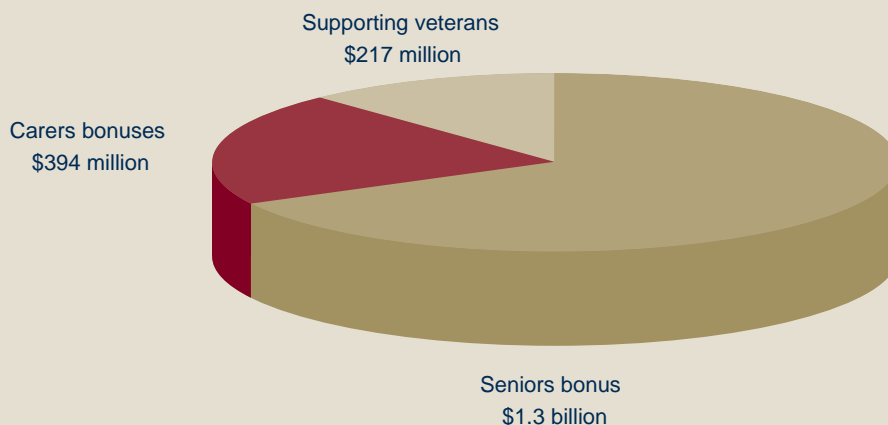
The Government will again recognise the sacrifices made by carers who look after people with a disability. Recipients of the Carer Payment will receive a \$1,000 bonus payment while those who receive the Carer Allowance will be given a \$600 bonus payment, at a total cost of \$394 million. The \$1,000 bonus will also be paid to those who receive both the Carer Allowance and either the Wife Pension or the Veterans' Affairs Partner Service Pension. These payments will be made by 30 June 2007.

This is the fourth year in a row that these bonuses have been paid.

## Supporting veterans

The Government will also provide \$160 million over four years to increase support for veterans. Commencing in July 2007, the per-fortnight payment of Special Rate Disability Pension will increase by \$50 and the Intermediate Rate Pension by \$25. This measure will provide Australia's most disabled veterans with greater financial support.

The Government will also provide \$57 million over the two years from 2006-07 to make one-off payments of \$25,000 to Australians who were Prisoners of War in Europe, or their surviving widows.



More than \$1.9 billion to assist older Australians and carers

# Creating opportunities for Australian industry

The Government is committed to ensuring a supportive environment for Australian industry. The industry statement, *Global Integration*, includes \$1.4 billion over 10 years to assist Australian industry to build stronger links with global markets and improve productivity through innovation and better business practices.

Wide-ranging reforms, including tax reform and reducing red tape, have made it easier for Australian firms to do business. The 2007 industry statement, *Global Integration*, builds on these achievements and will assist Australian firms to improve their productivity and capture the increasing opportunities offered in global markets.

## Global integration

The Government is expanding access to the 175 per cent R&D tax concession at a cost of \$200 million over four years. This will encourage multinational firms to increase the amount of R&D they perform in Australia.

The Government will also provide \$122 million over five years to facilitate Australian firms' participation in global supply chains and major international projects through the Global Opportunities programme. This will encourage stronger links between Australian and overseas firms.

## More productive Australian firms

The Government will provide \$171 million over five years for the establishment of Australian Industry Productivity Centres. The Centres will provide diagnostic and advisory services to firms in the manufacturing and services sectors to enhance their productivity and business performance.

The industry statement also contains a range of measures to help firms innovate, share technology and strengthen links with researchers, including:

- \$54 million over four years to continue support under the Food Innovation Grants programme
- \$36 million over four years for a CSIRO National Research Flagship for Niche Manufacturing.

The Government will reduce compliance costs for business by introducing a streamlined ABN and business names registration system, at a cost of \$49 million over four years.



Increasing global integration presents challenges and opportunities

# Simpler tax for small business

The Government will cut tax on small business by \$540 million over four years and increase advisory services and reduce compliance costs.

This budget includes a number of measures to reduce tax compliance costs for small business. These initiatives build on the measures in the 2006-07 Budget which reduced compliance costs and extended access to tax concessions to small business.

From 1 July 2007, businesses with turnover below \$75,000 need not register for the GST. Those who voluntarily register will have the option of reporting and paying GST annually. In addition, from 1 July 2008, taxpayers who voluntarily register for GST and choose to report and pay GST annually, may also pay their pay as you go

instalments annually. Such taxpayers would only need to lodge a Business Activity Statement once a year.

From 1 July 2007, more small businesses will be able to apply to access a simplified accounting method for calculating their GST. This will generalise the arrangement that has been implemented for food retailers, small restaurants, cafes and caterers.

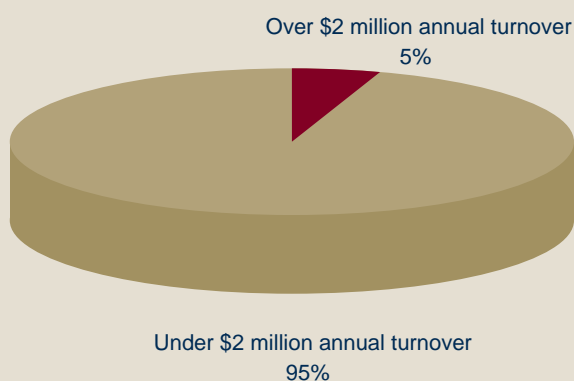
For purchases of \$75 or less, businesses will no longer require a tax invoice to claim a GST credit. This will be of particular benefit to smaller businesses, which will need only one

set of documents for these purchases for both income tax and GST purposes.

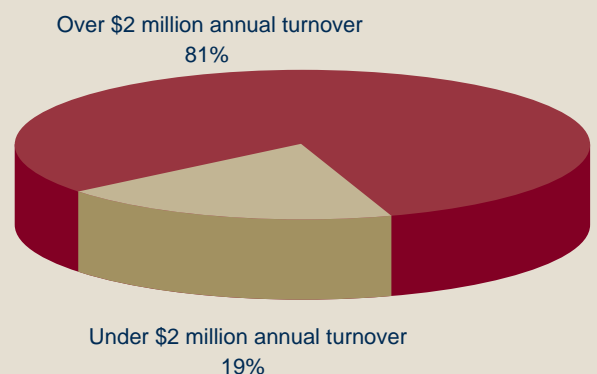
From 2007-08, small businesses with excise obligations will be able to settle these on a monthly, rather than weekly, basis.

To assist new businesses to keep good records and understand their tax requirements, including the GST, the Australian Taxation Office will be provided with \$40 million over four years to provide more face-to-face assistance through visits to start-ups.

The GST changes will require the unanimous agreement of the States and Territories.



Number of businesses



Proportion of net GST paid

Small business compliance costs are a high priority because of the large number of taxpayers relative to tax collected

# Meeting the challenge of climate change

The Government is committed to addressing climate change while maintaining a strong and competitive economy. This budget continues the Government's responsible approach, with measures to cut emissions and also prepare Australia for the consequences of climate change.

The Government is addressing climate change, including through the Low Emissions Technology Development Fund and participation in the Asia-Pacific Partnership on Clean Development and Climate.

Building on this, the Government will provide a range of measures costing \$741 million over five years to reduce emissions and to prepare Australia for the consequences of climate change.

## Reducing emissions

Preventing deforestation and establishing new forests can greatly reduce greenhouse gas emissions. The Government will allow deductions for the costs of establishing carbon sink

forests, at a cost of \$24 million over four years.

The Government will also lead efforts to protect the world's forests with \$197 million over five years for the Global Initiative on Forests and Climate.

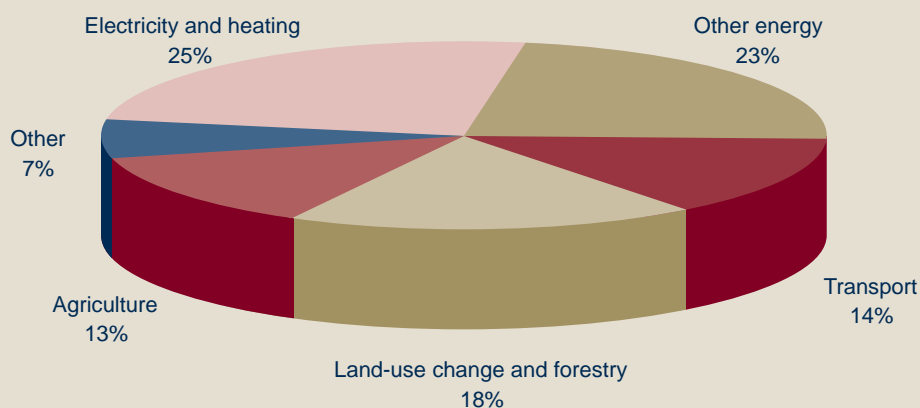
This will be complemented by the provision of \$33 million in 2007-08 to support water management, energy efficiency and alternative energy initiatives in developing countries.

