

Budget
2006-07

OVERVIEW

06

9 MAY 2006
OVERVIEW

2006-07

06

06

WWW.BUDGET.GOV.AU

BUDGET
BUDGET
BUDGET
BUDGET
BUDGET
BUDGET
BUDGET
BUDGET
BUDGET
BUDGET
BUDGET

OVERVIEW

Budget
2006-07



CONTENTS

Budget at a glance	1	Securing borders against illegal foreign fishing	18
10 years of economic achievement	2	Meeting our health and aged care needs	19
Economic expansion to continue	3	Better mental health care for Australians	20
Investment sustaining economic growth	4	Research — investing in our future health	21
Low taxes and sustainable spending	5	Better service delivery and reducing fraud	22
Australian Government is now debt free	6	Maintaining education as a key priority	23
Work incentives with income tax reform	7	Strengthening Indigenous communities	24
A more competitive income tax system	8	Enhancing international engagement	25
A plan to simplify and streamline super	9	Funding the abolition of state taxes	26
A plan to simplify and streamline super	10	Higher household incomes	27
Enhancing opportunities for business	11	Benefits for families	28
Improving incentive for businesses to invest	12	Australian Government budget aggregates	29
Enhancing defence capabilities	13	Australian Government taxation and spending	30
National Security — Preventing Terrorism	14	Major initiatives in the 2006-07 Budget	31
Supporting Australian families	15	Detailed economic forecasts for 2006-07	32
Supporting older Australians and carers	16	Historical budget and net debt data	33
Investing in road, rail and water infrastructure	17		

Budget at a glance

The 2006-07 Budget includes a number of major initiatives, crucial to sustaining Australia's economic prosperity. The budget includes major tax reforms in superannuation, personal income tax and business tax and is supported by measures to improve the integrity of the tax system. The budget also invests significantly in our road, rail and water infrastructure, improves support for mental health services, and continues Australia's leadership in medical research through significant additional funding.

Strong economic management delivers benefits for all Australians

Continuing tax reform

Measures in this budget provide a major step forward in structural tax reform.

They include:

- a plan to simplify and streamline Australia's superannuation system, involving the most significant changes to superannuation in nearly 20 years
- personal tax relief worth \$36.7 billion over four years to reward effort, improve work incentives and enhance the international competitiveness of our top tax rates
- a continuing commitment to families with \$1.5 billion in extra assistance
- enhancements to tax depreciation arrangements worth \$3.7 billion to improve business efficiency and competitiveness
- tax simplification and tax reductions for small business worth \$435 million
- tax integrity measures estimated to raise \$2.3 billion to help maintain an equitable tax base.

Building our road, rail and water infrastructure

This budget includes significant additional funding of \$2.3 billion to accelerate major projects in Australia's road and rail infrastructure and \$500 million to improve water management in the Murray-Darling Basin.

Investing in health

The Government is investing an additional \$1.9 billion over five years in mental health services and \$241 million to train more doctors and nurses. A further \$905 million will boost health and medical research.

Budget aggregates

	Actual	Estimates		Projections		
	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
Underlying cash balance (\$b)(a)	13.6	14.8	10.8	10.6	11.2	12.0
Per cent of GDP	1.5	1.5	1.1	1.0	1.0	1.0
Fiscal balance (\$b)	10.8	16.0	10.3	9.9	10.6	13.0
Per cent of GDP	1.2	1.7	1.0	0.9	1.0	1.1

(a) Excludes expected Future Fund earnings from 2005-06 onwards.

Major economic parameters^(a)

	Forecasts		Projections		
	2005-06	2006-07	2007-08	2008-09	2009-10
Real GDP	2 1/2	3 1/4	3 1/2	3 1/4	3 1/4
Employment	2	1	1 1/2	1 1/4	1 1/4
Wage Price Index	4	4	3 3/4	4	4
CPI	3	2 3/4	2 1/2	2 1/2	2 1/2

(a) Year-average percentage change.

10 years of economic achievement

After 10 years of sound economic and fiscal management Australians are now enjoying unprecedented prosperity. Income and wealth have increased markedly and unemployment is at 30-year lows. The Australian economy is now more flexible and able to respond to economic shocks. Australian Government debt has been eliminated in net terms, freeing up resources to meet other priorities and prepare for the big challenges of the future.

A record to be proud of

Economic growth

Since 1996 Australia has had continuous real growth averaging 3.5 per cent per annum. During that period many of our major trading partners experienced recession. Solid growth is expected to continue in 2006-07.

Higher living standards

Gross Domestic Product (GDP) per person has risen by over 23 per cent in real terms since 1996, to levels above the OECD average. We have the eighth highest standard of living in the OECD.

Sustained budget surpluses

The fiscal position remains sound, with a forecast surplus of \$10.8 billion in 2006-07. Projected surpluses provide a sound basis to deal with future challenges, such as population ageing.

Eliminating Government debt

The Government has eliminated net debt which stood at \$96 billion in 1996. This means the Government is saving \$8 billion a year in interest payments.

Trillion dollar economy

In 2006-07 Australia's GDP is expected to reach a trillion dollars for the first time.

Low unemployment

The unemployment rate rose to nearly 11 per cent during the early 1990s. At 5 per cent, it is now at its lowest level since November 1976. Continued economic growth is the best way to create new jobs.

Low interest rates

In March 1996 the standard variable mortgage rate stood at 10.5 per cent. Current rates are around 7.5 per cent, resulting in a saving of around \$530 per month on the average new mortgage today.

1995		2005	
Rank	Country	Rank	Country
1	Luxembourg	1	Luxembourg
2	United States	2	United States
3	Norway	3	Norway
4	Switzerland	4	Ireland
5	Japan	5	Iceland
6	Denmark	6	Switzerland
7	The Netherlands	7	Austria
8	Austria	8	Australia
9	Belgium	9	Denmark
10	France	10	Canada
11	Germany	11	United Kingdom
12	Canada	12	Sweden
13	Australia	13	The Netherlands

Source: Groningen Growth and Development Centre and The Conference Board (January 2006).
(GDP per person comparison is in purchasing power parity terms).

Australia's ranking of GDP per person amongst OECD countries, 1995 to 2005

Economic expansion to continue

Moderate inflation, low unemployment and high levels of business investment are providing a solid foundation for Australia's future economic growth. The Australian economy continues to benefit from a global commodity boom. This is driving strong growth in business investment, boosting Australia's exports, and generating real income gains for the economy.

Sustained economic growth

The Australian economy has expanded for 14 consecutive years; an impressive record of sustained growth.

This remarkable performance is set to continue with economic conditions remaining very supportive of growth — corporate profits are high, inflation is moderate and the unemployment rate remains low. The strong global economy should also provide significant impetus to the Australian economy.

Economic growth is forecast to strengthen to 3¼ per cent in 2006-07.

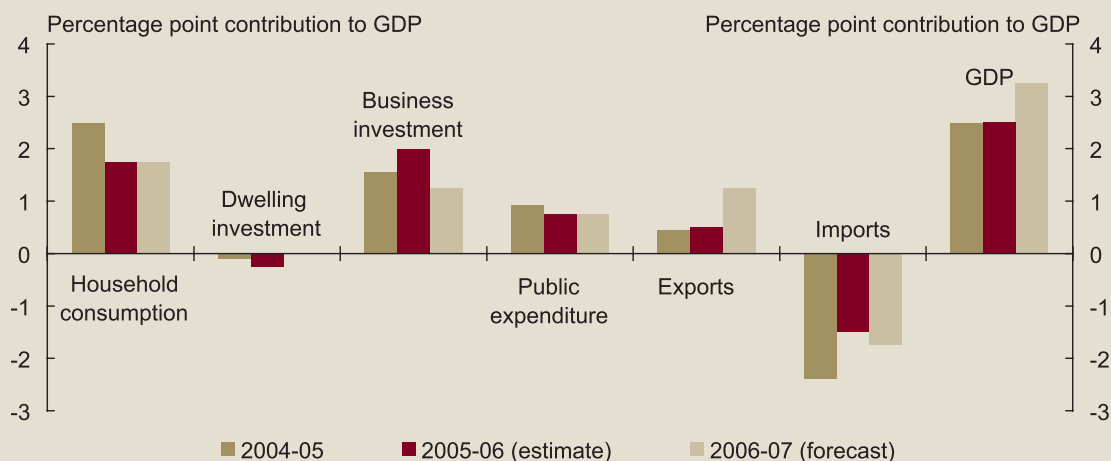
Strong growth in business investment is expected to drive economic activity, with household consumption growth remaining moderate.

The moderation in the household sector is a welcome development following the surge in house prices and consumer spending over the past few years.

Australia is well positioned to reap the benefits of the global commodity boom. Mining investment is at very high levels, and will continue to boost the productive capacity of the resource sector. Coupled with strong global demand this will support export growth.

Australian households are also benefiting from a strong resources sector through higher dividend payments and increased wealth.

The ability of the economy to absorb a large increase in the terms of trade without a significant increase in wages and inflation is testament to the increased flexibility brought about by the Government's economic reforms.



Continued business investment and stronger exports to sustain growth

Investment sustaining economic growth

Business investment has grown by 75 per cent in the past four years, supported by robust corporate profits and solid economic growth. Investment by the mining sector has increased at an exceptional pace, but other industries are also investing strongly. Growth in business investment is increasing the economy's productive capacity.

Strong business investment provides a basis for future economic growth

Business investment has grown by 75 per cent in the past four years. This investment is positioning the Australian economy for future growth.

Business investment is expected to be the largest contributor to GDP growth in 2005-06 and should remain at a high level in 2006-07.

Investment has been particularly strong in the mining industry, and in related parts of the manufacturing, construction and transport industries.

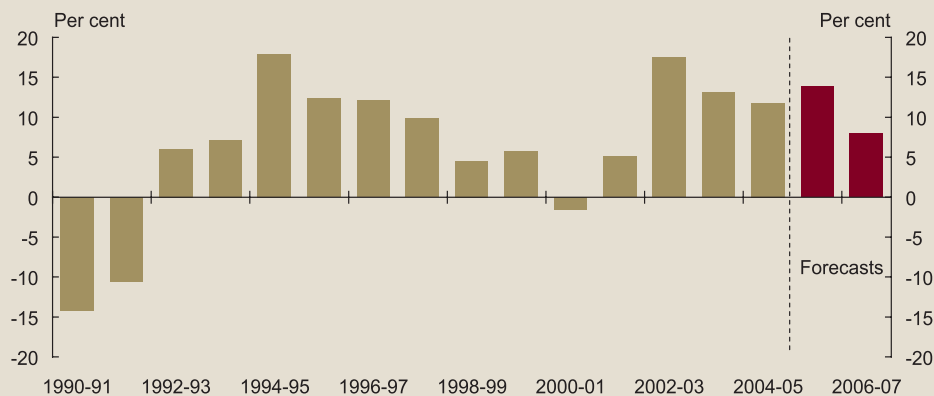
But investment growth has also been broadly based in other sectors of the economy, including finance, property and business services and wholesale trade.

Increases in corporate profitability and solid economic growth have been important factors in the recent strength of investment. The mining sector has been boosted by the very high prices received for Australia's commodity exports.

Growth in business investment adds to Australia's capital stock, boosting the

economy's productive capacity. This will allow the economy to continue to deliver strong growth with low inflation. Strong growth also benefits Australian workers by providing increased employment opportunities.

