



Budget 2016-17

OVERVIEW

3 May 2016

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This Budget sets out the Government's economic plan to ensure Australia continues to successfully transition from the mining investment boom to a stronger, more diversified, new economy in three key ways.

First, by sticking to the Government's plan for jobs and growth through:

- a *Ten Year Enterprise Tax Plan* that will boost new investment, create and support jobs and increase real wages, starting with tax cuts for small and medium-sized enterprises, that will permanently increase the size of the economy by just over one per cent in the long term;
- continued investment in the National Innovation and Science agenda, including support for new start-up businesses;
- securing an advanced local defence manufacturing industry through the twenty year defence industry plan, driving new high-tech jobs in Australia, including 3,600 direct jobs as part of the Government's naval shipbuilding programme;
- opening up more export opportunities through trade agreements that are already delivering new jobs and markets for Australian producers, manufacturers and service providers; and
- working to get more than 100,000 vulnerable young people into jobs in the growing Australian economy by giving them real work experience with real employers that leads to real jobs.

Second, by fixing problems in the tax system to enable us to sustainably cover the Government's responsibilities for the next generation by:

- combating tax avoidance, especially by multinational corporations, to ensure everyone pays the tax they should on what they earn in Australia;
- closing off generous superannuation tax concessions for Australia's most wealthy and better targeting superannuation tax concessions to support working Australians build independent wealth for their retirement; and
- giving hard working Australians and the Australian businesses that employ them greater tax relief to earn more without being taxed more.

And third, ensuring that the Government lives within its means, to balance the budget and reduce the burden of long-term debt by:

- continuing to keep government spending growth under control and to ensure spending is as efficient, effective and well-targeted as possible;
- targeting welfare abuse to ensure the social safety net is there for Australia's most vulnerable, in particular those with disabilities; and
- responsibly investing in infrastructure like roads, rail, dams and public transport and guaranteeing real, affordable funding for health and education services that Australians rely on.

Australia's transition is supporting jobs growth

The successful transition to broader-based economic and jobs growth is due to the flexibility of the Australian economy

The Australian economy is transitioning from the largest mining investment boom in its history to broader-based growth.

The resources sector will continue to play an important role in our economy – the economic transition is about broadening growth to other sectors of the economy.

Growth is shifting to the more employment-intensive service sectors. The largest employment growth over the past year has been in the household and business

services sectors, such as health and retail trade.

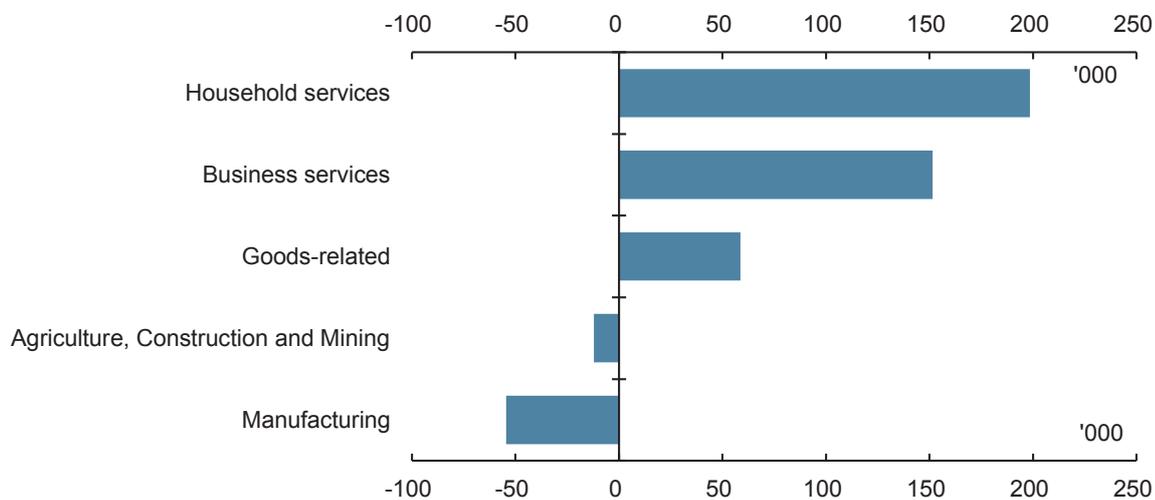
The unemployment rate has fallen and more Australians have entered the workforce.

The flexibility of the economy and new export trade agreements mean that we can also take advantage of transitions happening in many other economies.

A rising Asian middle class and ageing populations within our region offer opportunities to export more services.

The number of tourists visiting Australia from China exceeded one million for the first time in 2015. Future visitor growth is likely to come from India, as well as other emerging countries in Asia. International student enrolments are also growing strongly, while Australia's reputation as a leading provider of services continues to grow.

Almost 300,000 jobs were created in 2015



Through the year to the December quarter of 2015

A national plan for jobs and growth

The Government is sticking to its national economic plan for jobs and growth

The Government is helping to create more jobs as the mining boom ends and new sources of growth emerge. There were almost 300,000 jobs created in the economy last year, the largest number of jobs created in a single year since 2007.

Having more secure and better paying jobs in a strengthening economy provides financial security and opportunities for Australian families.

Our policies will drive economic growth, particularly through innovation, boosting investor confidence, **opening up new markets through Australia's successful and ambitious trade agenda**, and continuing on a sustainable path to balancing the budget.

The Government's economic plan builds on the achievements of the past 2½ years of the Coalition Government and sets out fresh policy directions that seek to ensure the economy is working for every Australian.

Our plan for jobs and growth

Building an economy that works for every Australian

Path to budget balance



A better tax system



More exports



Youth employment



Our plan

Competition and choice



High-tech defence jobs



Innovation and science



Infrastructure



Budget at a glance

Careful and responsible economic management and fiscal restraint will support the successful transitioning of our economy

This Government, in a challenging budget environment, is making responsible choices in its national economic plan to support jobs and growth and boost the economy by directing spending where it is needed and most effective.

The Government's **Ten Year Enterprise Tax Plan** will support growth, higher wages and jobs by lowering the tax rate for companies over time to an internationally competitive level.

The Government will **better target superannuation concessions** while ensuring that incentives for individuals to save for retirement continue.

The **\$1.1 billion National Innovation and Science Agenda** and new measures to support innovation will put Australia on the right track to becoming a leading innovator.

The Government has committed a record **\$50 billion in infrastructure investment** between 2013-14 and 2019-20 for roads, rail, airports and dams.

The **twenty year defence industry plan** is underpinned by the Government's commitment to grow Defence funding to 2 per cent of GDP by 2020-21, transforming the defence manufacturing industry.

The **\$840 million Youth Employment Package** will provide an innovative approach to help up to 120,000 vulnerable young people secure jobs.

The Government is committed to restraining growth in spending and to sustainable revenue policies that will support economic growth while returning the budget to balance.

Maintaining spending control will create opportunities to deliver future tax relief as the budget position allows, while charting a **sustainable path back to budget balance** and reducing the fiscal burden on future generations.

Budget aggregates and major economic parameters

Budget aggregates

	Actual		Estimates		Projections	
	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Underlying cash balance (\$b)(a)	-37.9	-39.9	-37.1	-26.1	-15.4	-6.0
Per cent of GDP	-2.4	-2.4	-2.2	-1.4	-0.8	-0.3
Fiscal balance (\$b)	-39.9	-39.4	-37.1	-18.7	-9.8	-2.1
Per cent of GDP	-2.5	-2.4	-2.2	-1.0	-0.5	-0.1

(a) Excludes net Future Fund earnings.

Major economic parameters(b)

	Outcomes		Forecasts		Projections	
	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Real GDP	2.2	2 1/2	2 1/2	3	3	3
Employment	1.6	2	1 3/4	1 3/4	1 1/4	1 1/2
Unemployment rate	6.1	5 3/4	5 1/2	5 1/2	5 1/2	5 1/2
Consumer price index	1.5	1 1/4	2	2 1/4	2 1/2	2 1/2
Wage price index	2.3	2 1/4	2 1/2	2 3/4	3 1/4	3 1/2
Nominal GDP	1.6	2 1/2	4 1/4	5	5	5

(b) Year average growth unless otherwise stated. From 2014-15 to 2017-18, employment and the wage price index are through the year growth to the June quarter. The unemployment rate is the rate for the June quarter. The consumer price index is through the year growth to the June quarter.

Source: ABS cat. no. 5206.0, 6202.0, 6345.0, 6401.0 and Treasury.

