

PART 3

REVENUE, EXPENSES AND BUDGET FUNDING

This part discusses the changes in the revenue outlook since the 2004-05 MYEFO.

This part examines short to medium term trends in the expenses and net capital investment estimates. The changes since the 2004-05 Budget and MYEFO are also detailed.

More detail on the budget measures is provided in Budget Paper No. 2.

This part also discusses the management of Australian Government debt including the impact of the Future Fund.

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STATEMENT 5: REVENUE

This statement contains details of the estimates of Australian Government revenue.

The Australian Government is providing further cuts to personal income tax of \$21.7 billion over 4 years and will abolish the superannuation surcharge from 1 July 2005.

The revenue estimates for 2005-06 have been revised up since the *Mid-Year Economic and Fiscal Outlook 2004-05*, reflecting a stronger outlook for employment, company profits and the incomes of small unincorporated businesses and personal investors. As a result of actual revenues exceeding forecasts over recent years, methodology changes to the forecasts have been made to improve accuracy.

Information about GST revenue is provided in Budget Paper No. 3, *Federal Financial Relations 2005-06*.

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STATEMENT 5: REVENUE

OVERVIEW

Relative to the *Mid-Year Economic and Fiscal Outlook 2004-05* (MYEFO), total revenue for 2005-06 is expected to be higher, with stronger growth in income taxation revenue from companies, small unincorporated businesses and personal investors. Personal income tax cuts of \$21.7 billion over 4 years will commence on 1 July 2005. These tax cuts are in addition to those announced in the 2004-05 Budget. The superannuation surcharge will be abolished from 1 July 2005.

Revenue forecasts¹ for 2004-05 and 2005-06 along with projections for the period from 2006-07 are provided in Table 1.

Table 1: Total Australian Government general government revenue

	Actual	Estimates		Projections		
	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Total taxation revenue (\$b)	175.1	190.2	201.3	209.0	218.8	230.1
Real growth on previous year (%)	3.5	4.6	1.2	3.1	4.0	3.2
Per cent of GDP	21.5	22.0	21.7	21.6	21.7	21.7
Non-taxation revenue (\$b)	12.5	12.5	13.2	13.9	14.6	15.2
Real growth on previous year (%)	0.9	-4.0	1.7	4.1	4.5	2.1
Per cent of GDP	1.5	1.4	1.4	1.4	1.4	1.4
Total revenue (\$b)	187.6	202.7	214.5	222.9	233.4	245.3
Real growth on previous year (%)	3.3	4.0	1.3	3.2	4.0	3.1
Per cent of GDP	23.1	23.5	23.1	23.0	23.2	23.1

Total revenue is projected to decrease from 23.5 per cent of GDP in 2004-05 to 23.1 per cent in 2008-09. The decrease in revenue as a share of GDP is mostly due to a decrease in taxation revenue, which is projected to fall from 22.0 per cent of GDP in 2004-05 to 21.7 per cent in 2008-09.

1 All revenue estimates in this statement are reported on an accrual basis unless otherwise specified. A summary of the tax system is provided in Appendix A. Commentary on accrual and cash taxation revenue is provided in Appendix E. Detailed estimates on a cash basis are provided in Appendix C. Historical receipts outcomes are provided in Appendix G. The revenue estimates exclude GST revenue, which is collected by the Australian Government and provided in full to the states and territories. A discussion of GST revenue is provided in Budget Paper No. 3, *Federal Financial Relations 2005-06*.

VARIATIONS IN THE REVENUE ESTIMATES SINCE THE 2004-05 BUDGET

Table 2 is a reconciliation of this Budget's revenue estimates with those at the 2004-05 Budget and the 2004-05 MYEFO.

Table 2: Reconciliation of total Australian Government general government revenue estimates from the 2004-05 Budget and the 2004-05 MYEFO

	Estimates		Projections	
	2004-05 \$m	2005-06 \$m	2006-07 \$m	2007-08 \$m
Revenue at 2004-05 Budget	193,151	201,383	212,199	223,129
Changes between 2004-05 Budget and MYEFO				
Effect of policy decisions	-11	-401	-1,115	-1,024
Effect of parameter and other variations	6,303	6,514	6,486	7,237
Total variations	6,292	6,114	5,371	6,213
Revenue at 2004-05 MYEFO	199,443	207,497	217,570	229,341
Changes between MYEFO and 2005-06 Budget				
Effect of policy decisions	-35	-3,472	-6,675	-7,662
Effect of parameter and other variations	3,258	10,486	11,986	11,725
Total variations	3,223	7,014	5,311	4,064
Revenue at 2005-06 Budget	202,666	214,511	222,882	233,405

Total revenue for 2004-05

Relative to MYEFO, estimated total revenue for 2004-05 has been revised up by \$3.2 billion, largely owing to higher expected revenue from wage and salary earners, personal investors and small unincorporated businesses.

Total revenue for 2005-06

Total revenue for 2005-06 has been revised up by \$7.0 billion since MYEFO, reflecting higher estimated revenue from companies, personal investors and small unincorporated businesses. These upward revisions have been partly offset by the impact of the Government's decision to provide personal income tax cuts.

Effect of policy decisions

Policy decisions since the 2004-05 MYEFO are expected to reduce taxation revenue by around \$3.5 billion in 2005-06 and around \$26.1 billion over the forward years (a more detailed description of these is provided in Budget Paper No. 2, *Budget Measures 2005-06*).

In particular, the Government's decision to provide personal income tax cuts will reduce revenue by \$3.1 billion in 2005-06, and \$21.7 billion over the forward estimates period. The tax cuts will take effect in two stages.

- From 1 July 2005, the 17 per cent rate will be reduced to 15 per cent, the 42 per cent threshold will be increased from \$58,001 to \$63,001 and the 47 per cent threshold

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will be increased from \$70,001 to \$95,001 (compared with \$80,001 announced in the 2004-05 Budget).

- From 1 July 2006, the 42 per cent threshold will be further increased to \$70,001 and the 47 per cent threshold will be further increased to \$125,001.

These tax cuts will increase disposable incomes and improve the incentives for all Australian taxpayers to participate in the workforce. Moving the 42 per cent threshold up to \$70,001 means that more than 80 per cent of taxpayers will face a top marginal tax rate of no more than 30 per cent over the forward estimates period. Substantially raising the thresholds for the top two marginal tax rates will also improve work incentives.

The Government's personal tax cuts package will also ensure that senior Australians in the community will be better off with an increase in the Medicare levy threshold that applies to them. This measure has been specifically designed to ensure that senior Australians do not pay the Medicare levy until they begin to incur an income tax liability.

The Budget also includes a number of other major policy decisions.

- The superannuation contributions and termination payments surcharge will be abolished for contributions made from 1 July 2005, with a cost to revenue of \$650 million in 2006-07 and \$2.5 billion over the forward estimates.
- The 3 per cent tariff applying to business inputs imported under a tariff concession order will be removed with effect from 11 May 2005, with a cost to revenue of \$36 million in 2004-05, \$290 million in 2005-06 and \$1.3 billion over the forward estimates.
- The eligibility criteria for the mature age worker tax offset will be extended from 2005-06, with a cost to revenue of \$70 million in 2005-06 and \$295 million over the forward estimates.
- A four-year income tax exemption will be provided for temporary residents for most foreign source income, including capital gains, commencing from July 2006, with an estimated cost to revenue of \$50 million in 2007-08 and \$105 million over the forward estimates.
- The capital gains tax treatment of non-resident investors in Australia will be aligned more closely with international standards, with a cost to revenue of \$50 million in 2005-06 and \$230 million over the forward estimates.
- Certain currently unrecognised business capital expenditures ('blackhole expenditures') will be recognised for tax purposes from 2006-07 with a cost to

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revenue of \$35 million in 2006-07, increasing in later years, with a cost of \$205 million over the forward estimates.

- The capital allowance treatment of film copyright will be changed to ensure the application of the effective life depreciation regime, with effect to expenditures after 1 July 2004, with a cost to revenue of \$15 million in 2005-06 and \$175 million over the forward estimates.
- Foreign loss and foreign tax credit quarantining will be abolished, with effect from the first income year after Royal Assent, with an estimated cost to revenue of \$25 million in 2007-08 and in 2008-09.

A detailed description of the policy decisions is provided in Budget Paper No. 2, *Budget Measures 2005-06*. A summary of revenue policy decisions since the 2004-05 MYEFO is provided in Table 3.

Table 3: Revenue policy decisions since the 2004-05 MYEFO

	2004-05	2005-06	2006-07	2007-08	2008-09
	\$m	\$m	\$m	\$m	\$m
Revenue policy decisions					
Personal income tax cuts		-3,100	-5,600	-6,250	-6,700
Superannuation surcharge abolition		-	-650	-875	-990
Tariff concessions – removal of 3 per cent tariff on business inputs	-36	-290	-300	-320	-340
Mature age worker tax offset - extended definition of net income from working		-70	-75	-75	-75
Foreign income exemption for temporary residents		-	-	-50	-55
Reforms to the capital gains tax treatment of non-residents		-50	-50	-65	-65
Not proceeding with the generic regime for the taxation of rights		35	50	55	65
Taxation treatment of business 'blackhole' expenditure		-	-35	-70	-100
Inclusion of film copyright in the effective life regime		-15	-35	-55	-70
Increasing the Medicare levy low income thresholds		-38	-19	-18	-18
Biometrics for border control - progressive introduction of ePassports		11	19	20	21
Other revenue policy decisions	1	45	20	41	22
Total revenue policy decisions	-35	-3,472	-6,675	-7,662	-8,305

Effect of parameter and other variations

Parameter and other variations are expected to increase revenue in 2004-05 by \$3.3 billion, and revenue in 2005-06 by \$10.5 billion, relative to the MYEFO forecasts.

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Parameter variations

Since MYEFO, estimated nominal GDP growth in 2004-05 has been revised down by ½ of a percentage point, but taxation revenue growth has been revised up by 1½ percentage points. The strength in taxation revenue is largely the result of stronger than expected employment growth in the second half of 2004, improved income for small unincorporated businesses and additional strength in individuals' realised capital gains and other income.

Looking ahead, there have been significant upward revisions to revenue in 2005-06 and the projection years since MYEFO, reflecting the flow on effect of a stronger expected revenue base in 2004-05 and a significant upward revision to nominal GDP growth in 2005-06.

Relative to MYEFO, nominal GDP growth for 2005-06 has been revised up by 1¾ percentage points to 7½ per cent – despite a slight downward revision to real GDP growth – reflecting significant increases to estimated growth in the GDP deflator as a result of recent increases in commodity export prices (see Box 3 in Statement 3). These increases are expected to lift corporate profits significantly in 2005-06, which – due to the timing of company tax collections – will boost revenue in both 2005-06 and 2006-07. Company tax revenue over the projection years of 2006-07, 2007-08 and 2008-09 reflects a technical assumption that commodity prices return to their long-run average level over the first two years of the projection period (see Box 7 in Statement 3).

Further detail on how the revised outlook for the economy has affected individual revenue heads over the forward estimates period is provided later in this statement. An analysis of the sensitivity of the taxation revenue estimates to changes in the major economic parameters is provided in Statement 2.

Box 1: Changes to the revenue forecasting methodology

In recent years, revenue has grown more strongly than forecast. Two principal factors have contributed to this:

- nominal GDP has grown more strongly than forecast, because of the stronger than expected housing cycle in 2002 and 2003 and stronger than expected growth in the terms of trade in 2003 and 2004; and
- taxation revenue from companies², small unincorporated businesses and personal investors has been growing at an unexpectedly faster pace relative to growth in underlying incomes.

As a result of this divergence between actual and forecast revenue, the revenue forecasting methodology has been adjusted. Estimates in this Budget are based on the revised methodology and result in revenue forecasts and projections being more responsive to changes in forecast and projected income. They mostly affect company income tax and gross income tax from other individuals.

Company tax

Revenue from taxes on company profits has been growing significantly faster than the corporate income tax base. Possible reasons for this include:

- the privatisation of major Government Business Enterprises;
- growth in capital gains made by companies;
- the long period of economic expansion, which has reduced the stock of carried-forward losses to offset tax payable;
- more effective compliance activities of the Australian Taxation Office;
- changes in the structure of ownership of shares, combined with changes in the dividend imputation system, which may have affected the incentive for companies to pay tax in Australia in order to maximise franking credits; and
- the increasing tendency for small businesses to incorporate.

Gross other individuals

Revenue from taxes on the incomes of personal investors has been growing strongly owing to strong corporate profits and consequent dividend payments. Revenues on realised capital gains have also been growing strongly because of asset price increases in respect of shares and housing. Income earned by small unincorporated businesses and increasing numbers of self-employed persons is also contributing to this revenue strength.

2 Strength in company tax revenue growth was highlighted in the 2004-05 Budget (page 5-10).

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Other variations

Tax collections to the end of the March quarter 2005 were 8.4 per cent higher than last year, compared with expected growth of 7.6 per cent at MYEFO. The strength in tax collections in the year to date has largely reflected the stronger than expected employment growth during the second half of 2004.

The Budget estimates of tax revenue in 2004-05 factor in a deceleration in collections growth in the final quarter of the year, reflecting an expectation of weakening company tax collections, and lower forecast nominal GDP growth. Company profits are expected to be somewhat weaker than previously forecast for 2004-05, reflecting weaker than expected profits from the private non-financial sector in the second half of 2004.

The Budget estimates also incorporate adjustments to forecasting methodology to align the estimates more closely to recent experience (see Box 1). These adjustments affect the gross other individuals, refunds for individuals and company income tax revenue heads and generally increase estimated revenue since MYEFO for 2005-06 and the projection years.

ESTIMATES OF REVENUE

Total revenue

Total revenue for 2005-06 is expected to increase by \$11.8 billion, an increase of 5.8 per cent on estimated revenue in 2004-05. Of this, taxation revenue is expected to increase by \$11.1 billion (5.8 per cent) and non-taxation revenue is expected to increase by \$779 million (6.3 per cent).

The revenue estimates for 2004-05 and 2005-06 are provided in Table 4. Descriptions of the revenue heads are provided in Appendix B.

