BUDGET SPEECH 2006-07

DELIVERED ON 9 MAY 2006 ON THE SECOND READING

OF THE APPROPRIATION BILL (NO. 1) 2006-07 BY

THE HONOURABLE PETER COSTELLO MP TREASURER OF THE COMMONWEALTH OF AUSTRALIA

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

INTRODUCTION

Australia has weathered some economic storms over the last decade — storms every bit as deadly as the cyclones that lashed the north of our continent in the early part of this year. We have weathered the Asian financial crisis, a global downturn, a one in a hundred year drought. We have had threats to our international tourism from new diseases such as SARS. We have had terrorist attacks and the security response has brought huge additional costs and challenges. Our military forces are in theatres of war.

With disciplined and prudent management our economy has come through these storms intact — in fact growing, in fact growing in the longest continuous stretch our nation has ever experienced.

There were moments where we were vulnerable. But through these storms we never lost sight of our goals — to get Australians jobs, to keep inflation low, to keep home loan interest rates affordable, to balance our Budget, and to repay Labor's debt.

We have now eliminated the \$96 billion of net debt that Labor left the Australian Government when it left office. Our Budget is in surplus for the 9th time in 10 years:- in 2006-07 a forecast surplus of \$10.8 billion. We have established a Future Fund which has begun to save for the future. With these savings the next generation will be able to meet the challenges of their time.

Now the Australian Government is debt free in net terms. We do not have to collect taxes to pay the Government's interest bill. We are saving over \$8 billion per annum in interest payments.

Tonight I will announce how we can use those savings:-

- for a new programme of investment;
- for a new comprehensive tax plan;
- to help Australian families;
- to assist older Australians; and
- to secure and defend our country.

A New Programme of Investment

Tonight I am announcing new investment in physical infrastructure and research infrastructure that will carry Australia into the next decade.

Our AusLink Programme is a coordinated plan to build Australia's key highway and rail network. In the five year period from 2004-05 we have allocated \$12.7 billion to this programme.

Tonight I am announcing an additional \$2.3 billion — an increase of nearly 20 per cent — in that programme. The largest allocation will be \$800 million this year to accelerate duplication of Australia's busiest interstate road freight route — the Hume Highway. Apart from three by-passes, this money will complete the dual carriageway from Sydney to Melbourne and pull it forward from 2012 to 2009.

We will provide \$220 million to accelerate works to improve the safety of the Bruce Highway between Townsville and Cairns, and an extra \$48 million to the Tully flood works project. This is in recognition of the key freight link that the Bruce Highway provides to far north Queensland. It will also support the region's recovery from the devastating impact of Cyclone Larry.

In addition to these works this Budget will allocate new money of:-

- \$323 million for the Great Northern, Great Eastern and Eyre Highways in Western Australia;
- \$160 million for the Pacific Highway in New South Wales;
- \$100 million for the Sturt Highway in South Australia;

- \$60 million for the East Tamar Highway in Tasmania; and
- \$30 million for the Victoria Highway in the Northern Territory.

Earlier this year I announced additional funding for the Western, the Calder and the Goulburn Valley Highways in Victoria.

All these projects are AusLink national network roads.

At the local level the Australian Government has its Roads to Recovery programme funding Local Councils to upgrade local roads in local towns and neighbourhoods. The programme over 5 years averages around \$300 million per year. The Australian Government will pay an additional \$307.5 million to Local Councils this year — before 30 June — so Councils can double next year's level of construction.

Over the last three years the Australian Government has allocated \$550 million to the Australian Rail Track Corporation to upgrade the Interstate Network between Perth and the Queensland border. An additional \$270 million will be allocated in this Budget in 2005-06 to improve track quality and rail speed on the North-South rail corridor between Melbourne and Brisbane.

The Road User Charge for heavy vehicles currently stands at 19.6 cents per litre. The Government will not proceed with an anticipated increase in this charge which was to have come into effect on 1 July 2006. This is a saving to the road industry of \$1.2 billion over the forward estimates.