A further \$150 million will be provided over five years to accelerate the installation of solar panels on homes and schools.

## Preparing for a changing climate

Given the inevitable impact of past and future emissions on Australia's climate, this budget provides for significant research into how we can best adapt — with \$126 million over five years for an Australian Centre for Climate Change Adaptation and \$103 million over four years for CSIRO Climate Adaptation and Energy Research Flagships.

The Government has also established a joint government-business Task Group to advise by 31 May 2007 on a workable global emissions trading system.



Global greenhouse gas emissions in 2000



# Protecting our natural resources

The Government recognises that maintaining Australia's environment is critical to the nation's wellbeing. This budget builds on the Government's previous commitments to protecting and improving our natural assets base.

The Government will provide around \$2.2 billion over six years on a comprehensive approach to the conservation of Australia's natural resources.

## Phase Three of the Natural Heritage Trust

The Government will further extend the Natural Heritage Trust (NHT) until June 2013, with an injection of \$2 billion from 2008-09 to support activities that will improve water quality, reduce land degradation and enhance vegetation management at the local, regional and national level.

This contribution builds on the Government's previous \$3.8 billion commitment under NHT and the National Action Plan for Salinity and Water Quality (NAP).

## National Landcare Programme

The Government will provide \$112 million for the National Landcare Programme over three years from 2008-09.

This will continue the partnership between the Government, farmers and community groups.

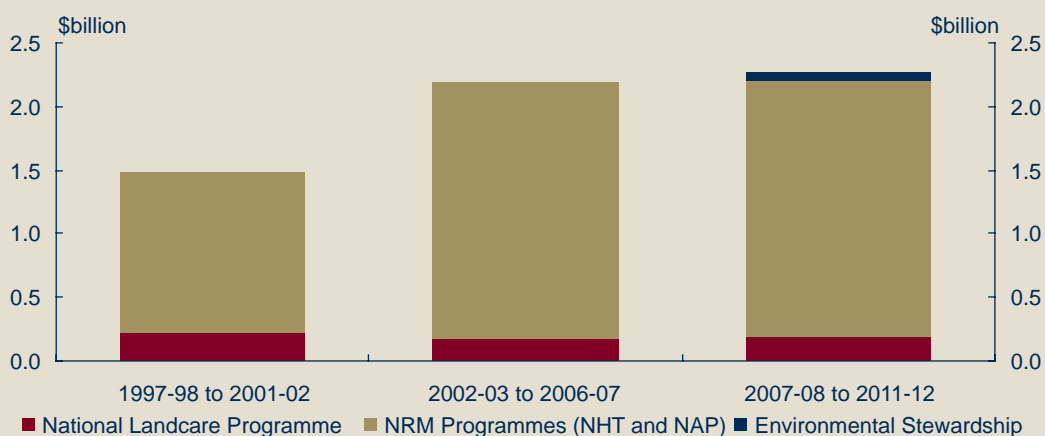
Landcare will continue to support on-the-ground activities, increase the

skills of natural resource managers, and promote best practice management.

## Environmental Stewardship Programme

The Government will also invest \$50 million over four years to establish an innovative Environmental Stewardship Programme.

Under this groundbreaking approach, the Government will form long-term partnerships with landholders to reward those who undertake positive actions to protect and enhance environmental assets of national significance.



Australian Government natural resource management expenditure

# A National Plan for Water Security

The Government will invest \$10 billion over 10 years in a comprehensive National Plan to safeguard the sustainable use of Australia's scarce water resources.

Water is one of Australia's most precious resources. Careful management is needed to safeguard our water supply and ensure an appropriate balance between the needs of communities, industry and the environment.

Around 65 per cent of Australia's total water use is in agriculture, with the majority of intensive irrigation occurring in the Murray-Darling Basin.

However, this water use is not as efficient as it could be and in many areas is beyond sustainable levels. Expected future declines in inflows will amplify this problem.

The \$10 billion National Plan is intended to place rural water use on a sustainable footing over the next decade.

Key elements of the Plan include:

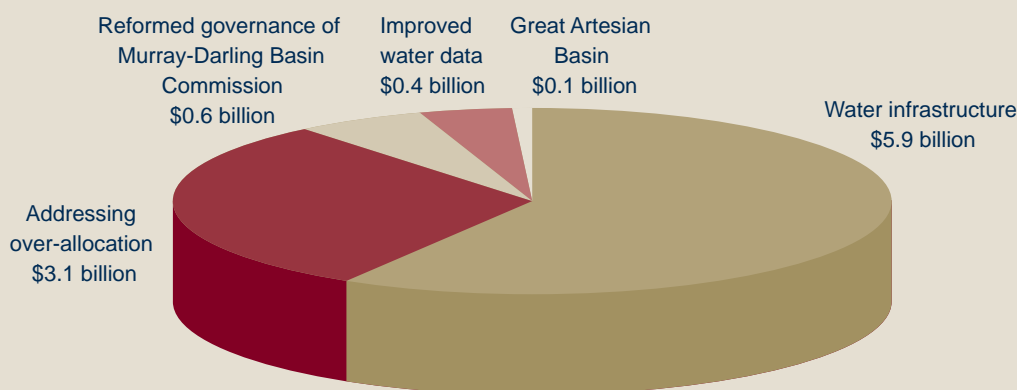
- \$5.9 billion to modernise both on-farm and off-farm irrigation infrastructure to increase the efficiency of water use
- \$3.1 billion to address over-allocation of water, including through the purchase of water entitlements, and assisting non-viable irrigators to exit the industry

- \$417 million to improve the quality of forecasting and water data to better inform future decisions regarding land and water use.

Under the Plan, \$585 million has also been allocated to reform the governance arrangements of the Murray-Darling Basin Commission, to ensure the responsible management of water into the future.

## Community water grants extension

The budget also includes \$201 million over six years to support the installation of water tanks and other water saving devices by schools and community organisations.



National Plan for Water Security — funding allocations

# Helping meet the needs of rural Australia

The Government is strengthening its commitment to Australia's rural communities, with additional funding of \$874 million over five years from 2006-07 to enhance the competitiveness of Australian agricultural industries, relieve the pressures of drought and improve regional services.

## Increasing competitiveness

The Government is continuing to support the rural sector in meeting domestic and international pressures through a range of initiatives.

The *Agriculture – Advancing Australia* (AAA) initiative has been helping primary producers adapt to change since 1997. This budget includes \$205 million over four years to extend and enhance AAA, including:

- \$35 million to help industry identify and manage risks and opportunities
- \$26 million to assist producers to improve their business skills
- \$92 million to assist farmers facing severe financial difficulty.

## Drought assistance

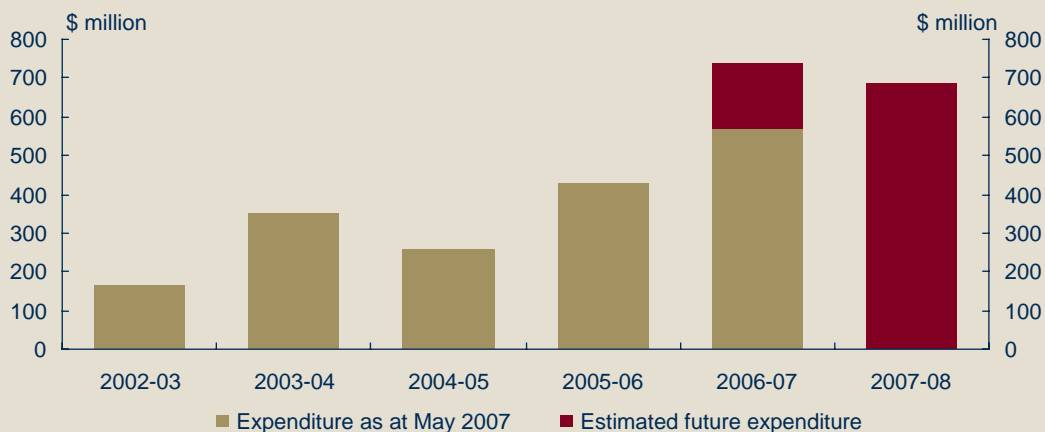
The current drought is amongst the worst on record. Since 2002-03, total Exceptional Circumstances (EC) assistance provided amounts to \$1.6 billion. The Government has made drought assistance more accessible and expanded its scope to help farmers, small businesses and rural communities cope with the effects of drought, including through direct financial assistance, counselling services and advice. The Government expects to provide an additional \$314 million in EC assistance over three years.