Table 4: Australian Government general government revenue

	Estimates		Change on 2004-05	
	2004-05 \$m	2005-06 \$m	\$m	%
<i>Income taxation</i>				
Individuals and other withholding				
Gross income tax withholding	97,990	101,140	3,150	3.2
Gross other individuals	23,640	25,440	1,800	7.6
less: Refunds	13,700	15,000	1,300	9.5
Total individuals and other withholding	107,930	111,580	3,650	3.4
Companies	40,610	48,040	7,430	18.3
Superannuation funds				
Contributions and earnings	5,090	5,070	-20	-0.4
Superannuation surcharge	1,290	1,240	-50	-3.9
Total superannuation funds	6,380	6,310	-70	-1.1
Petroleum resource rent tax	1,460	1,350	-110	-7.5
Income taxation revenue	156,380	167,280	10,900	7.0
<i>Excise and customs</i>				
Excise duty				
Petroleum and other fuel products	13,620	13,980	360	2.6
Crude oil	650	620	-30	-4.6
Alcohol products	2,460	2,550	90	3.7
Tobacco	5,280	5,340	60	1.1
Total excise duty	22,010	22,490	480	2.2
Customs duty				
Textiles, clothing and footwear	1,000	790	-210	-21.0
Passenger motor vehicles	1,450	1,448	-2	-0.1
Excise-like goods	1,680	1,600	-80	-4.8
Other imports	1,884	1,533	-351	-18.6
less: Refunds and drawbacks	300	300	0	0.0
Total customs duty	5,714	5,071	-643	-11.3
Excise and customs revenue	27,724	27,561	-163	-0.6
<i>Indirect taxation</i>				
Wine equalisation tax	690	700	10	1.4
Luxury car tax	300	310	10	3.3
Other taxes	190	220	30	15.8
Indirect taxation revenue	1,180	1,230	50	4.2
<i>Other taxation</i>				
Fringe benefits tax(a)	3,050	3,350	300	9.8
Agricultural levies	572	583	11	1.9
Other taxes	1,296	1,264	-32	-2.5
Other taxation revenue	4,917	5,196	279	5.7
Taxation revenue	190,201	201,267	11,065	5.8
<i>Non-taxation</i>				
Sales of goods and services	4,828	4,965	137	2.8
Dividends	3,146	3,312	166	5.3
Interest received	1,562	2,000	438	28.1
Other	2,929	2,967	38	1.3
Non-taxation revenue	12,465	13,245	779	6.3
Total revenue	202,666	214,511	11,845	5.8

(a) Consistent with GFS reporting standards, excludes fringe benefits tax collected from Australian Government agencies (estimated at \$390 million in 2004-05 and \$400 million in 2005-06).

Revenue estimates by revenue head

Income taxation revenue

Individuals and other withholding taxation

Estimated revenue from individuals for 2004-05, 2005-06 and the projection years is provided in Table 5. Revenue from individuals is estimated to increase by \$3.7 billion (3.4 per cent) in 2005-06, reflecting the impact of stronger employment and solid growth in the incomes of small unincorporated businesses and personal investors, partly offset by personal tax cuts.

Table 5: Individuals and other withholding taxation revenue

	Actual	Estimates		Projections		
	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
	\$m	\$m	\$m	\$m	\$m	\$m
Individuals and other withholding						
Gross income tax withholding	90,095	97,990	101,140	106,780	114,300	122,430
Gross other individuals	21,010	23,640	25,440	25,990	27,180	28,960
<i>less: Refunds</i>	12,325	13,700	15,000	15,810	16,580	17,830
Total	98,779	107,930	111,580	116,960	124,900	133,560
<i>Includes Medicare levy(a) revenue of:</i>	<i>5,560</i>	<i>6,000</i>	<i>6,360</i>	<i>6,690</i>	<i>7,030</i>	<i>7,390</i>

(a) Medicare levy for 2003-04 is an estimate.

Gross income tax withholding

Gross income tax withholding revenue is expected to increase by \$3.2 billion (3.2 per cent) in 2005-06. The increase reflects the flow on effect of stronger expected revenue in 2004-05 and the impact of stronger estimated employment and slightly stronger wage growth in 2005-06. Personal tax cuts from 1 July 2005 dampen these effects on revenue.

Gross other individuals

Gross revenue from other individuals is expected to increase by \$1.8 billion (7.6 per cent) in 2005-06. The increase reflects stronger expected income from dividends and small unincorporated businesses, partly offset by personal tax cuts.

Income tax refunds for individuals

Refunds for individuals are expected to increase by \$1.3 billion (9.5 per cent) in 2005-06, reflecting the effect of increases in estimated revenue from gross income tax withholding and from other individuals in 2004-05. Partly offsetting this, a reassessment of the relationship between prior year revenue and current year refunds to better reflect recent outcomes has the effect of reducing refunds and increasing revenue over the forward estimates period.

Medicare levy

Revenue from the Medicare levy is expected to increase by around \$360 million (6.0 per cent) in 2005-06. Movements in revenue from the Medicare levy are generally consistent with growth in revenue from personal income taxes.

Companies and other related income taxation

Estimated revenue from companies for 2004-05, 2005-06 and the projection years is provided in Table 6.

Table 6: Companies and other related income taxation revenue

	Actual	Estimates		Projections		
	2003-04 \$m	2004-05 \$m	2005-06 \$m	2006-07 \$m	2007-08 \$m	2008-09 \$m
Companies	36,337	40,610	48,040	50,140	50,780	52,360
Superannuation funds						
Contributions and earnings	4,487	5,090	5,070	5,380	5,770	6,220
Superannuation surcharge	1,298	1,290	1,240	350	210	270
Total superannuation funds	5,785	6,380	6,310	5,730	5,980	6,490
Petroleum resource rent tax	1,165	1,460	1,350	1,630	1,770	1,520
Total	43,287	48,450	55,700	57,500	58,530	60,370

Company income taxation

Company taxation revenue is expected to increase by \$7.4 billion (18.3 per cent) in 2005-06. The increase is largely the result of a stronger outlook for company profits in 2005-06. This mainly reflects the higher export prices that companies have secured for exports of coal and iron ore in the last quarter of 2004-05 and through 2005-06.

Superannuation funds taxation

Taxation revenue from superannuation contributions and earnings income is expected to decrease by \$20 million (0.4 per cent) in 2005-06. This decrease reflects the flow-on effect of a lower expected outcome for superannuation contributions and earnings taxation in 2004-05, partly offset by higher expected earnings growth in 2005-06.

Superannuation surcharge

Revenue from the superannuation surcharge is expected to decrease by \$50 million (3.9 per cent) in 2005-06, reflecting the reduction in the surcharge rate to 12.5 per cent in 2004-05.

While the abolition of the surcharge from 1 July 2005 will result in zero revenue collected from contributions after that date, allowance has been made for some ongoing revenue from the surcharge over the forward estimates period to recognise liabilities relating to contributions made before 1 July 2005.

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Petroleum resource rent tax

Estimated revenue from the petroleum resource rent tax is expected to decrease by \$110 million (7.5 per cent) in 2005-06, reflecting lower than expected production of natural gas and crude oil.

Excise and customs revenue

Estimates for 2004-05, 2005-06 and the projection years are provided in Table 7 for excise and customs revenue.

Table 7: Excise and customs revenue

	Actual	Estimates		Projections		
	2003-04 \$m	2004-05 \$m	2005-06 \$m	2006-07 \$m	2007-08 \$m	2008-09 \$m
Excise duty						
Petroleum and other fuel products						
Petrol	7,423	7,370	7,410	7,500	7,570	7,650
Diesel	5,587	6,100	6,420	6,660	6,910	7,050
Other	210	150	150	110	110	140
Total	13,220	13,620	13,980	14,270	14,590	14,840
Crude oil	309	650	620	580	580	580
Beer	1,633	1,680	1,710	1,740	1,770	1,800
Potable spirits	659	780	840	900	970	1,040
Tobacco	5,247	5,280	5,340	5,360	5,380	5,410
Total excise duty	21,068	22,010	22,490	22,850	23,290	23,670
Customs duty						
Textiles, clothing and footwear	993	1,000	790	840	880	970
Passenger motor vehicles	1,547	1,450	1,448	1,250	1,320	1,430
Excise-like goods	1,581	1,680	1,600	1,600	1,630	1,660
Other imports	1,736	1,884	1,533	1,672	1,792	1,832
less: Refunds and drawbacks	235	300	300	300	300	300
Total customs duty	5,622	5,714	5,071	5,062	5,322	5,592
Total	26,690	27,724	27,561	27,912	28,612	29,262

Excise duty

In 2005-06, revenue from excise duty on petroleum and other fuel products is expected to increase by \$360 million (2.6 per cent). The increase results from higher estimated revenue from diesel fuel (\$320 million), reflecting an increase in expected activity in agriculture and mining; and from higher estimated revenue from unleaded petrol excise (\$40 million), reflecting stronger demand from the energy and transport sectors.

Revenue from crude oil excise is expected to decrease by \$30 million (4.6 per cent) in 2005-06, reflecting the effect of a lower expected crude oil price in \$A.

Other excise revenue is expected to increase in 2005-06 by \$150 million (1.9 per cent), reflecting moderate increases in expected demand for spirits and other alcoholic beverages, with demand for tobacco and beer expected to move in line with population growth.

Customs duty

Customs duty revenue is expected to decrease by \$643 million (11.3 per cent) in 2005-06, reflecting the impact of a number of policies designed to increase trade between Australia and the rest of the world. These policies include the measures announced in this Budget, noted above, as well as the impact of tariff reductions for passenger motor vehicles and textiles, clothing and footwear from 1 January 2005, and the effect of the Australia-United States Free Trade Agreement.

Indirect taxation revenue

Revenue estimates for 2004-05, 2005-06 and the projection years are provided in Table 8 for the various categories of sales tax. Information about the goods and services tax can be found in Budget Paper No. 3, *Federal Financial Relations*.

Table 8: Indirect taxation revenue

	Actual	Estimates		Projections		
	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
	\$m	\$m	\$m	\$m	\$m	\$m
Wine equalisation tax	705	690	700	750	790	840
Luxury car tax	336	300	310	340	360	370
Other	-38	190	220	250	270	290
Total	1,002	1,180	1,230	1,340	1,420	1,500

Revenue from the wine equalisation tax is expected to increase by \$10 million (1.4 per cent) in 2005-06, reflecting a slight increase in expected underlying demand.

Revenue from the luxury car tax is expected to increase by \$10 million (3.3 per cent) in 2005-06, reflecting underlying demand conditions.

Other taxation revenue

Revenue estimates for fringe benefits tax, agricultural levies and other taxes in 2004-05, 2005-06 and the projection years are provided in Table 9.

Table 9: Other taxation revenue

	Actual	Estimates		Projections		
	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
	\$m	\$m	\$m	\$m	\$m	\$m
Fringe benefits tax	3,277	3,050	3,350	3,380	3,480	3,580
Agricultural levies	603	572	583	588	580	569
Other levies	73	183	192	148	119	124
Broadcasting licence fees	225	287	264	273	285	298
Other	1,122	825	808	898	872	858
Total	5,299	4,917	5,196	5,287	5,336	5,428

Other taxation revenue is estimated to increase by \$279 million (5.7 per cent) in 2005-06, largely reflecting increased estimated revenue from the fringe benefits tax.

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Revenue from fringe benefits tax is expected to increase by \$300 million (9.8 per cent) in 2005-06, reflecting the effect of slightly higher expected wage growth.

Revenue from agricultural levies, broadcasting licence fees and other levies and taxes for 2005-06 is expected to be largely unchanged from 2004-05 levels.

Non taxation revenue

Revenue estimates for 2004-05 and 2005-06 and the projection years are provided in Table 10 for the various categories of non-taxation revenue.

Table 10: Non-taxation revenue

	Actual	Estimates		Projections		
	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
	\$m	\$m	\$m	\$m	\$m	\$m
Sales of goods and services	4,314	4,828	4,965	5,194	5,330	5,363
Dividends	4,199	3,146	3,312	2,952	2,357	1,852
Interest received	1,304	1,562	2,000	2,853	3,997	5,025
Other non-taxation revenue	2,684	2,929	2,967	2,884	2,924	2,966
Total	12,501	12,465	13,245	13,883	14,607	15,206

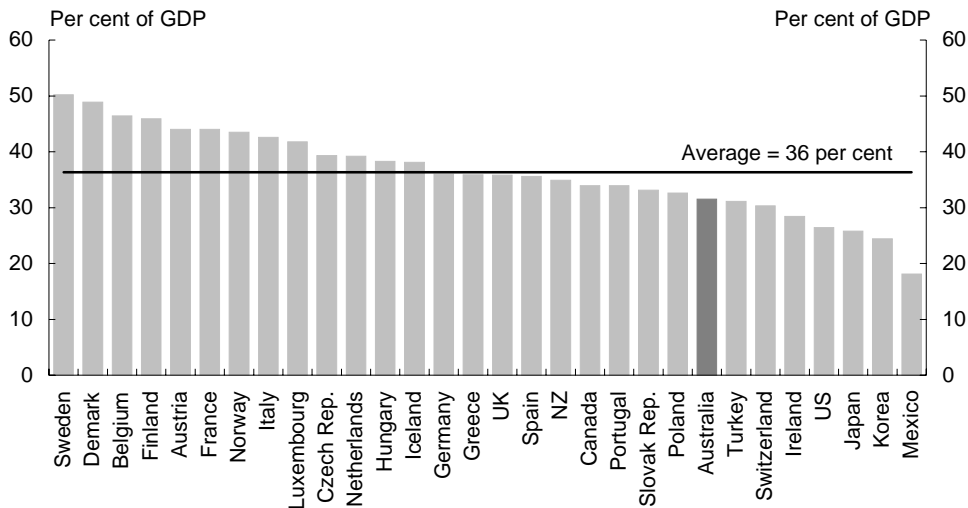
Non-taxation revenue is expected to increase by \$779 million (6.3 per cent) in 2005-06, largely reflecting:

- increased interest revenue, largely reflecting higher estimated cash balances – underpinned by strong surpluses in 2004-05 and 2005-06; and
- increased dividends from the Reserve Bank of Australia, largely from higher than expected net interest income, and an increase in realised gains on foreign investments and foreign currency transactions.

APPENDIX A: AUSTRALIA'S TAX SYSTEM

Australia's tax to GDP ratio is the eighth lowest of the 30 OECD countries (Chart A1).