Economic outlook

The Australian economy is entering its 26th year of uninterrupted growth despite an uncertain international environment

Australia is growing faster than all major advanced economies and well above the OECD average. The economy is forecast to grow by 2½ per cent in both 2015-16 and 2016-17 and to pick up to 3 per cent in 2017-18.

Near-term economic growth is being supported by household spending, investment in housing and exports.

This strong economic growth is also underpinning strong jobs growth. Almost 300,000 jobs were created

in 2015, the most created in a single year since 2007.

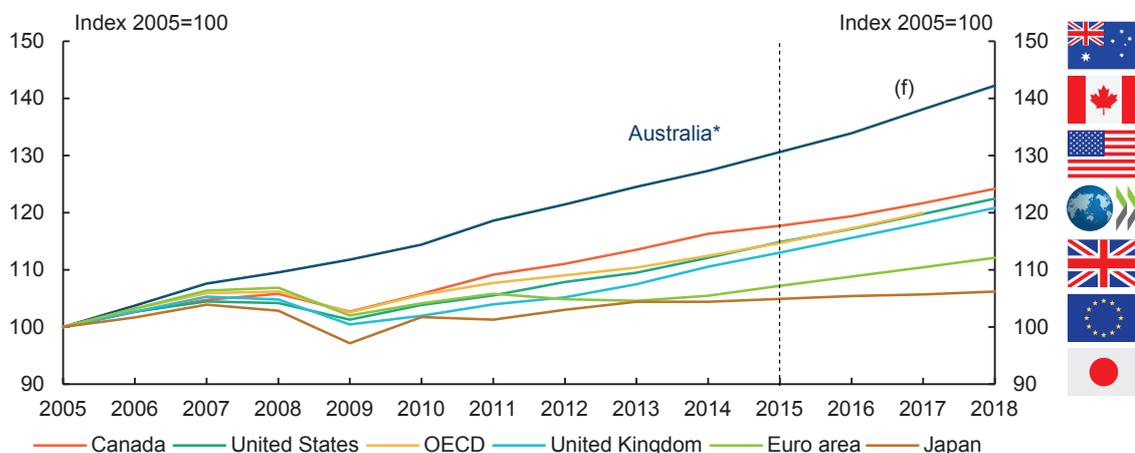
Historically low interest rates and a lower exchange rate compared with the peak of the mining boom are supporting households and businesses.

Global growth has weakened with growth in the United States having moderated, continued sluggish European growth and economic difficulties in a number of commodity exporting countries.

However, growth in Australia's major trading partners is expected to remain higher than global growth, reflecting Australia's trade links to East Asia where growth remains relatively strong.

There are also opportunities for Australia as our transition towards the service sectors is synchronised with growing wealth in China and demand for our services.

Australia is growing faster than other advanced economies



*Data for Australia refer to financial years (ie 2005 refers to 2005-06). Note: Forecasts of OECD growth are from the OECD.

Responsible spending restraint

Spending restraint underpins a sustainable path to balancing the budget

The Government remains strongly committed to returning the budget to balance as soon as possible.

Government spending as a share of the economy has remained close to post-GFC highs and would be even higher without the savings measures taken by the Government to date.

Even with these measures, Government spending as a proportion of GDP is projected to remain above its long-run average. In contrast, receipts are expected to recover to their long-run average levels by 2017-18.

Spending restraint is essential to remain on a path towards

a balanced budget, lower Government debt, and a lower tax burden over time.

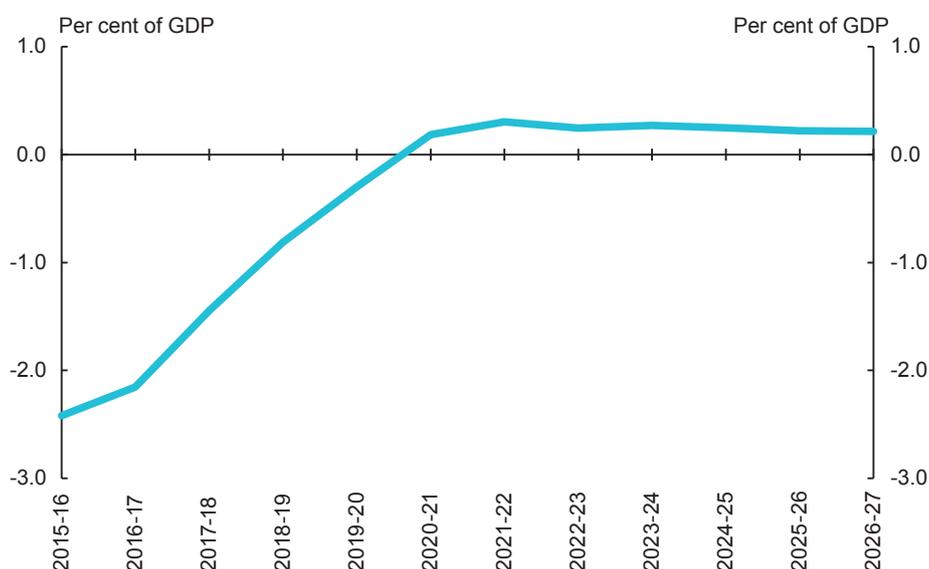
Since the 2013-14 mid-year budget review, the Government has announced overall savings of \$144 billion through sensible reductions in spending and targeted measures to make Australia's tax system more sustainable.

In particular, increases in Government payments have been more than offset by reductions in payments in other areas – rather than funded by increasing taxes on Australians.

As a result of this spending restraint and fiscal discipline, Government payments as a share of GDP are forecast to decline from 25.8 per cent of GDP in 2016-17 to 25.2 per cent of GDP in 2019-20.

It is essential that the Government continues to focus on responsible spending restraint. The Government is committed to ensuring that the \$13 billion of unimplemented expenditure savings measures are passed by the Senate or alternative savings measures identified to continue on the path to a balanced budget.

The budget is projected to return to balance by 2020-21



A continued path to a balanced budget

Living within our means

The Government remains on a continued path to a balanced budget despite the challenges presented by changes in the economic outlook.

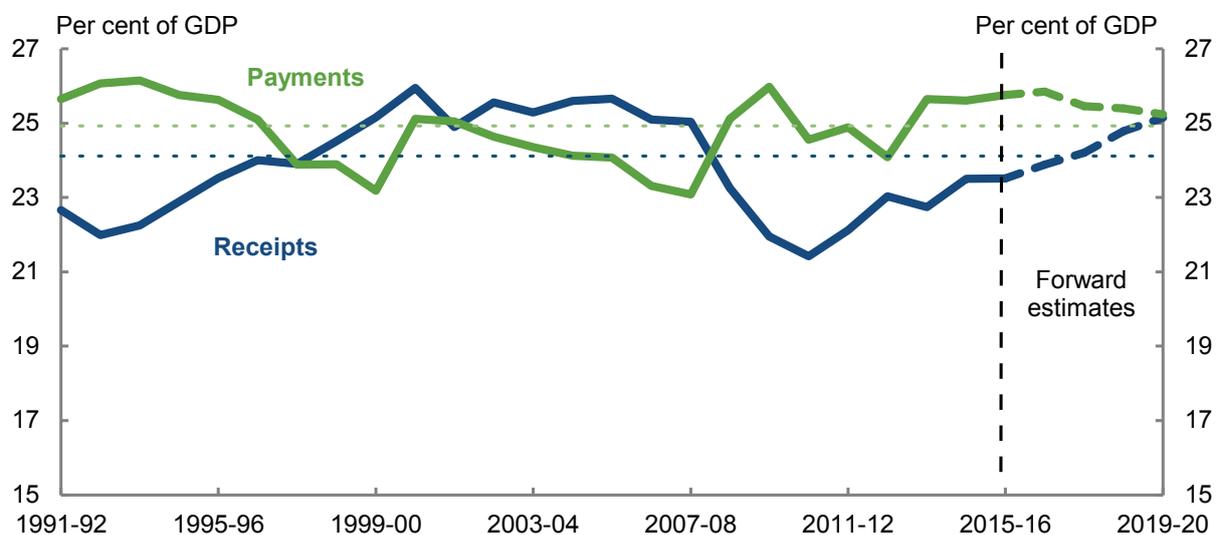
- The underlying cash balance is expected to improve in each and every year over the forward estimates period, from a deficit of 2.4 per cent of GDP in 2015-16 to 0.3 per cent of GDP in 2019-20.
- The overall impact of policy decisions in this Budget has improved the bottom line by \$1.7 billion.