The Government's commitment to prudent economic management and its ongoing programme of reforms has provided a stable environment and growing economy in which businesses can make profitable investment decisions.



Business investment is growing strongly

Low taxes and sustainable spending

Australia is a low tax, low spending country. The Government's medium-term fiscal strategy ensures that budget commitments are affordable in the longer term. Australia is the eighth lowest taxing, and the second lowest spending nation in the OECD. Some of the countries that have a lower tax burden than Australia, notably Japan and the United States, do this by running large budget deficits.

Australia's sustainable public finances

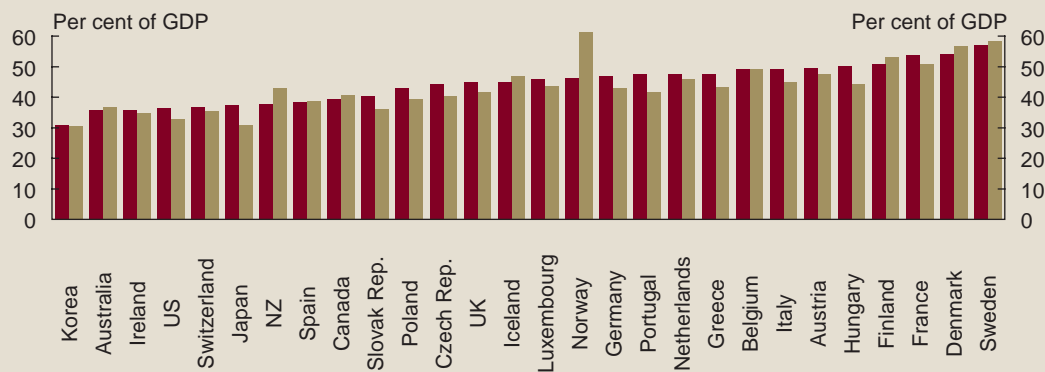
Australia is a low tax country. In 2003, (the latest year for which detailed information is available) Australia was the eighth lowest taxing of the developed countries. At 31.6 per cent of GDP, our taxes are well below the 36.3 per cent average of the 30 OECD countries.

Australia is also a low spending country — the second lowest of the 28 OECD countries for which information is available. Careful management of our spending has focused on the areas of highest priority. Australia's targeted social security arrangements, rather than universal

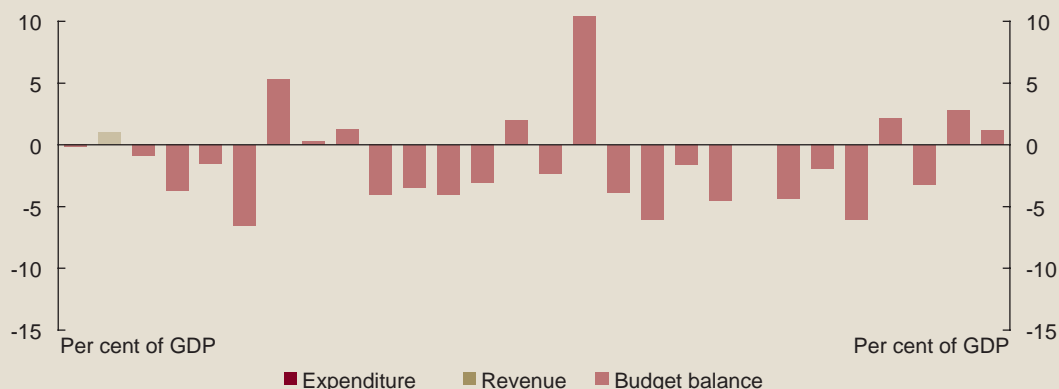
systems, keep us a low spend, low tax country.

The difference between spending and revenue (tax and non-tax) gives a snapshot of a country's fiscal position. Australia's fiscal position has been placed on a sustainable footing, and now has greater flexibility to respond to future needs.

Australia is the 2nd lowest spending, 8th lowest taxing country



Australia is one of only nine OECD countries in 2005 with a balanced or surplus budget



Australian Government is now debt free

The Government has eliminated net debt for the first time in three decades, from a peak of 18.5 per cent of GDP (\$96 billion) in 1995-96. Strong economic management saw Australia's AAA credit rating restored in 2003.

Good management helps eliminate net debt

The Government has eliminated net debt for the first time in 30 years.

This means that the Government is no longer a net borrower, and we can start to save for some of the big challenges of the future.

Australia is now amongst a small and select group of OECD countries that have eliminated net debt. The average net debt to GDP ratio in the OECD is around 48 per cent; for Australia it is below zero.

This places Australia in a much better position than most countries to respond to economic shocks and emerging pressures. We can now plan for the future with greater certainty and confidence in our financial position.

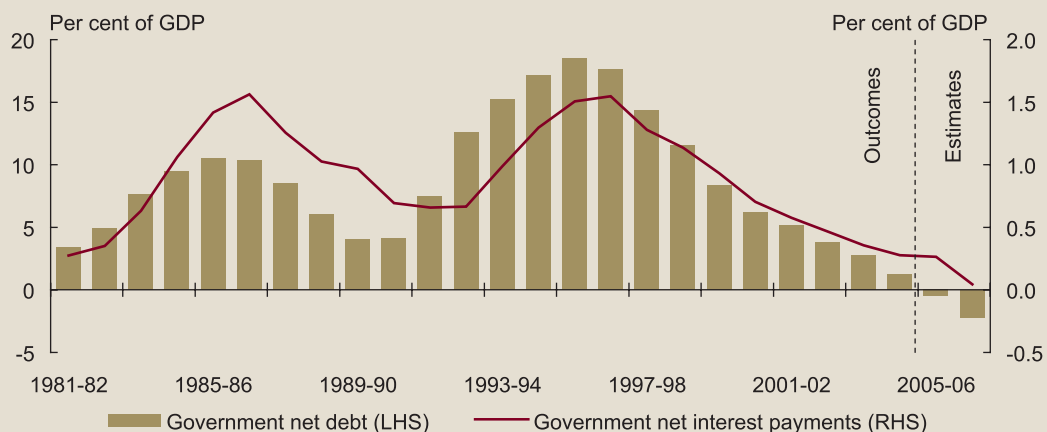
Eliminating net debt has resulted in net interest payments falling from a peak of \$8.4 billion (1.5 per cent of GDP) in 1996-97 to \$0.5 billion (around zero per cent of GDP) in 2006-07.

If we were still spending 1.5 per cent of GDP on interest payments, Australia's fiscal position would be \$14 billion a year worse off.

By eliminating net debt, the Government has freed up resources to meet other priorities. The ageing of the population together with rising health costs will open a gap between revenue and expenditures over the decades to come. A strong financial position allows the Government to prepare now for these future pressures.

The Future Fund

The Government has established the Future Fund with an initial capital injection of \$18 billion, reflecting its commitment to long-term sustainable government finances.



Sound fiscal management resulting in the elimination of government net debt

Work incentives with income tax reform

All Australian taxpayers will share in new personal tax cuts worth \$36.7 billion. These are the largest tax cuts since *The New Tax System* and build on the \$21.7 billion in personal tax cuts provided in the last budget.

Continued structural tax reform

This budget significantly restructures the personal income tax system to increase disposable incomes, enhance incentives for participation and to improve Australia's international competitiveness.

From 1 July 2006:

- The 30 per cent threshold will be raised to \$25,001
- The 42 per cent marginal tax rate will be cut to 40 per cent and the threshold will be raised to \$75,001

- The 47 per cent marginal tax rate will be cut to 45 per cent and the threshold will be raised to \$150,001
- The Low Income Tax Offset (LITO) will be increased to \$600 per year and phase out from \$25,000, up from \$21,600.

Those eligible for the full LITO will not pay tax until their annual income exceeds \$10,000 per year.

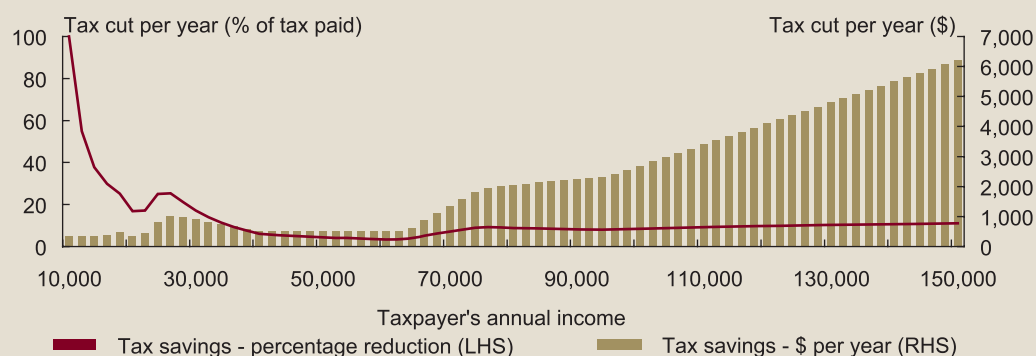
Senior Australians who are eligible for the Senior Australians Tax Offset (SATO) will now pay no tax on their annual income up to \$24,867 for singles and up to \$41,360 for couples.

The Fringe Benefits Tax rate will be cut to 46.5 per cent.

New tax scale

Current tax thresholds Income range (\$)	Tax rate %	New tax thresholds from 1 July 2006 Income range (\$)	Tax rate %
0 - 6,000	0	0 - 6,000	0
6,001 - 21,600	15	6,001 - 25,000	15
21,601 - 63,000	30	25,001 - 75,000	30
63,001 - 95,000	42	75,001 - 150,000	40
95,001 +	47	150,001 +	45

Tax savings from 1 July 2006 compared with tax payable now



In percentage terms, the greatest tax cuts are provided to low income earners.

A more competitive income tax system

This tax package will help low income earners, provide further incentives to participate in the workforce and enhance the international competitiveness of Australia's personal tax system.

Encouraging participation and increasing our competitiveness

This tax package will provide additional incentives to participate in the workforce.

The increase in the 30 per cent threshold and the LITO allows low income earners, including part-time workers, to keep more of their earnings and provides further incentives to enter the workforce or work additional hours.

In percentage terms, the greatest tax cuts are provided to low income earners. Over 80 per cent of taxpayers will continue to face a top marginal tax rate of 30 per cent or less.

Reducing the top marginal tax rate and increasing the top threshold will improve the competitiveness of Australia's tax system compared with other OECD countries.

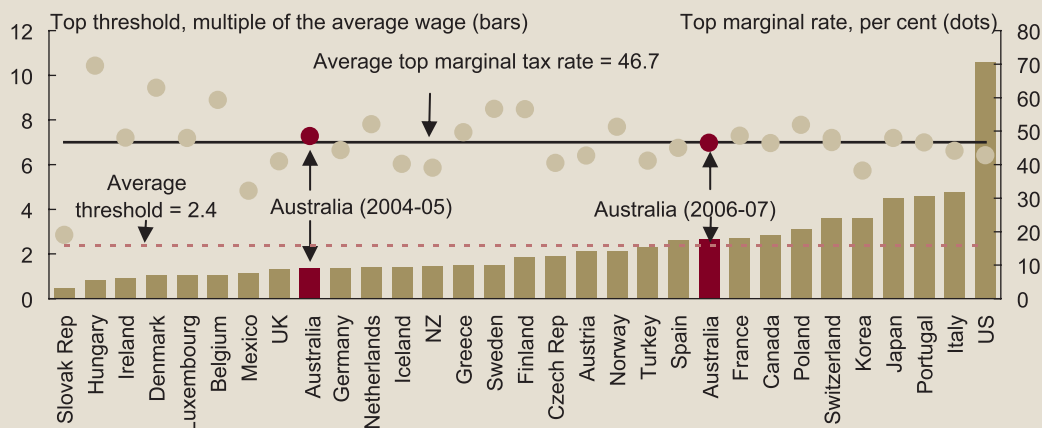
Taxpayers will not reach the highest marginal rate until they earn more than three times average weekly earnings.

