

BUDGET SPEECH 1996-97
DELIVERED ON 20 AUGUST 1996 ON THE SECOND READING
OF THE APPROPRIATION BILL (NO. 1) 1996-97
BY
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TREASURER OF THE COMMONWEALTH OF AUSTRALIA

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

Tonight I announce a programme

- for families
- for small business
- for older Australians
- for major improvements in health care and, importantly,
- a programme to repair the nation's finances and secure our future.

This Budget implements the key election commitments of the Coalition and it does so as part of a responsible economic strategy.

The focus is savings — savings for investment, sustainable growth and real jobs. This Budget turns around failure and sets us on a winning course.

BUDGET REPAIR

The budget outcome for the past year was a deficit of \$10.3 billion. If we took no corrective measures it would be \$9.6 billion this year. We would still have an underlying deficit of 2 per cent of GDP even though the economy has had five years of growth. Debt would be increasing and Australia would be dangerously exposed to shifts in the international outlook or sentiment.

In periods of growth we must put away savings for the downturns. But far from saving, the previous Government kept ratcheting up our debts — spending money it didn't have.

Our predecessors had Australia on a path of deficit and debt to the next century.

Make no mistake, this path would only make future choices harder, future possibilities bleaker and rob Australians of the future opportunities they deserve.

Our Government could not stand back and ignore the problem. Although we did not create it, we will take the responsibility to fix it.

The measures I announce tonight will reduce the underlying deficit by around \$4 billion this year and \$7.2 billion over two years. These measures will balance the budget over the term of this Parliament. These are the net effect on the budget bottom line after the introduction of new policy to meet the Coalition's election commitments. These measures represent a historic turnaround in Commonwealth finances. In 1997-98, outlays will have fallen around 1.8 per cent of GDP, while revenues will have risen only 0.2 per cent of GDP.

The budget repair will be achieved principally through expenditure savings with a contribution from reduced tax expenditures and measures to curb tax avoidance.

Importantly, Mr Speaker, there is no increase in income tax rates, no increase in the company tax rate, no increase in the wholesale sales tax rates and no lift in the petrol excise. There are measures to tighten eligibility and clamp down on misuse, but the Diesel Fuel Rebate Scheme remains.

Mr Speaker, you don't turn around a nation's finances, a nation's future without making some hard decisions. But if we avoid the hard decisions now they are only going to get harder in the future.

The tightening measures have to be fairly shared. We cannot expect those who rely on pensions and allowances — low income earners — to bear the cost. So we are asking high income earners to make a contribution and business to make its contribution too.

The measures are balanced, strong and fair.

CHARTER OF BUDGET HONESTY

Before its election defeat on 2 March, the previous Government maintained that the budget would now be in underlying balance. The truth was nearly \$10 billion to the contrary.

Financial dishonesty of that magnitude undermines public confidence in our political system. We will ensure it never occurs again.

Our Government will enact a Charter of Budget Honesty that will require the government of the day — ours or any other — to publish a budget update signed off by the Secretaries to the Treasury and the Department of Finance at the commencement of each Federal Election campaign. The public will be given updated financial information before the election, not after it. The public will know the state of the books before they vote.

The Charter will require any future government to set out its fiscal strategy and report against it — just as this Government is doing.

The Charter will entrench this Government's commitment to responsible and accountable fiscal policy.

ELECTION COMMITMENTS

Mr Speaker, as I said earlier, the major fiscal turnaround in this year's Budget has been achieved while honouring our election commitments.

We have met the cost of those commitments as we said we would during the election campaign. And our central commitment was to look after families.

FAMILIES

From 1 January 1997 the Government's Family Tax Initiative will provide significant tax relief for almost 2 million low and middle income families.

An eligible parent will receive a \$1 000 increase in the income tax free threshold for each dependent child.

A single income family, with at least one child under the age of 5 years, will receive a further \$2 500 increase in the tax free threshold.

For a one income family with two children, one of whom is under the age of 5, this will deliver an extra \$34 a fortnight.

Taxpayers will be able to access the Family Tax Initiative through the PAYE and provisional tax systems or make a claim on assessment. Equivalent fortnightly cash assistance, to be called the Family Tax Payment, will be available as an alternative for low income families.

HEALTH

And our commitment to families doesn't stop there. The Government will implement major improvements to Australia's health care system. Medicare will remain, bulk billing is unchanged. But people will be given greater choice to take out private health insurance. This will stem the declining rate of health insurance and secure the funding of our health system.