- Payments remain steady or less than 2015-16 mid-year budget review levels.
- Real payments growth has been limited to an annual average of 1.9 per cent over the forward estimates by controlling expenditure.
- Payments as a proportion of GDP are expected to fall to 25.2 per cent by the end of the forward estimates period but more needs to be done.

- Despite lower than anticipated growth in tax receipts, resulting in a decrease in forecast receipts of \$14.7 billion over the four years to 2018-19, the tax-to-GDP ratio is expected to return to its long-run average of 22.3 per cent by 2017-18.
- The budget is projected to return to balance by 2020-21.

The Government is committed to reducing the deficit by constraining spending while keeping taxes as low as possible.

Payments v Receipts (%GDP)



Note: dotted lines denote 30 year averages

A Ten Year Enterprise Tax Plan

Boosting the economy while improving the sustainability of the tax system

Creating sustainable growth and jobs, with a focus on small businesses

Our future depends on how we continue to support growth as we transition to a stronger, more diversified economy.

Australia needs a sustainable tax system that supports economic growth. Our **Ten Year Enterprise Tax Plan** will help underpin Australia's future economic success, attract new investment and create jobs.

This plan will support growth, higher wages and jobs by lowering the tax rate for companies over time to an internationally competitive level.

To grow and prosper, Australia must attract new investment to support economic growth, create jobs and improve living standards.

Our corporate tax rate is high by international standards and well above the average for OECD countries and those in the Asian region. If Australia is going to be competitive in the 21st century, we need a competitive tax system.

Small businesses contribute significantly to the Australian economy, employing over 3 million workers. To make it easier for businesses to invest, grow and hire more workers, the tax rate for companies will be lowered, starting with small business.

From 1 July 2016, businesses with annual turnover less than \$10 million

will have a company tax rate of 27.5 per cent. The company tax rate will be progressively lowered to 25 per cent by 2026-27 for all companies.

The Government will also extend a range of concessions already available to small businesses with turnover less than \$2 million to all businesses with turnover less than \$10 million from 1 July 2016.

The Government will make sure assistance is available for all small businesses by increasing the tax discount to 8 per cent for unincorporated businesses with annual turnover less than \$5 million, capped at \$1,000. This discount will be further increased in phases to reach 16 per cent by 2026-27.

Over **3 million** businesses will face **lower tax rates**



500,000 Australians will remain in the **middle tax bracket**





Reducing the tax burden on hardworking Australians

Punishing tax rises

Australians understand that our outdated tax system is punishing hard work, hindering growth, limiting opportunity and hampering innovation.

We need to modernise our economy and our tax system or we risk being left behind.

This Budget is giving hard working Australians greater incentive to earn more without being taxed more.

Middle income Australians are bearing a growing tax burden.

In recent years, those on low incomes have benefited from tax cuts and the carbon tax compensation that has been retained despite the carbon tax being abolished.

Without action, the average full time wage earner would face the second highest marginal tax rate this year and nearly half of all taxpayers would be in the top two brackets in ten years' time.

Making a start on tax relief

In this Budget, the Government is making a start on personal income tax relief.

The Government will prevent average full time wage earners from moving into the second top tax bracket until 2019-20 by increasing the 32.5 per cent tax threshold from \$80,000 to \$87,000. This will stop around 500,000 taxpayers facing the 37 per cent marginal tax rate.

By pushing up the tax threshold on the middle tax bracket **we'll keep full time average wage earners on the lower rate for longer.**

This will reward hard working Australians for doing more overtime, picking up more shifts, taking a promotion or a better new job, without being penalised by paying more tax through the higher rate.

The Government will consider further measures to reduce the burden of tax as fiscal settings allow.

This **Ten Year Enterprise Tax Plan** will boost new investment, create and support jobs and increase real wages.



Investing in the ideas boom

The National Innovation and Science Agenda is helping Australia harness new sources of growth to deliver economic prosperity

Innovation is critical to Australia's growth and standard of living. Supporting innovative firms to seize new opportunities will create competition, access to new markets and employment growth.

Australia has the fundamentals in place to be a leader in innovation. We need to take advantage of our strengths to foster business activity and new ideas.

The **\$1.1 billion National Innovation and Science Agenda** and new measures in this Budget will support a culture of ideas and innovation to encourage commercialisation, reward enterprise and facilitate investment.

The Government is making it easier to obtain capital, collaborate with researchers and attract talent from overseas.

Improved insolvency laws, crowd-sourced funding laws and tax laws, will support innovative Australians and encourage investment. Reforms to employee share schemes, and the tax concessions for early stage investors and venture capital will encourage investment in innovative startup firms.

The Government is amending section 46 of the *Competition and Consumer Act 2010* to prevent the misuse of market power by dominant firms. Improving the law's clarity, effectiveness and force will improve choice for consumers, and support innovation by new businesses.

An industry-led Cyber Security Growth Centre will create opportunities for businesses to grow and strengthen Australia's cyber security industry.

Financial technology (FinTech)

The ***Government's FinTech Statement*** is our plan for a strong and vibrant FinTech industry in Australia.

The Government will encourage the exploration of Blockchain technology, including through a study and pilot testing by the CSIRO's Data61. We will also introduce changes to the GST to ensure that consumers are no longer double taxed when using digital currencies such as Bitcoin.

The Australian Securities and Investments Commission will also release a consultation paper in the coming weeks on a regulatory sandbox exemption to facilitate the testing of new FinTech products and services.

Transforming our defence industry

The Government has set out a 20 year plan to transform Defence and keep Australia and Australians safe and secure

Investing in defence

The 2016 Defence White Paper builds a more capable force to protect our interests and a stronger partnership with Australian industry.

It provides an additional \$29.9 billion for Defence and brings investment in capability to an unprecedented \$195 billion over the decade to 2025-26. This includes new naval capabilities such as:

- 12 new regionally-superior submarines;
- 9 future frigates; and
- 12 offshore patrol vessels.

The future submarine project is the largest and most complex defence acquisition Australia has ever undertaken.

Building submarines, frigates, offshore patrol vessels and Pacific patrol boats in Australia will directly secure over 3,600 jobs as well as thousands more jobs through the supply chain.

It will also ensure Australia retains a sovereign capability to build and sustain its naval vessels.

The Government is committed to maximising opportunities for Australian businesses to deliver these essential military capabilities.

The White Paper provides \$1.6 billion to build industry competitiveness and skills while harnessing Australian innovation and expertise.

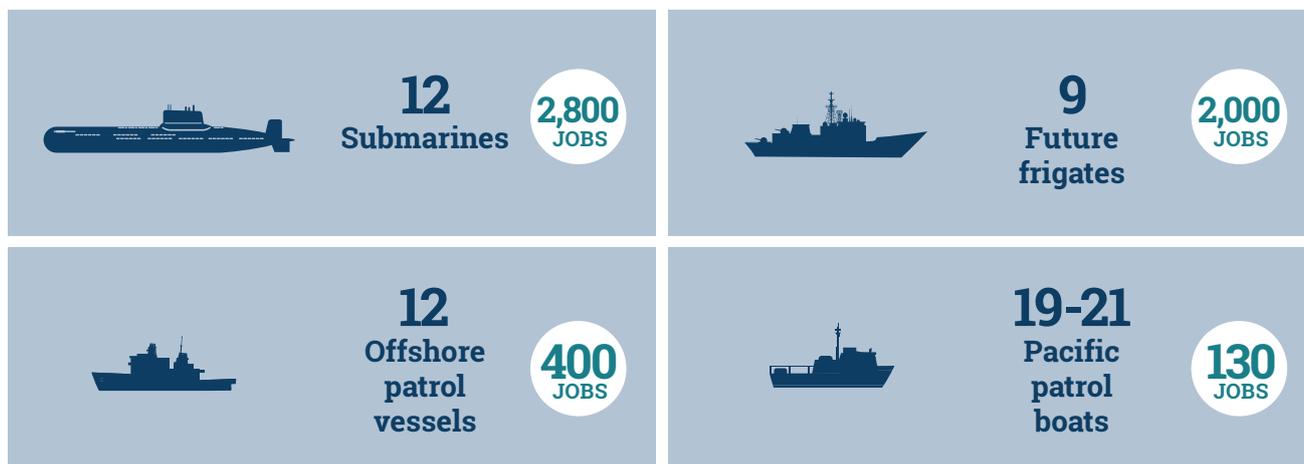
This Budget also provides \$686 million for continued military operations to help protect Australia.