From 2006-07, the top marginal rate will apply to around 2 per cent of taxpayers.

Australia's top marginal tax rate of 45 per cent plus the Medicare levy will be in line with the OECD average of 46.7 per cent and the increase in the top threshold will place Australia tenth highest in the OECD.

These changes bolster our reputation as a low taxing country.

*The OECD average wage is for a worker engaged in full-time manual or non-manual labour across a range of industries. Based on OECD data



Improving Australia's international competitiveness.

A plan to simplify and streamline super

The Government is proposing a plan that would abolish tax on superannuation benefits paid from a taxed fund to people aged 60 and above from 1 July 2007. This would dramatically simplify superannuation for retirees and improve incentives to work and save.

The Government will consult on these proposals over the coming months.

Making superannuation simpler

The Government has released a proposed plan — *A plan to simplify and streamline superannuation* — which includes proposals to sweep away the current tax complexities faced by retirees.

The taxation of superannuation benefits is extremely complicated. Retirees cannot readily understand how their benefits will be taxed. This undermines confidence in the retirement income system.

The Regulation Taskforce recommended that the Government give high priority to simplifying the superannuation tax rules.

Under the plan, benefits paid to retirees aged 60 or above from a taxed fund would be exempt from tax. Benefits paid by untaxed funds (mainly to public servants) would continue to be taxed but at a lower rate. Up to 100,000 retirees a year would benefit from 2007-08.

The preservation age would not change. People would be able to take their benefits before age 60, although they would be taxed under new simplified rules.

Tax exempt benefits would mean people pay less tax on their work income if they are also drawing on their

superannuation. This creates greater incentives to continue to work.

Reasonable benefit limits would be abolished.

People would no longer be forced to take their superannuation but would be able to take their benefits when they need them.

The current age based contribution limits would be replaced with a streamlined system.

These proposals would deliver a retirement income system which is easier for 10 million Australians to understand, rewards additional savings and creates incentives to work.

CURRENT

Lump sum

Pre-July 1983
Concessional
Undeducted contributions
Post-June 1994 invalidity
Capital Gains Tax exempt
Non-qualifying
Post-June 1983
Excessive

5% at MTRs
5% at MTRs
Exempt
Exempt
Exempt
Marginal rates
0% to threshold then 15%
38%

Income Stream

Marginal tax rates
Less deduction for personal contributions
Less maximum 15% pension rebate

PROPOSED

NO TAX

No tax on benefits will make superannuation easier to understand

A plan to simplify and streamline super

The plan would further improve the retirement incomes of Australians.

The removal of benefits tax and reduction to the assets test taper rate would increase the incentives to save.

Improving retirement incomes for Australians

The proposals would significantly improve retirement incomes, increase the incentives for people to make additional retirement savings and treat contributions made by the self-employed the same as employee contributions.

The complexity of the benefits tax arrangements not only affects retirees. It can also affect the decisions of people of all ages as to whether or not to make additional superannuation contributions. Removing this complexity would encourage people to save more in superannuation.

The pension assets test can also unfairly penalise people who make additional savings for retirement. To make this test fairer, it is proposed to halve the pension assets test taper rate to \$1.50 from 20 September 2007. A single homeowner could have an additional \$165,000 of assets before losing the age pension.

Under the plan, a person who earns \$1,000 a week with 40 years of contributions is estimated to have a tax saving of around \$37,000 for a lump sum benefit or an average increase in their retirement income of \$136 per week for a superannuation pension.

The plan builds on the introduction of the Government superannuation co-contribution and the removal of the superannuation surcharge as incentives to encourage additional savings.

The plan would allow the self-employed to claim a full tax deduction for their superannuation contributions as well as being eligible for the Government co-contribution for their personal post-tax contributions.

The plan would be a substantial reform that would improve the standard of living of Australians in retirement.

Average weekly income (\$)	Projected retirement income before plan (\$ per week)	Increase in average retirement income (\$ per week)(a)	Increase in average retirement income with additional saving of 5% of earnings (\$ per week)(a)
400	705	31	96
600	750	59	153
800	778	95	180
1,000	798	136	192
1,500	886	192	210
2,000	1,024	199	290

(a) Includes the increase in age pension and superannuation pension when the person takes the minimum amount from an allocated pension.

Potential impact of the plan on a person's retirement income

Enhancing opportunities for business

This budget supports business with continuing tax reform to simplify small business arrangements and extend eligibility for the simplified tax system. The Government is also creating a new investment vehicle as part of its support for the venture capital sector.

Reducing costs and encouraging innovation

Reducing costs for small business

The Government will cut taxes on small business by \$435 million over four years to reduce compliance costs for small business and to align eligibility thresholds across small business tax relief arrangements.

These changes will also improve access to the small business capital gains tax concessions by replacing the current controlling individual test with a 20 per cent significant individual test and by increasing the net assets threshold for the concessions from \$5 million to \$6 million. These changes will reduce compliance costs and widen

eligibility for the small business tax relief arrangements. Changes to the fringe benefits tax will reduce business compliance costs further, at a cost of \$40 million over four years.

The Government will also cut business costs by halving the incorporation fee from \$800 to \$400 at an estimated cost of \$216 million over the next four years.

Supporting venture capital

A suite of new measures will encourage venture capital investment. The Government will introduce an early stage venture capital limited partnership investment vehicle providing investors

with a complete tax exemption on capital and revenue gains. The existing venture capital limited partnership vehicle will be enhanced by easing a number of restrictions.

The Government will also provide \$200 million to support a third round of the Innovation Investment Fund programme. This will assist in building the expertise of fund managers in the venture capital sector and provide more start-up capital to new companies, particularly those with a technology focus.



\$4.2 billion of tax cuts for business over four years

Improving incentive for businesses to invest

This budget will improve the incentive for businesses to invest in plant and equipment by more closely aligning depreciation deductions for tax purposes with the actual economic decline in the value of assets. This will help Australian business to stay up to date with new technology and remain competitive.

Reducing the cost of investing in new plant and equipment

Investment in new plant and equipment is essential if Australian business is to keep pace with new technology and remain internationally competitive.

The Government will increase the incentives for Australian business to invest in new plant and equipment by increasing the diminishing value rate for depreciation from 150 per cent to 200 per cent for all eligible assets acquired on or after 10 May 2006.

This will allow businesses to write off the cost of new plant and equipment

more rapidly for tax purposes, reducing the cost of investing in eligible assets over their effective lives.

This measure, which will cost \$3.7 billion over the next four years more closely aligns depreciation deductions for tax purposes with the actual decline in the economic value of assets (economic depreciation).

The changes will enhance the effectiveness of the uniform capital allowance regime, which was introduced by the Government in 2001.

The *International Comparison of Australia's Taxes* found that the rate of depreciation allowances in Australia were generally less favourable than those in comparable OECD countries. This measure will bring Australia more into line with other comparable countries and improve the international competitiveness of Australian business.

Ensuring depreciation for tax purposes aligns with economic depreciation will also assist business keep pace with new technology, enhance productivity and sustain economic growth.

Example of depreciation on a new \$4,000 computer with an effective life of four years

Year asset held	Current arrangements - 150 per cent diminishing value rate		New arrangements - 200 per cent diminishing value rate	
	Written down value as percentage of purchase price at end of period	Depreciation deduction \$	Written down value as percentage of purchase price at end of period	Depreciation deduction \$
1	63	1,500	50	2,000
2	39	938	25	1,000
3	24	586	12.5	500
4	0	977	0	500

Increased diminishing value rate means larger and earlier depreciation deductions for business

Enhancing defence capabilities

The Government will increase defence spending by 3 per cent annually in real terms from 2011-12 to 2015-16, to provide the Australian Defence Force with a firm basis for continued long-term planning. Additional funding is also being provided to improve defence capabilities, notably for acquiring C-17 heavy airlift aircraft and enhancing the readiness and sustainability of the Army.

A more sustainable and capable defence force

The defence of our country and its interests remains the highest priority of Government. To provide the Australian Defence Force (ADF) with a firm basis for continued long-term planning and to further grow its capabilities, the Government will increase defence spending by 3 per cent in real terms each year between 2011-12 and 2015-16 at a cost of \$10.7 billion. This follows the ten-year funding growth announced with the Defence 2000 White Paper.

As part of this funding, the Defence Capability Plan will be extended to

2015-16 with real funding growth of 3 per cent each year from 2011-12.

Heavy airlift

This budget also provides \$2.2 billion to acquire new C-17 heavy airlift aircraft. These will enhance significantly the ADF's airlift capability, enabling rapid deployment of combat vehicles, helicopters and supplies. Australia's capacity to provide disaster relief will also be improved.

Hardened and networked Army

As part of the development of a hardened and networked Army the Government will provide a further

\$1.5 billion over ten years to increase the Army's size, relocate a battalion to Adelaide and enhance the Army's readiness for operations. These initiatives will improve the sustainability of deployed land forces.

Personnel initiatives

The Government will provide \$250 million over four years to improve recruitment and retention arrangements for both the permanent and reserve members of the ADF. These measures include targeted bonuses for permanent members, improved remuneration for reserves and provision for the establishment of a High Readiness Reserve.



The Government has strengthened its long-term commitment to Australia's defence in this budget

National Security — Preventing Terrorism

Ongoing review of national security capabilities is critical to meeting the evolving threats to Australia's national security. The *National Security — Preventing Terrorism* package includes \$1.5 billion in new spending out to 2009-10, with a focus on intelligence, airport and air transport security, and regional cooperation. In total, the Government has committed \$8.1 billion in new national security initiatives over the nine years from 2001-02.

Increased funding for national security priorities

The Government continues to refine its national security strategy, to ensure the appropriate range of capabilities. In the *National Security — Preventing Terrorism* package, additional resources will strengthen Australia's intelligence services, enhance airport and air transport security and build regional cooperation.

Strengthening intelligence

Our ability to identify and respond to emerging threats is founded on good intelligence. The Government has been steadily building the resources and capabilities of Australia's intelligence agencies.

This budget provides a further \$802 million over the five years to 2009-10 to strengthen Australia's intelligence capabilities. Measures include additional staff and technical capabilities for the Australian Security Intelligence Organisation (ASIO). A new central office will be provided for ASIO. The Government is also providing funding for the Australian Secret Intelligence Service, and to improve the intelligence capabilities of the Australian Federal Police.

