

The Key

Budget 2008

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Budget update 2008-09

The Federal Government through the budget released a number of new measures which will have an impact upon income earners and investors once they are implemented. To be implemented, these initiatives (outlined below), require the successful passage of legislation through Parliament. The final form of these budget initiatives may yet be subject to significant change.

Economic outlook

The Honourable Wayne Swan MP, Treasurer, provided parliament with the following economic outlook:

'Mr Speaker, these are challenging times. Countervailing forces are creating high inflation at home and economic turbulence abroad.

Weaker global growth and the effects of monetary policy are slowing our economy.

Inflation has increased in recent years, pushing up interest rates, and putting more pressure on families. Eight interest rate rises in three years, and the global slowdown, are expected to see growth in our economy moderate to 2¾ per cent in 2008-09.

Potent forces in the global economy are pushing Australia in opposite directions.

Slower growth in the United States and turbulence in world financial markets are affecting many countries, including our own. At the same time, the prices of our exports are rising strongly, when domestic inflationary pressures are already high.

Robust growth in emerging economies, particularly China and India, is expected to drive further large rises in Australia's terms of trade, boosting income and price pressures. The terms of trade are anticipated to rise by over 20 per cent by the end of this year. This will be the largest increase in a generation, lifting nominal economic growth to 9¼ per cent, the highest rise in 19 years.

The Australian economy is enjoying its 17th year of growth, now spanning three governments. But productivity growth over the last five years has averaged 1.4 per cent a year, the lowest in 17 years. And capacity constraints have put upward pressure on inflation.

When the Government came to office less than six months ago, Australia was facing





the highest levels of domestic inflation in over 16 years, and inflation reached 4.2 per cent in the March quarter. The price of bread has risen over 18 per cent in the last two years alone.

Inflation is a drag on growth. It saps confidence, and hurts families and businesses throughout Australia. We are working to put downward pressure on inflation so that we can ease the cost of living and interest rate pressures on working families.

Our nation also faces longer term challenges and opportunities, in the form of an ageing population, the economic effects of the rise of China and India, and the consequences of climate change.

With careful, responsible economic management, we are confident we can meet these challenges.'

\$55 billion working families support package

At the centre of the budget is a \$55 billion working families support package. In summary,

areas of the package include:

Personal income tax cuts

- The Government is helping ease the burden on working families by providing \$46.7 billion of personal income tax cuts over four years. This includes increasing the 30 per cent threshold from \$30,001 to \$34,001 and increasing the low income tax offset from \$750 to \$1,200, from 1 July 2008.

Education costs

- The 50 per cent Education Tax Refund will help parents pay for eligible education expenses, at a cost of \$4.4 billion.

Child care costs

- The Child Care Tax Rebate will be increased from 30 to 50 per cent and paid quarterly at a cost of \$1.6 billion.

Improving housing affordability

- The Government is introducing a \$2.2 billion housing affordability package to assist first home buyers and renters, including enhanced First Home Saver Accounts, a National

Rental Affordability Scheme and the Housing Affordability Fund.

Health care

- The Teen Dental Plan will help families meet the costs of dental check-ups for teenage children, at a cost of \$491 million.
- The Medicare Levy Surcharge thresholds will be made fairer, by ensuring fewer people have to pay.

Fuel watch

- Initiatives to help ease rising cost of living pressures include the National FuelWatch Scheme, grocery price monitoring and financial counselling services.

Supporting senior Australians and carers

- The Government will provide \$2.4 billion in 2007-08 to help older Australians and carers with household bills, and Carer Payment (child) will be assessed more fairly.

Other election commitments

The treasurer also outlined a number of election commitments the Government expects to deliver including:

- The Government's Education Revolution, costing \$5.9 billion over five years, will provide quality learning opportunities for all Australians, help boost productivity and participation, and reduce entrenched disadvantage.
 - Initiatives include the \$1.2 billion Digital Education Revolution, \$2.5 billion over



ten years for Trade Training Centres in Schools and \$1.9 billion to improve skills by delivering up to 630,000 additional training places.

- The \$3.2 billion National Health and Hospitals Reform Plan will revitalise the public health system.

Initiatives include \$275 million for GP Super Clinics, a \$249 million National Cancer Plan and a National Binge Drinking Strategy.

- The Government will invest \$2.3 billion over five years to tackle climate change by reducing emissions, adapting to change and helping Australia play a leadership role.
- The ten-year \$12.9 billion Water for the Future plan brings a strategic approach to securing rural and urban water supply, and \$2.2 billion for the Caring for our Country program will help protect and improve our natural resources.
- The Government is working with the States through the Council of Australian Governments to deliver better services and produce the right outcomes on matters that affect the daily lives of Australians.

- The Government will provide 3 per cent real growth per year on average in the underlying Defence funding base to 2017-18.

Investing in the future – three new funds

The treasurer also announced the Government will invest current and future budget surpluses in three nation building funds.

- The Building Australia Fund will fund shortfalls in national transport and broadband infrastructure.
- The Education Investment Fund will fund capital expenditure in Australia's higher education institutions.
- The Health and Hospitals Fund will finance the renewal and refurbishment of the nation's hospitals and health facilities and fund major medical research projects.

What does it mean for me?

Once the budget legislation is passed and the initiatives outlined take their final form,

your adviser will be able to assess your situation and provide you with personal advice to help you make the most of the legislative changes. Until then, your adviser and their support team at Financial Services Partners will work to make sure we identify all potential client opportunities.

As we like to say:

We're here to help you grow your wealth faster, manage it better and safeguard it more effectively. In a fast-changing world we're ever-ready to master change and turn it to your advantage; to build you a brighter future.

You can never get enough good advice

Identifying opportunities resulting from legislation changes like the budget requires significant time and effort. At Financial Services Partners we believe that everyone should have the opportunity to realise a brighter future. Setting goals and working towards them can be a positive experience.

If you know someone who could benefit, your adviser is more than happy to meet them.

The Key – Budget 2008-09

Sources:

1. *Budget Speech 2008-09*
Delivered on 13 May 2008 on the Second reading

2. *Budget at a glance*, <http://www.budget.gov.au>

