

The Australia Institute

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Reading *Between the lines* this week:

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2. Back to the future for climate-change policy
3. Do child-care changes work for working families?
4. Swan squibs opportunity for superannuation tax reform
5. Politics in the Pub - Greenwash: Has tax reform and the Budget sold the environment short?

The Treasurer has just done the books for Australia and many of you will be preparing to do your own as the end of the financial year approaches. Don't forget that all donations of \$2 and above to The Australia Institute are tax-deductible. So if you've enjoyed receiving *Between the Lines*, please consider donating and when we come to do our books, we can commit all contributions towards conducting even more 'Research that matters'. [Donate here](#)

1. BUDGET OVERVIEW

This Budget has been brought down in the aftermath of the global financial crisis and the strengthening of the Australian economy. Unemployment is expected to continue falling to 4.75 per cent by June 2012. In the meantime, the resources boom seems to have returned and the government is taking the opportunity to reduce the stimulus coming from government spending; hence, items such as spending on school buildings and social housing are being wound down.

The Treasurer, Wayne Swan, made it clear he wants this budget to be judged for its fiscal restraint and the promise of a fairly rapid return to surplus. The current year, 2009–10, is likely to end up with a deficit of \$57 billion but in subsequent years, the deficit fades away; \$41 billion in 2010–11, \$13 billion in 2011–12 and then a surplus of \$1 billion in 2012–13. But these figures should be taken with a grain of salt. Over the past decade, the average error in the tax forecasts is over three per cent. That means you can expect the predicted deficit to be about right ... but plus or minus \$10 billion!

The reduction in spending on the Carbon Pollution Reduction Scheme has allowed some increase in other spending. The major increase is in the health budget, with \$3.5 billion in new spending by the Commonwealth over the next four years. In addition, there is \$3.4 billion in new spending that goes through payments to the states. The next biggest increase is Defence at \$1.6 billion, mainly to cover new spending on the Middle East deployment. Then comes

Human Services with an increase of \$0.9 billion, including spending on income management, compliance measures and a host of minor new spending initiatives. Education received \$0.8 billion for a package of skills measures.

On the revenue side, there are some big items we already knew about; the tobacco tax, the reduction in company tax rates, some superannuation measures and the resource super profits tax that has been of such concern to the mining industry in the past week. These new revenue measures were announced recently as the government's response to the Henry Tax Review.

New revenue initiatives in the budget are:

- A 50-per-cent discount on income tax payable on interest income; and
- Measures to allow a standard deduction of work-related expenses of \$500 in 2012–13 and \$1,000 thereafter. Incidentally, that will also reduce people's adjusted income for the purpose of claiming family and other payments.

There are a host of smaller measures with pluses and minuses for various groups, some of which are covered below.

This year, the Budget Papers contain an essay, *Benefiting from our mineral resources*; a simple interpretation suggests that it is unlikely anyone will receive much of a direct benefit from the mining sector unless they work or invest in the mining industry. The government has proposed a way for us to all 'share the benefits' of the boom by imposing the resource super profits tax and channelling the revenue into tax concessions for superannuation.

The problem with that approach is that there are a large numbers who won't benefit. Those about to retire or already retired will get nothing, nor will many of the self-employed and contractors, let alone the unemployed, sole parents and others dependent on income support who have no super. In the meantime, the Henry Review claims that it may be unsustainable to keep indexing pensions to male wages. If you were old-fashioned, you might argue that spending the proceeds of the new mining tax on higher age pensions and unemployment benefits would be the best way to help those who missed out.

2. BACK TO THE FUTURE FOR CLIMATE-CHANGE POLICY

Power corrupts, but PowerPoint corrupts absolutely. The budget speech mercifully spares us from death by PowerPoint slide but it is hardly an off-the-cuff affair. Indeed, every word is carefully selected to drive home the main message of the government. What then should we make of the Treasurer's choice of words regarding climate change?

As everyone now knows, Kevin Rudd once described climate change as 'the great moral and economic challenge of our time'. He also said that the problem is urgent. But, as of last night, it is now 'a core challenge for the future', according to the Treasurer. In political speak it doesn't get much worse

than that. It's the equivalent of telling your kids that if they are really well-behaved this year, you might take them on a trip to Disneyland sometime in the distant future.