From 1 July 1997 we will be providing income-tested rebates for the cost of private health insurance.

Eligible families will receive up to \$450 a year.

These incentives, together with the Family Tax Initiative, will make a qualifying single income family with two young children better off by more than \$50 a fortnight.

For couples the rebate on health insurance will be up to \$250 a year. For singles the rebate will be up to \$125 a year.

Mr Speaker, higher income earners who can afford to take out private health insurance will also be encouraged to do so.

There will be a 1 per cent Medicare levy surcharge for couples with combined incomes of over \$100 000 (individuals with incomes over \$50 000) who do not take out health cover.

This is the levy which the Government hopes no-one will pay. It is entirely optional. Those who take out health insurance (with the benefits attached) will be exempt.

The Commonwealth Government's role in protecting the health of Australian families has been significantly boosted in this Budget which delivers all the public health commitments of the Government.

It introduces a range of new measures, including for childhood immunisation and diabetes.

It honours commitments in crucial areas such as women's health and the prevention of youth suicide.

OLDER AUSTRALIANS

Mr Speaker, I wish to underline the Government's commitment to older Australians.

Tonight's Budget demonstrates this by continuing twice yearly indexation of the pension and making financial provision to maintain the age pension at or above 25 per cent of male total average weekly earnings across the forward estimates.

This will ensure that the living standards of those who receive a full or part rate pension keep pace with community standards.

Mr Speaker, there is another group of older Australians who have saved for their own retirement, have low incomes and pay tax at a much lower threshold than those on the pension.

The Government will provide this group of self-funded retirees with the same tax rebate as the pensioner rebate, in two stages, commencing with a half rebate for 1996-97. Those low income aged people who qualify for the rebate will receive their full rebate for the 1997-98 income year taking a qualifying single person's tax free threshold from \$5 400 to \$11 185.

And older Australians who take out private health insurance will receive a \$250 rebate for couples under our health reform package.

SMALL BUSINESS

Mr Speaker, the Government is committed to helping small business.

It has already met its commitment to reduce the provisional tax uplift factor to 6 per cent so that small business no longer is assessed for provisional tax on income in excess of what it has earned.

This will deliver \$180 million back to provisional taxpayers in 1996-97.

The Government also has legislation in the Parliament to remove the job-destroying unfair dismissal laws.

From 1 July 1997 capital gains tax rollover relief will allow small businesses to rollover their business assets without capital gains tax disincentives. This relief from CGT is designed to allow small businesses grow bigger.

Many small business proprietors plough all their savings into their business which is both their livelihood and their retirement savings plan. Recognising this, the Government will allow individuals to claim an exemption from CGT, up to a maximum capital gain of \$500 000 on the sale of a small business where the proceeds are used for retirement.

We will also be meeting our commitment to provide more generous tax treatment for employee share schemes, in order to encourage voluntary saving and a sense of employee participation in Australian business.

REGIONAL AUSTRALIA

Mr Speaker, tonight's Budget will directly help regional Australia.

As promised during the election campaign, the Government will increase assistance to isolated students. From 1 January 1997 the Primary and Secondary Correspondence Allowances under the Assistance to Isolated Children Programme will be increased by \$1 000 per annum and \$1 500 per annum respectively. At the same time, the non-means tested basic boarding allowance under the Programme will be increased to 55 per cent of average boarding fees.

In accordance with our election commitment, budget funding for National Highways and Roads of National Importance will enable us to provide \$75 million per annum for the next 10 years on a dollar for dollar basis with New South Wales and Queensland to upgrade the Pacific Highway.

The Budget provides \$36 million in real terms in each of the years 1996-97 to 1999-2000 for the Road Safety Black Spot Programme in accordance with our election commitment. This initiative will reduce the number of fatal and serious injury road crashes and so reduce the social and economic costs of road trauma.

Consistent with its election commitment, the Government will provide an exemption from fringe benefits tax on remote area housing for employees in the primary production sector.

TRAINING AND APPRENTICESHIPS

The Government also made clear during the election campaign that one of its central priorities is tackling youth unemployment.

The budget strategy for sustained growth is about creating real job opportunities in which youth can share.

Young people are looking for real training leading to real jobs.

Apprenticeships have long been a route for young Australians to get quality jobs, but in 1995 the number of young people in apprenticeships and traineeships as a proportion of the workforce was at its lowest level in 3 decades.