Cyber security

Cyber security is vital to our economic and national security.

This Budget provides \$195 million to deliver a comprehensive cyber security strategy for Australia, which builds on the \$38 million announced in the National Innovation and Science Agenda.

Naval Shipbuilding Plan – 54 new vessels



Export trade agreements

Australians will see key benefits from greater access to overseas markets and more affordable prices for household items

North Asia Trade Agreements

Australia has three significant new trade agreements with China, Japan and Korea. They cover a greater share of our exports than all our previous trade agreements combined.

This trifecta of trade agreements mean Australian exporters now have preferential access to all these north Asia powerhouse economies – including China’s burgeoning services sector.

This kind of access is unprecedented – and unmatched by any major advanced economy. The trade agreements mean that Australia is seen by international

investors as a “go to” destination for establishing export platforms to tap into North Asian markets.

Trans-Pacific Partnership

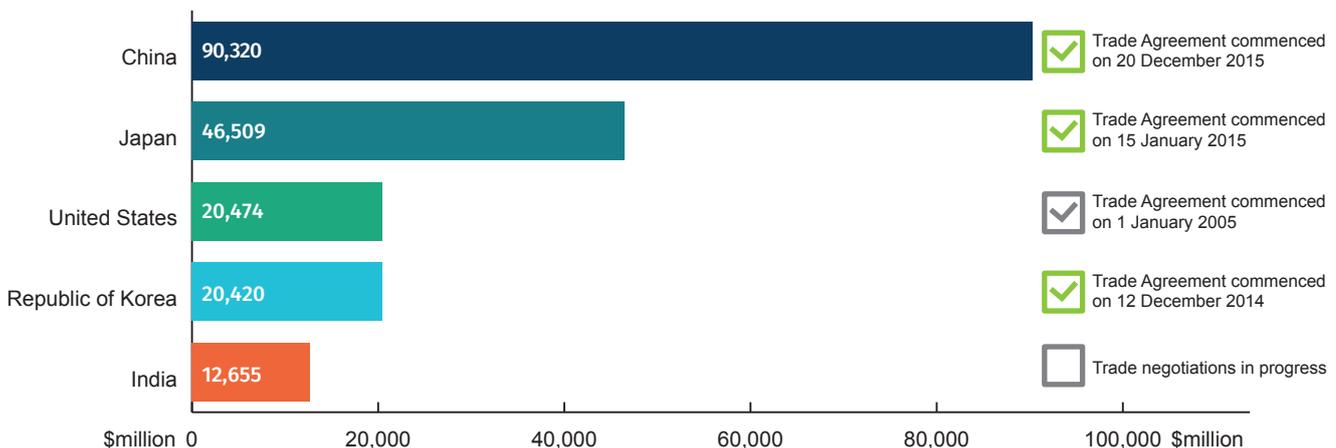
The historic Trans-Pacific Partnership (TPP) Agreement will eliminate more than 98 per cent of tariffs among 12 economies (Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, Peru, New Zealand, Singapore, the United States and Vietnam). Tariffs on US\$9 billion of Australia’s exports to TPP countries will be eliminated. Once implemented, the agreement will drive job creating growth across the Australian economy.

Reductions in tariffs and other trade barriers will establish a seamless trade and investment environment. When combined with our landmark North Asia trade deals, the TPP will also provide greater opportunities for our businesses, reduce costs and red tape and facilitate participation in regional supply chains. The TPP offers a pathway to trade and investment across the entire region.

Asia Region Funds Passport

The Government is also championing participation in the Asia Region Funds Passport which will enable Australian fund managers to more easily export their services to foreign clients.

Four of Australia’s five largest export markets are currently covered by export trade agreements



Source: DFAT STARS database, ABS published and unpublished data. All data is on a balance of payments basis, except for goods by country which are on a recorded trade basis. May exclude selected confidential export commodities from partner country totals.

2014-15 data for export in goods and services

Boosting agriculture

The Government is helping to build a more profitable, resilient and sustainable agriculture sector

The Government is helping farm businesses get more access to overseas markets.

Supporting agriculture

Agriculture is a vital part of the Australian economy, exporting over \$40 billion of goods annually. This Budget builds on the Government's \$4 billion Agricultural Competitiveness White Paper, reinforcing the Government's commitment to ensure the sector remains as competitive as possible.

The Government has appointed five additional agricultural counsellors in key markets. These counsellors will help negotiate access arrangements which will build on opportunities

created by export trade agreements with China, Japan and Korea.

The \$1.2 billion White Paper on Developing Northern Australia includes a **\$100 million Beef Roads Programme** to ensure that farmers can get their cattle to markets. This also includes a **\$75 million Cooperative Research Centre for Northern Australia** that will identify opportunities for research that can benefit industries in northern Australia, including agriculture.

Fairer competition

The 2016-17 Budget improves the **\$13.8 million Farm Cooperatives and Collaboration Pilot Programme** to help farmers develop their trade capabilities.

The new ACCC Agriculture Commissioner has begun work to encourage fair trading and stronger competition in agricultural supply chains.

A new country of origin labelling scheme from 1 July 2016 will ensure consumers are not misled about the origin of the food they buy.

Resilient farmers

Enhancements to the **Farm Management Deposit Scheme** will allow primary producers to set aside greater cash reserves in good years and make it easier to access in low income years.

The Government is also providing **\$7.1 million to fund additional Rural Financial Counsellors** who will provide free financial advice to farmers in drought-affected areas.



Real jobs for young people

Creating an innovative pathway to work for young people

As Australia transitions to a more diversified economy, it is critical to ensure that young people have the opportunities to thrive in the growing sectors where their skills can be put to use.

Due to their lack of experience, often youth have difficulty getting the start they need in the workforce.

The Government is investing \$840 million in an innovative Youth Employment Package to help up to 120,000 young people over four years secure jobs.

Youth Jobs PaTH

To achieve this, the Government has created a new Youth Jobs PaTH (Prepare-Trial-Hire) Programme for young people. The Youth Jobs PaTH responds directly to business

The Youth Jobs PaTH Programme

feedback that more needs to be done to increase young people's employability and to provide them with real work experience.

The pathway will be open to vulnerable job seekers under 25 years of age who are in employment services.

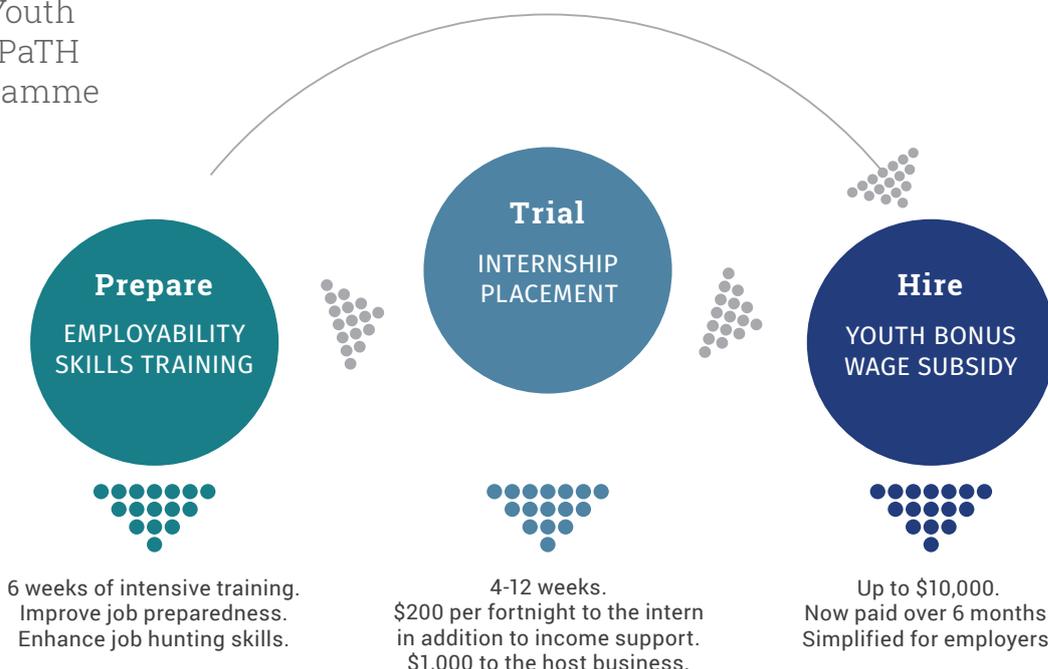
The Youth Jobs PaTH Programme comprises three stages that can be undertaken flexibly, allowing young job seekers to tailor a pathway to work that best suits their needs and builds on their individual strengths and experiences.