Chart A1: Total tax burden for OECD countries(a)

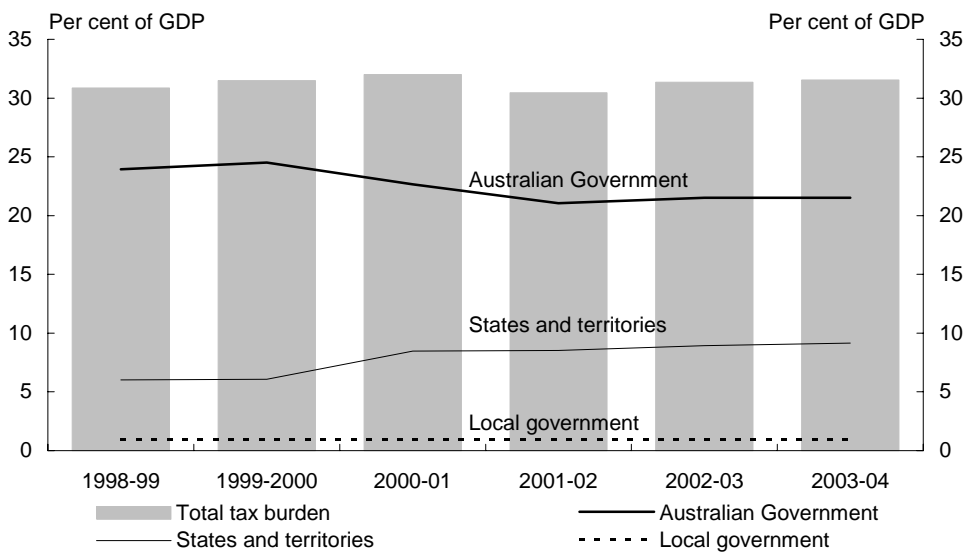


(a) The OECD's measure of the tax burden is the total taxation revenue of national, state and local governments expressed as a proportion of gross domestic product. For Australia, the data are for the 2002-03 financial year, the latest year where comparable international data are available.

Source: OECD, Revenue Statistics 1965-2003 (2004 Edition).

While the total tax burden for Australia has been relatively steady over recent years, the tax take of the Australian Government has fallen while the tax burden of the states and territories has increased (Chart A2).

Chart A2: Australian tax burden by level of government



Part 3: Revenue, Expenses and Budget Funding

The share of tax burden between the Australian Government and the states changed with the introduction of *The New Tax System* in 2000-01. Since then, the tax take of the Australian Government and local governments has been relatively stable, while the tax burden of the states and territories has increased from 8.4 per cent of GDP to 9.1 per cent.

When considering the impact of taxes on Australian households, it is also necessary to take into account the significant increase in assistance going to families from the government, either as offsets to tax or through direct payments.

When this Government came into office in 1996, family assistance totalled around 1.3 per cent of GDP. Since then, the Government has substantially increased the level of assistance provided to families to around 1.7 per cent of GDP in 2004-05, through the introduction of the Family Tax Benefit and the Baby Bonus, and subsequent increases in payments, accompanied by reductions in income test tapers applying to family payments. Elements of this assistance can be accessed through cash payments or reductions in tax.

One way of illustrating the combined effect of cash transfers and tax for families is by showing the change in the real net tax threshold. The net tax threshold is the point at which taxes paid begin to exceed cash transfers received. Table A1 shows that the net tax threshold will have increased by more than 30 per cent in real terms between 1996-97 and 2006-07 for a range of families.

Table A1: Increases in real net tax thresholds for families(a), 1996-97 to 2006-07

Family type (b)	Household wages in 2006-07	Real net tax threshold		
		1996-97	2006-07	Per cent change
Sole parent (0%)	\$0	\$34,502	\$44,951	30.3
Single income couple with children (100%)	\$55,300	\$33,931	\$44,951	32.5
Dual income couple with children (100 & 33%)	\$73,549	\$34,559	\$47,891	38.6
Dual income couple with children (100 & 67%)	\$92,351	\$34,657	\$46,884	35.3
Dual income couple with children (167 & 100%)	\$147,651	\$34,641	\$47,003	35.7

(a) The net tax threshold is the level of private income at which income tax paid first exceeds cash benefits received. Dollar amounts are calculated in 2005-06 prices.

(b) Families are assumed to have two children — one aged 3 years and the other aged 8 years. The numbers in brackets represent the wages of each working adult in the family, expressed as a proportion of average weekly ordinary time earnings for full-time employees (AWOTE).

APPENDIX B: DESCRIPTION OF THE REVENUE HEADS

Income taxation

Individuals and other withholding taxation

These revenue heads broadly cover all personal income tax. A schedule of the personal income tax rates for the period covered in this Budget is provided in Table B1.

Gross income tax withholding

Gross income tax withholding (ITW) includes all taxes withheld from payments made under the Pay-As-You-Go (PAYG) withholding system and amounts withheld because no Tax File Number or Australian Business Number was quoted. It also includes applicable Medicare levy revenue.

The bulk of ITW revenue arises from taxes withheld from wage and salary income but also includes all other withholding taxes levied on natural resource payments, dividends, interest and royalties paid to non-residents and payments to aboriginal groups for the use of land for mineral exploration and mining. These taxes are often withheld from companies, rather than individuals, but are not separately identified from other PAYG revenues.

Gross other individuals

Gross revenue from other individuals consists of income tax paid by individuals other than that collected through the PAYG withholding system, and includes applicable Medicare levy revenue. It comprises:

- PAYG instalments paid directly by individuals – that is, not withheld by employers; and
- debit assessments on income tax returns.

Taxpayers in this category derive their income from many sources, including:

- profits from small unincorporated businesses, primary production and investment activities;
- wages and salaries (when PAYG withholding credits are insufficient to meet the tax liability on assessment); and
- capital gains.

Most revenue from other individuals is collected directly from the taxpayer through the PAYG instalment system. Individuals with annual tax liabilities of \$8,000 or more and individuals who are registered for the GST will generally make quarterly payments. Individuals who have annual taxation liabilities of less than \$8,000 and are

Part 3: Revenue, Expenses and Budget Funding

not registered for the GST have the choice of making quarterly payments or an annual payment.

Income tax refunds for individuals

A final assessment of the income tax liabilities of individual taxpayers is normally made on the basis of returns lodged after the end of each financial year. Refunds are made where tax credits exceed the final liability on assessment. Tax credits typically accrue from PAYG withholding payments deducted by employers from wages and salaries, and from PAYG instalments made by taxpayers through a Business Activity Statement or Income Activity Statement.

Where tax credits are insufficient to meet the final tax liability, taxpayers make an additional payment (a debit assessment), which is recorded under the gross other individuals head of revenue.

Refunds paid to individual income taxpayers in any year will generally relate to earning activity in the prior year because assessment is made after the conclusion of the year to which it relates.

Medicare levy

The Medicare levy forms an integral part of the personal income tax system and, as such, revenue from the Medicare levy is included in the three revenue heads described above.

Table B1: Personal income tax rates(a)

	From 1 July 2003		From 1 July 2004		From 1 July 2005		From 1 July 2006	
	Taxable income	Per cent	Taxable income	Per cent	Taxable income	Per cent	Taxable income	Per cent
Residents	\$0-\$6,000	Nil	\$0-\$6,000	Nil	\$0-\$6,000	Nil	\$0-\$6,000	Nil
	\$6,001-\$21,600	17	\$6,001-\$21,600	17	\$6,001-\$21,600	15	\$6,001-\$21,600	15
	\$21,601-\$52,000	30	\$21,601-\$58,000	30	\$21,601-\$63,000	30	\$21,601-\$70,000	30
	\$52,001-\$62,500	42	\$58,001-\$70,000	42	\$63,001-\$95,000	42	\$70,001-\$125,000	42
	> \$62,500	47	> \$70,000	47	> \$95,000	47	> \$125,000	47
Non-residents	\$0-\$21,600	29	\$0-\$21,600	29	\$0-\$21,600	29	\$0-\$21,600	29
	\$21,601-\$52,000	30	\$21,601-\$58,000	30	\$21,601-\$63,000	30	\$21,601-\$70,000	30
	\$52,001-\$62,500	42	\$58,001-\$70,000	42	\$63,001-\$95,000	42	\$70,001-\$125,000	42
	> \$62,500	47	> \$70,000	47	> \$95,000	47	> \$125,000	47
Medicare levy for singles(b)	\$0-\$15,529	Nil	\$0-\$15,902	Nil	\$0-\$15,902	Nil	\$0-\$15,902	Nil
	\$15,530-\$16,788	20% of > \$15,529	\$15,903-\$17,191	20% of > \$15,902	\$15,903-\$17,191	20% of > \$15,529	\$15,903-\$17,191	20% of > \$15,529
	> \$16,788	1.5	> \$17,191	1.5	> \$17,191	1.5	> \$17,191	1.5

(a) These standard income tax rates can be offset by a range of concessional arrangements, including the senior Australians tax offset, the spouse tax offset, the low income tax offset and the mature age worker tax offset.

(b) These standard Medicare levy rates apply to singles. Different concessional and penalty rates apply in certain circumstances.

Companies and other related income taxation

These revenue heads broadly cover all income taxes paid by corporate type entities. A schedule of the company income tax rates for the period covered in this Budget is provided in Table B2.

Table B2: Company and other related income tax rates

	From 1/7/2003	From 1/7/2004	From 1/7/2005
	Per cent	Per cent	Per cent
Companies	30	30	30
Superannuation funds			
Complying funds	15	15	15
Non-complying funds	47	47	47
Superannuation surcharge			
Surcharge rate	14.5	12.5	0
Lower surcharge threshold	\$94,691	\$99,710	-
Upper surcharge threshold	\$114,984	\$121,075	-
Petroleum resource rent tax	40	40	40

Company income taxation

Company income tax includes all income taxes paid by companies, including incorporated and unincorporated associations, limited partnerships and some public unit trusts.

Generally, every resident company that derives assessable income (including capital gains), whether sourced within or outside of Australia, and every non-resident company that derives assessable income from Australian sources, is required to pay company tax.

Company tax has been collected through the PAYG instalment system since the financial year beginning 1 July 2000. This system replaced the provisional tax and company tax instalment systems. Under the PAYG instalment system, most company taxpayers now pay their liability through four quarterly instalment payments and a balancing payment five months after the final instalment, although some small companies are able to make an annual payment.

Superannuation funds taxation

Like companies, superannuation funds are taxed through the PAYG instalment system, but generally at a concessional rate of 15 per cent in relation to taxable contributions received, capital gains and investment income. Only two-thirds of a capital gain is included in assessable income if the asset is held for at least 12 months.

Superannuation surcharge

Superannuation surcharge is levied on the surchargeable contributions of a superannuation fund member whose adjusted taxable income exceeds the lower income surcharge threshold in a financial year.

Surchargeable contributions include all employer contributions, certain 'golden handshakes' and tax deductible personal contributions made to superannuation funds. Adjusted taxable income includes fringe benefits and surchargeable contributions.

The rate of surcharge levied phases in from the lower income surcharge threshold to an upper income surcharge threshold. The maximum rate of surcharge until 2002-03 was 15 per cent. This was reduced to 14.5 per cent for 2003-04 and 12.5 per cent for 2004-05. The surcharge is being abolished for contributions made after 1 July 2005.

Payments are generally received from superannuation funds, but may also be paid by the member as the liability for the surcharge accrues, or if the surchargeable contributions are in the hands of the member at the time the surcharge liability is assessed.

Petroleum resource rent tax

Petroleum resource rent tax is levied on economic profits in respect of offshore petroleum projects other than some of the North-West Shelf production and associated exploration areas, which are subject to excise (included in excise on petroleum and other fuel products) and royalties. The tax is levied at a rate of 40 per cent of a project's economic profit. The amount paid is deductible from a company's total profit when determining its company tax liability.

Excise and customs duty

Excise duty

The major categories of excisable products are petroleum and other fuel products, crude oil, oils and lubricants, tobacco and alcoholic beverages. Equivalent duties on identical imported products are imposed through, and reported under, customs duty.

Petroleum and other fuel excise includes excise on petrol, diesel fuel, biodiesel, aviation gasoline, aviation kerosene, fuel ethanol, fuel oil, heating oil and kerosene. It is imposed at specific rates per litre of product.

- Petrol includes unleaded petrol and lead replacement petrol (which replaced leaded petrol but is taxed at the unleaded petrol rate).
- All revenue from excise duty on aviation gasoline and aviation kerosene contributes to the funding of aviation programmes. The rates of excise applying to aviation fuels are adjusted, as necessary, depending on the funding requirements of those programmes.

Part 3: Revenue, Expenses and Budget Funding

Crude oil excise provides a return to the community for the exploitation of its natural resources. There are two sources of excise on crude oil:

- production from offshore fields in the North-West Shelf production licence areas that are not subject to petroleum resource rent tax; and
- production from onshore fields and fields in coastal waters.

The rate of excise varies according to the quantity of crude oil sold, the sale price of the crude oil, and the dates of discovery and development of the oil field.

Other excise is derived from beer, spirits, other alcoholic beverages (other than wine) and tobacco products.

- For beer, spirits and other alcoholic beverages, excise is imposed on the alcohol content. The excise rate on beer in containers greater than 48 litres (draught beer) is lower than for other beer.
- For cigarettes, excise is imposed on a *per stick* basis for cigarettes that do not exceed 0.8 grams (actual tobacco content) and on a *per kilogram* basis for other tobacco products.

Wine is not subject to excise, but is subject to the wine equalisation tax.

Excise indexation

The excise rates for petroleum products and crude oil are not indexed. The rates of duty for other excisable products are adjusted every August and February in line with half yearly CPI movements (Table B3). If the change in the CPI is negative, the excise rate is not reduced but instead the decline is carried forward to be set off against the next positive CPI movement.

Excise indexation for petroleum products was removed in March 2001.