WATER INFRASTRUCTURE

The Government is committed to restoring the health of the Murray River system. A healthy, working river system will benefit the environment. It will benefit irrigators, industries and towns in the Murray-Darling Basin.

In this Budget, I am announcing a new injection of \$500 million to the Murray-Darling Basin Commission. This money will be used to undertake a range of capital works and improvements to protect the resources of the basin and enhance environmental flows. The Government will seek the cooperation of State Governments to maintain their contribution in real terms to the Commission.

Our road, rail and water initiatives represent a major investment in our regions and our future.

HEALTH AND MEDICAL RESEARCH

In this Budget the Government's investment in infrastructure runs further than physical infrastructure. This Budget makes major new investment in health and medical research — an area where Australia is a world leader. Our scientists have made many breakthroughs of world importance such as the bionic ear, treatment of stomach ulcers, and melanoma treatment. We look to them to make many more.

In 1995-96 annual grants to the National Health and Medical Research Council (NHMRC) were around \$127 million per annum. In the 1999-2000 Budget I announced a plan to double that funding. In the 2004-05 Budget I announced a plan to increase it again. Tonight I am announcing a further increase in funding for the NHMRC which will take base funding to over \$700 million per annum by 2009-10. This is a five-fold increase over the 1995-96 levels of spending on health and medical research.

As part of this increase I am announcing 65 additional health and medical fellowships over the next nine years for researchers doing important work in unlocking the causes of diseases and searching for their cures.

And tonight I am announcing new funding of \$235 million for the physical infrastructure — the laboratories, the equipment that our researchers need to do their work.

This will fund new infrastructure at facilities of world renown such as the Howard Florey Institute (\$37 million), the Garvan and Victor Chang Institutes (\$14 million), and the Murdoch Children's Research Institute (\$10 million). All up this new investment in scientific infrastructure amounts to around \$806 million over five years.

In 2006-07 the Government will spend \$48 billion on health and aged care. It spent \$20 billion in 1996-97 when it was first elected.

Tonight's Budget includes the new \$1.9 billion package over five years for Mental Health Services for increased services, increased respite places, and for specialist mental health nurses. It also provides more funds to train more doctors and nurses as part of a package agreed by the Council of Australian Governments.

A New Comprehensive Tax Plan

Mr Speaker, tonight I am announcing a new comprehensive tax reform plan with three parts:-

- first another instalment in income tax reform;
- second a major improvement in business tax; and
- third a plan to simplify and streamline superannuation which represents the most significant change in nearly 20 years.

Our tax system exists to fund the decent services in health and aged care and other services that Australians legitimately expect and are entitled to receive. If we can fund these services, balance our Budget, defend and secure the country, and reduce the tax burden we should aim to do so. This year we will do so. And we will reduce personal income tax very significantly.

Since 2000 we have reduced the marginal tax rates at the lower end of the income scale.

Tonight I announce that from 1 July 2006 we will reduce the marginal tax rates at the upper end of the income scale. We will reduce the 47 and 42 cent rates to 45 and 40 cents. This will give Australia four marginal tax rates of 15, 30, 40 and 45 cents.

In addition we will increase the thresholds so that the 15 cent rate will apply up to \$25,000, the 30 cent rate up to \$75,000, the 40 cent rate up to \$150,000 and the 45 cent rate will apply to income above that.

Across the forward estimates more than 80 per cent of taxpayers will have a top marginal tax rate of 30 cents. Only 2 per cent of taxpayers will be affected by the top marginal tax rate on 1 July.

Six years ago the threshold for the top marginal tax rate was \$50,000. If that threshold had been indexed in 1996 it would have stood below \$64,000 by 1 July this year. By 1 July this year that threshold will be \$150,000.

For low income earners, the Low Income Tax Offset will increase from \$235 to \$600. It will phase out from \$25,000 to \$40,000. It means a low income earner will not pay tax until their annual income exceeds \$10,000.

These changes and the change to the 30 per cent threshold will provide more incentive for those outside the workforce to re-enter it and those on part-time work to take additional hours.