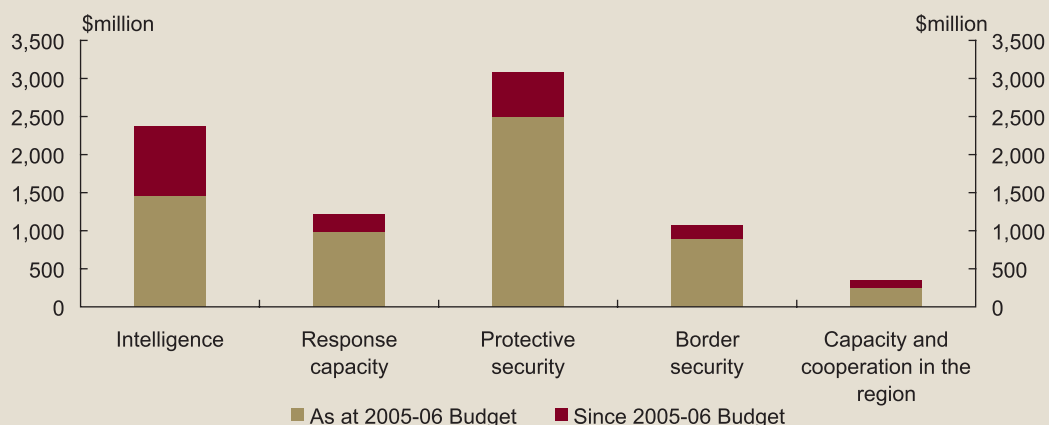
Airport and air transport security

The *National Security — Preventing Terrorism* package provides a

further significant response to the Wheeler Report into airport security and policing. This budget provides \$644 million for further initiatives, including for terrorism response and air cargo security. It also includes \$355 million to improve community policing at major Australian airports. In total, the Government has committed \$886 million in response to the Wheeler Report.

Regional cooperation

The Government is also working with our neighbours to combat the threat of terrorism. See *Enhancing international engagement* at page 25.



\$8.1 billion of additional spending on national security over nine years from 2001-02

Supporting Australian families

This budget continues the Government's commitment to supporting families and the choices they make. It includes more than \$993 million in increased Family Tax Benefit Part A payments to families and an additional \$497 million to expand eligibility for the Large Family Supplement. The Government is also removing the cap on the number of outside school hours care and family day care places, generating an additional 25,000 child care places.

Boosting family assistance and child care places

Family Tax Benefit (FTB) Part A

In 2006-07 the Government will spend \$28 billion in assistance to families with children, up from \$14 billion in 1996-97. Over this period, the Government has increased the maximum rate of assistance per child by 75 per cent from about \$2,420 in 1996 to more than \$4,200 in 2006 under FTB Part A.

From 1 July 2006, more families will receive the maximum rate — they will now be able to earn \$40,000 a year (up from \$33,361 in 2005-06) without having their entitlement reduced.

This measure will provide increases in FTB Part A of up to \$9.62 a week for about half a million families annually, delivering over \$993 million in additional payments over four years.

The Government will also extend eligibility for the Large Family Supplement of \$248 a year to families with three children with effect from 1 July 2006. This will cost \$497 million over four years.

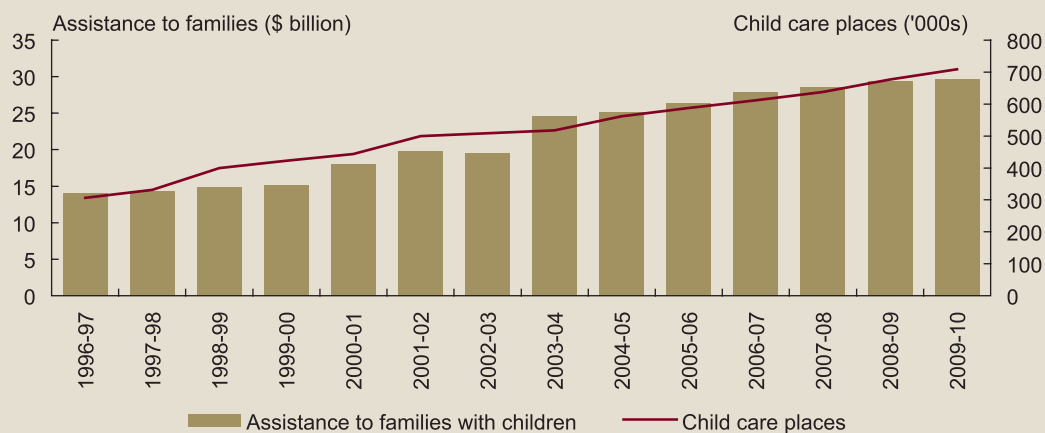
Child care places

The Government recognises that accessible, affordable and high quality child care is vital for many families to participate effectively in the workforce.

To improve the supply of child care, from 1 July 2006 the Government is removing the cap on the number of outside school hours care and family day care places, at a cost of \$60 million over four years. It is estimated an additional 25,000 places will be created by this initiative. Overall, child care places are expected to increase to more than 700,000 by 2009, compared to 307,000 in 1996.

The Child Support Scheme (CSS)

The CSS is being reformed to better meet the needs of children. The Child Support Agency's service capacity is also being upgraded. The total cost of these reforms is \$877 million.



Family assistance and the number of child care places have doubled since 1996-97

Supporting older Australians and carers

The Government believes that older Australians should share in the prosperity they have helped to create. The Government recognises that many older Australians and carers face higher costs and will provide \$586 million in additional support to help meet these costs. In this budget, the Government will also allow more rural residents to access the Age or Service Pension, at a cost of \$173 million.

Sharing our prosperity

Helping our seniors meet costs

To assist with the cost of household bills the Government will provide a one-off payment of \$102.80 to each household with a person of Age or Service Pension age eligible for Utilities Allowance and to each self-funded retiree eligible for Seniors Concession Allowance. These will be paid by 30 June 2006 at a cost of \$193 million.

The Government is also extending eligibility for the Utilities Allowance to recipients of Mature Age Allowance, Partner Allowance and Widow Allowance. They will receive the same one-off payment as those currently

eligible for Utilities Allowance by 30 June 2006. They will then receive Utilities Allowance every 6 months from September 2006, at a cost of \$36 million.

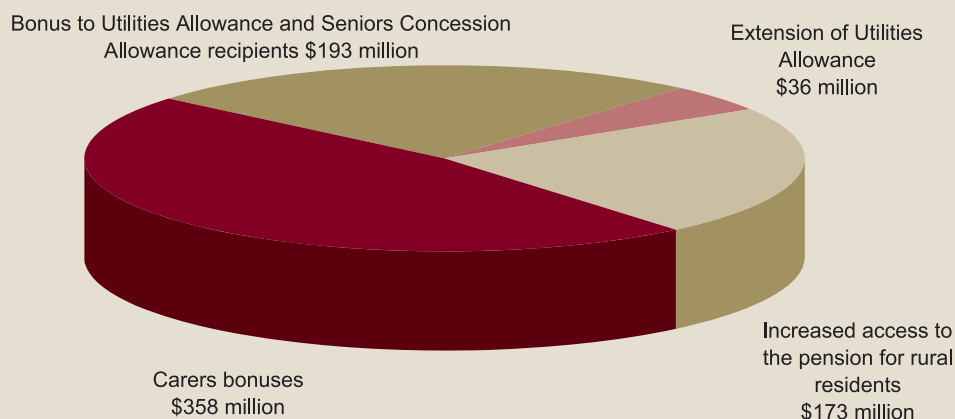
Recognising the work of carers

The Government also recognises the special contribution of those who look after people with a disability, and will provide a \$1,000 bonus payment to recipients of the Carer Payment and a \$600 bonus payment to recipients of the Carer Allowance, by 30 June 2006, at a cost of \$358 million. The \$1,000 payment will also be made to people who receive both Carer Allowance and either the Wife Pension, or the Veterans' Affairs Partner Service Pension.

Pension help for rural residents

Currently, some people in rural areas cannot access the pension due to the value of the land around their family home. Where a person has had a 20 year connection to the land and it would be unreasonable for them to realise the value of this land by selling or leasing it, the Government will exempt the entire value of the land on the same title as their home from the pension assets test. This is expected to cost \$173 million over the next four years.

Currently, only the home and an area of up to 2 hectares is exempt.



\$759 million to assist older people and carers

Investing in road, rail and water infrastructure

The Government recognises high quality road, rail and water infrastructure underpins our future prosperity and is critical in enhancing Australian productivity. This budget includes significant additional funding of \$2.3 billion towards Australia's road and rail infrastructure and \$500 million extra to the Murray-Darling Basin Commission.

Improving Australia's road, rail and water infrastructure

The Government will provide additional funding of \$2.3 billion to road and rail projects, increasing AusLink — the Government's national land transport plan — to a \$15 billion programme of investment from 2004-05 to 2008-09.

This funding will accelerate projects to improve the safety and capacity of key sections of the Hume (\$800 million), Bruce (\$220 million) and Pacific Highways (\$160 million), three of our busiest passenger and freight routes.

The Government will also provide additional funding for the:

- Great Northern Highway WA (\$234 million)

- Sturt Highway SA (\$100 million)
- Eyre Highway WA (\$75 million)
- East Tamar Highway TAS (\$60 million)
- Tully flood works QLD (\$48 million)
- Victoria Highway NT (\$30 million)
- Great Eastern Highway WA (\$14 million)

This is in addition to funding announced earlier this year for the:

- Western Highway VIC (\$185 million)
- Calder Highway VIC (\$82 million)

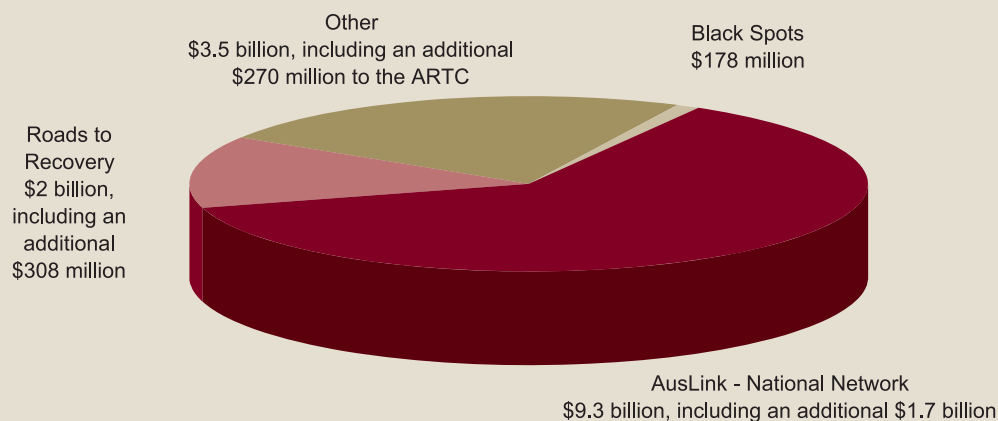
- Goulburn Valley Highway VIC (\$23.5 million)

The Government will also provide a further \$308 million to the Roads to Recovery Programme.

A \$270 million capital injection will be provided to the Australian Rail Track Corporation (ARTC) to improve rail track quality on the North-South rail corridor.

Improving water infrastructure

The Government will provide an additional \$500 million to the Murray-Darling Basin Commission. This funding will be used to undertake a range of new capital works and other initiatives to enhance environmental flows along the River Murray.



AusLink funding 2004-05 to 2008-09

Securing borders against illegal foreign fishing

The Government will increase resources to protect Australia's northern waters from illegal foreign fishing. Funding will be provided to ensure that Australia's fish stocks are not depleted and to manage the immigration, quarantine and security risks posed by illegal fishing. The Government is keeping fish stocks in Commonwealth fisheries at sustainable levels, ensuring a viable future for the fishing industry.

Protecting Australia's interests

The Government will commit \$389 million over four years to increase apprehensions of illegal foreign fishing vessels in Australia's northern waters. This will more than double the number of apprehensions each year.