Stage one of the pathway is intensive pre employment skills training, which will help prepare young job seekers for work by providing them with the basic employability skills they need in a workplace.

Stage two is an internship placement that links young people with businesses, providing valuable work experience and allowing them to trial the job seeker's fit in the workplace.

Up to 30,000 job seekers each year will gain a four to twelve week placement in an industry of their choosing. Interns will receive an incentive payment of \$200 a fortnight paid in addition to their income support, and businesses will receive an upfront payment of \$1,000 to host them.

At **stage three**, employers who hire an eligible young job seeker in an ongoing job will receive an accelerated wage subsidy of up to \$10,000, paid over six months through simpler and more flexible arrangements.



Enterprising youth

Supporting self-employment and entrepreneurship among youth

In addition to creating the Youth Jobs PaTH Programme, the Government is investing an extra \$88.6 million in supporting those job seekers, including young people, who wish to start their own business. This complements the Government's National Innovation and Science Agenda and will help more young Australians capitalise on the opportunities presented by Australia's economic transition.

The Government is encouraging entrepreneurship, including through expansion of the successful **New Enterprise Incentive Scheme (NEIS)**.

Eligibility for NEIS will be broadened to allow access to self-employment training and mentoring for job seekers who are not on income support, including those not in employment, education or training. An additional 2,300 NEIS places each year will also be funded, making a total 8,600 places available annually.

The Government will also establish new '**Exploring Being My Own Boss**' workshops to engage young job seekers to explore self-employment, in addition to **Self-Employment Starter Packs** and appointing **Inclusive Entrepreneurship Facilitators** in selected locations with high youth unemployment.

These measures will connect more job seekers, including youth, with the business training, finance and networks they need to develop their innovative ideas into successful businesses.



Combating tax avoidance

Ensuring everyone pays the right amount of tax

Cracking down hard on tax avoidance

Like any Australian family or business, the Government is focused on living within our means by keeping expenses down to balance the budget and to pay down debt.

By avoiding their full tax responsibilities and by using aggressive tax minimisation schemes, individuals and companies not paying their tax are hurting the budget and reducing vital funding for the Australian community.

The Government is taking on those individuals and companies who seek to avoid paying tax. The tax avoidance game is up.

A new Diverted Profits Tax

This Budget introduces a new Australian **Diverted Profits Tax**. The Diverted Profits Tax will impose a 40 per cent penalty rate of tax on multinational corporations that

attempt to shift their Australian profits offshore to avoid paying tax.

If multinational corporations seek to short-change Australia they will pay a penalty.

Together, the Multinational Anti Avoidance Law (MAAL) put in place last year and the new **Diverted Profits Tax** are expected to raise around \$650 million over four years from large multinationals.

The Government is ensuring businesses pay the right amount of tax in Australia when they do business in Australia.

New measures to counter tax avoidance

The Government will introduce additional new measures to protect Australia's tax base, enforce compliance and provide transparency.

A newly established **Tax Avoidance Taskforce** will provide the ATO with greater firepower to crack down on tax avoidance by businesses, multinationals and high wealth individuals.

The Tax Avoidance Taskforce is expected to raise \$3.7 billion in additional Government revenue.

The Government will also strengthen the protections for whistleblowers who come forward and report tax avoidance, introduce laws to require tax advisers and promoters of tax schemes to disclose reportable tax schemes to the ATO, and strengthen transfer pricing rules to reduce opportunity for companies to avoid paying tax on business activity in Australia by shifting profits offshore.

The package contained in this Budget of corporate tax integrity, compliance and transparency measures will help achieve the Government's goal of having Australia as the world leader in the global fight against tax avoidance.



Targeted welfare safety net

Providing a well-targeted and sustainable safety net for vulnerable people and families



More effective health spending



Flexible and affordable child care



Supporting and encouraging workforce participation

The welfare system must be well targeted to those who need help the most, and continue to provide a sustainable safety net for Australia's most vulnerable people and families.

More effective health spending

The Government will establish a \$1.7 billion Child and Adult Public Dental Scheme to ensure that dental spending is prioritised to those most in need. To fund this new Scheme, savings have been redirected from existing dental programmes that are either underutilised or inefficient.

Affordable reform

The Government remains committed to providing parents with more choice and opportunity to work through the *Jobs for Families* Child Care package announced at the 2015-16 Budget.

This package will create a simpler, more affordable, accessible and flexible child care system and will see the Government invest more

than \$40 billion in child care support over the next four years. The new Child Care Subsidy, Community Child Care Fund and the Additional Child Care Subsidy will now commence on 1 July 2018. To fund this child care package, the Government is restructuring Family Tax Benefit payments to provide more targeted assistance to families to encourage workforce participation.

The Government is implementing the rest of the child care package, including the Nanny Pilot Programme.

Ensuring welfare spending is fit for purpose

The Government scrapped the carbon tax on 1 July 2014, so there is no longer a need to continue the compensation for cost of living increases that will now not occur.

Therefore the Government will close carbon tax compensation to new recipients of government

welfare benefits. Existing recipients will continue to receive payments. Savings from this measure will be quarantined to offset new social services priorities and to help pay for the NDIS.

Supporting and encouraging workforce participation

The Government is committed to maintaining a sustainable welfare system by ensuring that those who are able to work are supported and encouraged to do so. Over the next three years, up to 90,000 current Disability Support Pension (DSP) recipients will have their DSP eligibility reviewed to assess their capacity to work. Up to 30,000 of the total reviews will include a Disability Medical Assessment as part of the overall review process for those considered to be a high risk of not being eligible for the payment.

Making superannuation more sustainable

Getting the settings right now will set us up for the future...

As Australia's population ages it is becoming increasingly important to ensure that the superannuation system is based on a clear objective, is providing the right incentives to save, and is flexible enough to ensure all Australians are given the opportunity to enjoy a secure retirement.

A clear objective for superannuation

The Government will, for the first time, enshrine in law that the objective for superannuation is to provide income in retirement to substitute or supplement the Age Pension, as recommended by the Financial System Inquiry. This objective has been an important anchor for the development of the superannuation reforms.

Targeted saving incentives

The Government will better target superannuation tax concessions to those who need them most and where they will be most effective in increasing self-sufficiency in retirement. Low income earners will be supported by the Low Income Superannuation Tax Offset, while limits will be placed on the amount of taxpayer support for tax-free retirement accounts.

96 per cent of individuals with superannuation will not be adversely affected by these changes.

These reforms include:

- the introduction of a \$1.6 million transfer balance cap on the amount that can be transferred to tax-free retirement phase accounts;
- a 30 per cent tax on concessional contributions for those earning over \$250,000 per annum;
- a lower \$25,000 annual concessional contributions cap; and
- the introduction of a \$500,000 lifetime non-concessional cap.

This will put the system on a more sustainable footing and increase confidence that superannuation settings are consistent with the objective.

Individuals will not be adversely affected by the changes unless they:

**MAKE
CONCESSIONAL
CONTRIBUTIONS**



**HAVE INCOME
(INC. SUPER
CONTRIBUTIONS)**



**HAVE A
SUPERANNUATION
BALANCE**



**MAKE OR PLAN
TO MAKE**





...and ensure we will maintain our world class superannuation system

Greater flexibility

Recognising that individuals have different work patterns and employment arrangements, the Government will enable greater flexibility and choice in how we save for retirement.

For those who want to boost their superannuation balances, unused concessional caps will be allowed to be carried forward by individuals with superannuation balances of \$500,000 or less, to enable 'catch up' superannuation contributions. The Government will also allow all Australians under the age of 75 to claim a tax deduction for

personal contributions to an eligible superannuation fund, up to the concessional cap, and extend the eligibility for individuals to claim a tax offset for contributions made to their low income spouses' superannuation.

Encouraging saving

The superannuation system is for all Australians and all Australians should be supported to use it where they can to save for their retirement.

The Government will lift restrictions on contributions to superannuation that apply to Australians aged 65 to 74 and instead apply the same

contribution acceptance rules for all individuals up to age 75.