The Government has therefore allocated \$207 million over the next four years towards implementing the Modern Australian Apprenticeship and Traineeship Scheme (MAATS). This will bring Commonwealth expenditure on apprenticeships and traineeships to over \$1.7 billion over the next 4 years.

MAATS will be a business led system. Employers will only pay for the time the trainee or apprentice spends in productive work.

The package includes a wage top-up scheme for apprentices and trainees employed under workplace or certified agreements to increase amounts of quality training while receiving a minimum National Training Wage weekly income.

THE ENVIRONMENT

This Budget provides an additional \$158 million over 4 years for environment related initiatives on top of the planned Natural Heritage Trust.

When established, the Natural Heritage Trust with over \$1 billion will finance the largest environment protection and restoration programme in Australia's history.

The establishment of this Trust will go ahead when the partial sale of Telstra is completed. More detail on this is contained in the Environment Minister's statement, *Investing in Our Natural Heritage*.

During the election campaign, the Coalition promised to expedite the implementation of the National Forest Policy Statement. This Budget meets this commitment by providing \$49 million over 3 years to accelerate Regional Forest Assessments in 13 forest areas.

In addition, the Government will provide \$42 million over the next 3 years to establish the Green Corps. The Green Corps will be open to young Australians aged 17 to 20 to demonstrate their commitment to the environment by working on projects to preserve and restore Australia's natural environment and cultural heritage. The projects will also contribute to their career and employment prospects through training, skills development, work experience and personal development.

I am pleased to confirm tonight that the Government will honour its commitment to restore the CSIRO's baseline funding. The Government will provide an additional \$115 million over the next 4 years to the CSIRO. This more than meets our commitment to provide \$60 million over the triennium.

The Government has also decided to maintain the Commonwealth's commitment to Cooperative Research Centres, funding for which in 1996-97 is expected to be \$11 million higher than in 1995-96.

We will also meet our commitment to increase funding for higher education research infrastructure and post-graduate scholarships. This will cost \$135 million over the next 4 years.

REVENUE MEASURES

Revenue is expected to increase by 4 per cent in real terms in the Budget year and to remain at around 25 per cent of GDP in the outyears.

In keeping with our stated position during the election campaign, I announce tonight a major effort to improve tax compliance.

The Australian Taxation Office (ATO) will be provided with additional funds in 1996-97 and 1997-98 to establish a special high level task force to improve the compliance of high wealth individuals with our income tax laws.

Enhanced investigation activity and analysis will allow a greater understanding of the complex arrangements used by some high wealth individuals to minimise tax, and to progressively develop administrative and legislative proposals to deal with these arrangements and others that may be put in place in the future.

The revenue at risk from aggressive tax planning and minimisation arrangements used by some high wealth individuals has been estimated at \$800 million a year.

The timing of recovery and the amounts will depend on the outcome of these ATO investigations and it is expected that future budgets will include additional revenue for years beyond 1997-98.

However, it is expected that early improvements in compliance, both voluntarily and through enforcement of existing law alone, will generate revenue in the order of \$100 million in 1997-98.

I am also announcing tonight a series of measures to prevent tax avoidance and safeguard the revenue base.

From tonight, the general anti-avoidance provisions of the income tax law — Part IVA — will be extended so that they can apply to Australia's withholding tax regime.

Other amendments to the withholding tax provisions will further assist in preventing tax avoidance. These measures do not signal any change in the Government's policy regarding withholding taxes.

Measures will also be proposed to prevent tax avoidance through the use of distributions by charitable trusts to overseas organisations. The Government will release an exposure draft of the legislation as a priority, and will undertake consultations before introducing the legislation into the Parliament to ensure that bona fide charitable organisations are not detrimentally affected.

The Government will limit, with immediate effect, excessive tax benefits obtained through luxury car leases.

In order to reduce serious evasion of sales tax, a change in the means of paying tax on computers will be introduced following consultation with industry.

In an effort to ensure that all areas of government expenditure deliver intended outcomes, the Government will be examining the effectiveness of concessional taxation treatments.

In many cases, the replacement of tax concessions with outlays programmes will ensure that the community and the direct beneficiaries of the programmes get better value for their tax dollar.

Mr Speaker, on 23 July I announced several measures to limit abuse of the R&D tax concession.

Tonight I announce that the R&D tax concession will be reduced to a top rate of 125 per cent.