Senior Australians who are eligible for the Senior Australians Tax Offset will pay no tax on their annual income up to \$24,867 for singles and up to \$41,360 for couples.

These changes will make the Australian tax system more competitive and bring Australia's upper income tax rates into line with OECD averages.

BUSINESS TAX

Our plan here has two parts — depreciation and reform of small business taxation.

We recently received a report on the International Comparison of Australia's taxes. It showed that our company tax rate — which this Government cut to 30 per cent — is internationally competitive but that Australia had the equal lowest value of depreciation allowances in comparator countries. Evidence suggests that a diminishing value rate of 200 per cent is more appropriate in a world of rapidly advancing technology than Australia's current rate of

150 per cent. Therefore we will move to enhance our taxation arrangements by moving to a 200 per cent diminishing value rate on eligible business assets acquired after tonight.

The measure will cut business tax by \$3.7 billion over the next four years. It will encourage Australian business to undertake investment in new plant and equipment, to keep pace with new technology, and to remain ultra-competitive.

The Government will also reduce the complexity of small business tax arrangements. In April this year, the Government announced reforms to the fringe benefits tax in response to the Task Force on Reducing Red Tape.

This Budget takes progress much further with a range of measures which will reduce the complexity faced by small business. These include changes to make the Simplified Tax System more attractive, aligning thresholds for small businesses to make it easier for them to understand their eligibility for various concessions, and simplifying and extending access to the small business capital gains tax concessions. These changes will provide benefits worth \$435 million to small business over the next four years.

Mr Speaker, this Budget also includes measures to protect the integrity of the tax system. These measures include: ensuring appropriate tax is paid on income distributed by Australian resident trustees to non-resident trusts; increasing resources for the High Wealth Individuals Taskforce; funding the co-ordinated law enforcement action code-named Operation Wickenby to get at international tax evasion and crime. These measures will recover revenue of around \$2.3 billion over the next four years.

SUPERANNUATION

Mr Speaker, tonight I release a plan to simplify and streamline superannuation. This plan represents the most significant change to Australia's superannuation system in decades. It will sweep away the current raft of complexity faced by retirees, increase retirement incomes, give greater flexibility as to how and when superannuation can be drawn down, and improve incentives for older Australians to stay in the workforce.

At the core of the plan is the proposal to exempt Australians aged 60 or over from any tax on their end benefits where these are paid from a taxed superannuation fund. This would apply from 1 July 2007. There would be no tax on a lump sum. There would be no tax on a superannuation pension. This would be the most direct way of cutting through the complexity of the current system.

Reasonable benefit limits would be abolished. Age based limits would be abolished. A simple universal contribution limit would apply. People would not be forced to draw down on their superannuation. The self-employed would be able to claim a full deduction for their superannuation contributions. The self employed would be eligible for the Government co-contribution. It would be easier for people to find and transfer their superannuation between funds.

It is also proposed to halve the pension assets test taper rate from \$3.00 to \$1.50 per fortnight for every \$1,000 of assets above the free area with effect from 20 September 2007. The current taper rate of \$3.00 means that a retiree loses more age pension than they earn on their additional savings if they do not achieve a return of at least 7.8 per cent a year. This is a large disincentive to save for retirement.

FAMILY ASSISTANCE

Mr Speaker, a fundamental part of our tax system is the assistance that we provide to families who are raising children. Helping families is one of the highest priorities of this Government.

Since 1996 we have doubled assistance to families through the Family Tax Benefit system. The maximum payment per child under Part A has increased from around \$2,400 to \$4,200 a year.

Tonight I am announcing further enhancements to Family Tax Benefit Part A.

Currently, families can receive the maximum amount if they earn less than \$33,361. Last year I announced that we would increase this to \$37,500 from 1 July 2006. Instead we will now increase it to \$40,000. This will provide additional assistance to almost half a million Australian families at a cost of \$993 million over four years.