The Government will also assist those with small account balances that risk being slowly diminished by superannuation fund fees and charges. Impediments will be removed to allow eligible rollover funds to proactively reunite amounts they hold with active accounts of the fund member. This adds to other measures, like myGov, SuperMatch2 and pre-filled superannuation choice forms, which will help reduce the number of multiple accounts that erode retirement savings.

Sustainable

Targeting tax concessions where they're needed most

Flexible

Adjusting the settings for modern work patterns

Integrity

A system that meets its core purpose and objective

The objective of superannuation is **'to provide income in retirement to substitute or supplement the Age Pension'**.

Investing in roads, rail and dams

The Government is responsibly investing in infrastructure in cities and regions

The Government is investing a record \$50 billion in infrastructure between 2013-14 and 2019-20.

We are responsibly investing in roads, rail and dams.

The Government has reallocated \$1.5 billion in funding for Victorian transport infrastructure, including upgrades for:

- the *Monash Freeway*
- the *Murray Basin Freight Rail*
- the *M80 Ring Road*
- urban and regional roads

In Western Australia, the Government is investing \$490 million in the Forrestfield-Airport Rail Link

and an additional \$261 million for the Perth Freight Link for Section 2.

In Queensland, \$200 million is being invested in the first stage of the Ipswich Motorway.

For the **Melbourne to Brisbane Inland Rail** \$594 million in additional equity funding is being provided to the Australian Rail Track Corporation to acquire land.

A \$2 billion National Water Infrastructure Loan Facility will support major water infrastructure projects, such as dams, building on the \$510 million National Water Infrastructure Development Fund.

The Government is also committing a further \$115 million to continue

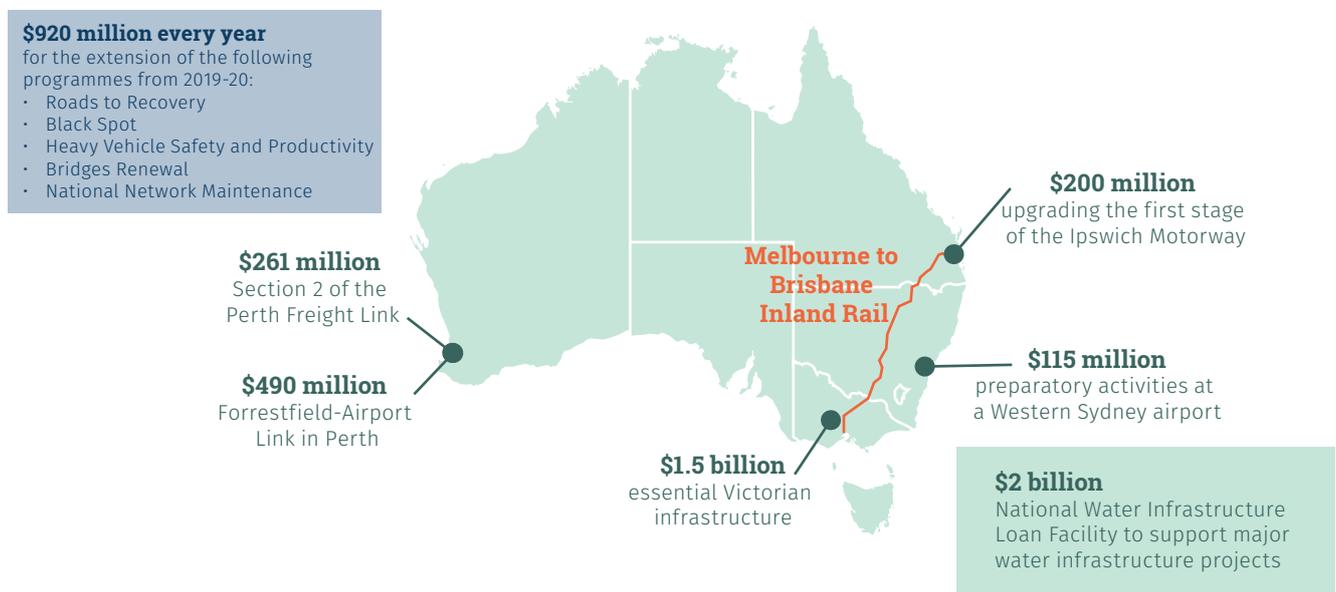
preparatory activities at a Western Sydney airport.

The Government has finalised, or is close to finalising, agreements under the Asset Recycling Initiative with four states and territories worth \$3.3 billion. These agreements will unlock over \$23 billion in State and Territory infrastructure spending, including for the Sydney and Melbourne Metro projects.

Smart Cities Plan

The Government's Smart Cities Plan will ensure that it is easier to invest and do business in our cities so that they can become even better places to live and work.

New infrastructure commitments



More funding for hospitals and schools

Supporting the States and Territories to provide services for all Australians



Supporting the States and Territories

In 2016-17, the Government will provide record levels of financial assistance to State Governments to deliver the services Australians need.

The Commonwealth will provide the States with more than \$61.3 billion in general revenue assistance (primarily GST) for States to spend as they wish, an increase of 5 per cent since 2015-16. This is in addition to the \$55.3 billion that the Commonwealth will provide the States to fund particular projects and for the delivery of specific outcomes, an increase of 11 per cent since 2015-16.

The Commonwealth funds around 47 per cent of State spending. States also have access to their own revenue sources to fund State responsibilities.

The Government will provide the States with an extra \$4.1 billion for hospitals and schools, to support services and reform. This brings the Commonwealth's assistance for hospitals and schools to more than \$34 billion per annum over the forward estimates.

Hospitals

At the April 2016 COAG meeting, the Commonwealth and the States signed a three year Heads of Agreement for public hospitals. The Government will provide an **estimated additional \$2.9 billion between 2017-18 and 2019-20** to support public hospitals, with links to reforms to reduce avoidable hospital admissions, improve patient safety and boost the quality of services.

Schools

The Government will also provide an **additional \$1.2 billion between 2018 and 2020 for schools**, contingent upon reform efforts by the States and the non-government schools sector to improve education outcomes.

These funding arrangements for hospitals and schools provide an opportunity to develop longer-term funding arrangements and further reforms that focus on quality and sustainability into the future.

Living within our means

Commonwealth payments to the States are continuing to grow at a time when State budgets are in a strong position.

However, all levels of government must live within their means and ensure services are based on what taxpayers can afford and the economy can support.

Budget aggregates

The table below shows the main cash and accrual budget aggregates for the Australian Government general government sector over the period 2014-15 to 2019-20

More comprehensive information is provided in Budget Paper No.1, Statement 3

Australian Government budget aggregates

	Actual		Estimates			Projections
	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
	\$b	\$b	\$b	\$b	\$b	\$b
Receipts	378.3	388.0	411.3	437.4	469.9	500.7
Per cent of GDP	23.5	23.5	23.9	24.2	24.8	25.1
Payments (a)	412.1	425.0	445.0	459.9	481.5	502.6
Per cent of GDP	25.6	25.8	25.8	25.5	25.4	25.2
Net Future Fund earnings	4.1	3.0	3.3	3.6	3.8	4.1
Underlying cash balance(b)	-37.9	-39.9	-37.1	-26.1	-15.4	-6.0
Per cent of GDP	-2.4	-2.4	-2.2	-1.4	-0.8	-0.3
Revenue	380.7	396.4	416.9	449.5	484.4	515.1
Per cent of GDP	23.7	24.0	24.2	24.9	25.5	25.9
Expenses	417.9	431.5	450.6	464.8	489.3	511.6
Per cent of GDP	26.0	26.1	26.2	25.7	25.8	25.7
Net operating balance	-37.2	-35.1	-33.7	-15.3	-5.0	3.5
Net capital investment	2.7	4.4	3.4	3.4	4.9	5.5
Fiscal balance	-39.9	-39.4	-37.1	-18.7	-9.8	-2.1
Per cent of GDP	-2.5	-2.4	-2.2	-1.0	-0.5	-0.1
<i>Memorandum item:</i>						
Headline cash balance	-38.9	-51.5	-53.4	-34.2	-23.9	-14.4