Table B3: Excise rates

Commodity	Rates applying from 1 Aug 2003 \$	Rates applying from 2 Feb 2004 \$	Rates applying from 2 Aug 2004 \$	Rates applying from 1 Feb 2005 \$
Petroleum and other fuel products (per litre)				
Unleaded petrol	0.38143	0.38143	0.38143	0.38143
Ultra low sulphur diesel	0.38143	0.38143	0.38143	0.38143
Other diesel	0.39143	0.40143	0.40143	0.40143
Aviation gasoline	0.03114	0.03114	0.03114	0.03114
Aviation kerosene	0.03151	0.03151	0.03151	0.03151
Fuel oil	0.07557	0.07557	0.07557	0.07557
Heating oil and kerosene (for burner use)	0.07557	0.07557	0.07557	0.07557
Fuel ethanol	0.38143	0.38143	0.38143	0.38143
Biodiesel(a)		0.38143	0.38143	0.38143
Greases (per kilogram)	0.05449	0.05449	0.05449	0.05449
Oils and lubricants, excluding greases (per litre)	0.05449	0.05449	0.05449	0.05449
Beer (per litre of alcohol over 1.15 per cent)				
Draught beer, low strength	5.94	6.01	6.09	6.16
Draught beer, mid strength	18.65	18.86	19.12	19.35
Draught beer, high strength	24.40	24.67	25.02	25.32
Other beer, low strength	29.74	30.07	30.49	30.86
Other beer, mid strength	34.66	35.04	35.53	35.96
Other beer, high strength	34.66	35.04	35.53	35.96
Other beverages, not exceeding 10 per cent alcohol content	34.66	35.04	35.53	35.96
Potable spirits (per litre of alcohol)				
Brandy	54.83	55.43	56.21	56.88
Fruit brandy, whisky, rum and liqueurs	58.72	59.37	60.20	60.92
Other spirits, exceeding 10 per cent alcohol content	58.72	59.37	60.20	60.92
Cigarettes, cigars and tobacco (tobacco content of 0.8 grams or less per stick)	0.21804	0.22044	0.22353	0.22621
Tobacco products (per kilogram)	272.55	275.55	279.41	282.76

(a) Biodiesel became subject to excise duty from 18 September 2003.

Customs duty

Customs duty is imposed either as a percentage of the value of the imported good or on a volumetric basis (where duty is applied per unit of quantity) for excise equivalent products.

Tariffs on passenger motor vehicles and textile, clothing and footwear are expected to account for around one-third of the total duty collected. A further one-third of customs duty revenue is expected to be derived from duty imposed on imports of petroleum products, tobacco, beer and spirits, which is akin to excise duty on these items. In general, other dutiable goods attract a general tariff rate of five per cent. The Government is removing the three per cent tariff applying to business inputs imported under a Tariff Concession Order from 11 May 2005.

Table B4: Tariff rates

	Applying before 1 January 2005	Applying from 1 January 2005	Applying from 11 May 2005
	%	%	%
General tariff	5	5	5
Passenger motor vehicles	15	10	10
Textiles clothing and footwear			
Clothing and finished textiles	25	17.5	17.5
Cotton sheeting, fabric, carpet and footwear	15	10	10
Sleeping bags, table linen and footwear parts	10	7.5	7.5
Tariff concession order			
Consumer goods	0	0	0
Other (business inputs)	3	3	0

Indirect taxation

Wine equalisation tax

All wines, meads, ciders and sakes are subject to a wine equalisation tax of 29 per cent on the wholesale value of the goods. The tax was introduced as part of *The New Tax System* to maintain the level of taxation on cask wine, subsequent to the removal of the previous 41 per cent wholesale sales tax on wine and the application of the goods and services tax.

Unlike alcohol excises, the wine equalisation tax is an *ad valorem* tax. It is calculated at a rate of 29 per cent of the final wholesale price or, in certain other permitted circumstances, of a nominal wholesale value calculated as 50 per cent of the retail price, or alternatively at the average wholesale price for identical wine.

From 1 October 2004, a rebate is payable on the first \$290,000 in wine equalisation tax paid annually by any producer.

Luxury car tax

The luxury car tax was implemented on 1 July 2000 as part of *The New Tax System* to maintain the long-standing policy of successive Australian Governments to have a tax differentiation between luxury vehicles and other vehicles sold in Australia.

Its introduction prevented disproportionate falls in the price of luxury vehicles, compared to standard model vehicles at pricing points just below the threshold, when the goods and services tax rate of 10 per cent replaced the previous wholesale sales tax rate of 45 per cent.

The luxury car tax applies at a rate of 25 per cent for every dollar over the luxury car threshold. The current luxury car threshold is \$57,009. The threshold is indexed annually using the motor vehicle purchase component of the CPI, which is composed of observed price movements for new vehicles sold in Australia.

Other taxation

Fringe benefits tax

Fringe benefits tax is paid on non-salary benefits provided by employers to employees, which are provided in place of, or in addition to, the salary and wages of employees.

The tax is payable by employers and is assessed on the value of the fringe benefits provided to employees or their associates. Fringe benefits tax is levied at 48.5 per cent of the grossed-up taxable value of benefits, as calculated under the fringe benefits tax rules.

Instalments are paid by employers (on a Business Activity Statement) for each quarter of the fringe benefits tax year, which runs from April to March. A final balancing payment is due in May, together with the lodgement of a fringe benefits tax return.

Consistent with Government Finance Statistics reporting standards, fringe benefits tax reported at the general government level excludes revenue collected from Australian Government agencies.

Agricultural levies

Agricultural levies and charges are used to fund industry activities, such as research and development, marketing and promotion, residue testing, and animal health programmes.

The need for a levy is usually identified by the industry itself and the levy is generally collected at the first point of sale of the primary produce or point of further processing.

All levies and charges are paid into the Consolidated Revenue Fund without deduction, and then disbursed to fund the relevant programme.

Other levies

The major contributor to this category is a levy of around \$80 million, imposed on the coal mining industry under the *Coal Mining Industry (Long Service Leave Funding) Act 1992*. The purpose of the levy is to manage and protect the long service leave entitlements of workers in the industry.

Broadcasting licence fees

Broadcasting licence fees are payable by all commercial radio and television licensees. The licence fees are calculated as a percentage of the licensees' gross earnings for the previous year.

Other taxes

The major contributor to this revenue head is licence fees payable for the operation of radio communications equipment and telecommunications networks used to provide carriage services to the public. These fees total approximately \$185 million.

Part 3: Revenue, Expenses and Budget Funding

Other contributors include:

- levies totalling approximately \$90 million which are collected by the Department of Transport and Regional Services, including Aircraft Noise Levies, the Stevedoring Levy and the Oil Pollution Compensation Fund levy; and
- other fees totalling approximately \$59 million, including Interstate Road Transport registration fees, Territory regulatory fees, taxes and fines, Airport leases – in lieu of land tax, *Trade Practices Act 1974* fees, Navigation Act fees and Airport Building Controllers fees.

Non-taxation revenue

Sales of goods and services

This category consists of revenue from the direct provision of goods and services by the Australian Government general government sector, including reimbursement of GST administration costs received from the states and territories.

Dividends

The main sources of dividends are the Australian Government's business enterprises and the Reserve Bank of Australia (RBA). Dividend payments from the RBA can be volatile, as they are sensitive to movements in interest rates and the exchange rate.

Interest

Interest from other Governments

This category mainly consists of revenue from the states for interest on general purpose and specific purpose borrowings.

The Australian Government receives interest payments from the states in respect of general purpose borrowings made on behalf of the states under the State Governments' Loan Council Programme (and from the Northern Territory in respect of advances made under similar general purpose capital assistance arrangements). Payments relating to these advances are made, in turn, by the Australian Government to bond holders.

Interest from the states on general purpose borrowings is declining as a result of the June 1990 Loan Council decision that the states and territories make additional payments to the Australian Government each year to facilitate the redemption of all maturing Australian Government securities issued on their behalf. The reduction in interest revenue from the states is matched by a reduction in public debt interest expenses.

The Australian Government also receives interest on specific purpose borrowings to the states, including on advances made under the Commonwealth-State Housing Agreements, States (Works and Housing) Assistance Acts, Northern Territory Housing

Statement 5: Revenue

Advances, and by the Australian Capital Territory on debts assumed upon self-government.

Interest from other sources

This item includes interest income on Australian Government cash balances and on other financial assets. It excludes swap transactions entered into as part of the Australian Government's debt management strategy, as they are classified as financing transactions under Government Finance Statistics standards. The Australian Office of Financial Management is responsible for the management and reporting of the Australian Government's net debt portfolio.

Other sources of non-taxation revenue

Other non-taxation revenue includes petroleum royalties paid by producers operating in the Timor Sea and the North-West Shelf oil and gas fields, Child Support Trust Revenue (collected by the Child Support Agency) and seigniorage from circulation coin production.

APPENDIX C: FORWARD ESTIMATES OF RECEIPTS

Table C1: Australian Government general government receipts (cash basis)

	Actual	Estimates		Projections		
	2003-04 \$m	2004-05 \$m	2005-06 \$m	2006-07 \$m	2007-08 \$m	2008-09 \$m
<i>Income taxation</i>						
Individuals and other withholding						
Gross income tax withholding	89,638	97,190	100,400	105,850	113,290	121,350
Gross other individuals	19,935	22,400	24,390	24,810	26,070	27,730
less: Refunds	12,325	13,700	15,000	15,810	16,580	17,830
Total individuals and other withholding	97,247	105,890	109,790	114,850	122,780	131,250
Companies	36,101	39,600	47,510	49,260	49,870	51,420
Superannuation funds						
Contributions and earnings	4,502	5,080	5,080	5,360	5,740	6,190
Superannuation surcharge	1,050	1,180	1,150	360	250	310
Total superannuation funds	5,551	6,260	6,230	5,720	5,990	6,500
Petroleum resource rent tax	1,168	1,460	1,350	1,630	1,770	1,520
Income taxation receipts	140,067	153,210	164,880	171,460	180,410	190,690
<i>Excise and customs</i>						
<i>Excise duty</i>						
Petrol	7,434	7,370	7,410	7,500	7,570	7,650
Diesel	5,587	6,100	6,420	6,660	6,910	7,050
Other fuel products	210	150	150	110	110	140
Crude oil	309	650	620	580	580	580
Beer	1,633	1,680	1,710	1,740	1,770	1,800
Potable spirits	659	780	840	900	970	1,040
Tobacco	5,247	5,280	5,340	5,360	5,380	5,410
Total excise duty	21,079	22,010	22,490	22,850	23,290	23,670
<i>Customs duty</i>						
Textiles, clothing and footwear	993	1,000	790	840	880	970
Passenger motor vehicles	960	850	840	650	720	830
Excise-like goods	1,581	1,680	1,600	1,600	1,630	1,660
Other imports	1,739	1,880	1,530	1,670	1,790	1,830
less: Refunds and drawbacks	235	300	300	300	300	300
Total customs duty	5,038	5,110	4,460	4,460	4,720	4,990
Excise and customs receipts	26,117	27,120	26,950	27,310	28,010	28,660
<i>Indirect taxation</i>						
Wine equalisation tax	704	690	700	750	790	840
Luxury car tax	335	300	310	340	360	370
Other taxes	-48	30	50	80	100	120
Indirect taxation receipts	992	1,020	1,060	1,170	1,250	1,330
<i>Other taxation</i>						
Fringe benefits tax	3,226	3,220	3,320	3,400	3,500	3,600
Agricultural levies	603	572	583	588	580	569
Other taxes	1,239	1,063	1,037	1,047	1,032	1,046
Other taxation receipts	5,068	4,855	4,939	5,035	5,111	5,215
Taxation receipts	172,243	186,205	197,829	204,975	214,781	225,895
<i>Non-taxation</i>						
Sales of goods and services	4,422	5,015	5,165	5,385	5,526	5,565
Dividends	3,223	3,808	3,632	2,952	2,357	1,852
Interest received	1,056	1,460	1,828	2,649	3,783	4,789
Other	6,028	6,174	6,061	5,931	6,078	6,144
Non-taxation receipts	14,729	16,457	16,686	16,917	17,744	18,350
Total receipts	186,971	202,662	214,515	221,891	232,525	244,245

APPENDIX D: CHANGES IN REVENUE SINCE MYEFO**Table D1: Reconciliation of 2004-05 general government revenue (accrual basis)**

	MYEFO	Budget	Change on MYEFO	
	\$m	\$m	\$m	%
<i>Income taxation</i>				
Individuals and other withholding				
Gross income tax withholding	96,550	97,990	1,440	1.5
Gross other individuals	22,210	23,640	1,430	6.4
less: Refunds	13,700	13,700	0	0.0
Total individuals and other withholding	105,060	107,930	2,870	2.7
Companies	40,870	40,610	-260	-0.6
Superannuation funds				
Contributions and earnings	5,390	5,090	-300	-5.6
Superannuation surcharge	1,320	1,290	-30	-2.3
Total superannuation funds	6,710	6,380	-330	-4.9
Petroleum resource rent tax	1,560	1,460	-100	-6.4
Income taxation revenue	154,200	156,380	2,180	1.4
<i>Excise and customs</i>				
Excise duty				
Petrol	7,350	7,370	20	0.3
Diesel	5,900	6,100	200	3.4
Other fuel products	150	150	0	0.0
Crude oil	550	650	100	18.2
Beer	1,660	1,680	20	1.2
Potable spirits	780	780	0	0.0
Tobacco	5,260	5,280	20	0.4
Total excise duty	21,650	22,010	360	1.7
Customs duty				
Textiles, clothing and footwear	870	1,000	130	14.9
Passenger motor vehicles	1,354	1,450	96	7.1
Excise-like goods	1,610	1,680	70	4.3
Other imports	2,110	1,884	-226	-10.7
less: Refunds and drawbacks	230	300	70	30.4
Total customs duty	5,714	5,714	0	0.0
Excise and customs revenue	27,364	27,724	360	1.3
<i>Indirect taxation</i>				
Wine equalisation tax	690	690	0	0.0
Luxury car tax	330	300	-30	-9.1
Other taxes	120	190	70	58.3
Indirect taxation revenue	28,504	28,904	400	1.4
<i>Other taxation</i>				
Fringe benefits tax	3,020	3,050	30	1.0
Agricultural levies	575	572	-3	-0.6
Other levies	95	183	88	93.0
Broadcasting licence fees	234	287	53	22.6
Other taxes	994	825	-168	-16.9
Other taxation revenue	4,918	4,917	0	0.0
Taxation revenue	187,622	190,201	2,580	1.4
<i>Non-taxation</i>				
Sales of goods and services	4,404	4,828	424	9.6
Dividends	3,050	3,146	96	3.1
Interest received	1,435	1,562	127	8.8
Other	2,932	2,929	-3	-0.1
Non-taxation revenue	11,821	12,465	644	5.4
Total revenue	199,443	202,666	3,223	1.6

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Table D2: Reconciliation of 2005-06 general government revenue (accrual basis)