Total EC assistance in 2007-08 is expected to be \$688 million.

## Improving rural services

The Government is continuing to enhance rural services with:

- \$163 million over the two years from 2006-07 to ensure all Australians have access to broadband services
- \$157 million over the five years from 2006-07 to support the vital role of the Royal Flying Doctor Service
- \$22 million over four years to upgrade rural airstrips.



Exceptional Circumstances assistance over the current drought

# Strengthening national security

National security remains a key priority for the Government. This budget provides \$702 million in new funding to 2010-11 to improve anti-terrorism capabilities.

The Government is committed to addressing emerging threats to national security.

This budget includes \$702 million over four years for national security initiatives. This brings to \$10.4 billion the additional funding the Government has committed to national security for the 10 years to 2010-11.

## Improved intelligence

The Government will address high-priority intelligence needs by providing an additional \$107 million over four years to Defence.

The Government will also provide \$79 million over four years to the

Australian Security Intelligence Organisation for improvements to its state office accommodation.

## E-security national agenda

The Government will provide \$74 million over four years for an integrated e-security strategy, to reduce risks to Australia's critical national infrastructure such as energy, telecommunications and government systems, and improve the public's security in the online environment.

## Strengthened aviation security

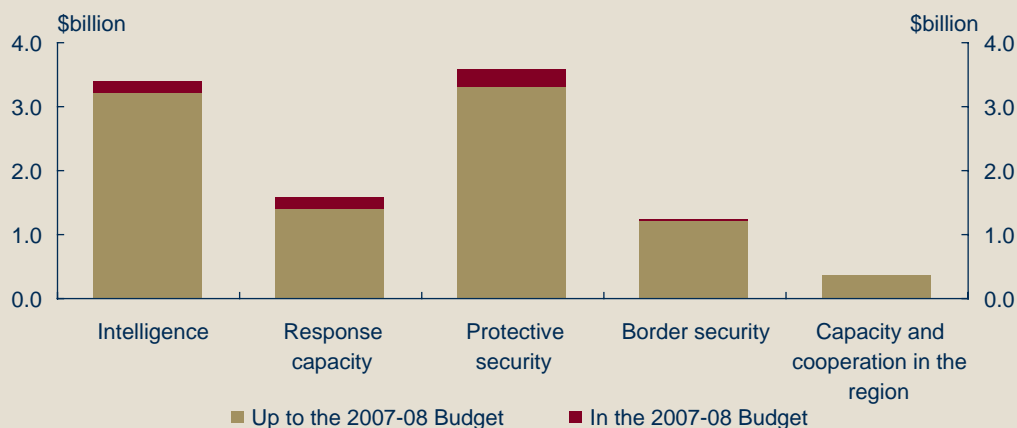
Aviation security will be further enhanced, with \$57 million over four years in new funding for measures

including checked baggage screening at regional airports, international aviation security liaison and a new accredited air cargo agent scheme.

The Government will also provide \$151 million over four years for purpose-built facilities for police operating at major airports.

## Other counter-terrorism initiatives

The Government will provide \$235 million over four years for other initiatives, including improved security at Defence bases.



**\$10.4 billion of additional funding on national security over 10 years to 2010-11**

# Defending Australia and its interests

This budget strengthens the Government's commitment to defending Australia and its interests with initiatives to improve defence force recruitment and retention, ensure a comprehensive air combat capability and provide extra funding to operate and maintain equipment.

## Recruitment and retention

Continuing to attract and retain high-quality military personnel is critical to the defence of Australia and its interests.

In December 2006 the Government committed \$1 billion over 11 years to improve the recruitment and retention of Australian Defence Force (ADF) personnel. This budget provides an additional \$2.1 billion over 10 years to enhance this process. Measures include:

- \$864 million for an enhanced Defence home ownership scheme

- \$585 million to reform pay scales
- \$228 million for marketing and service branding.

## Air combat capability

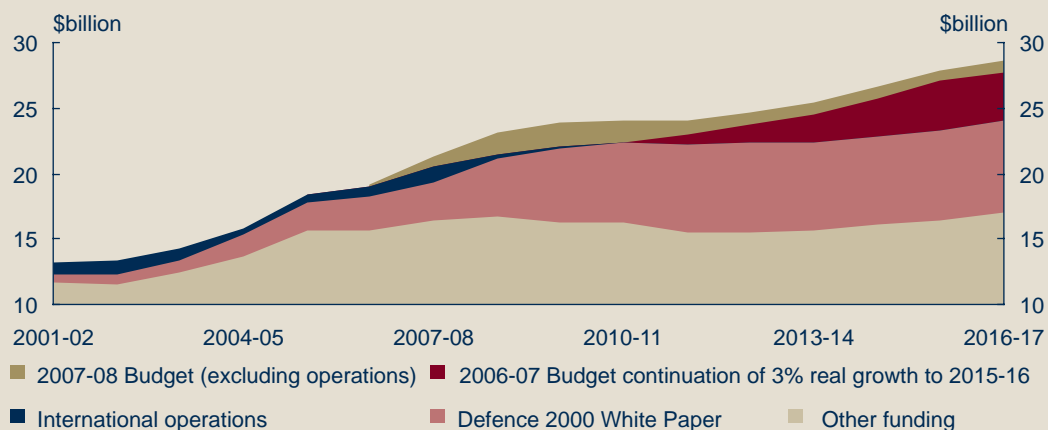
The Government will spend \$6.6 billion over 13 years to purchase and operate 24 F/A-18F Super Hornets to secure air combat capability for both air-to-air and air-to-ground missions. The acquisition will allow Australia to maintain air superiority in our region and ensure that there is no capability gap during the transition into service of the F-35 Joint Strike Fighter.

## Equipment support

The budget includes \$4 billion over 10 years to operate and maintain 18 existing equipment platforms, including the Collins class submarines, Black Hawk helicopters and Hercules transport aircraft. The Government will also provide \$1.4 billion over 10 years to operate and maintain four new C-17 heavy airlift aircraft.

## Military operations

This budget continues support for ADF operations, including \$1.1 billion over four years from 2006-07 to bring security and stability to Iraq and Afghanistan.



This budget continues the Government's strong commitment to funding defence

# Delivering high quality health care services

The Government is strengthening the role of prevention and health management to maintain a healthy population and address the prevalence of chronic and preventable disease in Australia.

In 2007-08 the Government will spend \$51.8 billion on health and aged care.

## A healthy, active Australia

Improved nutrition and physical activity will be promoted, including through an additional \$124 million over four years for the Active After-school Communities Programme.

## Greater focus on chronic and complex conditions

This budget will improve the treatment of Australians with chronic and complex conditions.

Enhanced access to dental treatment of up to \$2,125 per year in Medicare rebates will be available to people with chronic and complex conditions who

are managed under a GP treatment plan. This will cost \$378 million over four years.

In recognition of the more complex consultations involved, \$291 million over four years will be provided to introduce two new Medicare rebates for the treatment of chronic and complex conditions by consultant physicians.

The Government has also committed \$103 million through the Council of Australian Governments for risk assessments and treatment for those at high risk of developing type 2 diabetes.