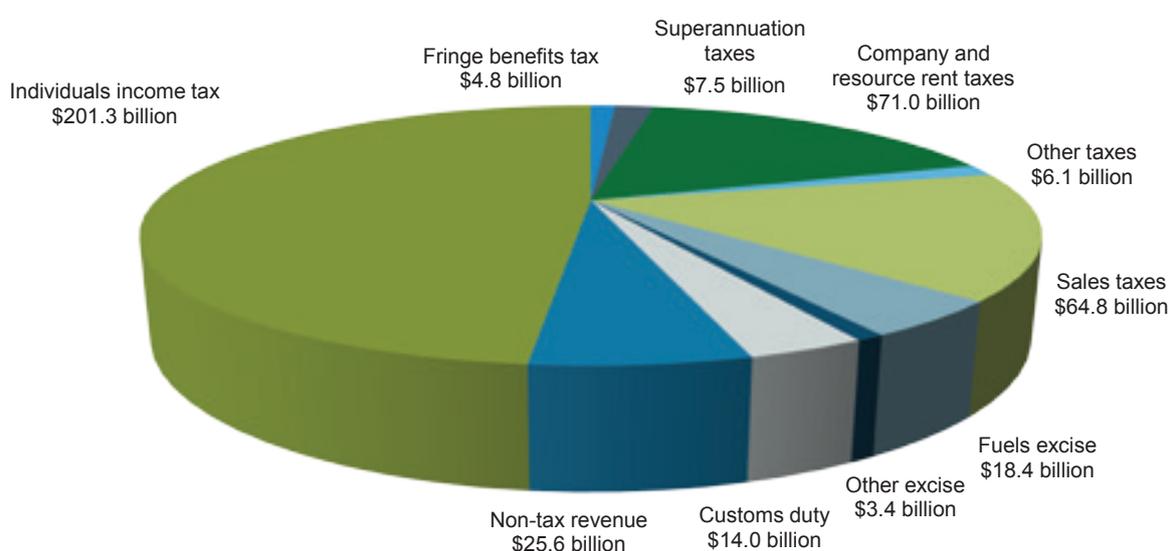
(a) Equivalent to cash payments for operating activities, purchases of non-financial assets and net acquisition of assets under finance leases.

(b) Excludes net Future Fund earnings

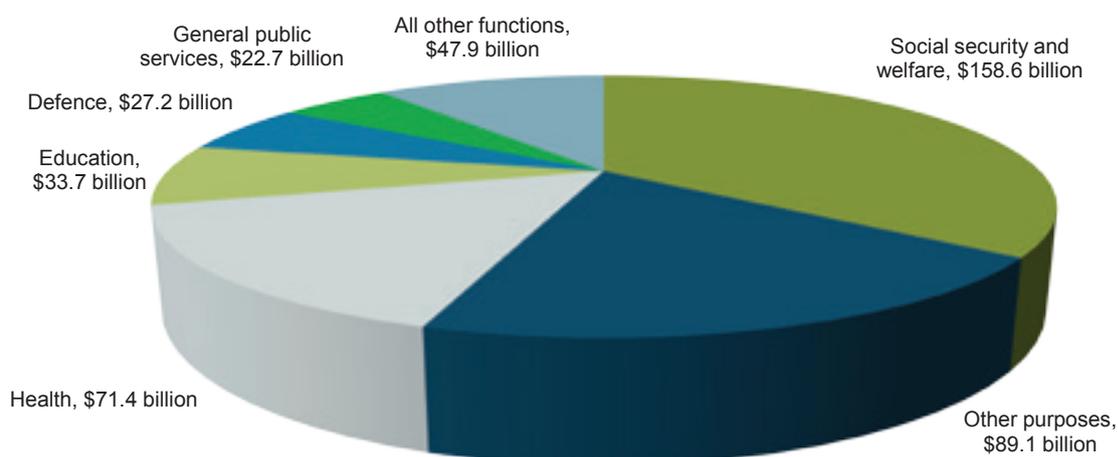
Revenue and spending

Total revenue for 2016-17 is expected to be \$416.9 billion, an increase of 5.2 per cent on estimated revenue in 2015-16. Total expenses for 2016-17 are expected to be \$450.6 billion, an increase of 4.4 per cent on estimated expenses in 2015-16.

Where revenue comes from (2016-17)



Where taxpayers' money is spent (2016-17)



Major initiatives

This table summarises the major initiatives in the 2016-17 Budget and their impact on the fiscal balance

More comprehensive information is provided in Budget Paper No. 2, Budget Measures 2016-17

Initiatives	2015-16	2016-17	2017-18	2018-19	2019-20	Total
	\$m	\$m	\$m	\$m	\$m	\$m
Public Hospitals – new funding arrangements	0.0	0.0	-477.2	-936.8	-1,445.8	-2,859.8
School funding – additional funding from 2018	-	-	-102.2	-306.1	-519.3	-927.6
Commonwealth Assistance for Western Australia	-490.0	0.0	0.0	0.0	0.0	-490.0
Operation Okra – extension	-	-351.5	-22.1	-13.9	-	-387.6
Youth Employment Package – Youth Jobs PaTH (Prepare-Trial-Hire)	-0.1	-12.1	-70.1	-83.8	-83.4	-249.5
Operation Accordion – extension	-	-186.2	-7.0	-3.2	-	-196.4
My Aged Care – consumer access	-	-29.6	-30.9	-35.5	-40.5	-136.5
Cyber Security – implementation of Australia's Cyber Security Strategy	0.0	-19.2	-28.9	-33.3	-37.2	-118.6
School funding– additional funding for students with a disability	-	-86.7	-31.6	-	-	-118.3
Western Sydney Airport – further preparatory works	-	-65.6	-49.5	-	-	-115.1
National Resources Development Strategy – exploring for the future	-	-24.5	-20.4	-30.8	-24.9	-100.5
Aged Care Provider Funding – improving the targeting of the viability supplement for regional aged care facilities	-	-12.6	-26.1	-27.4	-29.3	-95.4
Investment Approach to Welfare – Try, Test and Learn Fund	-	-31.7	-31.4	-24.8	-8.2	-96.1
Youth Employment Package – encouraging entrepreneurship and self-employment	-	-16.2	-24.2	-24.0	-24.2	-88.6
Clean and Renewable Energy Innovation – Clean Energy Finance Corporation and the Australian Renewable Energy Agency	1.0	-47.5	-43.3	-13.0	30.0	-72.9

All figures are in net fiscal impact terms.

Major initiatives

Revenue items	2015-16	2016-17	2017-18	2018-19	2019-20	Total
	\$m	\$m	\$m	\$m	\$m	\$m
Tobacco excise – measures to improve health outcomes and combat illicit tobacco	-	-2.9	690.1	1550.0	2470.0	4,707.2
Ten Year Enterprise Tax Plan – targeted personal income tax relief	-	-800.0	-950.0	-1050.0	-1150.0	-3,950.0
Tax Integrity Package – establishing the Tax Avoidance Taskforce	-	28.6	564.4	1071.2	1395.8	3,060.0
Ten Year Enterprise Tax Plan – reducing the company tax rate to 25 per cent	-	-400.0	-500.0	-800.0	-950.0	-2,650.0
Superannuation Reform Package – reforming the taxation of concessional superannuation contributions	-	-2.8	499.1	797.8	1148.9	2,443.0
Ten Year Enterprise Tax Plan – increase the small business entity turnover threshold	-	-280.0	-700.0	-550.0	-650.0	-2,180.0
Superannuation Reform Package – introduce a \$1.6 million superannuation transfer balance cap	-	-4.4	550.0	700.0	750.0	1,995.6
Superannuation Reform Package – introducing a Low Income Superannuation Tax Offset (LISTO)	-	-	-102.8	-701.1	-801.1	-1,605.0
Superannuation Reform Package – tax deductions for personal superannuation contributions	-	-	350.0	-600.0	-750.0	-1,000.0

All figures are in net fiscal impact terms.