Illegal fishing poses a number of risks to Australia, such as reducing our fish stocks as well as creating quarantine, illegal immigration, and national security risks. The Government will increase funding by \$252 million to increase patrols, arrests and prosecutions of illegal foreign fishers. This will provide a strong deterrent against illegal fishing.

Tight quarantine standards are essential to protect Australia's unique pest and disease-free status and to enable our continued access to world markets.

To manage the quarantine risks posed by seized boats, \$64 million will be provided for the construction of dedicated boat destruction facilities.

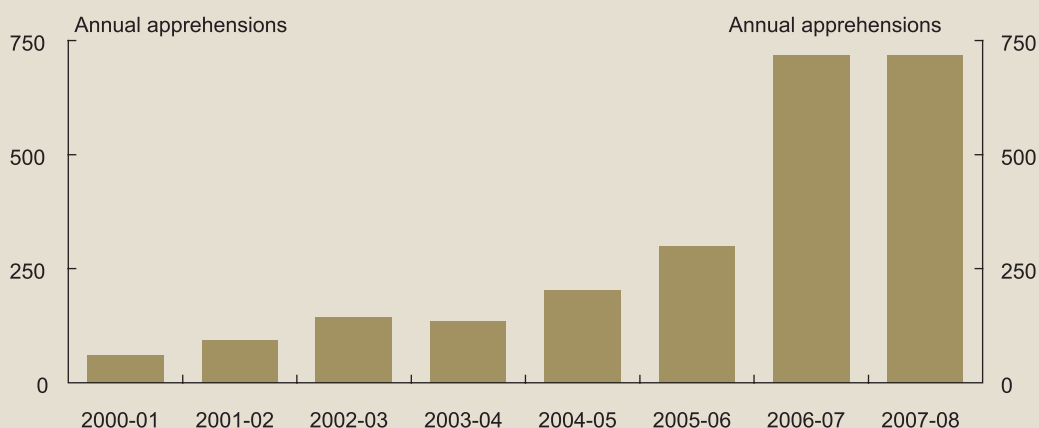
The Government is building on the cooperative arrangements that exist with Indonesia to address the problem of illegal fishing at its source.

Funding will be provided for additional surveillance in high risk areas and to establish a rapid response capability for abandoned and landed vessels.

Sustainable fisheries

By protecting the environmental and economic value of Australia's fisheries, this package builds on the \$220 million committed by the Government in November 2005 to reduce over-fishing in Commonwealth waters.

This budget also provides \$38 million over four years to maintain Australia's oceans policy. This will include the implementation of regional marine plans and the development of marine protected areas.



Increasing illegal fishing vessel apprehensions

Meeting our health and aged care needs

The Government is investing further in a high quality health and aged care system. Initiatives in this budget will help to underpin Australia's health and aged care needs now and into the future. In 2006-07 the Government will spend \$48 billion on health and aged care, up from \$20 billion in 1996-97.

High quality health and aged care

To ensure Australians continue to have access to innovative, high quality care the Government is investing in the foundations of our health care system.

Boosting the health workforce

To build the capacity of the health workforce, the Government is funding the training of more doctors and nurses at a cost of \$241 million as part of reforms through the Council of Australian Governments (COAG). It is expected that the States and Territories will match this commitment to strengthen Australia's health workforce.

These initiatives follow the Government's commitment of \$733 million through the COAG Health Services package in February.

Preventing drug and alcohol abuse

This budget provides an extra \$79 million for initiatives to address drug and alcohol abuse, including \$48 million to combat psychostimulant and cannabis use. This adds to over \$1 billion spent since 1997 on the National Illicit Drugs Strategy.

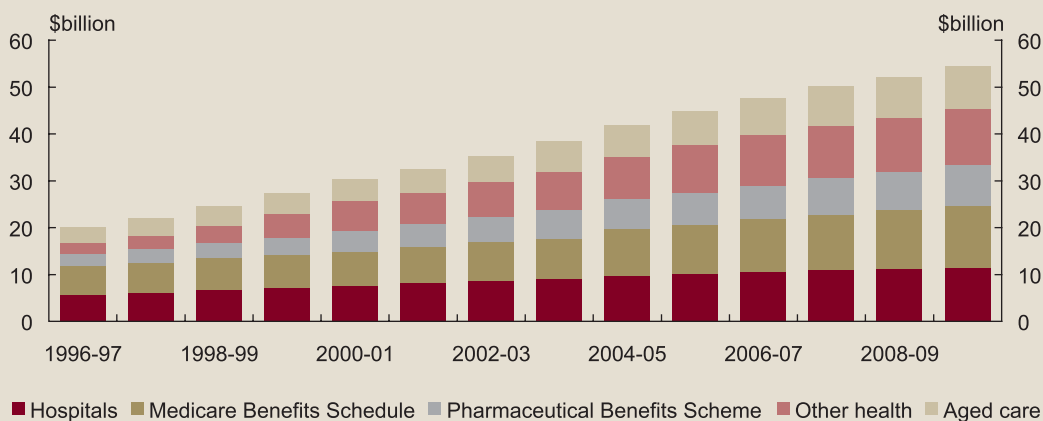
Protecting the elderly

This budget also invests \$32 million in protecting our elderly, by promoting

best practice in aged care and funding more spot checks of homes and police checks of volunteers. An additional \$19 million will increase community care access in rural and remote areas.

Access to innovative drugs

The Government is continuing to increase the availability of new innovative drugs on the Pharmaceutical Benefits Scheme (PBS). Since the last budget the Government has provided over \$750 million for new drugs, including to treat colon cancer, breast cancer, heart failure and high blood cholesterol. These drugs are expected to benefit over 350,000 Australians.



Australian Government investment in health and aged care has more than doubled

Better mental health care for Australians

The Government recognises the importance of improving services to assist those in the community with a mental illness. This budget delivers a major funding boost of \$1.9 billion to the mental health system. The Government will work with the States and Territories at the next Council of Australian Governments' meeting to ensure that people with mental illness can access the full range of services and support they need.

Increased spending for mental health and better care for the mentally ill

The Government is committing an extra \$1.9 billion over five years to mental health services, providing leadership in this area. It will work with the States and Territories through the Council of Australian Governments to ensure that all governments contribute to improving the mental health system.

The Government is providing \$538 million to make it easier for people to access GPs, psychiatrists and psychologists under Medicare to improve the detection, treatment and management of mental illness.

New specialist mental health nurses will work with psychiatrists and GPs to

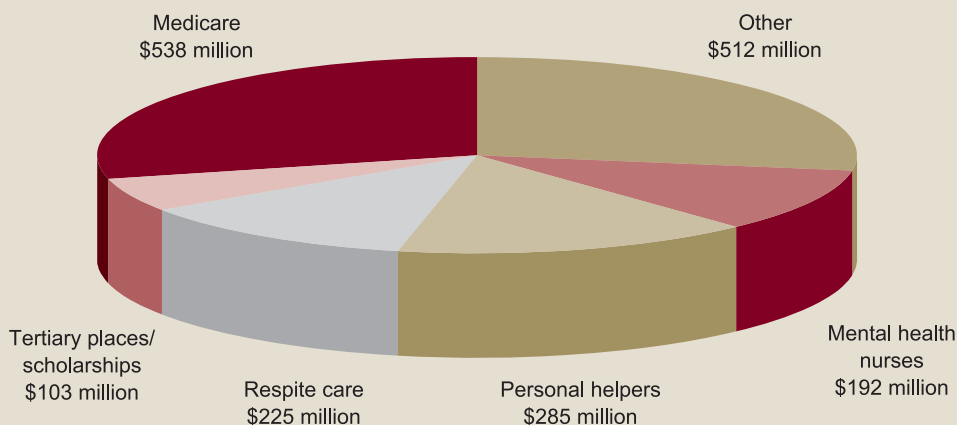
coordinate care for severely mentally ill people at a cost of \$192 million.

In addition, the Government will provide \$285 million to the non-government sector to employ 900 new personal helpers and mentors to assist over 50,000 people with a mental illness to navigate the health, welfare and employment systems.

New respite care places will be delivered through the non-government sector, particularly for elderly parents who care for children with severe mental illness or an intellectual disability, at a cost of \$225 million.

A range of other new initiatives will complement these reforms including:

- \$103 million for new tertiary education places and scholarships in mental health
- \$74 million for new services for people with drug and alcohol problems and mental illness
- \$62 million to expand suicide prevention programmes
- \$52 million for extra mental health services in rural and remote areas
- \$40 million to strengthen employment support arrangements for people with mental illness.



More funds for better services and mental health care for Australians

Research — investing in our future health

The 2006-07 Budget continues the Government's long-term commitment to maintaining Australia's position as a world leader in health and medical research. Funding in this year's budget, together with measures in earlier budgets, will see annual health and medical research funding rise to over \$700 million by 2009-10 — representing a more than five-fold increase on the 1995-96 funding level of \$127 million.

Funding research to improve health outcomes

Health and medical research benefits all Australians through improved health outcomes. This budget provides an additional \$905 million to this important area.

Increasing NHMRC grants

The Government will provide an additional \$500 million to the National Health and Medical Research Council (NHMRC) over four years. This investment builds on six years of funding provided in the Government's 1999 response to the *Health and Medical Research Strategic Review* (Wills review) and additional funding provided as part of the Backing

Australia's Ability (BAA) initiative in 2004, which responded to the *Investment Review of Health and Medical Research* (Grant review).

Increased resources will allow the NHMRC to build on its important work funding research outcomes that have a profound impact on health and our lives. Previous achievements include progress in understanding dementia, identifying factors affecting lung development in the foetus, and new treatment for irregular heartbeats.

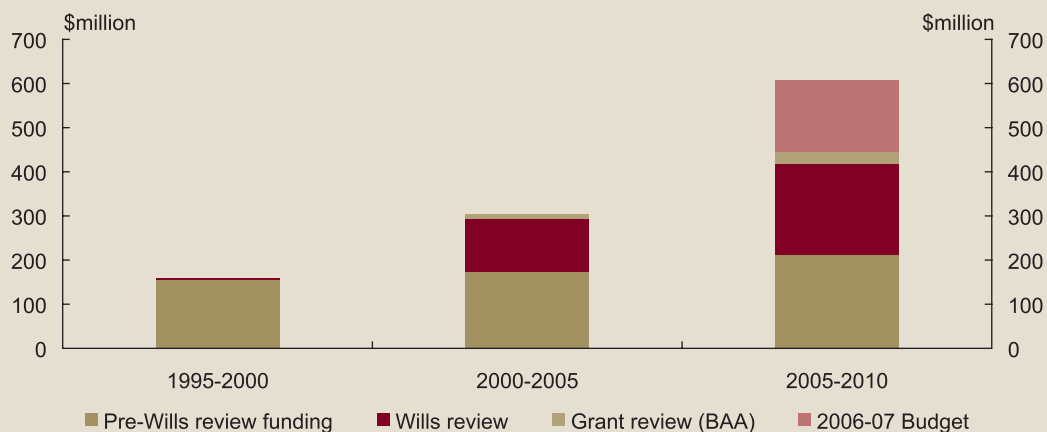
Attracting talented researchers

To continue to attract and retain world-class researchers, the

Government will provide \$170 million over nine years to establish a new health and medical research fellowship scheme.

Investing in research facilities

The Government is also providing grants totalling \$235 million for a number of medical research facilities to further their research, development and expansion projects. This funding will allow facilities such as the Walter and Eliza Hall Institute of Medical Research and the Howard Florey Institute to significantly expand their research activities in areas such as cancer and neuroscience.