At a top rate of 125 per cent, the R&D tax incentive remains among the most concessional in the OECD and compares more than favourably with concessions provided by our regional neighbours, including Singapore and Malaysia.

Following consultations with industry and researchers, the Government will establish a new programme — the Strategic Assistance for Research and Development programme. Under the programme, the Government will provide a flexible package of assistance of \$340 million over the next 4 years to encourage highly innovative research and development with emphasis on projects that have support for commercialisation from the private sector. This will allow government assistance to be better targeted and assist projects not able to adequately utilise the tax concession.

OUTLAYS MEASURES

Mr Speaker, given the magnitude of its fiscal task, the Government has had to ensure that government expenditure is targeted to those in need and delivered efficiently and effectively.

While maintaining a strong and secure safety net, the Government will introduce a range of initiatives to better target income assistance, including strengthening the activity test for Job Search and Newstart Allowances and improving fraud detection and debt recovery. They will produce savings of \$2.6 billion over the next 4 years.

The Government has also had to look at those expenditure areas that are growing the fastest year on year and keep the rate of growth to manageable proportions.

The Government will work with the pathology industry to slow the unsustainable growth in pathology outlays under the Medical Benefits Scheme. With reforms to diagnostic imaging, these will save \$586 million over 4 years.

The maximum co-payment for general patients under the Pharmaceutical Benefits Scheme will increase to \$20 from 1 January 1997, saving \$180 million over 4 years.

At the same time the maximum co-payment for concessional patients will increase from \$2.70 to \$3.20, saving \$324 million over 4 years.

As waiting times for public dental health services have now been reduced, funding for the Commonwealth Dental Programme will cease from 1 January 1997, saving \$399 million over 4 years. From 1997 the States will again be responsible for these services.

This Budget initiates a programme of structural reform of residential aged care to address major flaws in the existing system. This will unify the hostel and nursing home systems and save \$479 million over 4 years.

Tonight's Budget also addresses the imbalance in funding between providers of centre based child care services by removing the operational subsidy for community based long day care centres. At the same time, the Government will provide an additional \$10 million a year in real terms from 1997-98 for children with additional needs to be accommodated in services.

The Government is announcing in this Budget the most significant reorganisation of labour market assistance arrangements since the establishment of the Commonwealth Employment Service (CES) in 1946.

Labour market programmes will be radically refocussed on getting the unemployed into lasting jobs.

Assistance will now be tailored to the needs of individual jobseekers and the impediments they face in getting a job rather than being programme driven.

A competitive market will be established to provide employment placement services for eligible jobseekers.

Mr Speaker, the Government's fiscal consolidation strategy will improve the business and interest rate environment in Australia.

In return, industry must also play its part in fiscal tightening. Industry assistance programmes, like other programmes, need to be evaluated to assess their effectiveness and their priority.

In line with the introduction of user charging generally, cost recovery will be introduced for elements of customs processing of import transactions.

A number of low priority business service programmes have been abolished including the Australian Manufacturing Council, the Support for Asia Infrastructure Consortia and the Information Technology Development Programme.

The Government has also acted to rationalise and focus export assistance.

The Export Market Development Grants Scheme (EMDGS) will be retained but capped at \$150 million per annum, while its operations will be rationalised and targeted to small and medium size firms.

Mr Speaker, in its efforts to reduce spending the Government has not overlooked the cost of delivering its own programmes.

As well as cutting departmental running costs, savings of \$727 million over 4 years will be made from the application of an Efficiency Dividend to Commonwealth Own Purpose Outlays and also to Specific Purpose Payments to the States.

The Government will also introduce a property strategy which is expected to result in savings of \$731 million over the next 4 years.

The Government also expects to secure one-off savings of around \$300 million in 1996-97 by reducing the levels of cash and financial investments currently held by some statutory authorities.

SUPERANNUATION

Superannuation is central to encouraging self-provision for retirement. It is central to coping with an ageing population and is an important vehicle for national saving.

The measures I am announcing tonight are designed to make superannuation fairer.

A major deficiency of the current system is that tax benefits for superannuation are overwhelmingly biased in favour of high income earners. For a person on the top tax rate, superannuation is a 33 percentage point tax concession while a person earning \$20 000 receives a 5 percentage point tax concession. High income earners can take added advantage through salary sacrifice arrangements that are not available to lower income earners.

The Government is remedying this situation.