## Medical research

The Government will provide \$486 million in grants in 2006-07 to

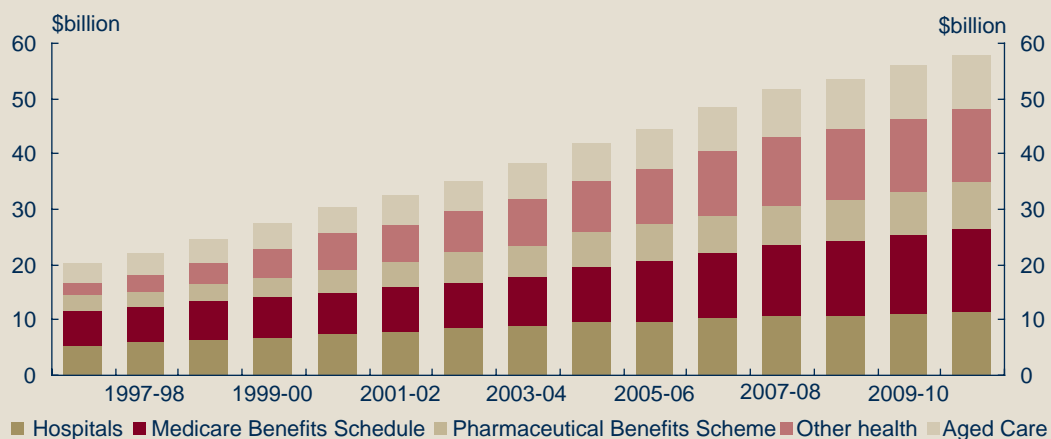
support the construction of world-class health and medical research infrastructure.

## Better access to care

Initiatives will increase access to Australia's health care system, including \$72 million over four years in Medicare rebates for extended out-of-surgery after-hours care by GPs.

## Combating illicit drugs

This budget provides \$150 million over the five years from 2006-07 to combat the use of illicit drugs, including methamphetamines such as 'ice'.



Investment in health and aged care has more than doubled since 1996-97

# Looking after older Australians

The Government will provide \$1.6 billion over the five years from 2006-07 towards *Securing the future of aged care for Australians* — a package of reforms that will increase the availability of aged care, make fees and charges simpler and fairer, and improve quality and choice.

## More community care

The majority of older Australians prefer to live at home. The Government will invest \$411 million over five years to provide 7,200 additional community care packages and more community-based respite care to ensure more aged Australians who choose to do so can continue to reside in their own homes.

## Fairer fees and charges

To better support older Australians needing care, new accommodation fees and subsidies will be introduced at a

cost of \$582 million over five years. This will encourage greater investment in residential care.

The Government will provide a further \$165 million over five years to support fairer income-tested fees, give full subsidies to residential care places previously operated by state governments, and provide more help for disadvantaged older people in rural and remote areas.

The Government will also introduce, from 20 March 2008, a new Aged Care Funding Instrument which will improve

the assessment of care needs and allow better alignment of subsidies. To assist homes in the transition phase to the new arrangement and ensure funding for existing residents will not be decreased, the Government will spend \$394 million over four years to support its introduction.

Further initiatives include expanding eligibility for the Continence Aids Assistance Scheme, at a cost of \$99 million over five years.



Aged care places: 1996 to 2011

# Strengthening our screen media industry

The Government will provide an additional \$283 million over four years for a package of measures to strengthen and reform Australia's screen media industry. This will bring total Government support for the screen media industry to \$1.2 billion over the four years to 2010-11.

To strengthen Australia's screen media industry, the Government will restructure and increase its support to encourage greater private sector participation in productions and attract more productions to Australia.

This package builds on previous commitments and will increase the Government's overall assistance to the industry to over \$300 million in 2007-08, more than doubling assistance provided in 2001-02.

Support for international and domestic productions will be provided through a producer tax rebate. This will deliver support directly to producers.

## Enhancing domestic film support

The Government will provide a 40 per cent refundable tax rebate for eligible domestic feature films and a 20 per cent refundable tax rebate for other eligible domestic media productions, including television series and documentaries.

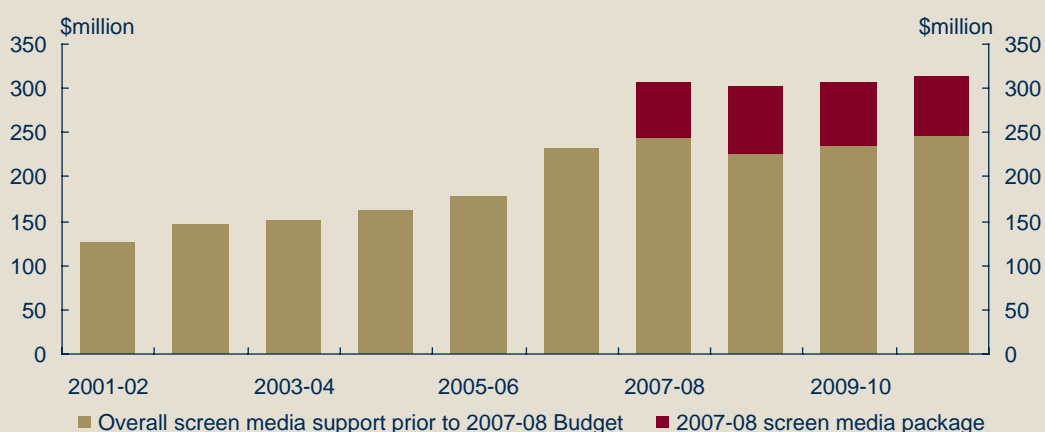
## Attracting more international films

Support for international films made in Australia will also be increased. Eligible international films will receive a rebate of 15 per cent (currently 12.5 per cent) on qualifying expenditure under the international component of the producer tax rebate. This producer rebate incorporates the refundable film tax offset. In addition, qualifying

expenditure over \$5 million on post production and digital and visual effects will also be eligible for the international producer tax rebate for the first time. These changes will further increase the attractiveness of Australia as a destination for the production of international films and associated post-production work.

## Australian Screen Authority

The Government will also establish a new film agency, the Australian Screen Authority, by merging some existing film bodies. This will provide a consolidated, single source of interaction between the Government and producers.



Building Australia's film industry



# A Better Future for Indigenous Australians

The Government will spend a record \$3.5 billion in 2007-08 on Indigenous-specific programmes to improve the wellbeing, capabilities and long-term economic independence of Indigenous Australians. Major new injections of funds will focus on enhanced housing and educational opportunities.

The Government is tackling key areas that give prospect for a better way of life for Indigenous Australians. Initiatives costing \$748 million over the five years from 2006-07 seek to deal better with the Indigenous housing problem, provide greater educational opportunities for children and young people, explore new approaches to health care, and ensure a greater focus on employment.

The measures include:

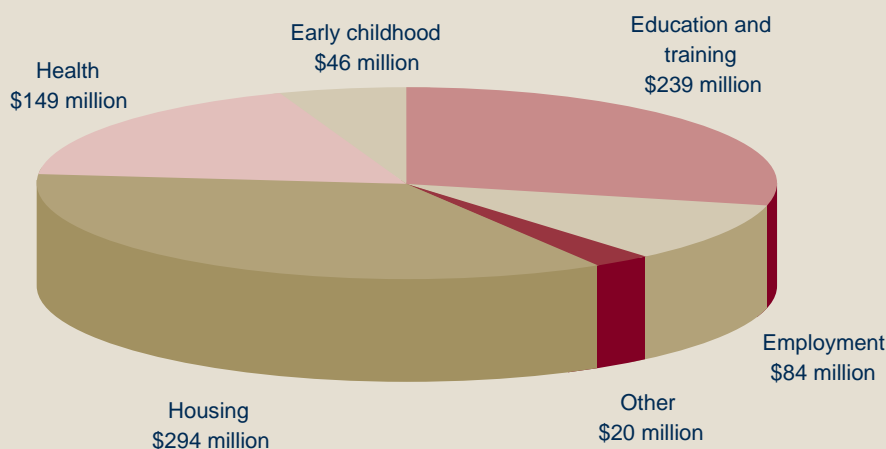
- \$294 million over four years for major reform in Indigenous housing. This investment is in addition to existing funding and will provide for the construction of additional

new housing and an expanded programme for repairs and maintenance of existing housing in remote areas

- \$239 million over five years to provide financial assistance, scholarships, training and employment opportunities for Indigenous young people from rural and remote areas. As well as education and job placements in urban and regional centres, this includes \$114 million in new funding for boarding schools and student hostels
- \$46 million over four years for increased access to child care and

improved early childhood support, including playgroup services which will benefit around 6,100 Indigenous children

- \$149 million over four years for early intervention and family based health initiatives and best practice and quality of care standards in Indigenous health services
- \$61 million over four years to create real economic opportunities by converting Community Development Employment Project positions in government service delivery into formal jobs.