Five-year average of annual health and medical research grants since 1995-96

Better service delivery and reducing fraud

The Government will spend \$1.1 billion to introduce a new access card for health and social services. The new system will streamline and simplify service delivery as well as reduce opportunities for fraud. This budget also includes additional funding to improve Centrelink call centre service, and measures to bolster the existing fraud and compliance framework to ensure that payments are both accurate and only go to those who are entitled to them.

Streamlining access to Government services and reducing fraud

The Government provides over \$100 billion in health and social services benefits each year. These benefits should be paid efficiently and fairly.

Access card system

To streamline the delivery of health and welfare payments and services, the Government has committed \$1.1 billion to introduce a new access card system utilising smart card technology.

The access card, to be progressively phased in from 2008, will replace 17 existing cards and vouchers and will enable people to obtain benefits in a convenient, reliable way without having

to produce multiple identity documents to access different services.

Only limited personal information will be stored on the card which will be protected against unauthorised access. Cardholders will also have the option of voluntarily storing other information such as emergency contact details.

In addition to improving service delivery, the new system will reduce administration costs and assist in minimising fraud going forward.

Centrelink call centres

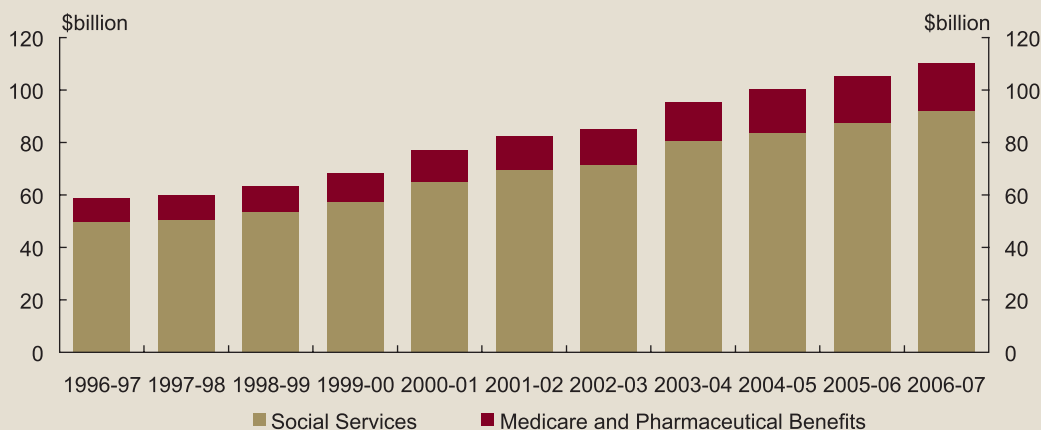
The Government is providing an additional \$115 million to improve the

ability of Centrelink call centres to meet peak demand and reduce call waiting times, including through the expansion of self-service telephone services.

Enhanced fraud and compliance framework

The budget also provides \$282 million for a package of measures to reduce social security fraud, minimise incorrect payments and improve compliance.

The package builds on the existing fraud and compliance framework and is expected to deliver gross savings of \$548 million over five years, ahead of the introduction of the new access card.



Government spending on health and social services

Maintaining education as a key priority

The Government is increasing its spending on education with a number of new initiatives. These build on the Government's commitments, through the Council of Australian Governments, to increase training and skills recognition and improve the quality of education. Continuing strong educational achievement is vital to Australia's long-term workforce participation and productivity outcomes.

Ensuring education opportunities for all Australians

The Government will spend \$16.6 billion on education in 2006-07, up from \$10.8 billion in 1996-97.

The Council of Australian Governments (COAG) has agreed to new measures which underpin a national approach to supporting skills. The Australian Government will provide \$64 million for a range of measures including programmes to encourage skills development, flexible pathways into skilled occupations and the movement of trade-qualified people throughout Australia.

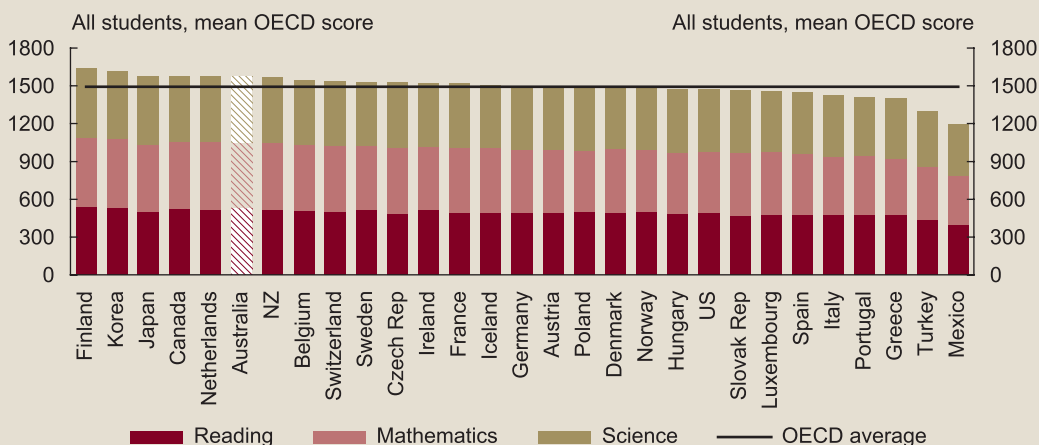
The Government is also working through COAG to enhance our already high level of literacy and numeracy.

This budget provides an extra \$96 million to increase capital funds for universities. This is in addition to specific funding for the Australian National University (\$125 million), Bond University (\$5 million) and the University of Wollongong (\$12 million).

The Government is also increasing the FEE-HELP loan limit for full fee-paying students. For medicine, dentistry and veterinary science the limit will rise to

\$100,000. The limit will rise to \$80,000 for other courses.

The Government will allocate \$35 million over four years to expand the Partnership Outreach Education Models pilot that targets disadvantaged youth, while \$41 million over four years will be provided to extend eligibility to the English as a Second Language — New Arrivals Programme. New Apprenticeships Centres will receive an additional \$107 million to increase contact by Centres with apprentices and their employers and provide assistance to encourage retention and completion.



Australian 15-year-old students perform well internationally (OECD 2004)

Strengthening Indigenous communities

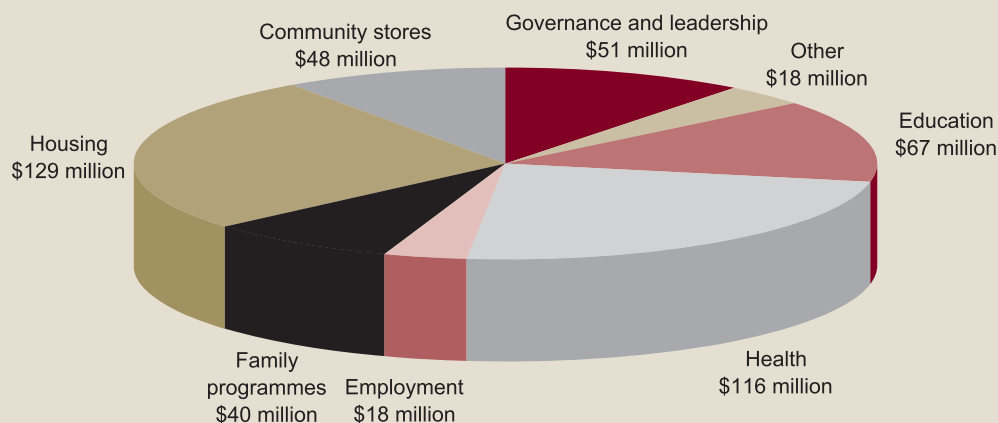
The Government is continuing to work with Indigenous communities to identify priorities and tackle disadvantage, including through Shared Responsibility Agreements. This budget commits an additional \$488 million (including \$115 million in capital) to high priority areas including health, education, housing, governance and leadership. The Government is spending \$3.3 billion on Indigenous programmes in 2006-07, up from \$1.7 billion in 1996-97.

Providing greater opportunity for Indigenous Australians

The Government has committed an additional \$488 million (including \$115 million in capital) over five years to improve Indigenous outcomes. Priorities include:

- \$129 million for housing initiatives, including greater access to finance and financial management services
- \$67 million for education initiatives, including expanding the tutorial assistance programme and sporting academies
- \$61 million for health initiatives, such as improving access to mainstream health services
- \$55 million to help combat petrol sniffing, including further roll-out of non-sniffable Opal fuel, as well as prevention, diversion and rehabilitation strategies
- \$48 million for the development of community stores, to improve health and business activity
- \$28 million to improve the governance of Indigenous organisations
- \$23 million to enhance community leadership
- \$3 million to assist the development of a welfare reform trial in four Cape York communities to improve incentives to study and work, and outcomes for children. Community engagement and agreement is an essential component of the trial.

Recently, the Government announced improved employment service arrangements for participants in the Community Development Employment Projects programme, involving \$127 million over four years.



Boosting Indigenous specific expenditure by \$488 million (including \$115 million in capital)

Enhancing international engagement

The Government is enhancing its aid, security and defence programmes with Australia's regional neighbours and other countries important to Australia's security and wellbeing.

Increased development assistance and better regional security

Promoting development

The Government is committed to poverty reduction and sustainable development through effective aid, debt relief and reduced global trade barriers.

In 2006-07, the Government will provide around \$3 billion in development assistance, representing a doubling of aid over the last decade. This includes an additional upfront payment of \$136 million to relieve the debts of some of the world's poorest countries. Australia is one of only a few countries to make an upfront payment.

The Government's goal is to increase assistance to about \$4 billion by 2010.

Enhancing security

This budget also funds a programme of capacity building for the security agencies of key regional countries. Regional terrorism remains a serious threat to the citizens of these countries, as well as for Australians.

This budget will provide \$93 million over four years to enable further capacity building in regional law enforcement and border control agencies as well as provide for increased cooperation across a number of Australian and regional security agencies.

Promoting stability

Australia is committed to a secure and stable Afghanistan and Iraq. For Afghanistan, \$14 million has been allocated to establish a diplomatic presence in Kabul and \$218 million will fund an Australian Defence Force (ADF) contribution to a Netherlands-led Provincial Reconstruction Team (PRT). A further \$58 million will provide for the deployment of Chinook helicopters to support the Special Forces Task Group and the initial stages of the PRT.

The Government is continuing the ADF's contribution to Iraq, providing an additional \$393 million over three years.



Australian Official Development Assistance has doubled in the last decade

Funding the abolition of state taxes

In accordance with the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* (IGA), the States and Territories will abolish a range of inefficient taxes. The abolition of these taxes is being funded by the GST. The Australian Government's tax reforms will result in the States and Territories receiving cumulative gains from tax reform of \$12.5 billion from 2006-07 to 2009-10.

GST windfalls have allowed the States to abolish inefficient state taxes

Abolition of taxes

All GST is paid to the States and Territories, giving them a secure and growing revenue base. The States and Territories agreed to abolish a range of inefficient taxes in return for receiving the GST. Taxes already abolished under the IGA are financial institutions duty, listed marketable securities duty, accommodation tax and debits tax.

There is now an agreed schedule with all States and Territories to abolish IGA taxes.

These taxes are mortgage duty, cheque duty, lease duty, rental duty, unlisted marketable securities duty and non-real non-residential conveyance duty.