The Government will also expand eligibility for the Large Family Supplement to include families with three children with effect from 1 July this year. This will provide additional assistance to nearly 350,000 Australian families with a payment of an extra \$248 per year.

Mr Speaker, this Government recognises the availability of child care is important for many Australians and that finding the right option to meet the needs of families is an important decision for parents wishing to return to the workforce.

Tonight I announce that the Government will remove the limit on the number of subsidised outside school hours care and family day care places. This means any new service set up by any eligible group will be funded. There will be no limit on funded places. It is expected that this will generate an additional 25,000 places by 2009. In 1996 there were 300,000 childcare places in Australia. We are budgeting for over 700,000 in 2009.

And from 1 July parents will be eligible to receive the new Childcare Rebate. This will rebate 30 per cent of out of pocket childcare expenses up to \$4,000 per child per annum.

SUPPORTING OLDER AUSTRALIANS AND CARERS

Our strong Budget position allows us this year to provide further assistance to older Australians. This recognises the important place they hold within our community. This Government introduced a Utilities Allowance — a bi-annual payment to age pensioners to assist with the cost of utilities — in 2005. At the same time a Seniors Concession Allowance was introduced for certain self-funded retirees who do not get pensioner concessions.

This year the Government will provide an additional one-off payment equal to the annual amount of the utilities allowance of \$102.80 to each household with a person of Age or Service Pension age eligible for that allowance. A \$102.80 payment will also be provided to each self-funded retiree who is eligible for Seniors Concession Allowance. These bonuses will be paid by 30 June 2006, at a cost of \$193 million.

We will also extend eligibility for the Utilities Allowance to cover other groups of older Australians — recipients of Mature Age Allowance, Partner Allowance and Widow Allowance. These recipients will be paid the bonus by 30 June 2006 and receive the Utilities Allowance on the same basis as age pensioners from the 2006-07 financial year onwards.

The Government will also assist people in rural areas who cannot access the Age and Service Pension because of increases in the value of their family property. From 1 January 2007, the Government will exempt the value of properties from the pension assets test for eligible rural people, where they have had a 20 year connection with the land and it is not reasonable for them to realise the asset or lease the land to realise an income.

Carers of people with disabilities — whether they are children or older people — make a special, selfless contribution to our society. In recognition of this, tonight I announce as I did in the past two Budgets an additional \$1,000 to be paid this financial year to over 100,000 people eligible for the Carer Payment. This year the \$1,000 bonus will also be extended to the 25,000 people who receive either the Wife Pension or the Veterans' Affairs Partner Service Pension and are carers.

As in the last two Budgets, there will be an additional \$600 payment this financial year to those people receiving Carer Allowance. It is estimated that around 370,000 people will receive this additional payment. It will not affect the carer's social security entitlements and the bonuses are tax free.

MAINTAINING OUR COMMITMENT TO DEFENCE

Mr Speaker, this Budget continues this Government's strong commitment to defence and national security.

In the year 2000 with our Defence White Paper, the Government made a landmark decision to undertake a ten-year investment in our defence capabilities. This provided the Australian Defence Force with the certainty to plan ahead for projects like the Airborne Early Warning and Control (AEWC) aircraft, naval Air Warfare Destroyers, Abrams Battle Tanks and the Joint Strike Fighter.

In this Budget I announce that we will provide for three per cent real growth in defence funding for the defence planning period between 2011-12 and 2015-16. This decision, at a cost of \$10.7 billion, will ensure that the Australian Defence Force continues to be provided with a firm basis for its long-term planning.

In addition to this, the Budget provides further funding for significant improvements to the capability of our armed forces. We will provide \$2.2 billion to acquire up to four new C-17 heavy lift aircraft which can transport an Abrams Tank or a Chinook Helicopter. This airlift will assist the rapid deployment of ADF resources and improve our capacity for disaster relief. We will also provide \$1.5 billion over ten years to improve the Army's sustainability, survivability and readiness.

The strength of Australia's military, however, will always remain the quality of its people. The Government is providing \$250 million to improve recruitment and retention arrangements for the Australian Defence Force. And we are increasing pay to attract and retain personnel for the Active Reserve.