We all know what happens to core promises, but ... 'a challenge for the future'? The government might as well come out and say it's a problem for the next government, or the next prime minister at least.

Of course, there was some 'good news' for the environment with the announcement of a \$652 million Renewable Energy Future Fund. But to put that figure into perspective, the government announced \$1.2 billion in new funds for 'border protection' to help defend us from the invading hordes of big, scary red arrows that appear to be descending on Australia, if Tony Abbott's new TV ads can be believed.

Last night, the Treasurer reiterated that his government 'accepts the science of climate change', but its priorities suggest otherwise. The scientific evidence regarding the impact and costs of global warming shows that acting sooner rather than later is imperative. Yet, the government is now committing more time and money to boosting its defences against the Coalition's scary TV ads than it is to insulating Australia from the real harms of climate change. So much for the era of evidence-based policy.

In Wayne Swan's first Budget he said, 'The government is addressing the fundamental environmental and economic challenge of climate change'. So, while in 2008 the government was addressing the problem, in 2010 climate change has become a 'core challenge for the future', to be addressed sometime down the track. Neither statement is probably worth the air it took to make it.

3. DO CHILD-CARE CHANGES WORK FOR WORKING FAMILIES?

To assist with the cost of child care, the government now provides a child-care rebate of 50 per cent of the out-of-pocket costs of care up to an indexed cap of \$7,778 per child, per annum. The Rudd Government increased it from the 30 per cent rebate that existed under Howard. But now it wants to reduce the cap to \$7,500 and halt the indexation for four years. Based on the government's estimates, it looks like support will be cut for at least 22,000 children; some families will be worse-off by \$5 a week per child from July 2010, and at least \$10 a week the following year rising to \$20 by 2013–14.

On 22 April, the Minister for Early Childhood Education, Child Care and Youth, Kate Ellis, announced that the government would not be building any more child-care places, which overturned an election promise that 260 additional child-care centres would be built—in fact, only 38 centres have been built. The Budget Papers do not mention the reduction in spending because the government never actually provided the funding for the other 222 places.

All parents know it is hard to find a child-care place but the rationale for not going ahead was that a high proportion of child-care centres have vacancies. When we examined the department's website, we also found numbers of vacancies; but our experiments when trying to find care within five kilometres of work showed that the vacancies were either for odd days only or did not cater for all age groups. Many after-school-hours centres have vacancies, but care is only useful if it is co-located with the school and not all primary schools have a care facility. A vacancy located at the next school is useless.

4. SWAN SQUIBS OPPORTUNITY FOR SUPERANNUATION TAX REFORM

Anyone hoping for major superannuation tax reform flowing from the Henry Tax Review will be disappointed. The government's initial response was notable for how little reform it contained, and there was no follow up in the Budget.

The Henry Review recommended that the existing 15 per cent fund tax on superannuation contributions be abolished, and that instead such contributions be included in employees' taxable income. But there would be a new 20 per cent tax offset payable to contributors, subject to annual limits. This would have meant that the tax benefits from contributing would become the same at all levels of income, quite different from the current situation where 200,000 high-income earners have a 31.5 per cent tax benefit from employer and salary-sacrifice contributions and 2.4 million low-income earners on less than \$34,000 per annum have none.

Under the Henry proposal, tax would also have applied to earnings in funds in the payout phase, which are currently exempt. These parts of the Review (except for the recommendation for a reduced 7.5 per cent tax on fund earnings) are entirely consistent with reform options put forward in The Australia Institute's 2009 paper, [The great superannuation tax concession rort.](#)

5. POLITICS IN THE PUB – GREENWASH: HAS TAX REFORM AND THE BUDGET SOLD THE ENVIRONMENT SHORT?

The Australia Institute's Executive Director Richard Denniss will discuss the state of play in environmental policy in the context of tax reform, the Budget and the deferral of the Carbon Pollution Reduction Scheme.

Wednesday, 19 May
5.30pm for a 6pm start
The Lounge Bar, Level 3, The Uni Pub, 17 London Circuit, Canberra

Recent publications

[Reducing emissions from deforestation and forest degradation in developing countries: A cautionary tale from Australia.](#)

Measuring what Matters: Do Australians have good access to primary health care.