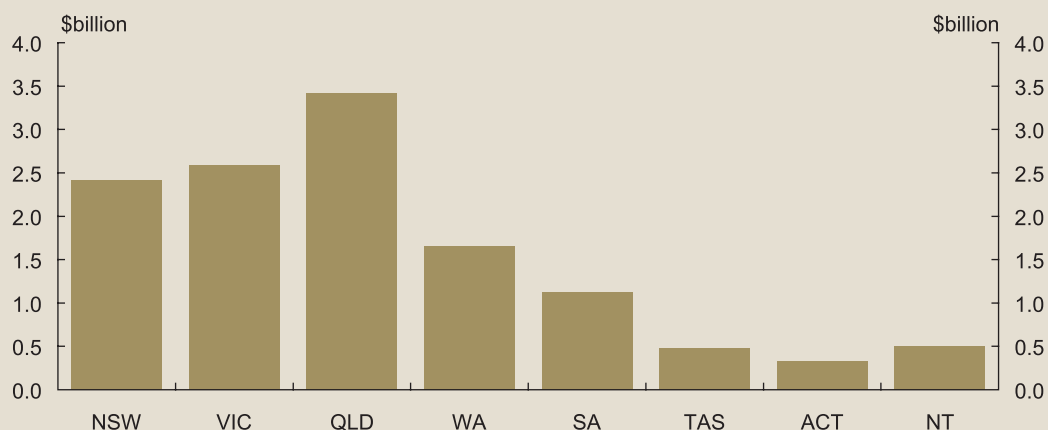
This will save taxpayers \$4.4 billion over the next four years.

The Australian government will continue to pursue the abolition of stamp duty on business conveyances of real property. This is the last remaining tax listed for review under the IGA.

GST windfalls

In 2006-07, the States and Territories are estimated to receive \$1.9 billion more than if tax reform had not taken place.

- \$160 million more for NSW
- \$298 million more for VIC
- \$665 million more for QLD
- \$270 million more for WA
- \$193 million more for SA
- \$102 million more for TAS
- \$61 million more for ACT
- \$123 million more for NT



Cumulative gains by the States and Territories from tax reform: 2006-07 to 2009-10

Higher household incomes

The spending power of Australians has increased significantly since 1996-97.

The increase in the wage level at which families become net taxpayers has been even more dramatic. For example, for a single income couple earning average full-time wages with two children, their real take-home income will have increased by 36.3 per cent and the point at which they become net taxpayers will be \$48,065, a real increase of 41.3 per cent .

Improvement in the real disposable incomes and the net tax thresholds for different household types since 1996-97

Family types and wage as percentages of AWOTE(a)	Real disposable income (\$2006-07)			Real net tax threshold (b) (\$2006-07)		
	1996-97	2006-07	% change	1996-97	2006-07	% change
Single person (67%)	\$24,350	\$30,428	25.0%	\$14,965	\$17,728	18.5%
Single person (100%)	\$33,977	\$43,166	27.0%	\$14,965	\$17,728	18.5%
Single person (167%)	\$50,351	\$66,972	33.0%	\$14,965	\$17,728	18.5%
Sole parent (c) (0%)	\$19,433	\$25,574	31.6%	\$34,594	\$48,065	38.9%
Sole parent (67%)	\$34,179	\$42,941	25.6%	\$34,594	\$48,065	38.9%
Single income couple (133%)	\$44,166	\$57,663	30.6%	\$16,126	\$29,562	83.3%
Single income couple (167%)	\$51,985	\$68,630	32.0%	\$16,126	\$29,562	83.3%
Dual income couple (100 & 33%)	\$47,540	\$60,401	27.1%	\$19,517	\$32,959	68.9%
Dual income couple (100 & 67%)	\$58,328	\$73,594	26.2%	\$22,706	\$33,070	45.6%
Single income couple with children (100%)	\$38,171	\$52,024	36.3%	\$34,021	\$48,065	41.3%
Single income couple with children (133%)	\$46,726	\$63,130	35.1%	\$34,021	\$48,065	41.3%
Single income couple with children (167%)	\$54,545	\$73,621	35.0%	\$34,021	\$48,065	41.3%
Dual income couple with children (100 & 33%)	\$49,300	\$64,624	31.1%	\$34,650	\$51,829	49.6%
Dual income couple with children (100 & 67%)	\$60,088	\$76,775	27.8%	\$34,749	\$50,910	46.5%
Dual income couple with children (167 & 100%)	\$84,329	\$110,139	30.6%	\$34,733	\$51,433	48.1%
Senior single (0%)	\$11,499	\$13,471	17.1%	\$20,258	\$28,136	38.9%
Senior single (33% wages)	\$18,534	\$25,945	40.0%	\$20,258	\$28,863	42.5%
Senior single (33% investment return)	\$18,534	\$25,491	37.5%	\$20,258	\$28,136	38.9%
Senior couple (33 & 33% investment returns)	\$32,684	\$45,677	39.8%	\$33,982	\$49,670	46.2%
Pensioner Couple (0 & 0%)	\$19,064	\$22,395	17.5%	\$33,982	\$49,670	46.2%

(a) AWOTE is average weekly ordinary time earnings for full-time employees.

(b) The net tax threshold is the private income at which taxes paid exceed cash benefits received.

(c) Families with children have two, one aged 3 the other 8 years.

Benefits for families

The tax cuts and family tax benefit changes announced in the budget will significantly improve the incomes of families and individuals. For example, a single income family earning \$40,000 with three children will benefit by \$2,113 from the tax cuts, the increase in the family tax benefit threshold and the extension of the large family supplement.

Improvements in disposable income in 2006-07 from tax cuts and changes to Family Tax Benefit

Private Income	Single income couple no children	Dual income couple no children (50/50 income split)	Sole parent 2 children aged 3 and 8	Single income couple, 2 children aged 3 and 8	Single income couple, 3 children aged 3, 8 and 10	Dual income couple, 2 children aged 3 and 8 (67/33 income split)	Single person
\$10,000	\$365	\$730	\$246	\$365	\$621	\$625	\$365
\$20,000	\$378	\$730	\$1,011	\$365	\$621	\$730	\$365
\$30,000	\$932	\$825	\$783	\$910	\$1,166	\$730	\$910
\$40,000	\$510	\$730	\$1,648	\$1,648	\$2,113	\$2,514	\$510
\$50,000	\$510	\$2,022	\$1,648	\$1,648	\$1,903	\$2,273	\$510
\$60,000	\$510	\$1,820	\$1,489	\$1,489	\$1,904	\$1,854	\$510
\$70,000	\$1,350	\$1,420	\$1,350	\$1,350	\$2,743	\$1,160	\$1,350
\$80,000	\$2,050	\$1,020	\$2,050	\$2,050	\$2,305	\$1,521	\$2,050
\$90,000	\$2,250	\$1,020	\$2,250	\$2,250	\$2,505	\$1,432	\$2,250
\$100,000	\$2,700	\$1,020	\$2,700	\$2,700	\$2,955	\$1,780	\$2,700
\$110,000	\$3,400	\$1,020	\$3,400	\$3,400	\$3,400	\$2,452	\$3,400
\$120,000	\$4,100	\$1,020	\$4,100	\$4,100	\$4,100	\$2,584	\$4,100
\$130,000	\$4,800	\$1,500	\$4,800	\$4,800	\$4,800	\$2,702	\$4,800
\$140,000	\$5,500	\$2,700	\$5,500	\$5,500	\$5,500	\$2,836	\$5,500
\$150,000	\$6,200	\$3,900	\$6,200	\$6,200	\$6,200	\$3,245	\$6,200

Australian Government budget aggregates

The table below shows the main cash and accrual budget aggregates for the Australian Government general government sector over the period 2004-05 to 2009-10.^(a) The underlying cash surplus is estimated to be \$10.8 billion in 2006-07. The fiscal surplus is estimated to be \$10.3 billion. More comprehensive information is provided in Budget Paper No. 1, *Budget Strategy and Outlook 2006-07*, Statement 2.

	Actual	Estimates		Projections		
	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
Revenue (\$b)	206.6	222.9	231.7	240.7	252.1	265.6
Per cent of GDP	23.1	23.3	23.0	22.9	23.0	23.0
Expenses (\$b)	195.7	206.0	219.7	230.6	240.9	252.6
Per cent of GDP	21.9	21.6	21.8	21.9	22.0	21.9
Net operating balance (\$b)	10.9	16.8	11.9	10.1	11.2	13.0
Net capital investment (\$b)	0.1	0.9	1.6	0.2	0.6	0.0
Fiscal balance (\$b)	10.8	16.0	10.3	9.9	10.6	13.0
Per cent of GDP	1.2	1.7	1.0	0.9	1.0	1.1
Underlying cash balance (\$b)(b)	13.6	14.8	10.8	10.6	11.2	12.0
Per cent of GDP	1.5	1.5	1.1	1.0	1.0	1.0
<i>Memorandum item:</i>						
Headline cash balance (\$b)	12.5	13.5	37.5	10.7	11.4	12.3

(a) All estimates are based on Government Finance Statistics (GFS) standards, but with goods and services tax (GST) revenue collected on behalf of the States and Territories netted off revenue and expenses.

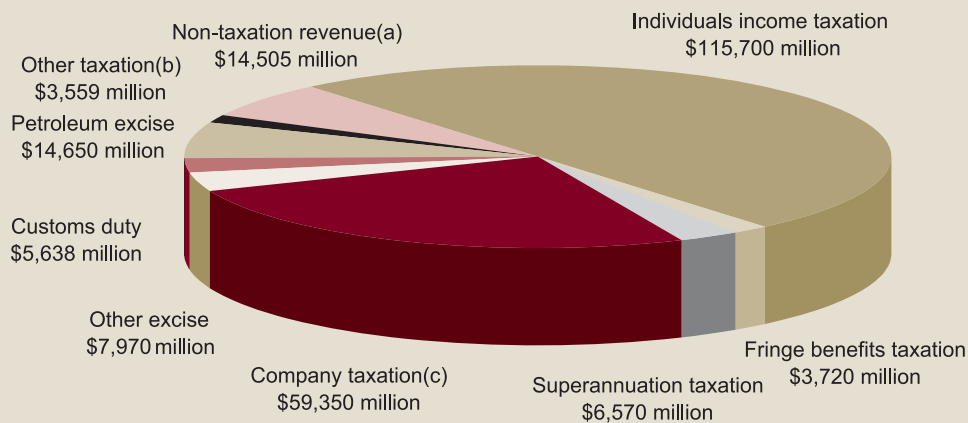
(b) Excludes expected Future Fund earnings from 2005-06 onwards.

