

May 10 2005 Budget – an overview:

The main features of the 10th May 2005 budget are as follows:

- Across the board tax cuts of \$21.7 billion over a two year period. Average wage earners will reap a \$6 per week and high income earners up to a \$86 per week tax saving. Once introduced four in five taxpayers will pay a maximum 30% rate of tax and only 3% are expected to be paying the top marginal tax rate by 1 July 2007. The tax cuts reduce the tax rate for taxable income between \$6,000 and \$21,600 by 2% to 15%; extend the range of taxable income subject to 30% tax rate by \$5,000 to \$63,000; extend the range of taxable income subject to 42% tax rate by \$25,000 to \$95,000, and extend the range of taxable income subject to 47% tax rate by \$25,000 to \$95,000 for the financial year ended 30 June 2006. Further reductions to occur in the following financial year. Tables of new tax rates are included underneath.
- The superannuation surcharge on high income earners will be abolished from 1 July 2005. The surcharge currently affects over 800,000 taxpayers and applies to people earning more than \$99,710 (including reportable fringe benefits and capital gains). The measure will cost \$2.5 billion over 4 years.
- Couples will be able to split their superannuation contributions from 1 July 2006. This measure will particularly assist couples where one partner is a high income earner from breaching the Reasonable Benefits Limit (pension or lump sum) on their own superannuation by diverting contributions into the superannuation account of their spouse.
- Families to get an average \$12.55 per week in extra Family Tax Benefit (FTB). The amount that a family can earn before their benefit starts to reduce will increase to \$37,500, and increase of \$4,100. This measure will benefit some 400,000 families by 1 July 2006. The raising of the minimum threshold together with the creation of an additional 86,800 childcare places are designed to encourage parents to return to the workforce.
- There is a change to the method that families estimate their incomes for FTB purposes to avoid receiving overpayments. However, if overpayments are received the rate at which same must be repaid has been increased by 50%.
- A raft of measures will be introduced to encourage and or force single mothers, disability pensioners and long-term unemployed into employment. This measure will affect over 190,000 people. For example single parents whose youngest child is under seven to get a part time job of at least 15 hours per week from 1 July 2006; disability pensioner applicants from 1 July 2006 will go onto the Newstart Allowance if they can work between 15 and 29 hours per week; as from 1 July 2006 older unemployment applicants will be forced to go for job interviews under the same rules as younger Newstart recipients. People receiving disability pension now constitute 6.5% of the total workforce.
- Safety net thresholds for Pharmaceutical Benefits Scheme to increase i.e. families will have to spend an additional \$60 more each year (totaling \$950) before they are eligible for free scripts, while concession holders will have to fill an extra two scripts a year before they qualify.
- The Government has allocated additional health funding to commence into and a nation screening trial program for bowel cancer and to enable dementia sufferers to be cared for at home.
- A record \$2.5 billion will be spent to address the national industry skills shortages. The main planks of the policy include creating an extra 7,000 apprenticeships and 4,500 more pre-vocational training places in the trades; the extension of the Youth Allowance, Austudy and Abstudy to included low paid new apprenticeships; and the payment of

scholarships to apprentices for finishing years of their apprenticeships in high demand trades such as carpentry and metal work.

- Proceeds from the sale of Telstra (whenever that may occur), together with current and future budget surpluses, will be deposited into a “future fund” so that the Government can pay for the unfunded superannuation of a generation of public servants and to invest in assets. These measures are estimated to raise some \$140 billion by the year 2020. To prevent future Governments from “dipping” into the fund legislation will be introduced preventing access to the balance of the fund until all liabilities have been met.
- Policies designed to assist youth affairs include an anti-smoking advertising campaign designed to reduce the numbers of teenage smokers (estimated that 16.9% of 18 and 19 year olds smoke daily); additional spending on anti-drug campaigns; the creation of 24 new technical colleges costing over \$351 million over 5 years; and the allocation of \$27 million for various youth mentoring programs.
- The budget surplus is estimated to be \$8.9 billion, the economy is expected to grow at a rate of 3%, business investment is expected to increase by 6%, the rate of unemployment is expected to remain stable and low at about 5%, wages growth estimated at 4% and the National Debt will reduce to \$6 billion over the next 12 months.

MARGINAL TAX RATE SCHEDULES

2005/06

Resident Tax Rates:

Taxable Income:

\$1-\$6000
\$6001-\$21600
\$21601-\$63000
\$63001-\$95,000
\$95,000 and over

Tax Liability:

Nil
15 cents for every dollar over \$6000
\$2340 + 30 cents for every dollar over \$21600
\$14,760 + 42 cents for every dollar over \$63000
\$28200 + 47 cents for every dollar over \$95000

In addition the general medicare levy of 1.5 cents (plus an additional 1 cent if the surcharge applies) for every dollar applies.

2006/07

Resident Tax Rates:

Taxable Income:

\$1-\$6000
\$6001-\$21600
\$21601-\$70000
\$70001-\$125000
\$125,000 and over

Tax Liability:

Nil
17 cents for every dollar over \$6000
\$2340 + 30 cents for every dollar over \$21600
\$16860 + 42 cents for every dollar over \$125000
\$39960 + 47 cents for every dollar over \$125000

In addition the general medicare levy of 1.5 cents (plus an additional 1 cent if the surcharge applies) for every dollar applies.