The chart does not include savings from compliance measures

**\$748 million in additional funding to provide greater opportunities for Indigenous Australians**

# Funding the abolition of inefficient state taxes

All GST revenue is provided to the States and Territories (the States) to spend according to their own budget priorities. In return for this revenue, the States agreed that they would abolish a range of inefficient business taxes.

All States are now receiving more revenue from the GST compared with the previous financial arrangements. In 2007-08, the States will receive GST revenue of \$41.9 billion — an increase of 5.8 per cent from 2006-07.

State taxes totalling \$5.0 billion in 2007-08 have already been abolished under the Intergovernmental Agreement. These include financial institutions duty, listed marketable securities duty, debits tax and accommodation tax.

The States have also agreed on a schedule to abolish a second tranche of inefficient taxes: mortgage duty; cheque

duty; lease duty; rental duty; unlisted marketable securities duty; and non-real non-residential conveyance duty.

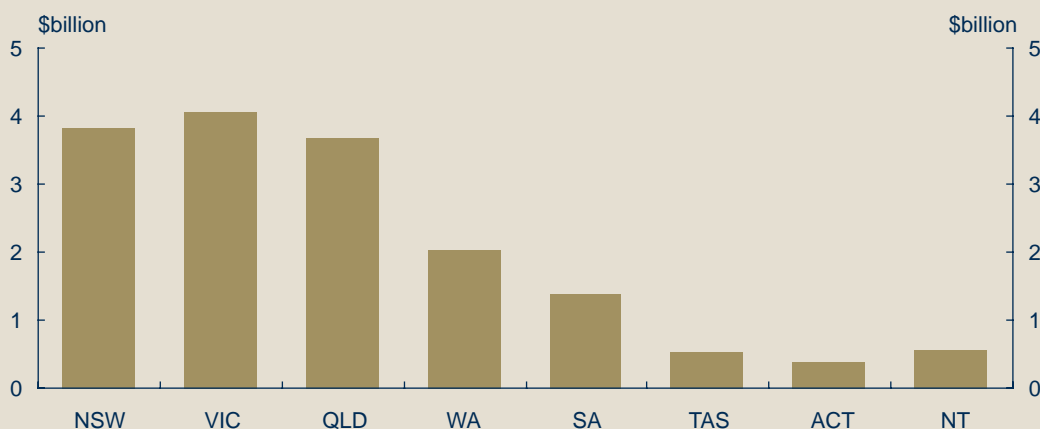
Even after the revenue from these abolished taxes is taken into account, the Australian Government's reforms will result in the States receiving net gains from tax reform of \$16.5 billion from 2007-08 to 2010-11:

- \$3.8 billion more for NSW
- \$4.1 billion more for VIC
- \$3.7 billion more for QLD
- \$2.0 billion more for WA

- \$1.4 billion more for SA
- \$0.5 billion more for TAS
- \$0.4 billion more for the ACT
- \$0.6 billion more for the NT.

This is in addition to windfall revenue of \$6.9 billion since 1 July 2000.

The Australian Government continues to pursue the abolition of stamp duty on conveyances of real non-residential property — the last remaining tax that the States agreed to abolish but have yet to commit to a date for abolition.



Revenue gains by the States from tax reform: 2007-08 to 2010-11

# Funding state and local governments

In 2007-08, the Australian Government will provide \$70.3 billion in GST revenue and specific purpose payments to help fund important areas of state responsibility. It will also provide \$2.3 billion to help local governments fund local infrastructure and other community services.

## State government funding

The Australian Government collects GST revenue on behalf of the States and Territories (the States), which the States then spend according to their own budget priorities, including on schools, hospitals, social services, public housing and transport infrastructure.

The Australian Government also provides specific purpose payments (SPPs) to be spent on particular programmes. SPPs for health, education and transport infrastructure constitute more than three-quarters of total SPPs.

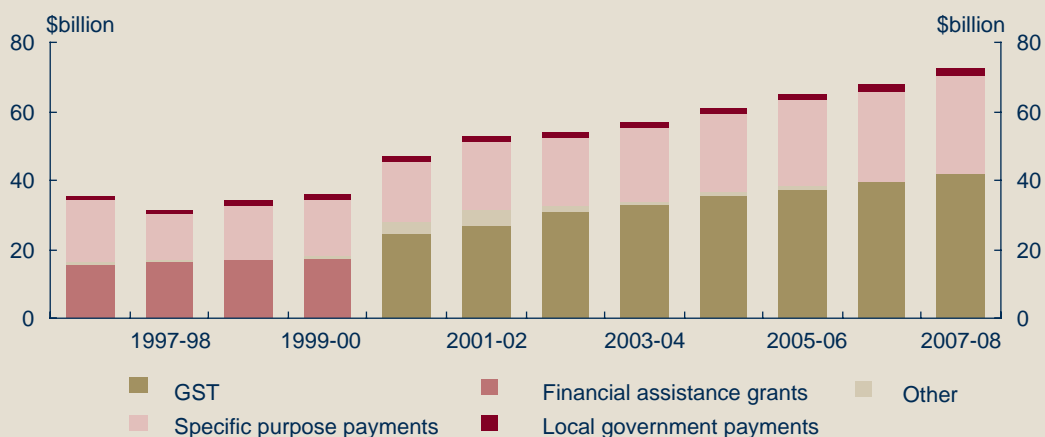
In 2007-08, the Australian Government will provide \$28.5 billion in SPPs to the States — an increase of \$2.3 billion from 2006-07.

Since 1999-00, SPPs have increased by \$12.9 billion. This represents an increase of 72 per cent.

In the seven years since the reform of Commonwealth-State financial relations, total Australian Government payments to the States have averaged 6.8 per cent of GDP, compared with 6.2 per cent for the previous seven years.

## Local government funding

The Australian Government will provide a total of \$2.3 billion in payments to local governments in 2007-08. Of this, \$1.7 billion will be provided in financial assistance grants. Local governments can spend this funding according to their own budget priorities.



Australian Government funding to state and local governments: 1996-97 to 2007-08

# Securing the benefits of migration

The Government is enhancing Australia's Migration Programme, focusing on skilled migration which will bring economic benefits to Australia. New initiatives will promote the integration of migrants into the Australian community through the Citizenship Test and Values Statements.

## Skilled Migration Programme

Australia experiences a range of social, cultural and economic benefits from immigration. Skilled migration brings in people of working age together with their dependants, which assists in meeting Australia's labour market needs. Skilled migrants add to the economic capacity of Australia.

In 2007-08 the Government will increase skilled migration by 5,000 places, taking the total to 102,500 places. The overall Migration Programme will rise to a maximum of 152,800 places.

## Humanitarian Programme

The Government will continue to provide 13,000 places in the Humanitarian Programme in 2007-08. An additional \$209 million will be spent over four years on a series of programmes designed to assist humanitarian migrants to thoroughly integrate into Australia's broader society. This includes \$128 million additional support for newly arrived humanitarian entrants to learn English.

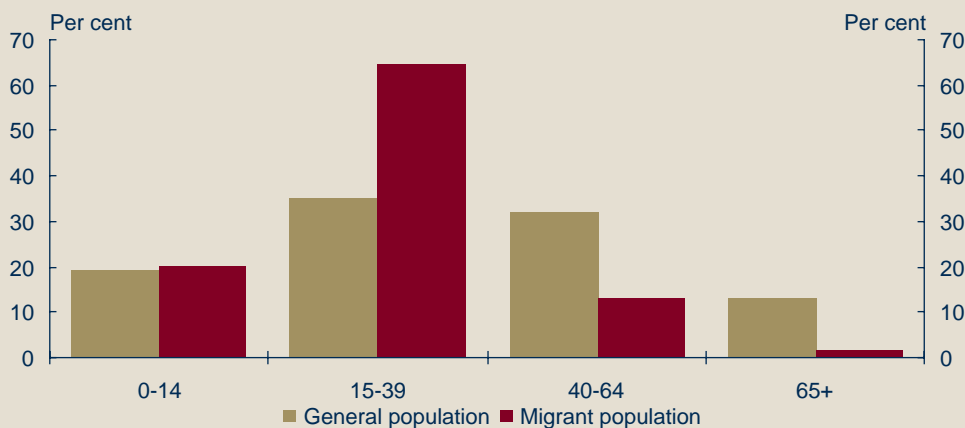
## Citizenship Test

The Government will spend \$124 million over five years (including \$19 million in 2006-07) to implement

a Citizenship Test for prospective Australian citizens and initiatives to enhance the integration of permanent residents and long-term temporary residents. The test aims to inform migrants about Australian values and promote social cohesion.