From tonight, a surcharge of 15 per cent will apply to future employer superannuation contributions for those whose income (including deductible superannuation

contributions) is at or above \$85 000. The surcharge will phase in over the income range \$70 000 to \$85 000. For superannuation contributors with such incomes below \$70 000 per annum, there will be no change whatsoever. There is no change to any person's accrued benefit.

For high income earners the superannuation contributions will still be highly concessional but are more in line with concessions to middle and low income earners.

To further enhance the fairness of superannuation, the Government is introducing a range of reforms designed to improve the access of particular groups to superannuation.

The Government will provide an 18 per cent rebate for up to \$3 000 of contributions made by a person on behalf of his or her low income spouse.

This will be of particular benefit to women outside the paid workforce who are currently denied access to their own superannuation plan.

The Government will also extend from 65 to 70 years the age limit up to which those in the workforce can make superannuation contributions. This will address the current discrimination against older Australians who are still in employment.

To enhance competition and choice in superannuation, the Government will introduce Retirement Savings Accounts. These will be a simple, low cost, superannuation product.

The Government will maintain the Superannuation Guarantee at the levels and time frame currently legislated.

However, the Superannuation Guarantee threshold, at \$450 a month, is too low. People on very low incomes are being forced into superannuation which is unlikely to provide a retirement income when their pressing need is to maintain current living standards.

The Government will allow employees with incomes between \$450 and \$900 a month to choose between Superannuation Guarantee contributions or the equivalent as wages and salary.

Mr Speaker, in 1992 the previous Government legislated tax cuts into L.A.W which have never been paid. In last year's Budget it was claimed they would be paid into superannuation between 1998 and 2000 for employees paying 1 to 3 per cent of their take home pay into superannuation.

Our Government will encourage employees to make these superannuation contributions from their take home pay and has made provision in the forward estimates for the co-contribution. But the Government will review the mechanism for the delivery of the L.A.W tax cuts to ensure they are paid in an equitable and effective way. They will be paid into superannuation or like savings vehicles.

Mr Speaker, these changes will provide a much fairer superannuation system and one which more readily meets the differing circumstances of individual Australians.

ECONOMIC OUTLOOK

Mr Speaker, the Australian economy has been growing for 5 years since the recession of the early 1990s, but there has been little or no progress in boosting saving or reducing unemployment.

The policies of the former Government have given Australians:

- continuing high unemployment; it has not been below 8 per cent since late 1990; and
- a national saving problem where the average current account deficit has doubled as a share of GDP since the beginning of the 1980s.

The Government inherited an economy beset with long-standing and deep-rooted problems that must be addressed now if economic growth and improved living standards are to be sustained in the years to come.

Fiscal consolidation and labour market reform are critical to achieving lower unemployment and improved living standards. It will take concerted effort to reap the benefits of these reforms. But to do nothing would exacerbate our difficulties.

Fortunately the world economy is continuing to move ahead, with Japan, our largest trading partner, on the road to recovery.

Our GDP is forecast to grow by 3 ½ per cent in 1996-97 and inflation by less than 3 per cent.

Consistent with a positive outlook, business investment is expected to rise by around 14 per cent, boosting demand, which is expected to grow by over 4 per cent.

After a long period in the doldrums, investment in housing is expected to begin to recover during 1996-97. Notwithstanding the savings measures announced in the Budget, public sector demand is forecast to strengthen in 1996-97.

The farm sector is expected to grow at a solid rate, following the recovery last year from the drought.

The continuing strong growth in our major trading partners will result in another year of very strong export growth. Imports will pick up in line with the strengthening in domestic demand and the rapid growth in highly import intensive areas of investment.

Because of solid investment the current account deficit is expected to show only a modest improvement in 1996-97, and at 4 per cent of GDP remains high, reflecting the structural weakness that our fiscal consolidation programme is designed to address over time.

Employment should grow by around 2 per cent in the year to June 1997 and the unemployment rate should decline, albeit only slowly.

CONCLUSION

Mr Speaker, the Budget I have brought down tonight is one of reform.

It changes the conduct of fiscal policy in this country and delivers imaginative reforms to a wide range of government programmes.

The major fiscal turnaround in this year's Budget will enable Australia to sustain higher rates of growth in incomes and employment, without putting pressure on the current account deficit and interest rates.

By decisively addressing the Commonwealth budget's drain on national saving it represents an investment in Australia's future.

A future that offers sustainable growth, more jobs and higher living standards.

I commend the Bill to the House.