	MYEFO	Budget	Change on MYEFO	
	\$m	\$m	\$m	%
<i>Income taxation</i>				
Individuals and other withholding				
Gross income tax withholding	102,210	101,140	-1,070	-1.0
Gross other individuals	23,030	25,440	2,410	10.5
less: Refunds	15,020	15,000	-20	-0.1
Total individuals and other withholding	110,220	111,580	1,360	1.2
Companies	43,360	48,040	4,680	10.8
Superannuation funds				
Contributions and earnings	5,380	5,070	-310	-5.8
Superannuation surcharge	1,200	1,240	40	3.3
Total superannuation funds	6,580	6,310	-270	-4.1
Petroleum resource rent tax	1,460	1,350	-110	-7.5
Income taxation revenue	161,620	167,280	5,660	3.5
<i>Excise and customs</i>				
Excise duty				
Petrol	7,370	7,410	40	0.5
Diesel	6,130	6,420	290	4.7
Other fuel products	150	150	0	0
Crude oil	510	620	110	21.6
Beer	1,690	1,710	20	1.2
Potable spirits	870	840	-30	-3.4
Tobacco	5,270	5,340	70	1.3
Total excise duty	21,990	22,490	500	2.3
Customs duty				
Textiles, clothing and footwear	660	790	130	19.7
Passenger motor vehicles	1,350	1,448	98	7.3
Excise-like goods	1,530	1,600	70	4.6
Other imports	2,040	1,533	-507	-24.9
less: Refunds and drawbacks	230	300	70	30.4
Total customs duty	5,350	5,071	-279	-5.2
Excise and customs revenue	27,340	27,561	221	0.8
<i>Indirect taxation</i>				
Wine equalisation tax	695	700	5	0.7
Luxury car tax	345	310	-35	-10.1
Other taxes	170	220	50	29.4
Indirect taxation revenue	28,550	28,791	241	0.8
<i>Other taxation</i>				
Fringe benefits tax	3,260	3,350	90	2.8
Agricultural levies	588	583	-6	-0.9
Other levies	102	192	90	88.2
Broadcasting licence fees	243	264	21	8.6
Other taxes	1,064	808	-256	-24.1
Other taxation revenue	5,257	5,196	-61	-1.2
Taxation revenue	195,427	201,267	5,840	3.0
<i>Non-taxation</i>				
Sales of goods and services	4,491	4,965	474	10.6
Dividends	3,076	3,312	236	7.7
Interest received	1,602	2,000	399	24.9
Other	2,903	2,967	65	2.2
Non-taxation revenue	12,071	13,245	1,174	9.7
Total revenue	207,497	214,511	7,014	3.4

APPENDIX E: ACCRUAL AND CASH TAXATION ESTIMATES

Table E1: Estimates of taxation revenue on an accrual and cash basis

	2004-05	2005-06	2006-07	2007-08	2008-09
	\$b	\$b	\$b	\$b	\$b
Tax revenue (accrual)	190.2	201.3	209.0	218.8	230.1
Tax receipts (cash)	186.2	197.8	205.0	214.8	225.9
Difference (accrual less cash)	4.0	3.4	4.0	4.0	4.2
<i>Memorandum items:</i>					
Deferred company tax payments	-0.3	-0.3	0.0	0.0	0.0
ACIS(a)	0.6	0.6	0.6	0.6	0.6
Other	3.7	3.2	3.4	3.4	3.6
Total	4.0	3.4	4.0	4.0	4.2

(a) Automotive Competitiveness and Investment Scheme.

Accrual estimates are prepared using the tax liability method of revenue recognition. Under the tax liability method, taxation revenue is recognised at the time a taxpayer makes a self-assessment or when an assessment of a tax liability is raised by the relevant authority. This method retains some elements of cash revenue recognition — for example, revenue is recognised when cash payment occurs prior to an assessment being raised.

Specific drivers of the difference between the accrual and cash taxation revenue estimates are discussed below.

Automotive Competitiveness and Investment Scheme

The Automotive Competitiveness and Investment Scheme (ACIS) operates by providing customs duty credits to exporters of Australian automotive products. The credits can be set off against future customs duty on specific imports.

Under accrual accounting, an expense is recognised when the ACIS credits are issued. The later redemption of the credits results in an increase in the difference between the accrual and cash estimates for customs duty revenue, because the customs duty accrual revenue is recognised at the point of credit redemption but no cash is received. ACIS credits account for \$615 million of the difference between the accrual and cash estimates in 2005-06.

Deferred company tax payments

The PAYG arrangements for companies and superannuation funds (introduced as part of *The New Tax System*) better align tax payments with the period in which income is earned. In the absence of transitional arrangements, this would have created an overlap of tax payments, because payments of tax obligations for 1999-2000 (under the previous payment arrangements) and PAYG instalments for 2000-01 (under the new

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payment arrangements) both occurred during 2000-01. For a medium-sized company, for example, there would have been six payments due, instead of the usual four.

The Government implemented transitional arrangements to assist these taxpayers move to the new PAYG system, by allowing them to spread some of their tax payments in interest free instalments for up to five years. While the full amount of the tax obligations was included in accrual revenue for 2000-01 (the year in which the liabilities were recognised), the cash estimates will continue to be affected for the five year period.

The impact of these deferred payments has been to increase the cash taxation receipt estimates by around \$325 million in 2004-05 and \$330 million in 2005-06, while they have no impact on the accrual estimates in either year.

Other

This category consists of other timing differences between the recognition of accrual and cash revenue and instances where revenue has been recognised but payment is no longer expected to be received. For example:

- *receivables* arise where tax liabilities are recognised in one period, but the taxpayer is not expected to pay the liability until a later period;
- *remissions* occur where tax liabilities are recognised, but circumstances are taken into account and the Commissioner of Taxation reduces the amount of various penalties and interest required to be paid;
- a tax liability may be *written off* where the previously recognised revenue is no longer expected to be received; and
- a *credit amendment* may be issued where a tax assessment is amended (for example, where a court decision leads to a change in the interpretation of the tax laws).

To the extent that revenue includes tax assessments for which payment may not be received, expenses are recognised (that is, in respect of *remissions* and *write-offs* of bad and doubtful debts). The higher revenue is offset by these expenses, leaving the fiscal balance unaffected.

APPENDIX F: TAX EXPENDITURES

This appendix contains an overview of the cost of tax expenditures provided to taxpayers through the tax system.

Tax expenditures provide a benefit to a specified activity or class of taxpayer. They can be delivered as a tax exemption, tax deduction, tax offset, reduced tax rate or deferral of a tax liability. The Government can use tax expenditures to allocate resources to different activities or taxpayers in much the same way that it can use direct expenditure programmes. For this reason, and noting their direct impact on the fiscal balance, these concessions are generally called tax expenditures.

The data reported in this appendix are consistent with tax expenditure data reported in the *2004 Tax Expenditures Statement* published in January 2005. Several considerations need to be taken into account when analysing tax expenditure data (see section 2.1 of the *2004 Tax Expenditures Statement* for a detailed description).

Table F1 contains estimates of total tax expenditures for the period 2001-02 to 2008-09.

Table F1: Aggregate tax expenditures

Year	Superannuation \$m	Other tax expenditures \$m	Net value of tax expenditures \$m	Tax expenditures as a proportion of GDP %
2001-02 (est)	9,860	19,866	29,726	4.2
2002-03 (est)	10,990	19,534	30,524	4.0
2003-04 (est)	12,030	19,178	31,208	3.8
2004-05 (proj)	13,290	19,374	32,664	3.8
2005-06 (proj)	14,580	19,936	34,516	3.7
2006-07 (proj)	15,580	21,507	37,087	3.8
2007-08 (proj)	16,530	22,146	38,676	3.8
2008-09 (prelim)	17,560	22,773	40,333	3.8

Tax expenditures are projected to decline as a proportion of GDP from 4.2 per cent in 2001-02 to around 3.8 per cent in 2008-09. The largest single contributing factor to the decline in tax expenditures is the removal of accelerated depreciation under *The New Business Tax System*.

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Table F2 is a list of the major tax expenditures in 2003-04.

Table F2: Major tax expenditures 2004-05

	\$m
Large positive tax expenditures	
Concessional taxation of funded superannuation	12,760
Exemption of Family Tax Benefit, Parts A and B, including expense equivalent	2,730
Capital gains tax discount for individuals and trusts	2,580
Senior Australians' Tax Offset	1,680
Tax offset for recipients of certain social security benefits, pensions or allowances	1,100
Exemption of certain income support benefits, pensions or allowances	1,100
Application of statutory formula to value car benefits	1,100
Exemption from excise for 'alternative fuels'	800
Concessional treatment of non-superannuation termination benefits	780
Exemption of 30 per cent private health insurance refund, including expense equivalent	750
Concessional rate of excise levied on aviation gasoline and aviation kerosene	745
Tax offset for low income earners	680
Large negative tax expenditures	
Higher rate of excise levied on cigarettes with less than 0.8 grams of tobacco	-1,380
Accelerated depreciation allowance for plant and equipment	-850

APPENDIX G: RECEIPTS HISTORY AND FORECASTS

Table G1: Australian Government receipts (cash basis)(a)

	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05(est)	2005-06(est)
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<i>Income taxation</i>												
Individuals and other withholding												
Income tax withholding	54,000	59,970	64,521	69,366	75,170	81,055	75,009	78,983	84,134	89,638	97,190	100,400
Other individuals	9,481	10,078	11,820	12,119	13,103	13,370	13,226	16,290	17,436	19,935	22,400	24,390
less: Refunds	7,931	8,285	8,808	9,525	10,325	10,946	10,989	10,637	11,651	12,325	13,700	15,000
Total individuals and other withholding	55,551	61,763	67,533	71,959	77,948	83,478	77,246	84,636	89,919	97,247	105,890	109,790
Companies	15,588	18,252	19,173	19,406	20,734	24,453	31,582	27,230	32,752	36,101	39,600	47,510
Superannuation funds												
Contributions and earnings	1,913	1,634	2,595	2,746	3,630	3,243	4,110	3,550	3,865	4,502	5,080	5,080
Superannuation surcharge				347	286	577	690	824	975	1,050	1,180	1,150
Total superannuation funds	1,913	1,634	2,595	3,093	3,916	3,820	4,800	4,373	4,840	5,551	6,260	6,230
Petroleum resource rent tax	865	791	1,308	907	419	1,184	2,379	1,361	1,712	1,168	1,460	1,350
Income taxation receipts	73,916	82,440	90,610	95,366	103,017	112,936	116,006	117,601	129,222	140,067	153,210	164,880
<i>Excise and customs</i>												
Excise duty												
Petroleum and other fuel products	9,406	10,224	10,543	10,895	10,974	11,189	11,919	12,386	12,866	13,231	13,620	13,980
Crude oil	27	13	9	16	31	219	526	393	417	309	650	620
Other excise	2,567	2,612	2,739	2,663	2,614	2,670	6,572	6,837	7,450	7,539	7,740	7,890
Total excise duty	12,001	12,849	13,291	13,574	13,619	14,078	19,017	19,616	20,733	21,079	22,010	22,490
Customs duty	3,474	3,124	3,289	3,637	3,634	3,771	4,584	4,625	4,982	5,038	5,110	4,460
Excise and customs receipts	15,475	15,973	16,580	17,211	17,253	17,849	23,601	24,241	25,715	26,117	27,120	26,950
<i>Indirect taxation</i>												
Wine equalisation tax							524	640	669	704	690	700
Luxury car tax							171	220	261	335	300	310
Other taxes	11,624	12,955	13,308	14,085	15,162	15,532	1,234	-75	-72	-48	30	50
Indirect taxation receipts	11,624	12,955	13,308	14,085	15,162	15,532	1,929	785	858	992	1,020	1,060

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Table G1: Australian Government receipts (cash basis)(a) (continued)

	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05(est)	2005-06(est)
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<i>Other taxation</i>												
Fringe benefits tax	2,740	3,031	3,163	3,168	3,289	3,373	3,207	3,272	3,103	3,226	3,220	3,320
Other taxes	1,933	1,988	2,154	2,390	2,383	1,005	1,312	1,645	1,762	1,842	1,635	1,619
Taxation receipts	105,687	116,386	125,815	132,219	141,104	150,695	146,056	147,544	160,661	172,243	186,205	197,829
<i>Non-taxation</i>												
Interest received	1,790	1,403	1,126	1,139	682	995	1,140	918	982	1,056	1,460	1,828
Dividends and other	2,952	3,899	4,089	3,610	4,659	14,138	13,651	14,080	14,504	13,673	14,997	14,858
Non-taxation receipts	4,743	5,302	5,216	4,749	5,341	15,133	14,791	14,998	15,487	14,729	16,457	16,686
Total receipts	110,430	121,688	131,031	136,968	146,444	165,828	160,847	162,542	176,147	186,971	202,662	214,515

(a) Figures up to and including 1998-99 are based on the old Commonwealth Budget Sector cash accounting framework. Figures from 1999-2000 are on an Australian Government general government GFS basis.