## Combating illegal immigration

The Government has committed more than \$1 billion since 2004-05 to support its ongoing commitment to border security and the integrity of Australia's immigration system. This budget provides an additional \$85 million for these purposes including to combat people smuggling.



Age distribution of the general resident population and the migrant population

# Increasing overseas aid to reduce poverty

The Government is increasing the level and effectiveness of Australia's overseas aid to reduce poverty, improve health and education and promote stability in our region.

This budget provides an additional \$2.6 billion of overseas aid over four years. These new initiatives are a major step towards implementing the Government's 2006 Aid White Paper strategy and provide the foundation for achieving the Government's goal of increasing development assistance to around \$4 billion a year by 2010.

## Sustainable development

Sustainable economic growth is the best way to lift people out of poverty permanently. The Government's new initiatives therefore focus on supporting sustainable economic development by

investing in people, infrastructure and policy reform.

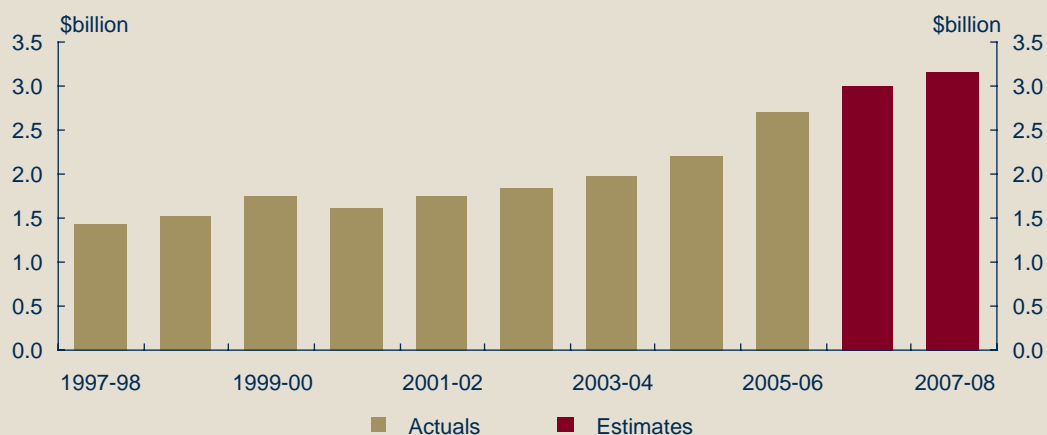
Priorities include:

- \$1.1 billion over four years to improve the basic health and education of people in our region, including additional funding to prevent the spread of HIV/AIDS
- \$506 million over four years to address critical infrastructure bottlenecks, directly supporting increased economic activity
- \$173 million of new funding over two years to support economic

and policy reform in our region, including through a new incentives programme.

## Responding to emerging needs

The Government will allocate an additional \$476 million over four years to improve Australia's capacity to respond to natural disasters and urgent humanitarian needs in our region.



Australian Official Development Assistance has more than doubled in the last decade to over \$3 billion

# Higher household incomes

The spending power of Australians has increased significantly since 1996-97.

The increase in the wage level at which families become net taxpayers has been even more dramatic. For example, for a single income couple earning average full-time wages with two children, their real take-home income will have increased by 34.6 per cent and the point at which they become net taxpayers will be \$50,813, a real increase of 41.5 per cent.

## Improvement in the real disposable incomes and the net tax thresholds for different household types since 1996-97

Family types and wage as percentages of AWOTE(a)	Real disposable income (\$2007-08)			Real net tax threshold (b) (\$2007-08)		
	1996-97	2007-08	% change	1996-97	2007-08	% change
Single person (67%)	\$25,709	\$32,379	25.9%	\$15,801	\$18,300	15.8%
Single person (100%)	\$35,874	\$45,074	25.6%	\$15,801	\$18,300	15.8%
Single person (167%)	\$53,162	\$69,483	30.7%	\$15,801	\$18,300	15.8%
Sole parent (0%)	\$20,518	\$26,631	29.8%	\$36,525	\$50,813	39.1%
Sole parent (67%)	\$36,086	\$45,269	25.4%	\$36,525	\$50,813	39.1%
Single income couple (133%)	\$46,631	\$60,063	28.8%	\$17,026	\$31,951	87.7%
Single income couple (167%)	\$54,887	\$71,583	30.4%	\$17,026	\$31,951	87.7%
Dual income couple (100 & 33%)	\$50,193	\$62,732	25.0%	\$20,607	\$34,113	65.5%
Dual income couple (100 & 67%)	\$61,583	\$77,453	25.8%	\$23,973	\$34,227	42.8%
Single income couple with children (100%)	\$40,301	\$54,259	34.6%	\$35,920	\$50,813	41.5%
Single income couple with children (133%)	\$49,334	\$65,328	32.4%	\$35,920	\$50,813	41.5%
Single income couple with children (167%)	\$57,589	\$76,389	32.6%	\$35,920	\$50,813	41.5%
Dual income couple with children (100 & 33%)	\$52,052	\$67,151	29.0%	\$36,584	\$55,340	51.3%
Dual income couple with children (100 & 67%)	\$63,442	\$80,775	27.3%	\$36,688	\$54,820	49.4%
Dual income couple with children (167 & 100%)	\$89,035	\$114,556	28.7%	\$36,671	\$54,850	49.6%
Senior single (0%)	\$12,141	\$14,126	16.4%	\$21,389	\$30,444	42.3%
Senior single (33% wages )	\$19,569	\$26,772	36.8%	\$21,389	\$31,170	45.7%
Senior single (33% investment return )	\$19,569	\$26,511	35.5%	\$21,389	\$30,444	42.3%
Senior couple (33% & 33% investment returns)	\$34,508	\$47,375	37.3%	\$35,879	\$53,031	47.8%
Pensioner Couple (0% & 0%)	\$20,128	\$23,492	16.7%	\$35,879	\$53,031	47.8%

(a) AWOTE is average weekly ordinary time earnings for full-time employees.

(b) The net tax threshold is the private income at which taxes paid exceed cash benefits received.

(c) Families with children have two, one aged 3 the other 8 years.

# Benefits for families

The tax cuts announced in the budget will significantly improve the incomes of families and individuals. For example, a single income family earning \$40,000 with two or three children will benefit by \$1,100 from the tax cuts.

## Improvements in disposable income from tax cuts in 2007-08 and 2008-09

Private Income(a)	Single income couple no children	Dual income couple no children (50/50 income split)	Sole parent 2 children aged 3 and 8	Single income couple, 2 children aged 3 and 8	Single income couple, 3 children aged 3, 8 and 10	Dual income couple, 2 children aged 3 and 8 (67/33 income split)	Single person
\$10,000	\$150	\$300	\$0	\$150	\$150	\$150	\$150
\$20,000	\$150	\$300	\$812	\$150	\$150	\$300	\$150
\$30,000	\$1,494	\$300	\$1,100	\$1,100	\$1,100	\$300	\$1,100
\$40,000	\$1,494	\$300	\$1,081	\$1,100	\$1,100	\$642	\$1,100
\$50,000	\$1,144	\$300	\$750	\$750	\$750	\$1,250	\$750
\$60,000	\$1,144	\$2,200	\$750	\$750	\$750	\$1,242	\$750
\$70,000	\$1,144	\$2,200	\$750	\$750	\$750	\$974	\$750
\$80,000	\$1,644	\$2,200	\$1,250	\$1,250	\$1,250	\$1,166	\$1,250
\$90,000	\$1,644	\$1,800	\$1,250	\$1,250	\$1,250	\$1,793	\$1,250
\$100,000	\$1,644	\$1,500	\$1,250	\$1,250	\$1,250	\$1,850	\$1,250
\$110,000	\$1,644	\$1,500	\$1,250	\$1,250	\$1,250	\$1,850	\$1,250
\$120,000	\$1,644	\$1,500	\$1,250	\$1,250	\$1,250	\$2,350	\$1,250
\$130,000	\$1,644	\$1,500	\$1,250	\$1,250	\$1,250	\$2,234	\$1,250
\$140,000	\$1,644	\$1,500	\$1,250	\$1,250	\$1,250	\$2,102	\$1,250
\$150,000	\$1,644	\$1,500	\$1,250	\$1,250	\$1,250	\$2,000	\$1,250
\$160,000	\$2,144	\$2,500	\$1,750	\$1,750	\$1,750	\$2,000	\$1,750
\$170,000	\$2,644	\$2,500	\$2,250	\$2,250	\$2,250	\$2,000	\$2,250
\$180,000	\$3,144	\$2,500	\$2,750	\$2,750	\$2,750	\$2,000	\$2,750
\$190,000	\$3,144	\$2,500	\$2,750	\$2,750	\$2,750	\$2,000	\$2,750
\$200,000	\$3,144	\$2,500	\$2,750	\$2,750	\$2,750	\$2,000	\$2,750

(a) Private income is from sources other than government transfer payments, such as earnings or from interest on savings. At lower private incomes, taxable income may be higher than private income because of taxable income support payments.