Major savings

This table summarises the major savings in the 2016-17 Budget and their impact on the fiscal balance

More comprehensive information is provided in Budget Paper No. 2, Budget Measures 2016-17

	2015-16	2016-17	2017-18	2018-19	2019-20	Total
	\$m	\$m	\$m	\$m	\$m	\$m
National Disability Insurance Scheme Savings Fund	72.0	162.4	408.5	-1,062.2	2,676.8	2,257.6
Higher Education Reform – further consultation	28.4	133.7	488.6	569.2	790.5	2,010.5
Public Sector Transformation and the Efficiency Dividend	0.0	0.0	298.6	510.5	614.6	1,423.8
Jobs for Families Package – deferred implementation	60.0	43.4	1,152.6	-7.3	-86.2	1,162.5
Aged Care Provider Funding– further revision of the Aged Care Funding Instrument	-0.2	119.0	229.5	339.5	463.9	1,151.7
Medicare Benefits Schedule– pause indexation	0.0	0.0	0.0	301.5	623.8	925.3
Asset Recycling Initiative – return of unallocated funds	0.0	452.7	307.4	93.5	0.0	853.6
Youth Employment Package – Work for the Dole – reform	0.0	128.1	120.7	123.0	122.5	494.2
Industry Skills Fund – efficiencies	24.6	55.8	55.6	55.6	55.6	247.2
Job Commitment Bonus – cessation	-0.4	45.8	66.1	65.5	65.0	242.0
Health Flexible Funds – pausing indexation and achieving efficiencies	-	-	31.9	57.8	92.4	182.1
Reforming the Visa and Migration Framework	-	-	20.0	70.0	90.0	180.0
Infrastructure Investment Programme – efficiencies	0.0	7.8	0.3	4.2	150.4	162.7
Higher Education Participation Programme – efficiencies	-	13.0	18.1	33.1	88.1	152.3
Department of Human Services – administrative efficiencies	-	20.0	20.0	20.0	20.0	80.0
A Streamlined Pathway to Permanent Residence for New Zealand Citizens	0.0	-2.1	9.3	24.4	33.5	65.1
Onshore Immigration Detention Network – consolidation	-1.6	-9.8	6.8	24.0	38.0	57.4
Child and Adult Public Dental Scheme	-4.1	60.6	50.5	32.8	-122.4	17.4

All figures are in net fiscal impact terms.

Detailed economic forecasts^(a)

The table below shows the Government's macroeconomic forecasts

More comprehensive information is provided in Budget Paper No.1, Statement 2

	Outcomes(b)	Forecasts		
	2014-15	2015-16	2016-17	2017-18
Real gross domestic product	2.2	2 1/2	2 1/2	3
Household consumption	2.7	3	3	3
Dwelling investment	7.9	8	2	1
Total business investment(c)	-6.2	-11	-5	0
<i>By industry</i>				
Mining investment	-17.3	-27 1/2	-25 1/2	-14
Non-mining investment	1.2	-2	3 1/2	4 1/2
Private final demand(c)	1.0	1/2	1 1/2	2 1/2
Public final demand(c)	0.0	2 1/4	2 1/4	2
Change in inventories(d)	0.2	0	0	0
Gross national expenditure	0.9	1	1 3/4	2 1/2
Exports of goods and services	6.5	6	5	5 1/2
Imports of goods and services	0.0	0	2 1/2	3
Net exports(d)	1.4	1 1/4	3/4	3/4
Nominal gross domestic product	1.6	2 1/2	4 1/4	5
Prices and wages				
Consumer price index(e)	1.5	1 1/4	2	2 1/4
Wage price index(f)	2.3	2 1/4	2 1/2	2 3/4
GDP deflator	-0.6	0	1 3/4	1 3/4
Labour market				
Participation rate (per cent)(g)	64.8	65	65	65
Employment(f)	1.6	2	1 3/4	1 3/4
Unemployment rate (per cent)(g)	6.1	5 3/4	5 1/2	5 1/2
Balance of payments				
Terms of trade(h)	-10.3	-8 3/4	1 1/4	0
Current account balance (per cent of GDP)	-3.7	-4 3/4	-4	-3 1/2

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

(b) Calculated using original data unless otherwise indicated.

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

(d) Percentage point contribution to growth in GDP.

(e) Through-the-year growth rate to the June quarter.

(f) Seasonally adjusted, through-the-year growth rate to the June quarter.

(g) Seasonally adjusted rate for the June quarter.

(h) The forecasts are underpinned by spot prices of \$55 (\$US/t, FOB) for iron ore; \$91 (\$US/t, FOB) for metallurgical coal and \$52 (\$US/t, FOB) for thermal coal.

Note: The forecasts for the domestic economy are based on several technical assumptions. The exchange rate is assumed to remain around its recent average level — a trade-weighted index of around 64 and a \$US exchange rate of around 77 US cents. Interest rates are assumed to move broadly in line with market expectations. World oil prices (Malaysian Tapis) are assumed to remain around US\$43 per barrel.

Source: ABS cat. no. 5204.0, 5206.0, 5302.0, 6202.0, 6345.0, 6401.0, unpublished ABS data and Treasury.

Historical budget and net financial worth 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 financial worth

More comprehensive information is provided in Budget Paper No. 1, Budget Strategy and Outlook Statement 10

Historical Budget and Net Financial Worth

	Receipts(a)		Payments(b)		Underlying cash balance(c)		Net financial worth(d)	
	\$m	Per cent of GDP	\$m	Per cent of GDP	\$m	Per cent of GDP	\$m	Per cent of GDP
1985-86	66,206	25.4	71,328	27.4	-5,122	-2.0	na	na
1986-87	74,724	26.2	77,158	27.0	-2,434	-0.9	na	na
1987-88	83,491	25.8	82,039	25.3	1,452	0.4	na	na
1988-89	90,748	24.7	85,326	23.2	5,421	1.5	na	na
1989-90	98,625	24.4	92,684	22.9	5,942	1.5	na	na
1990-91	100,227	24.2	100,665	24.3	-438	-0.1	na	na
1991-92	95,840	22.7	108,472	25.6	-12,631	-3.0	na	na
1992-93	97,633	22.0	115,751	26.1	-18,118	-4.1	na	na
1993-94	103,824	22.3	122,009	26.1	-18,185	-3.9	na	na
1994-95	113,458	22.9	127,619	25.8	-14,160	-2.9	na	na
1995-96	124,429	23.5	135,538	25.6	-11,109	-2.1	na	na
1996-97	133,592	24.0	139,689	25.1	-6,099	-1.1	na	na
1997-98	140,736	23.9	140,587	23.9	149	0.0	na	na
1998-99	152,063	24.5	148,175	23.9	3,889	0.6	na	na
1999-00	166,199	25.2	153,192	23.2	13,007	2.0	-67,036	-10.1
2000-01	182,996	25.9	177,123	25.1	5,872	0.8	-71,876	-10.2
2001-02	187,588	24.9	188,655	25.0	-1,067	-0.1	-78,032	-10.4
2002-03	204,613	25.6	197,243	24.6	7,370	0.9	-82,931	-10.4
2003-04	217,775	25.3	209,785	24.4	7,990	0.9	-72,389	-8.4
2004-05	235,984	25.6	222,407	24.1	13,577	1.5	-58,882	-6.4
2005-06	255,943	25.7	240,136	24.1	15,757	1.6	-59,763	-6.0
2006-07	272,637	25.1	253,321	23.3	17,190	1.6	-35,696	-3.3
2007-08	294,917	25.0	271,843	23.1	19,754	1.7	-14,690	-1.2
2008-09	292,600	23.3	316,046	25.1	-27,013	-2.1	-71,490	-5.7
2009-10	284,662	22.0	336,900	26.0	-54,494	-4.2	-144,485	-11.1
2010-11	302,024	21.4	346,102	24.5	-47,463	-3.4	-198,787	-14.1
2011-12	329,874	22.1	371,032	24.9	-43,360	-2.9	-355,834	-23.9
2012-13	351,052	23.0	367,204	24.1	-18,834	-1.2	-312,724	-20.5
2013-14	360,322	22.7	406,430	25.6	-48,456	-3.1	-370,331	-23.4
2014-15	378,301	23.5	412,079	25.6	-37,867	-2.4	-421,129	-26.2
2015-16 (e)	388,027	23.5	424,961	25.8	-39,946	-2.4	-387,893	-23.5
2016-17 (e)	411,284	23.9	445,045	25.8	-37,081	-2.2	-427,167	-24.8
2017-18 (e)	437,385	24.2	459,934	25.5	-26,123	-1.4	-445,192	-24.6
2018-19 (p)	469,921	24.8	481,484	25.4	-15,406	-0.8	-454,319	-24.0
2019-20 (p)	500,742	25.1	502,556	25.2	-5,955	-0.3	-455,789	-22.9

(a) Receipts are equal to cash receipts from operating activities and sales of non-financial assets.

(b) Payments are equal to cash payments for operating activities, purchases of non-financial assets and net acquisition of assets under finance leases.

(c) Underlying cash balance is equal to receipts less payments, less net Future Fund earnings. For the purposes of consistent comparison with years prior to 2005-06, net Future Fund earnings should be added back to the underlying cash balance.

(d) Net financial worth is equal to financial assets less total liabilities.

(e) Estimates.

(p) Projections.

Note: Full historical series going back to 1970-71 are available in Budget Paper No. 1, Budget Strategy and Outlook, Statement 10.