Table G2: Major categories of receipts as a proportion of gross domestic product (cash basis)(a)

	Taxation receipts										Non-taxation receipts									
	Income tax					Other taxation receipts					Interest Dividends and other receipts					Total				
	Gross ITW %	Gross other individuals %	Refunds individuals & withholding %	Total individuals & withholding %	Companies Super funds %	PRRT income %	Total income tax %	Petrol & other products %	Other fuel excise %	Customs duty %	FBT other tax %	Total other tax %	Total tax receipts %	Interest Dividends and other receipts %	Total other receipts %	Total tax receipts %	Total non-tax receipts %	Total %		
1975-76	10.6	2.8	1.7	11.7	3.2	-	14.9	1.3	1.6	1.2	-	6.4	21.3	1.7	0.1	1.8	23.1			
1976-77	10.8	2.8	1.4	12.2	3.1	-	15.2	1.2	1.5	1.3	-	6.3	21.6	1.7	0.2	1.9	23.5			
1977-78	10.7	2.5	0.9	12.2	3.1	0.0	15.3	1.3	1.4	1.1	-	6.1	21.4	1.8	0.3	2.1	23.5			
1978-79	10.2	2.1	0.9	11.4	2.7	0.0	14.1	1.9	1.5	1.2	-	6.7	20.7	1.7	0.3	2.0	22.7			
1979-80	10.4	2.2	0.9	11.8	2.6	0.0	14.4	2.5	1.4	1.2	-	6.9	21.4	1.5	0.3	1.7	23.1			
1980-81	10.6	2.3	0.8	12.1	3.2	0.0	15.4	2.8	1.2	1.2	-	7.1	22.5	1.5	0.3	1.7	24.2			
1981-82	11.3	2.3	0.8	12.7	3.0	0.0	15.8	2.5	1.1	1.2	-	6.9	22.6	1.4	0.3	1.8	24.4			
1982-83	11.6	2.3	1.1	12.8	2.7	0.0	15.5	2.7	1.1	1.1	-	7.3	22.8	1.5	0.5	2.0	24.8			
1983-84	11.1	2.2	1.2	12.2	2.2	0.0	14.5	2.8	1.0	1.1	-	7.6	22.1	1.5	0.6	2.1	24.1			
1984-85	11.5	2.4	0.9	13.2	2.5	0.0	15.6	2.9	1.0	1.3	-	8.0	23.6	1.4	0.7	2.1	25.7			
1985-86	11.8	2.7	1.4	13.4	2.5	0.0	15.9	2.9	1.0	1.3	-	8.0	23.8	1.4	1.0	2.4	26.3			
1986-87	12.1	3.2	1.3	14.2	2.5	0.0	16.7	2.7	0.9	1.2	0.2	7.9	24.6	1.3	1.1	2.5	27.0			
1987-88	11.6	3.2	1.3	13.7	2.8	0.0	16.5	2.4	0.9	1.2	0.3	7.8	24.3	1.2	0.8	2.0	26.3			
1988-89	11.9	2.8	1.5	13.7	2.9	0.0	16.6	2.0	0.6	1.1	0.3	7.2	23.8	1.1	0.3	1.4	25.2			
1989-90	11.6	2.7	1.5	13.2	3.4	0.1	16.7	2.0	0.6	1.0	0.3	7.0	23.7	0.9	0.3	1.2	24.9			
1990-91	11.3	2.9	1.7	12.9	3.6	0.3	16.8	2.0	0.6	0.8	0.3	6.7	23.4	0.8	0.4	1.2	24.7			
1991-92	11.0	2.3	1.9	11.7	3.3	0.3	15.5	1.8	0.6	0.8	0.3	6.1	21.6	0.7	0.6	1.4	23.0			
1992-93	10.8	2.0	1.8	11.3	3.1	0.4	15.1	1.7	0.6	0.8	0.3	5.9	21.0	0.6	0.7	1.3	22.3			
1993-94	10.8	1.9	1.6	11.5	2.8	0.3	14.9	1.9	0.5	0.7	0.3	6.2	21.1	0.5	1.0	1.5	22.6			
1994-95	11.0	2.0	1.7	11.8	3.3	0.4	15.7	2.0	0.5	0.7	0.6	6.8	22.5	0.4	0.6	1.0	23.5			
1995-96	11.5	2.0	1.7	12.3	3.6	0.3	16.4	2.0	0.5	0.6	0.6	6.8	23.2	0.3	0.8	1.1	24.3			
1996-97	11.8	2.2	1.7	12.8	3.6	0.5	17.2	2.0	0.5	0.6	0.6	6.7	23.8	0.2	0.8	1.0	24.8			

Table G2: Major categories of receipts as a proportion of gross domestic product (cash basis)(a) (continued)

	Taxation receipts										Non-taxation receipts									
	Income tax					Other taxation receipts					Interest Dividends and other receipts					Total				
	Gross ITW %	Gross other individuals %	Refunds individuals & w/holding %	Total Companies Super funds %	PRRT income tax %	Total income tax %	Excise duty %	Other fuel products %	Customs duty %	FBT other tax %	Total other tax %	Total tax receipts %	Dividends %	Other receipts %	Total other receipts %	Total receipts %				
1997-98	12.0	2.2	1.7	12.9	3.5	0.6	0.2	17.1	2.0	0.5	0.7	0.6	6.6	23.6	0.2	0.6	0.8	24.5		
1998-99	12.3	2.2	1.8	13.2	3.5	0.7	0.1	17.5	1.9	0.4	0.6	0.6	6.5	23.9	0.1	0.8	0.9	24.8		
1999-00	12.5	2.1	1.8	13.4	3.9	0.6	0.2	18.1	1.8	0.4	0.6	0.5	6.1	24.2	0.2	2.3	2.4	26.6		
2000-01	11.2	2.0	1.6	11.6	4.7	0.7	0.4	17.4	1.9	1.0	0.7	0.5	4.5	21.9	0.2	2.0	2.2	24.1		
2001-02	11.1	2.3	1.5	11.9	3.8	0.6	0.2	16.5	1.8	1.0	0.6	0.5	4.2	20.7	0.1	2.0	2.1	22.8		
2002-03	11.1	2.3	1.5	11.9	4.3	0.6	0.2	17.0	1.8	1.0	0.7	0.4	4.1	21.2	0.1	1.9	2.0	23.2		
2003-04	11.0	2.4	1.5	12.0	4.4	0.7	0.1	17.2	1.7	0.9	0.6	0.4	4.0	21.2	0.1	1.7	1.8	23.0		
2004-05(est)	11.3	2.6	1.6	12.3	4.6	0.7	0.2	17.8	1.7	0.9	0.6	0.4	3.8	21.6	0.2	1.7	1.9	23.5		
2005-06(est)	10.8	2.6	1.6	11.8	5.1	0.7	0.1	17.8	1.6	0.9	0.5	0.4	3.6	21.3	0.2	1.6	1.8	23.1		

(a) Figures up to and including 1998-99 are based on the old Commonwealth Budget Sector cash accounting framework. Figures from 1999-2000 are on an Australian Government general government GFS basis.

Table G3: Major categories of receipts as a proportion of total receipts (cash basis)(a)

	Taxation receipts										Non-taxation receipts									
	Income tax					Other taxation receipts					Total tax receipts					Dividends and other receipts				
	Gross ITW %	Gross other individuals %	Refunds %	Total individuals & withholding %	Companies %	Super funds %	PRRT %	Total income tax %	Petrol & other products %	Other fuel %	Excise %	Customs duty %	FBT %	Total other tax receipts %	Total tax receipts %	Interest %	Dividends and other %	Total non-tax receipts %		
1975-76	46.1	12.0	7.3	50.7	13.7	-	64.5	5.7	6.9	5.1	-	27.7	92.2	7.5	0.3	7.8				
1976-77	46.0	11.7	6.0	51.8	13.1	-	64.9	5.2	6.3	5.4	-	27.0	91.8	7.4	0.8	8.2				
1977-78	45.3	10.5	4.0	51.9	13.1	0.0	65.0	5.7	5.9	4.8	-	26.0	91.0	7.6	1.4	9.0				
1978-79	44.8	9.3	4.0	50.0	11.8	0.0	61.8	8.3	6.6	5.3	-	29.3	91.1	7.4	1.5	8.9				
1979-80	45.1	9.6	3.8	50.9	11.4	0.0	62.4	10.7	6.0	5.2	-	30.0	92.4	6.4	1.2	7.6				
1980-81	43.7	9.7	3.3	50.1	13.3	0.0	63.4	11.4	5.1	5.1	-	29.4	92.8	6.1	1.1	7.2				
1981-82	46.4	9.2	3.5	52.2	12.3	0.0	64.6	10.1	4.5	5.0	-	28.2	92.8	5.9	1.3	7.2				
1982-83	46.9	9.1	4.4	51.7	10.8	0.1	62.5	10.8	4.5	4.5	-	29.4	91.9	6.1	2.1	8.1				
1983-84	45.9	9.1	4.9	50.7	9.3	0.0	60.0	11.7	4.3	4.7	-	31.4	91.4	6.0	2.6	8.6				
1984-85	44.7	9.4	3.6	51.2	9.6	0.0	60.8	11.4	3.7	5.0	-	30.9	91.8	5.5	2.7	8.2				
1985-86	45.0	10.3	5.2	51.0	9.4	0.0	60.4	10.9	3.6	5.0	-	30.4	90.8	5.3	3.9	9.2				
1986-87	44.6	11.8	5.0	52.6	9.1	0.0	61.8	9.9	3.5	4.4	0.7	29.2	90.9	4.9	4.2	9.1				
1987-88	44.0	12.0	5.1	52.2	10.8	0.0	63.0	9.2	3.4	4.5	1.1	29.6	92.5	4.4	3.0	7.5				
1988-89	47.3	11.3	5.8	54.4	11.6	0.0	65.9	7.9	2.5	4.2	1.1	28.5	94.5	4.2	1.3	5.5				
1989-90	46.4	10.8	6.1	53.1	13.5	0.4	67.0	8.0	2.3	4.1	1.2	28.1	95.2	3.6	1.2	4.8				
1990-91	45.8	11.6	6.9	52.2	14.4	1.1	68.0	8.2	2.4	3.4	1.3	27.1	95.0	3.4	1.6	5.0				
1991-92	47.8	9.8	8.3	50.9	14.4	1.2	67.4	7.7	2.5	3.5	1.4	26.6	94.1	3.2	2.7	5.9				
1992-93	48.5	8.8	8.2	50.8	13.7	1.6	67.6	7.7	2.5	3.5	1.4	26.5	94.1	2.6	3.3	5.9				
1993-94	47.6	8.6	7.1	51.1	12.6	1.2	65.9	8.5	2.2	3.2	1.4	27.4	93.3	2.0	4.6	6.7				
1994-95	46.9	8.6	7.2	50.3	14.1	1.7	66.9	8.5	2.3	3.1	2.5	28.8	95.7	1.6	2.7	4.3				
1995-96	47.5	8.3	6.8	50.8	15.0	1.3	67.7	8.4	2.1	2.6	2.5	27.9	95.6	1.2	3.2	4.4				
1996-97	47.5	9.0	6.7	51.5	14.6	2.0	69.2	8.1	2.1	2.5	2.4	26.9	96.0	0.9	3.1	4.0				

Table G3: Major categories of receipts as a proportion of total receipts (cash basis)(a) (continued)

	Taxation receipts										Non-taxation receipts						
	Income tax					Other taxation receipts					Total tax receipts	Dividends and other receipts	Total non-tax receipts				
	Gross ITW %	Refunds other individuals %	Companies individuals & w/holding %	Super funds %	PRRT income tax %	Petrol & other products %	Excise %	Customs duty %	FBT %	Total other tax receipts %				Interest %			
1997-98	48.8	8.8	7.0	52.5	14.2	2.3	0.7	69.6	8.0	1.9	2.7	2.3	26.9	96.5	0.8	2.6	3.5
1998-99	49.4	8.9	7.1	53.2	14.2	2.7	0.3	70.3	7.5	1.8	2.5	2.2	26.0	96.4	0.5	3.2	3.6
1999-00	47.0	8.1	6.6	50.3	14.7	2.3	0.7	68.1	6.9	1.6	2.3	2.0	22.8	90.9	0.6	8.5	9.1
2000-01	46.6	8.2	6.8	48.0	19.6	3.0	1.5	72.1	7.7	4.1	2.8	2.0	18.7	90.8	0.7	8.5	9.2
2001-02	48.6	10.0	6.5	52.1	16.8	2.7	0.8	72.4	7.9	4.2	2.8	2.0	18.4	90.8	0.6	8.7	9.2
2002-03	47.8	9.9	6.6	51.0	18.6	2.7	1.0	73.4	7.5	4.2	2.8	1.8	17.8	91.2	0.6	8.2	8.8
2003-04	47.9	10.7	6.6	52.0	19.3	3.0	0.6	74.9	7.2	4.0	2.7	1.7	17.2	92.1	0.6	7.3	7.9
2004-05(est)	48.0	11.1	6.8	52.2	19.5	3.1	0.7	75.6	7.0	3.8	2.5	1.6	16.3	91.9	0.7	7.4	8.1
2005-06(est)	46.8	11.4	7.0	51.2	22.1	2.9	0.6	76.9	6.8	3.7	2.1	1.5	15.4	92.2	0.9	6.9	7.8

(a) Figures up to and including 1998-99 are based on the old Commonwealth Budget Sector cash accounting framework. Figures from 1999-2000 are on an Australian Government general government GFS basis.

STATEMENT 6: EXPENSES AND NET CAPITAL INVESTMENT

Statement 6 presents estimates of general government expenses and net capital investment on a Government Finance Statistics (GFS) accrual accounting basis. The statement includes information on the allocation of Australian Government funds to the various functions of government. These functions are based on an international standard classification of functions of government that is incorporated into the GFS framework.

The first part of this Statement provides information on trends in expense estimates while the second part presents trends in net capital investment estimates. Estimates are on an Australian Government general government sector basis.

Statement 6 focuses on short to medium-term expense trends and their underlying determinants. Consistent with this emphasis, much of Statement 6 explains year-on-year changes across the forward estimates.

Further information on portfolio and agency expenses, capital movements, major outputs and administered items may be found in the respective Portfolio Budget Statements.

The key points are:

- general government expenses are forecast to fall from 22.6 per cent of gross domestic product (GDP) in 2004-05 to 22.2 per cent of GDP in 2005-06 and then rise slightly to 22.3 per cent of GDP in 2008-09;
- in 2005-06, the social security and welfare, health, education and defence functions together account for approximately 76 per cent of total expenses with social security and welfare itself accounting for approximately 42 per cent of total expenses;
- in real terms, the strongest growth across the Budget and forward estimates years is occurring in the health, education, social security and welfare and defence functions, with other functions either being stable or declining; and
- net capital investment in 2005-06 largely reflects increased investment in the Department of Finance and Administration's construction and refurbishment projects, and the purchase of land and security upgrade of various overseas missions by the Department of Foreign Affairs.

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STATEMENT 6: EXPENSES AND NET CAPITAL INVESTMENT

OVERVIEW

Australian Government general government expenses are expected to grow in real terms in 2005-06 and over the forward estimates period to 2008-09 (Table 1). Expenses as a proportion of gross domestic product (GDP) are forecast to fall slightly over the next four years, from 22.6 per cent of GDP in 2004-05 to 22.3 per cent of GDP in 2008-09.

Table 1: Estimates of expenses

	2004-05		2005-06	2006-07	2007-08	2008-09
	MYEFO(a)	Revised	Estimate	Projections		
Total expenses (\$b)	193.8	195.0	206.1	214.8	225.4	236.6
Real growth on						
previous year%(b)	2.9	3.5	1.2	3.5	4.2	3.0
Per cent of GDP	22.4	22.6	22.2	22.2	22.4	22.3

(a) As published in the Mid-Year Economic and Fiscal Outlook 2004-05.