# Australian Government budget aggregates

The table below shows the main cash and accrual budget aggregates for the Australian Government general government sector over the period 2005-06 to 2010-11.<sup>(a)</sup> The underlying cash surplus is estimated to be \$10.6 billion in 2007-08. In accrual terms, a fiscal surplus of \$10.0 billion is expected.

	Actual	Estimates		Projections		
	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
<b>Revenue (\$b)</b>	<b>221.9</b>	<b>235.5</b>	<b>246.8</b>	<b>260.7</b>	<b>274.6</b>	<b>287.3</b>
Per cent of GDP	23.0	22.8	22.5	22.8	23.1	22.9
<b>Expenses (\$b)</b>	<b>206.1</b>	<b>221.6</b>	<b>235.6</b>	<b>247.5</b>	<b>259.7</b>	<b>272.7</b>
Per cent of GDP	21.3	21.5	21.5	21.6	21.8	21.8
Net operating balance (\$b)	15.8	13.9	11.2	13.2	15.0	14.6
Net capital investment (\$b)	1.1	2.0	1.2	1.4	0.9	0.9
<b>Fiscal balance (\$b)</b>	<b>14.8</b>	<b>11.9</b>	<b>10.0</b>	<b>11.9</b>	<b>14.1</b>	<b>13.7</b>
Per cent of GDP	1.5	1.2	0.9	1.0	1.2	1.1
<b>Underlying cash balance (\$b) (b)</b>	<b>15.8</b>	<b>13.6</b>	<b>10.6</b>	<b>12.7</b>	<b>13.8</b>	<b>12.4</b>
Per cent of GDP	1.6	1.3	1.0	1.1	1.2	1.0
<i>Memorandum item:</i>						
Headline cash balance (\$b)	14.2	23.4	18.3	15.5	14.8	13.3

(a) All estimates are based on Government Finance Statistics (GFS) standards, but with goods and services tax (GST) revenue collected on behalf of the States and Territories netted off revenue and expenses.

(b) Excludes expected Future Fund earnings from 2005-06 onwards.

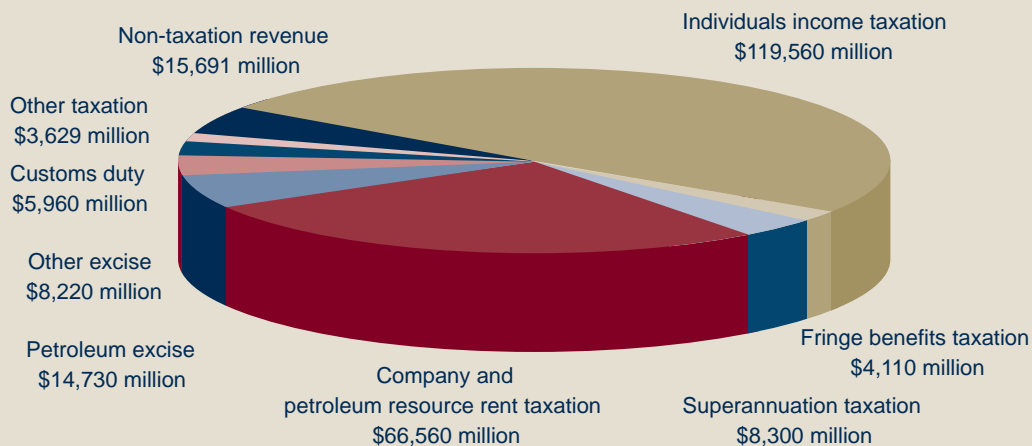
More comprehensive information is provided in Budget Paper No. 1, *Budget Strategy and Outlook 2007-08*, Statement 2.



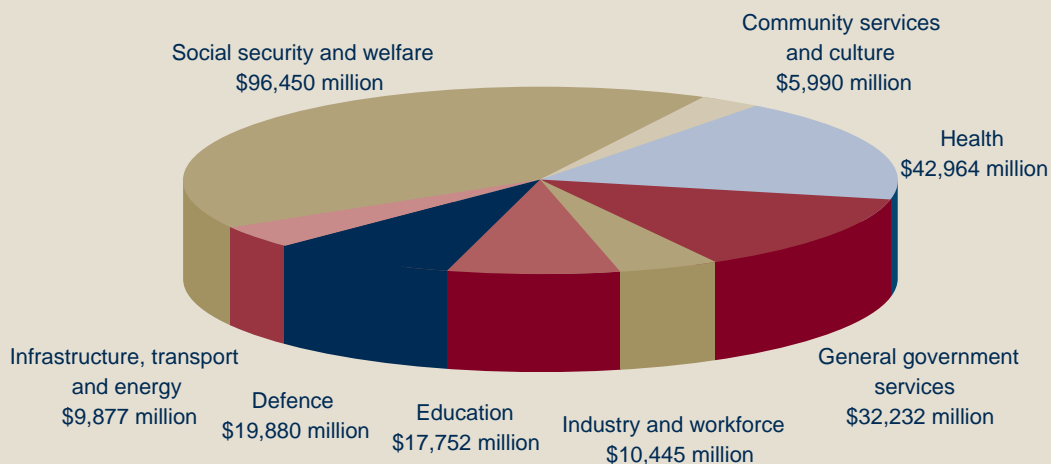
# Australian Government taxation and spending

The charts below summarise Australian Government revenues and expenses for 2007-08 on an accrual basis. Total revenue for 2007-08 is expected to be \$247 billion, an increase of 4.8 per cent on estimated revenue in 2006-07. Total expenses for 2007-08 are expected to be \$236 billion, an increase of 6.3 per cent on estimated expenses in 2006-07.

## Where revenue comes from



## Where taxpayers' money is spent



More comprehensive information is provided in Budget Paper No. 1, *Budget Strategy and Outlook 2007-08*, Statements 5 and 6.

# Major initiatives in the 2007-08 Budget

This table provides a summary of major initiatives in the 2007-08 Budget.

	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m	2010-11 \$m	Total \$m
<b>Tax and superannuation</b>						
Personal income tax cuts (a)	-	-5,305.0	-8,350.0	-8,785.0	-9,050.0	-31,490.0
Double co-contribution for lower income earners	1,070.0	-	-	-	-	1,070.0
Dependent spouse rebate increase (a)	-	-20.0	-130.0	-135.0	-140.0	-425.0
Company loss recoupment rules - same business test (a)	-	-15.0	-40.0	-50.0	-70.0	-175.0
<b>Education and skills</b>						
Realising Our Potential	-	530.8	972.5	978.4	968.9	3,450.6
Investing In Our Schools - additional funding	-	190.1	5.8	-	-	195.9
<b>Transport infrastructure</b>						
AusLink(b)	-	125.0	445.0	2,053.3	2,126.6	4,749.9
<b>Industry assistance</b>						
Global Integration: Changing Markets, New Opportunities	-	138.8	183.5	164.1	166.6	653.0
<b>Environment</b>						
National Plan for Water Security	-	172.1	342.4	1,003.1	1,486.4	3,004.0
Natural Heritage Trust Phase Three	-	-	395.0	395.0	395.0	1,185.0
<b>National security and defence</b>						
Super Hornets acquisition	0.0	621.0	990.7	1,286.7	1,072.1	3,970.5
Military contributions in Afghanistan and Iraq	33.7	781.5	256.4	59.0	-	1,130.6
Strengthening National Security	-	230.8	219.2	131.4	120.6	702.0
<b>Health and aged care</b>						
Securing the future of aged care for Australians	3.4	207.0	359.8	467.4	513.8	1,551.4
Medical research facilities	485.8	-	-	-	-	485.8
Better care for chronic and complex conditions	-	47.9	76.1	80.9	86.4	291.3
<b>Families and older Australians</b>						
Seniors bonus payment	1,320.7	11.3	-	-	-	1,332.0
Bonus payment to carers	390.3	3.9	-	-	-	394.2
Child care benefit increase	0.6	142.6	136.5	132.8	135.7	548.2
Child care tax rebate - earlier payment	451.0	515.2	132.3	135.7	132.9	1,367.1
<b>Support for rural Australia</b>						
Agriculture - Advancing Australia	-	24.6	61.1	60.5	59.3	205.5
Drought assistance - exceptional circumstances	76.9	133.4	104.2	..	-	314.5
<b>Indigenous Australians</b>						
A Better Future for Indigenous Australians	61.8	102.1	179.8	198.4	206.1	748.2
<b>International engagement</b>						
Increasing overseas aid	-	544.4	543.6	695.4	811.2	2,594.6
<b>Fraud and compliance</b>						
Fraud and compliance	-	-54.4	-93.2	-121.8	-18.9	-288.3

(a) Revenue measure. A minus sign indicates a reduction in the fiscal balance.