STRENGTHENING NATIONAL SECURITY

Strong intelligence is critical to the Government's national security strategy. The best way of thwarting terrorism is to interrupt and intercept terrorists before they can achieve their deadly ambitions. This Budget contains \$802 million over the five years to 2009-10 to strengthen Australia's intelligence capabilities.

The Government will increase the Australian Security Intelligence Organisation's staffing from around 1,200 to over 1,800 staff, and improve its technical capabilities. A further \$125 million will enable increased operations of the Australian Secret Intelligence Service.

And we will work closely with other governments in the region to meet the threat of terrorism at home and abroad. This Budget contains \$93 million in measures to build further capacity in law enforcement and cooperation among key security agencies in the region.

In September 2005, the Government accepted the recommendations of the Wheeler Report into security and policing at Australia's airports. We announced an initial range of measures to implement those recommendations.

Tonight I am announcing further measures, including counter-terrorism first response, community policing, and closed circuit television monitoring to increase security at airports.

Mr Speaker, this Budget contains \$1.5 billion over the five years to 2009-10 in new measures to strengthen Australia's national security. In total, the Government has now committed \$8.1 billion in new spending on national security over the nine years from 2001-02.

COMBATING ILLEGAL FISHING

Increasingly, illegal fishing vessels have been entering Australia's sovereign waters. They pose a number of risks, including quarantine, illegal immigration, importation of prohibited goods and endangering fish stocks.

In this Budget, I am announcing an additional \$389 million over four years to combat illegal fishing. With increased surface and air surveillance and patrol capability, we expect to double

the number of fishing vessels apprehended in Australia's northern waters each year. We will engage rangers from Indigenous communities in Northern Australia to assist in locating vessels hiding in inland waters.

We will detain and prosecute illegal fishermen. We will construct five new dedicated boat destruction facilities in Northern Australia to destroy and burn seized vessels. This will provide a strong deterrent against illegal fishing and ensure that Australia's sovereign interests are protected.

BUILDING SKILLS AND NEW INNOVATION

Under the new national training agreement covering 2005 to 2008 the Australian Government will provide \$5 billion to enhance our training and skills. This Budget is taking research funding and investment in innovation to record levels. It is necessary to work at ways to turn the fruits of innovation to commercial projects.

We will introduce a new investment vehicle — the Early Stage Venture Capital Limited Partnership — to increase the provision of start up capital for small, innovative firms. Existing restrictions on venture capital limited partnerships will be eased. The Government will provide \$200 million to establish up to ten new funds in a new round of the Innovation Investment Fund programme.

ECONOMIC OUTLOOK

Mr Speaker, Australia's impressive economic performance of the last decade is set to continue. The outlook is for ongoing solid economic growth coupled with low unemployment and moderate inflation.

GDP is expected to grow by 3¼ per cent in 2006-07, following more modest growth in 2005-06. Economic growth will continue to be supported by strong global demand for Australia's commodities. This is generating robust growth in business investment and should lead to an increase in export growth.

The unemployment rate is expected to remain around its current level — a 30 year low. Inflation should remain contained. Over 1.7 million jobs have been created in Australia since 1996 and the proportion of the Australian population in employment is around record levels.

For the first time, in 2006-07, the Australian economy will grow to \$1 trillion.

Australia's sustained economic growth is the result of the Government's strong economic management and ongoing economic reform. Maintaining this course will secure the achievements of the past decade and provide the foundation for future growth and prosperity.

CONCLUSION

We will face further challenges in the future. Some — like the ageing of the population — we can predict now and begin to prepare for. Others may come with a surprise. But we will meet those challenges stronger because we are free of Government debt.

We will meet them stronger with this plan for tax reform — for individuals, for business — and the largest superannuation reform in decades.

We will meet our challenges stronger for the investment in families, the aged, in defence and security, in transport and water which will build better opportunities for the future.

This is a Budget which will build opportunity for the future.

I commend the Bill to the House.