(b) Real growth is calculated using the non-farm gross domestic product (GDP) deflator.

GENERAL GOVERNMENT EXPENSES

Reconciliation of expenses since the 2004-05 Budget

Table 2 provides a reconciliation of expense estimates between the 2004-05 Budget, *Mid-Year Economic and Fiscal Outlook 2004-05* (MYEFO) and the 2005-06 Budget, showing the effect of policy decisions and economic parameter and other variations.

Part 3: Revenue, Expenses and Budget Funding

Table 2: Reconciliation of expense estimates

	Estimates		Projections	
	2004-05 \$m	2005-06 \$m	2006-07 \$m	2007-08 \$m
2004-05 Budget expenses	192,306	200,626	210,033	220,939
Changes between 2004-05 Budget and MYEFO				
Effect of policy decisions(a)	1,646	2,943	3,250	3,367
Effect of economic parameter variations				
Unemployment benefits	-106	-27	-9	-38
Prices and wages	95	-472	-149	-257
Interest and exchange rates	15	-21	-25	-19
<i>Total economic parameter variations</i>	4	-519	-183	-314
Public debt interest	-15	-5	-54	-118
Programme specific parameter variations	-1,500	-1,043	-1,096	-1,068
Slippage in 2004-05 Budget decisions	7	0	0	0
Other variations	1,361	1,583	414	84
Total variations	1,503	2,960	2,330	1,951
2004-05 MYEFO expenses	193,808	203,585	212,363	222,890
Changes between MYEFO and 2005-06 Budget				
Effect of policy decisions(a)	932	2,040	3,041	3,201
Effect of economic parameter variations				
Unemployment benefits	-59	-370	-331	-364
Prices and wages	57	1,046	455	329
Interest and exchange rates	-6	-30	-60	-67
<i>Total economic parameter variations</i>	-8	646	64	-102
Public debt interest	9	30	42	56
Programme specific parameter variations	178	407	394	399
Slippage in 2004-05 Budget decisions	-1	1	0	0
Other variations	94	-628	-1,098	-1,043
Total variations	1,203	2,496	2,443	2,511
2005-06 Budget expenses	195,012	206,081	214,806	225,400

(a) Excluding the public debt net interest effect of policy measures.

Discussion of the major changes between the 2004-05 MYEFO and the 2005-06 Budget, shown in the above table can be found in Statement 2 (in the section titled Variations in expense estimates). Further information on expense measures can be found in Budget Paper No. 2, *Budget Measures 2005-06*.

Expense estimates by function

Table 3 sets out the estimates of Australian Government general government expenses by function for the period 2004-05 to 2008-09.

Table 3: Estimates of expenses by function

	Estimates		Projections		
	2004-05 \$m	2005-06 \$m	2006-07 \$m	2007-08 \$m	2008-09 \$m
General public services(a)	12,748	12,799	13,067	13,339	13,368
Defence	14,190	15,600	15,851	16,791	17,238
Public order and safety	2,490	2,721	2,792	2,860	2,892
Education	14,533	15,729	16,541	17,336	17,905
Health(a)	35,541	37,544	39,041	40,937	42,812
Social security and welfare(a)	83,814	87,564	92,138	95,943	99,789
Housing and community amenities	1,887	1,968	2,003	1,992	1,894
Recreation and culture(a)	2,473	2,670	2,575	2,563	2,472
Fuel and energy	3,871	4,212	4,198	4,340	4,848
Agriculture, forestry and fishing	2,263	2,520	2,571	2,408	1,622
Mining, manufacturing and construction	1,754	1,916	1,820	1,802	1,833
Transport and communication	2,723	2,806	2,972	3,042	2,879
Other economic affairs	4,782	4,782	4,923	5,100	5,013
Other purposes	11,943	13,250	14,314	16,948	22,002
Total expenses	195,012	206,081	214,806	225,400	236,568

(a) There has been some reclassification of expenditure that was previously reported under the Aboriginal advancement nec sub-function (social security and welfare) to other primary functions.

Major movements within the estimates of expenses by function between 2004-05 and 2005-06, and across the forward estimates, include increases in the following functions:

- **Defence** due to continued funding increases associated with the Government's White Paper *Defence 2000 – Our Future Defence Force*, together with funding for major Australian Defence Force deployments, such as the operations in Iraq;
- **Education** due to increased schools funding associated with the election commitment School infrastructure – investing in our schools together with increased higher education funding reflecting the majority of the *Our Universities* measures;
- **Health** due to a continued increase in the use of medical and pharmaceutical services over the forward estimates period, increasing costs for the provision of medical services and a continuing trend towards newer and more expensive drugs under the Pharmaceutical Benefits Scheme; and
- **Social security and welfare** due to the *Welfare to Work* package as well as the continued effect of indexation of payments together with the demographic and social factors that affect demand driven programmes.

Estimates presented in Table 3 above are explained in greater detail for each individual function in the following pages.

General public services

Table 4: Summary of expenses

	Estimates		Projections		
	2004-05 \$m	2005-06 \$m	2006-07 \$m	2007-08 \$m	2008-09 \$m
Legislative and executive affairs	850	788	826	941	787
Financial and fiscal affairs	3,730	3,685	3,864	3,763	3,798
Foreign affairs and economic aid(a)	2,936	3,063	2,885	3,041	3,138
General research	2,206	2,324	2,455	2,512	2,509
General services	539	576	629	648	657
Government superannuation benefits	2,487	2,363	2,409	2,434	2,479
Total general public services(b)	12,748	12,799	13,067	13,339	13,368

(a) In order to better reflect the Australian Federal Police's role in overseas development and assistance missions (such as the Regional Assistance Mission to the Solomon Islands), approximately a third of its departmental funding has been reclassified from the other public order and safety sub-function (public order and safety) to the foreign affairs and economic aid sub-function (general public services).

(b) There has been some reclassification of expenditure that was previously reported under the Aboriginal advancement nec sub-function (social security and welfare) to other primary functions.

Nature of expenses and major trends

The general public services function includes expenses relating to the organisation and operation of government. This includes: expenses related to the Parliament, Governor-General and conduct of elections; expenses related to the collection of taxes, and management of public funds and public debt; and assistance to developing countries including assistance initiatives in the Pacific, contributions to international organisations and the operations of the foreign service. It also includes: expenses related to research in areas not otherwise connected with a specific function; expenses related to overall economic and statistical services and government superannuation benefits (excluding nominal interest expenses on unfunded liabilities which are included under the nominal superannuation interest sub-function in the other purposes function).

Expenses within the function tend to fluctuate over the budget and forward estimates period partly due to one-off factors such as the preparation for a federal election in 2007-08 (legislative and executive affairs sub-function) and the 2006 Census (financial and fiscal affairs sub-function).

General research sub-function expenses are expected to grow over the forward estimates period reflecting the on-going impact of the *Backing Australia's Ability – An Innovation Plan for the Future* package, announced in January 2001 and the *Backing Australia's Ability – Building Our Future Through Science and Innovation* package announced in May 2004. Fluctuations in the foreign affairs and economic aid sub-function over the Budget and forward years are due to timing effects in Australia's contributions to multilateral development banks. The increase in expenses in 2008-09 for this sub-function is due to the impact of the Government's decision to write off a proportion of Iraq's debt to Australia.

Defence

Table 5: Summary of expenses

	Estimates		Projections		
	2004-05 \$m	2005-06 \$m	2006-07 \$m	2007-08 \$m	2008-09 \$m
Defence	14,190	15,600	15,851	16,791	17,238
Total defence	14,190	15,600	15,851	16,791	17,238

Nature of expenses and major trends

Expenses in this function are within the Defence portfolio and support operations and delivery of navy, army, air and intelligence capabilities and strategic policy in the defence of Australia and its national interests.

Total annual expenses for the Defence function rise by over \$1.6 billion over the period 2005-06 to 2008-09.

The growth and pattern of expenditure is due to a number of factors. Firstly, there is the influence of significant funding increases for investments in capability announced by the Government in *Defence 2000 – Our Future Defence Force* (the 2000 White Paper). Secondly, there are variations in funding levels for major Australian Defence Force deployments, such as the operations in Iraq.

The remaining growth in expenses is largely due to changes in price together with additional funding provided in this and previous budgets for North West Shelf surveillance, logistics, military personnel costs and initiatives, and maintenance of the Defence estate.

Public order and safety

Table 6: Summary of expenses

	Estimates		Projections		
	2004-05	2005-06	2006-07	2007-08	2008-09
	\$m	\$m	\$m	\$m	\$m
Courts and legal services	663	716	772	824	832
Other public order and safety(a)	1,828	2,005	2,020	2,036	2,061
Total public order and safety	2,490	2,721	2,792	2,860	2,892

(a) In order to better reflect the Australian Federal Police's role in overseas development and assistance missions (such as the Regional Assistance Mission to the Solomon Islands), approximately a third of its departmental funding has been reclassified from the other public order and safety sub-function (public order and safety) to the foreign affairs and economic aid sub-function (general public services).

Nature of expenses and major trends

Expenses for the public order and safety function support the administration of the Federal legal system and the provision of legal services, including legal aid, to the community. Public order and safety expenses also include law enforcement activities and the protection of Australian Government property.

Expenses for the courts and legal services sub-function increase from 2004-05 to 2007-08 reflecting the new family law system. The increase in expenditure from 2004-05 to 2005-06 for the other public order and safety sub-function is a result of new protective security and regional counter-terrorism measures.

Education

Table 7: Summary of expenses

	Estimates		Projections		
	2004-05 \$m	2005-06 \$m	2006-07 \$m	2007-08 \$m	2008-09 \$m
Higher education	4,735	5,164	5,353	5,528	5,660
Vocational and other education	1,425	1,571	1,590	1,612	1,635
Non-government schools	5,091	5,508	5,916	6,338	6,670
Government schools	2,595	2,851	3,023	3,181	3,234
<i>Schools</i>	7,686	8,359	8,939	9,519	9,904
Student assistance	569	530	547	569	598
General administration	1	1	1	1	1
School education - specific funding	118	105	111	107	107
Total education	14,533	15,729	16,541	17,336	17,905

Nature of expenses and major trends

Education expenses support the delivery of education services through: higher education institutions; vocational education and training providers (including technical and further education institutions); and government (state and territory) and non-government schools.

Expenses under the student assistance sub-function include the ABSTUDY scheme, Assistance for Isolated Children and income support for students aged twenty-five years and over through AUSTUDY.

Total expenses for this function are estimated to increase by 10.1 per cent in real terms over the three forward years, 2006-07 to 2008-09, or 3.3 per cent annually on average, with expenses on higher education and schools being the main drivers.

Growth in the higher education sub-function from 2004-05 to 2005-06 reflects the impact of the majority of the *Our Universities* package effective 1 January 2005. Funding associated with *Our Universities* continues to grow over the forward years, along with increases in funding under the Commonwealth Grant Scheme, increases to the number of higher education student places and scholarships and additional funding for capital projects. Growth is also due to the application of the higher education indexation factor.

Growth in expenses relating to schools is driven by funding provided under the *Schools Assistance Act 2004* (the Act). Estimated Australian Government funding of \$33 billion, including expenses for the election commitment *\$1 billion Investment In Our School Infrastructure*, will be provided to and through the states and territories over the four year period 2005 to 2008 (calendar year) under the Act.

The student assistance sub-function will decline between 2004-05 and 2005-06 as a result of the closure of the Student Financial Supplementation Scheme to new borrowers.

Health

Table 8: Summary of expenses

	Estimates		Projections		
	2004-05 \$m	2005-06 \$m	2006-07 \$m	2007-08 \$m	2008-09 \$m
Medical services and benefits(a)	14,672	15,688	16,053	16,530	17,067
Hospital services	1,663	1,808	1,951	2,108	2,272
Health care agreements	8,008	8,407	8,852	9,310	9,478
<i>Hospital services and health care agreements</i>	<i>9,671</i>	<i>10,214</i>	<i>10,803</i>	<i>11,418</i>	<i>11,750</i>
Pharmaceutical services and benefits	7,214	7,536	8,025	8,735	9,615
Aboriginal and Torres Strait Islander health	312	374	363	381	408
Health services	1,218	1,211	1,207	1,195	1,170
Other health services	1,566	1,621	1,687	1,752	1,843
<i>Other health services</i>	<i>2,784</i>	<i>2,832</i>	<i>2,895</i>	<i>2,947</i>	<i>3,013</i>
General administration	633	655	654	669	687
Health assistance to the aged	254	244	249	257	272
Total health(b)	35,541	37,544	39,041	40,937	42,812

(a) The financial impact of premium growth on the forward estimates for the Private Health Insurance Rebate has been allocated to the contingency reserve.

(b) There has been some reclassification of expenditure that was previously reported under the Aboriginal advancement nec sub-function (social security and welfare) to other primary functions.

Nature of expenses and major trends

The health function includes expenses relating to: medical services funded through Medicare and the Private Health Insurance Rebate (medical services and benefits sub-function); provision of in-hospital services to eligible veterans and their dependants (hospital services sub-function); funding under Australian Health Care Agreements between the Australian Government and the states and territories (health care agreements sub-function); and the Pharmaceutical Benefits and Repatriation Pharmaceutical Benefits Schemes (pharmaceutical services and benefits sub-function).

The major purpose of health function expenditure is to ensure that all Australians have access to essential health services through a range of providers and without excessive price barriers.

Expenses related to health are likely to be a major, if not the major, contributor to increased Australian Government spending in the future. Total Government health spending is expected to remain at around 4 per cent of GDP over the Budget and forward estimates years.

Total expenses for this function are estimated to increase by 10.3 per cent in real terms over the three forward years, or on average by around 3.3 per cent per annum. This growth is most pronounced in the areas of hospital services and pharmaceutical services and benefits.

Statement 6: Expenses and Net Capital Investment

Medical services and benefits funded through Medicare and the Private Health Insurance Rebate are the main contributors to health function expenses, making up around 40 per cent of total health expenditure.

The hospital services sub-function has average annual growth in real terms of 6.0 per cent due to an ageing and increasingly frail veteran community requiring more hospital services.

The trend in the estimates for the health care agreements sub-function is driven by 3.0 per cent average annual growth, in real terms, in funding for the Australian Health Care Agreements over the life of the current agreements that cover the period 1 July 2003 to 30 June 2008.

