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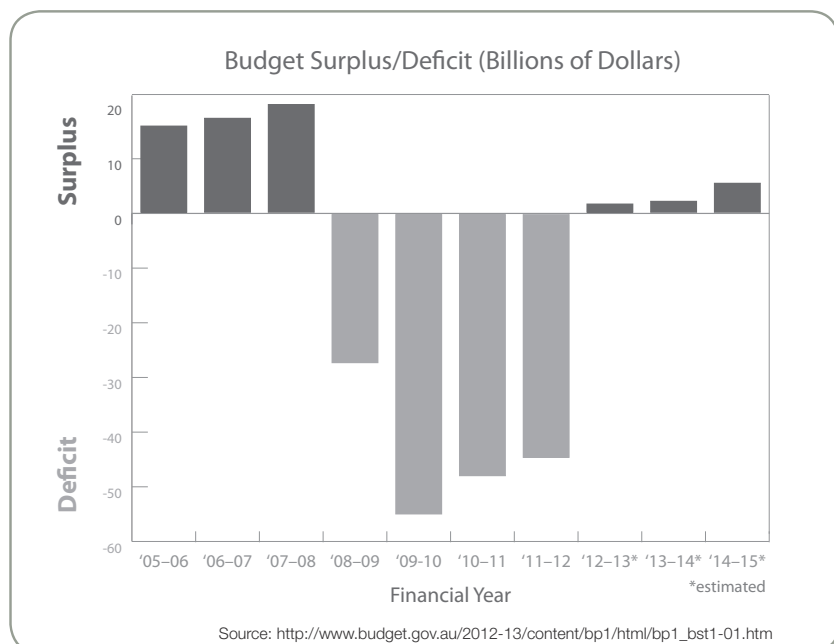
Striking a Balance: Budget 2012

Treasurer Wayne Swan has delivered the budget surplus to which the government was committed while at the same time providing a string of hand outs to low and medium income families.

On the one hand, there is the commodities boom and a \$450 billion investment pipeline. On the other, the patchwork economy is entrenched and the high Aussie dollar is biting tourism, manufacturing, employment and families. The government is looking to strike a balance by shifting dollars from the 'haves' to the 'have nots'. This is the basis of the \$3.6 billion package designed to share the benefits of the resources boom.

Turning it around

Last year's catch cry was a surplus would be delivered in 2012-13 "on time, as promised."





Family payments to increase by \$1.8 billion

And the government has done just that, albeit at a slim \$1.5 billion, and following a doubling in the actual budget deficit in 2011–12 from a forecast \$22 billion to close on \$44 billion. As the graph shows, the budget surplus is expected to grow slowly to \$5 billion over the next three years.

The almost \$46 billion turnaround from 2011–12 to 2012–13 will be the biggest one-year improvement in the budget bottom line since 1952–53. To achieve this massive shift, the government has identified some \$33.6 billion of savings over the next five years, which include cuts to superannuation concessions, lower defence spending and the postponement of a cut in company tax for small businesses.

Let's look at how the figures fall across some key areas.

The economy

The Treasurer emphasised the strength of the Australian economy, with one of the lowest unemployment rates in the developed world and economic growth rates expected to stay ahead of every major advanced economy over the next two years.

Projections are for real GDP growth of 3.25 per cent in 2012–13, with 3 per cent the following year. By mid-2014, Treasurer Swan expects the economy to be 16 per cent bigger than before the global financial crisis.

Unemployment is expected to remain less than 6 per cent over the next two years, interest rates are low, and there is more than \$450 billion in the investment pipeline in the resources sector.

Given the US is struggling to accelerate its growth rate and Europe's debt and uncertainty overshadow the global outlook, the Treasurer believes a surplus provides the best defence against dramatic changes in the global economy.

But the Treasurer's move to surplus is against a backdrop of a slow recovery in tax revenues, with total receipts revised down by \$18.7 billion over the four years to 2014–15.