(b) Cash payment in 2006-07 distributed across the forward estimates on an accrual basis.

More comprehensive information is provided in Budget Paper No. 2, *Budget Measures 2007-08*.

# Detailed economic forecasts for 2007-08

The table below shows the Government's macroeconomic forecasts. The Australian economy is expected to grow strongly in 2007-08, after being affected by severe drought in 2006-07.

	Outcomes(b)	Estimates	Forecasts
	2005-06	2006-07	2007-08
<b>Demand and output(a)(c)</b>			
Household consumption	2.6	3 1/2	3 1/2
Private investment			
Dwellings	-3.9	2 1/2	2 1/2
Total business investment(d)	16.2	4	7 1/2
Non-dwelling construction(d)	21.6	12	7
Machinery and equipment(d)	14.5	-1 1/2	6 1/2
Private final demand(d)	4.4	3 1/2	4 1/4
Public final demand(d)	4.3	4	3 3/4
Total final demand	4.4	3 1/2	4
Change in inventories(e)			
Private non-farm	-0.5	1/4	0
Farm and public authorities(f)	0.2	- 1/4	1/4
Gross national expenditure	4.1	3 1/2	4 1/4
Exports of goods and services	2.2	3	5
Imports of goods and services	7.2	8 1/2	6 1/2
Net exports(e)	-1.1	-1 1/4	- 1/2
<b>Gross domestic product(a)(c)</b>			
Non-farm product	2.9	2 1/2	3 3/4
Farm product	2.9	3	3 1/2
	4.6	-20	18
<b>Other selected economic measures(a)</b>			
External accounts			
Terms of trade	10.9	6	-1 1/2
Current account balance			
\$billion	-53.4	-58 1/4	-65 3/4
Percentage of GDP	-5.5	-5 3/4	-6
Labour market			
Employment (labour force survey basis)	2.2	2 1/2	1 1/2
Unemployment rate (per cent)	5.1	4 3/4	5
Participation rate (per cent)	64.5	64 3/4	65
Prices and wages			
Consumer Price Index	3.2	2 3/4	2 1/2
Gross non-farm product deflator	4.9	4 3/4	2 1/2
Wage Price Index	4.1	4 1/4	4 1/4

(a) Percentage change on preceding year unless otherwise indicated.

(b) Calculated using original data.

(c) Chain volume measures.

(d) Excluding second-hand asset sales from the public sector to the private sector and including the impact of the privatisation of Telstra.

(e) Percentage point contribution to growth in GDP.

(f) For presentational purposes, inventories held by privatised marketing authorities are included with the inventories of the farm sector and public marketing authorities.

Source: Australian Bureau of Statistics and Treasury.

More comprehensive information is provided in Budget Paper No. 1, *Budget Strategy and Outlook 2007-08*, Statement 3.

# Historical budget and net debt data

This table provides historical data and forward estimates for Australian Government general government sector cash receipts, cash payments, the underlying cash balance and net debt. The table provides details of the cash budget aggregates for the period 1974-75 to 2010-11.

	Receipts		Payments		Underlying cash balance(a)		Net debt	
	\$m	Per cent of GDP	\$m	Per cent of GDP	\$m	Per cent of GDP	\$m	Per cent of GDP
1974-75	15,325	22.0	15,275	21.9	50	0.1	-1,901	-2.7
1975-76	18,316	22.4	19,876	24.3	-1,560	-1.9	-341	-0.4
1976-77	21,418	22.7	22,657	24.1	-1,239	-1.3	898	1.0
1977-78	23,491	22.8	25,489	24.8	-1,998	-1.9	2,896	2.8
1978-79	25,666	22.1	27,753	23.8	-2,087	-1.8	4,983	4.3
1979-80	29,780	22.5	31,041	23.5	-1,261	-1.0	6,244	4.7
1980-81	35,148	23.5	35,260	23.6	-112	-0.1	6,356	4.2
1981-82	40,831	23.7	40,394	23.4	437	0.3	5,919	3.4
1982-83	44,675	24.1	47,907	25.8	-3,232	-1.7	9,151	4.9
1983-84	49,102	23.4	55,966	26.7	-6,864	-3.3	16,015	7.6
1984-85	57,758	25.0	63,639	27.5	-5,881	-2.5	21,896	9.5
1985-86	64,845	25.4	69,838	27.4	-4,993	-2.0	26,889	10.5
1986-87	73,145	26.2	75,392	27.0	-2,247	-0.8	29,136	10.4
1987-88	81,217	25.4	79,440	24.9	1,777	0.6	27,359	8.6
1988-89	88,369	24.4	82,202	22.7	6,167	1.7	21,982	6.1
1989-90	95,517	24.0	88,882	22.4	6,635	1.7	16,121	4.1
1990-91	97,705	23.9	97,333	23.8	372	0.1	16,936	4.1
1991-92	92,966	22.3	104,551	25.1	-11,585	-2.8	31,132	7.5
1992-93	94,448	21.6	111,484	25.4	-17,036	-3.9	55,218	12.6
1993-94	100,142	21.8	117,252	25.5	-17,110	-3.7	70,223	15.3
1994-95	109,720	22.5	122,901	25.3	-13,181	-2.7	83,492	17.2
1995-96	121,105	23.4	131,182	25.3	-10,077	-1.9	95,831	18.5
1996-97	129,845	23.8	135,126	24.8	-5,281	-1.0	96,281	17.6
1997-98	135,779	23.5	134,608	23.3	1,171	0.2	82,935	14.4
1998-99	146,496	24.1	142,159	23.4	4,337	0.7	70,402	11.6
1999-00	166,089	25.7	153,030	23.7	13,059	2.0	54,538	8.5
2000-01	161,114	23.4	155,143	22.5	5,970	0.9	43,465	6.3
2001-02	162,884	22.1	163,867	22.3	-983	-0.1	38,642	5.3
2002-03	176,503	22.6	169,017	21.6	7,486	1.0	30,375	3.9
2003-04	187,336	22.3	179,300	21.3	8,036	1.0	23,948	2.8
2004-05	203,960	22.7	190,344	21.2	13,616	1.5	12,453	1.4
2005-06	221,834	23.0	205,991	21.3	15,792	1.6	-5,337	-0.6
2006-07(e)	234,619	22.7	218,859	21.2	13,631	1.3	-28,444	-2.8
<b>2007-08(e)</b>	<b>245,611</b>	<b>22.4</b>	<b>231,983</b>	<b>21.1</b>	<b>10,637</b>	<b>1.0</b>	<b>-12,049</b>	<b>-1.1</b>
2008-09(p)	259,218	22.7	243,713	21.3	12,712	1.1	-28,366	-2.5
2009-10(p)	272,937	22.9	256,212	21.5	13,812	1.2	-43,887	-3.7
2010-11(p)	285,839	22.8	270,398	21.6	12,447	1.0	-59,233	-4.7

There is a break in the series between 1998-99 and 1999-00. Data for the years up to and including 1998-99 are consistent with the cash ABS GFS reporting requirements. From 1999-00, data are derived from an accrual ABS GFS reporting framework.

(a) Excludes expected Future Fund earnings from 2005-06 onwards.

(e) Estimates

(p) Projections

More comprehensive information is provided in Budget Paper No. 1, *Budget Strategy and Outlook 2007-08*, Statement 13.