Australian Government taxation and spending

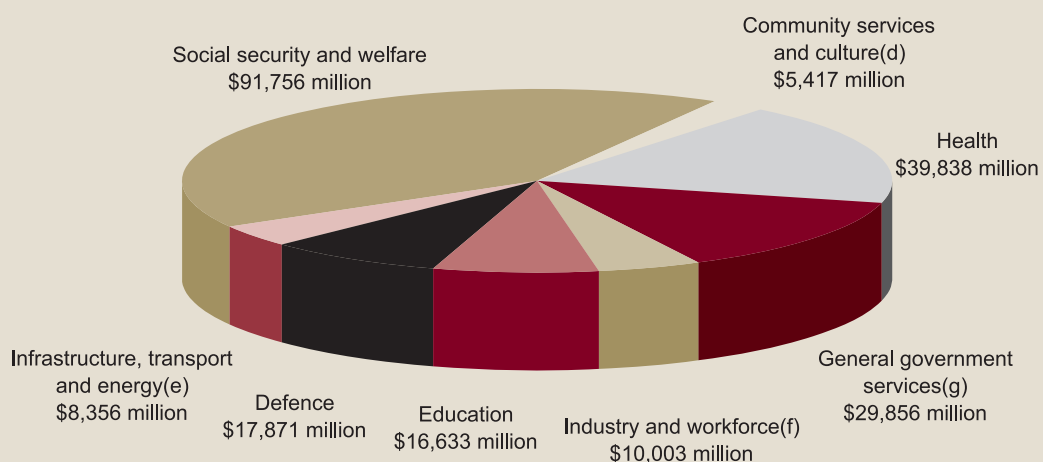
The charts below summarise Australian Government revenues and expenses for 2006-07 on an accrual basis. Total revenue for 2006-07 is expected to be \$232 billion, an increase of 3.9 per cent on estimated revenue in 2005-06. Total expenses for 2006-07 are expected to be \$220 billion, an increase of 6.7 per cent on estimated expenses in 2005-06.

More comprehensive information is provided in Budget Paper No. 1, *Budget Strategy and Outlook 2006-07*, Statements 5 and 6.

Where revenue comes from



Where taxpayers' money is spent



- (a) Non-taxation revenue includes grants and subsidies, dividend income, interest income, sales of goods and services, and other.
 (b) Other taxation includes wine equalisation tax, luxury car tax, sales tax, agricultural levies, and other taxes.
 (c) Company taxation includes petroleum resource rent tax.
 (d) Includes the housing and community amenities, and recreation and culture functions.
 (e) Includes the fuel and energy, and transport and communication functions.
 (f) Includes the agriculture, forestry and fishing, mining, manufacturing and construction and other economic affairs functions.
 (g) Includes the general public services, public order and safety, and other purposes functions.

Major initiatives in the 2006-07 Budget

This table provides a summary of major new initiatives in the 2006-07 Budget.^(a) More comprehensive information is provided in Budget Paper No. 2, *Budget Measures 2006-07*.

	2005-06	2006-07	2007-08	2008-09	2009-10	Total
	\$m	\$m	\$m	\$m	\$m	\$m
Tax(b)						
Personal income tax cuts	-	-6,385.0	-9,205.0	-9,830.0	-10,435.0	-35,855.0
Fringe benefits tax - reduction in rate	-	-260.0	-195.0	-205.0	-210.0	-870.0
Uniform capital allowance - diminishing value rate	-	-500.0	-900.0	-1,100.0	-1,200.0	-3,700.0
Taxation of trusts - distributions to non-resident trustee	-	-	250.0	270.0	280.0	800.0
Tax compliance - high wealth individuals	-	65.0	145.0	190.0	215.0	615.0
Superannuation - pre-1 July 1988 funding credits	-	150.0	150.0	150.0	150.0	600.0
Defence						
Heavy airlift	-	792.2	517.6	360.1	248.5	1,918.4
Hardened and Networked Army - Phase 2	-	24.1	67.9	152.1	196.4	440.5
Operation Slipper - provincial reconstruction team to Afghanistan	-	91.5	99.4	27.3	-	218.2
National Security						
National Security - Preventing Terrorism	83.8	314.2	346.3	388.2	410.5	1,543.0
Families						
Increase in FTB A threshold	-	241.8	246.2	249.0	256.3	993.3
A new child support scheme	9.3	112.8	237.6	290.3	227.0	877.0
Large families supplement	-	113.7	125.4	128.2	129.4	496.7
Carers payment	354.4	3.6	-	-	-	358.0
Utilities and senior concession allowance payment and extension of eligibility	201.0	7.5	7.1	6.5	6.4	228.5
Transport						
Road and rail infrastructure - additional funding	270.5	198.9	645.8	902.3	301.0	2,318.5
Environment						
Murray Darling Basin Commission	-	65.0	145.0	175.0	65.0	450.0
Border control						
Securing Borders against Illegal Foreign Fishing	-	105.5	105.6	90.9	87.0	389.0
Improving immigration services	-	145.9	90.7	73.7	64.9	375.2
Health						
COAG Mental Health	-	138.3	328.2	430.3	465.7	1,362.5
COAG Health Services	6.3	137.4	167.4	201.9	180.8	693.8
Funding for health and medical research	215.0	34.0	106.4	183.9	266.4	805.7
Health and social services access card	-	207.8	289.9	315.0	239.0	1,051.8
Fraud and compliance						
Fraud and compliance measures(c)	-4.3	8.2	-61.6	-91.6	-116.7	-266.0
Education						
COAG Health Workforce	23.0	23.0	40.5	70.0	84.3	240.8
Australian National University - capital works	125.0	-	-	-	-	125.0
Indigenous Australians						
Strengthening Indigenous communities	14.3	65.5	88.6	102.1	102.5	373.0

(a) Measures are presented on a fiscal impact basis.

(b) A minus sign against a revenue measure indicates a reduction in the fiscal balance.

(c) A minus sign against an expense measure indicates an increase in the fiscal balance.

Detailed economic forecasts for 2006-07

The table below shows the Government's macroeconomic forecasts. The Australian economy is expected to record moderate growth in 2006-07, following modest growth in 2005-06.

More comprehensive information is provided in Statement 3, Budget Paper No. 1, *Budget Strategy and Outlook 2006-07*.

	Outcomes(b) 2004-05	Estimates 2005-06	Forecasts 2006-07
Demand and output(a)(c)			
Household consumption	4.2	2 3/4	3
Private investment			
Dwellings	-1.5	-3	-1
Total business investment(d)	11.7	14	8
Non-dwelling construction(d)	7.7	14	6
Machinery and equipment(d)	15.4	15	9
Private final demand(d)	4.5	4 1/4	3 3/4
Public final demand(d)	4.3	3 1/4	3 1/4
Total final demand	4.4	4	3 1/2
Change in inventories(e)			
Private non-farm	-0.3	0	0
Farm and public authorities(f)	0.0	0	- 1/4
Gross national expenditure	4.1	4	3 1/2
Exports of goods and services	2.5	2	7
Imports of goods and services	12.0	6	7
Net exports(e)	-2.0	-1	- 1/2
Gross domestic product(a)(c)	2.5	2 1/2	3 1/4
Non-farm product	2.6	2 3/4	3 1/4
Farm product	-0.5	-1	2
Other selected economic measures(a)			
External accounts			
Terms of trade	10.0	10	0
Current account balance			
\$billion	-57.6	-56 1/4	-62 1/2
Percentage of GDP	-6.4	-6	-6 1/4
Labour market			
Employment (labour force survey basis)	3.0	2	1
Unemployment rate (per cent)	5.3	5 1/4	5 1/4
Participation rate (per cent)	64.0	64 1/2	64 1/4
Prices and wages			
Consumer Price Index	2.4	3	2 3/4
Gross non-farm product deflator	3.9	4 1/2	2 1/2
Wage Price Index	3.8	4	4

(a) Percentage change on preceding year unless otherwise indicated.

(b) Calculated using original data.

(c) Chain volume measures.

(d) Excluding second-hand asset sales from the public sector to the private sector.

(e) Percentage point contribution to growth in GDP.

(f) For presentational purposes, inventories held by privatised marketing authorities are included with the inventories of the farm sector and public marketing authorities.

Source: Australian Bureau of Statistics and Treasury.

Historical budget and net debt data

This table provides historical data and forward estimates for Australian Government general government sector cash receipts, cash payments, the underlying cash balance and net debt. The table provides details of the cash budget aggregates for the period 1973-74 to 2009-10. More comprehensive information is provided in Statement 13, Budget Paper No. 1, *Budget Strategy and Outlook 2006-07*.

	Receipts		Payments		Underlying cash balance(a)		Net debt	
	\$m	Per cent of GDP	\$m	Per cent of GDP	\$m	Per cent of GDP	\$m	Per cent of GDP
	1973-74	11,890	20.1	10,829	18.3	1,061	1.8	-1,851
1974-75	15,325	21.9	15,275	21.8	50	0.1	-1,901	-2.7
1975-76	18,316	22.4	19,876	24.3	-1,560	-1.9	-341	-0.4
1976-77	21,418	22.7	22,657	24.0	-1,239	-1.3	898	1.0
1977-78	23,491	22.8	25,489	24.7	-1,998	-1.9	2,896	2.8
1978-79	25,666	22.0	27,753	23.8	-2,087	-1.8	4,983	4.3
1979-80	29,780	22.5	31,041	23.4	-1,261	-1.0	6,244	4.7
1980-81	35,148	23.4	35,260	23.5	-112	-0.1	6,356	4.2
1981-82	40,831	23.6	40,394	23.3	437	0.3	5,919	3.4
1982-83	44,675	24.0	47,907	25.7	-3,232	-1.7	9,151	4.9
1983-84	49,102	23.4	55,966	26.6	-6,864	-3.3	16,015	7.6
1984-85	57,758	24.9	63,639	27.4	-5,881	-2.5	21,896	9.4
1985-86	64,845	25.3	69,838	27.3	-4,993	-2.0	26,889	10.5
1986-87	73,145	26.1	75,392	26.9	-2,247	-0.8	29,136	10.4
1987-88	81,217	25.4	79,440	24.8	1,777	0.6	27,359	8.6
1988-89	88,369	24.4	82,202	22.7	6,167	1.7	21,982	6.1
1989-90	95,517	24.0	88,882	22.4	6,635	1.7	16,121	4.1
1990-91	97,705	23.9	97,333	23.8	372	0.1	16,936	4.1
1991-92	92,966	22.3	104,551	25.1	-11,585	-2.8	31,132	7.5
1992-93	94,448	21.6	111,484	25.5	-17,036	-3.9	55,218	12.6
1993-94	100,142	21.8	117,252	25.5	-17,110	-3.7	70,223	15.3
1994-95	109,720	22.5	122,901	25.3	-13,181	-2.7	83,492	17.2
1995-96	121,105	23.4	131,182	25.3	-10,077	-1.9	95,831	18.5
1996-97	129,845	23.8	135,126	24.8	-5,281	-1.0	96,281	17.6
1997-98	135,779	23.5	134,608	23.3	1,171	0.2	82,935	14.4
1998-99	146,496	24.1	142,159	23.4	4,337	0.7	70,402	11.6
1999-00	166,089	25.7	153,030	23.7	13,059	2.0	53,768	8.3
2000-01	161,114	23.4	155,143	22.5	5,970	0.9	42,651	6.2
2001-02	162,884	22.1	163,867	22.3	-983	-0.1	38,024	5.2
2002-03	176,503	22.5	169,017	21.6	7,486	1.0	29,665	3.8
2003-04	187,336	22.3	179,300	21.4	8,036	1.0	23,421	2.8
2004-05	203,960	22.8	190,344	21.3	13,616	1.5	11,534	1.3
2005-06(e)	222,400	23.3	207,512	21.7	14,805	1.5	-4,784	-0.5
2006-07(e)	230,819	22.9	218,225	21.6	10,828	1.1	-22,075	-2.2
2007-08(p)	239,517	22.8	226,906	21.6	10,628	1.0	-24,743	-2.4
2008-09(p)	250,663	22.8	237,329	21.6	11,225	1.0	-37,140	-3.4
2009-10(p)	263,994	22.9	249,708	21.6	12,019	1.0	-50,184	-4.3

(a) Excludes expected Future Fund earnings from 2005-06 onwards.

(e) Estimates

(p) Projections