Spreading the benefits

The Budget's main thrust is about sharing the benefits of the boom with Australia's low to middle income earners. Measures include the increase in family payments by \$1.8 billion to those on Family Tax Benefit Part A from July 1, 2013, and a \$1.1 billion new Supplementary Allowance for the unemployed, students and parents of young children who are on income support. The new Schoolkids bonus of \$2.1 billion over five years will also kick in.

In addition, the tax free threshold will more than triple from \$6,000 to \$18,200 which will free up to one million Australians from lodging a tax return. According to the Institute of Public Accountants, this measure will mean \$300 a year for those on \$30,000 to \$65,000 a year, but nothing for those earning over \$80,000.

Superannuation

The estimated 128,000 high income earners on more than \$300,000 will now be hit with a 30 per cent concessional contributions tax rather than the existing 15 per cent. This is expected to bring in close to an extra \$1 billion.

Another measure is the deferral for two years of a \$50,000 concessional contributions cap for those aged over 50 and with super balances of under \$500,000. All those who contribute to super, regardless of age, will now have a \$25,000 cap from July 1 this year. At the other end of the scale, 3.6 million low income Australians will effectively pay no tax on their super guarantee contributions.

As previously announced, pension drawdown relief introduced after the GFC is being phased out. The official minimum rates for all pension age groups will be in place again from 2013–2014.

Personal investment

The mooted 50 per cent tax discount on bank account interest will not go ahead, giving a saving to tax revenue of \$923 million over four years. This measure would have been a welcome inclusion for investors who favour cash over other investments but with interest rates declining, the benefit would have been lower too.

Economists seem to agree a surplus is good for the government's balance sheet

Small business

The proposed introduction of a 1 per cent cut in company tax from July 1 this year has been shelved.

But it is not all bad news for small business. First, they will benefit from loss carry-back provisions which will allow them to receive a tax refund against tax paid in the previous year. This will provide a tax benefit of up to \$300,000 a year. However, unincorporated businesses will not benefit from this concession.

Second, small business will be able to write off any new business asset costing less than \$6,500 and can also claim up to \$5,000 on cars bought after July 1.

Golden handshakes

From July 1, there will be no tax break for a golden handshake once a person's total annual taxable income passes \$180,000. This is to stop multi-million payouts being treated the same as redundancy payments.

Living away from home allowances

Workers who live away from home now have to prove they rent or own a second home in order to receive the allowance. While this was announced last November, the allowance is now restricted to a period of 12 months at a particular work location. This new ruling will not apply to existing arrangements until July 1, 2014.





Health and aged care

Dental services will receive a \$515 million injection, and 76 major new regional health infrastructure projects will take place across Australia.

In addition, the first stage of the National Disability Insurance Scheme will get underway with \$1 billion, and the assessment of 10,000 participants will begin from July 2013, with a further 20,000 from July 2014.

As was announced last week, a \$3.7 billion package is being introduced to ensure a better aged care system.

Travellers

Departure tax is set to rise by \$8 and the duty-free allowance for cigarettes has been slashed from 250 to 50.

Defence and foreign aid

Defence spending has been cut by a whopping \$5.4 billion over the next four years and a planned increase in foreign aid expenditure has been deferred.



Outlook

Achieving a surplus for the 2012–13 Budget was always going to be a balancing act given the variations in the Australian economy. The Treasurer's objective in this budget is to redistribute some of the wealth generated from mining and resources towards lower to middle income Australian families, with measures that put dollars into the pockets of people who are likely to spend it, especially in the struggling retail sector.

With lower tax revenues as a result of subdued consumer activity and the after-effects of major natural disasters, achieving even a slim budget surplus has meant many higher income Australians certainly haven't been winners from this budget.

Nevertheless, economists seem to agree a surplus is good for the government's balance sheet. Provided demand and prices for Australian iron ore and coal remain robust and low and middle income earners spend some of their extra dollars, the Budget should help keep the Australian economy strong.