The expense for the pharmaceutical services and benefits sub-function is one of the fastest growing health expenses and is forecast to grow at an average of 5.4 per cent per annum in real terms. This growth is driven by a combination of an ageing population and demand for newer and more expensive drugs.

Box 6.1: Pharmaceutical services and benefits

Table 8.1: Trends in major components of the pharmaceutical services and benefits sub-function

	2004-05	2005-06	2006-07	2007-08	2008-09
	\$m	\$m	\$m	\$m	\$m
Pharmaceutical Benefits (Concessional)(a)	4,302	4,644	4,993	5,480	6,078
Pharmaceutical Benefits (General)(a)	1,073	1,130	1,171	1,297	1,442
Repatriation Pharmaceutical Benefits Scheme(b)	480	507	546	595	642
Highly Specialised Drugs(a)	464	521	572	628	684
Other(c)	712	560	570	560	592
Sub-total Administered Items	7,031	7,362	7,852	8,560	9,438
Departmental Expenses(d)	183	174	173	175	177
Total	7,214	7,536	8,025	8,735	9,615

(a) For a detailed discussion of the Pharmaceutical Benefits Scheme, refer to Outcome 2 of *Health and Ageing Portfolio Budget Statements 2005-06*.

(b) Veterans' Pharmaceutical Services are covered under Outcome 2 of the *Department of Veterans' Affairs (Defence Portfolio) Portfolio Budget Statements 2005-06*.

(c) Subsumed within Outcomes 1 and 2 of *Health and Ageing Portfolio Budget Statements 2005-06*. The decrease in 'Other' in 2005-06 is attributable to the fulfilment of prevalence cohort immunisations for the Meningococcal C Vaccination Programme.

(d) Approximately 20 per cent of Health Insurance Commission departmental expenses and 14 per cent of Health and Ageing departmental expenses are allocated to this sub-function.

Social security and welfare

Table 9: Summary of expenses

	Estimates		Projections		
	2004-05	2005-06	2006-07	2007-08	2008-09
	\$m	\$m	\$m	\$m	\$m
Assistance to the aged	28,220	29,876	31,656	33,483	35,310
Assistance to veterans and dependents	6,017	6,136	6,185	6,220	6,216
Assistance to people with disabilities	11,658	12,308	12,829	13,454	14,207
Assistance to families with children	25,458	26,691	27,995	28,584	29,307
Assistance to the unemployed	5,181	5,041	5,676	6,164	6,509
Assistance to the sick	87	88	87	86	77
<i>Assistance to the unemployed and sick</i>	5,269	5,129	5,763	6,250	6,586
Common youth allowance	2,219	2,347	2,487	2,545	2,618
Other welfare programmes	1,273	1,355	1,422	1,483	1,535
Aboriginal advancement nec(a)	1,367	1,419	1,452	1,478	1,510
General administration	2,333	2,302	2,349	2,447	2,499
Total social security and welfare	83,814	87,564	92,138	95,943	99,789

(a) There has been some reclassification of expenditure that was previously reported under the Aboriginal advancement nec sub-function (social security and welfare) to other primary functions.

Nature of expenses and major trends

The social security and welfare function includes pensions and services to the aged, services to the unemployed, assistance to people with disabilities, a variety of assistance to families with children, income support and compensation for veterans and their dependants, and advancement programmes for Aboriginal and Torres Strait Islander people.

Social security and welfare function expenses are estimated to total around \$87.6 billion in 2005-06 and grow significantly over the forward years. The sub-functions contributing most to the growth in the forward years are the assistance to the aged, and assistance to people with disabilities. The main driver in growth in these sub-functions is the indexation of payments, including maintaining the single rate of age and disability pensions at a minimum of 25 per cent of Male Total Average Weekly Earnings. The growth also reflects demographic and social factors such as the ageing of the population and expected developments in the economy and the labour market.

There has been an increase in the assistance to families with children sub-function in 2005-06 and in the forward years due to the increased rate of Family Tax Benefit Part B announced during the election campaign.

Part of the increase in the assistance to the unemployed, assistance to people with disabilities and assistance to families with children sub-functions is a result of the Government's *Welfare to Work* package and changes to Family Tax Benefit arrangements.

Housing and community amenities

Table 10: Summary of expenses

	Estimates		Projections		
	2004-05	2005-06	2006-07	2007-08	2008-09
	\$m	\$m	\$m	\$m	\$m
Housing	1,457	1,467	1,580	1,618	1,636
Urban and regional development	155	215	148	123	132
Environment protection	274	286	274	251	126
Total housing and community amenities	1,887	1,968	2,003	1,992	1,894

Nature of expenses and major trends

The housing and community amenities function includes the Australian Government's contribution to the *Commonwealth State Housing Agreement*, expenses of the Defence Housing Authority and various regional development and environment protection programmes.

The moderate growth in the housing sub-function in 2006-07 and 2007-08 is primarily due to the increased expenditure relating to Defence housing requirements, in support of the personnel to be assigned to the Headquarters Joint Operation Command to be located in Bungendore NSW.

The increase in the urban and regional development sub-function in 2005-06 primarily reflects an expansion of the Sustainable Regions Programme. The decrease from 2005-06 to 2007-08 reflects the finalisation of the pilot Sustainable Regions programme and lower expenses under the Regional Partnerships programme.

Expenses under the environment protection sub-function decrease between 2007-08 and 2008-09 due to the termination of funding for the Natural Heritage Trust in 2007-08. The remaining decrease over the two years 2007-08 and 2008-09 reflects the termination in 2007-08 of some measures announced as part of the Climate Change Strategy. These measures are expected to be reviewed and considered in the 2008-09 Budget.

Recreation and culture

Table 11: Summary of expenses

	Estimates		Projections		
	2004-05 \$m	2005-06 \$m	2006-07 \$m	2007-08 \$m	2008-09 \$m
Broadcasting	1,191	1,240	1,225	1,238	1,241
Arts and cultural heritage	825	888	876	888	874
Sport and recreation	217	308	242	225	201
National estate and parks	240	234	232	211	156
Total recreation and culture(a)	2,473	2,670	2,575	2,563	2,472

(a) There has been some reclassification of expenditure that was previously reported under the Aboriginal advancement nec sub-function (Social Security and Welfare) to other primary functions.

Nature of expenses and major trends

Recreation and culture function expenses support: public broadcasting; the regulatory framework for Australia's broadcasting sector; cultural institutions; funding for the arts and the film industry; assistance to sport and recreation activities; and the management and protection of national parks and other world heritage areas. This function also includes expenses relating to the protection and preservation of historic sites and buildings, including war graves.

Total expenses for the recreation and culture function fluctuate over the period from 2004-05 to 2008-09. Expenses under the national estate and parks sub-function decrease between 2007-08 and 2008-09 due to the cessation of funding for the Natural Heritage Trust in 2007-08. The growth in the arts and cultural heritage sub-function in 2005-06 reflects in part, increased funding associated with the election commitment A World Class Australian Film Industry.

Higher expenses in the sport and recreational sub-function in 2005-06 primarily reflect a direct payment to the Victorian Government to assist with costs associated with staging the Melbourne 2006 Commonwealth Games. It also reflects additional funding under the programme Building a Healthy, Active Australia – Active After-school Communities. This programme concludes in 2007-08, contributing to the declining trend over the forward years for this sub-function. This trend is partially offset by the additional funding provided for elite sport initiatives in the 2005-06 Budget.

Fuel and energy

Table 12: Summary of expenses

	Estimates		Projections		
	2004-05 \$m	2005-06 \$m	2006-07 \$m	2007-08 \$m	2008-09 \$m
Fuel and energy	3,871	4,212	4,198	4,340	4,848
Total fuel and energy	3,871	4,212	4,198	4,340	4,848

Nature of expenses and major trends

This function includes expenses for the Energy Grants Credits Scheme, Cleaner Fuels Grants Scheme and the Fuels Sales Grants Scheme, which are administered by the Australian Taxation Office. The Business Credits Scheme will replace the Energy Grants Credits Scheme on 1 July 2006.

This function also includes expenses of the Department of the Environment and Heritage for programmes funded under *A New Tax System – Measures for a Better Environment* package, the *Climate Change Strategy* measures and the *Securing Australia's Energy Future* measures. Also included within this function are expenses for programmes relating to the production of alternative fuels including ethanol and biodiesel, which are administered by the Department of Industry, Tourism and Resources and the Australian Taxation Office respectively.

Expenses within this function increase in 2005-06 due to the introduction of the Government's initiative *Securing Australia's Energy Future*, and an expected increase in outlays in the Energy Grants Credits Scheme as a result of expected improvement in mining production and increases in rail and road transport activity. Following the replacement of the Energy Grants Credits Scheme with the Business Credits Scheme on 1 July 2006, the function is expected to have significant growth from 2006-07 to 2008-09. However growth in 2006-07 will be offset by the cessation of the Fuel Sales Grant Scheme.

Agriculture, forestry and fishing

Table 13: Summary of expenses

	Estimates		Projections		
	2004-05 \$m	2005-06 \$m	2006-07 \$m	2007-08 \$m	2008-09 \$m
Wool industry	54	58	59	60	60
Grains industry	125	126	122	121	100
Dairy industry	326	316	307	296	288
Cattle, sheep and pig industry	121	124	123	124	124
Fishing, horticulture and other agriculture	229	202	195	196	190
General assistance not allocated to specific industries	370	378	359	340	324
Rural assistance	457	279	136	59	26
Natural resources development	404	861	1,096	1,041	343
General administration	177	175	172	170	167
Total agriculture, forestry and fishing	2,263	2,520	2,571	2,408	1,622

Nature of expenses and major trends

Agriculture, forestry and fishing function expenses support assistance to primary producers, forestry, fishing, land and water resources management, quarantine services and contributions to research and development.

Expenses within this function are expected to increase in 2005-06 and 2006-07 driven by substantial increases in expenditure in the natural resources development sub-function largely due to the expenditure of the Australian Water Fund in 2005-06. The Australian Water Fund will provide \$2 billion over six years with significant funding in 2005-06 until 2007-08. The Australian Water Fund will support investment in water infrastructure, improved water management and better practices in the stewardship of Australia's water resources.

The 36 per cent decrease in expenses over the four year period from 2005-06 to 2008-09 reflects the expected cessation of drought related measures within the rural assistance sub-function, due to an assumed return to normal seasonal conditions in Australia. The decrease is also attributable to the termination of funding for the Natural Heritage Trust and the National Action Plan on Salinity and Water Quality under the natural resources development sub-function.

Other significant expenses on conservation and sustainable use and repair of Australia's natural environment are included in the environment protection sub-function (housing and community amenities function) and the national estate and parks sub-function (recreation and culture function).

Manufacturing and mining

Table 14: Summary of expenses

	Estimates		Projections		
	2004-05	2005-06	2006-07	2007-08	2008-09
	\$m	\$m	\$m	\$m	\$m
Mining, manufacturing and construction	1,754	1,916	1,820	1,802	1,833
Total mining, manufacturing and construction	1,754	1,916	1,820	1,802	1,833

Nature of expenses and major trends

Expenses under this function relate to the manufacturing and export sectors, and are designed to improve the efficiency and competitiveness of Australian industries. Major expenses include programmes specific to the automotive, textile clothing and footwear and pharmaceutical industries. Expenses also include Australian Government assistance to exporters through direct financial assistance for the development of export markets, information and promotional assistance, finance and insurance services, and the development of trade policy, and programmes providing research and development assistance grants and a programme of strategic investment incentives.

The introduction of a new textile clothing and footwear Strategic Investment Programme in 2006-07 will provide a more strategically targeted level of assistance than the current textile clothing and footwear programme over the forward estimates.

The slight decline in expenses from 2006-07 to 2007-08 reflects a lower number of projects being funded under the strategic investment coordination process. Increased expenditure in 2008-09 includes higher grant payments under the Commercial Ready Programme.

Transport and communication

Table 15: Summary of expenses

	Estimates		Projections		
	2004-05 \$m	2005-06 \$m	2006-07 \$m	2007-08 \$m	2008-09 \$m
Communication	525	486	421	360	323
Rail transport	15	118	45	31	45
Air transport	156	142	125	125	125
Road transport	1,682	1,670	2,015	2,163	2,021
Sea transport	213	222	234	233	233
Other transport and communication	131	168	132	130	132
Total transport and communication	2,723	2,806	2,972	3,042	2,879

Nature of expenses and major trends

Transport and communication function expenses support the infrastructure and regulatory framework for Australia's transport and communications sectors.

Expenses in some sub-functions fluctuate from 2004-05 to 2008-09 reflecting the irregular expenditure patterns associated with the commencement and/or completion of major programmes and one-off projects. The function includes expenses associated with the Government's AusLink national land transport network, involving expenditure on both road and rail.

The decline in the communication sub-function over the period to 2008-09 reflects the conclusion of programmes associated with several Australian Government telecommunication and information technology initiatives, including the Telstra Social Bonus 2, the response to the Telecommunications Service (Besley) Inquiry and the Building on IT strengths Programme.

The increase in the 2005-06 rail transport sub-function reflects rail funding under AusLink and the payment made by the Government to the Australia Rail Track Corporation for new rail infrastructure projects on the interstate rail system.

The high level of expenses in the air transport sub-function in 2004-05 and 2005-06 is primarily due to a one-off funding boost to regional airport security.

The overall increase in the road transport sub-function from 2004-05 to 2008-09 is primarily a result of expenses associated with AusLink. Since the last budget, the Government has increased funding for land transport by approximately \$1.2 billion for the five years to 2008-09.

The Government also provides untied funding to local government through Financial Assistance Grants that are identified for roads – see the general purpose inter-government transactions sub-function (other purposes function).

Statement 6: Expenses and Net Capital Investment

Major components of the road transport sub-function are outlined in further detail in Box 6.2 below.

Box 6.2: Components of road transport funding

Table 15.1: Trends in major components of the road transport sub-function

	2004-05	2005-06	2006-07	2007-08	2008-09
	\$m	\$m	\$m	\$m	\$m
AusLink(a)	1,265	1,225	1,562	1,732	1,635
Roads to Recovery	259	341	343	330	330
Road Safety Black Spot Programme	45	45	45	45	-
Other	113	59	65	56	56
Total(b)	1,682	1,670	2,015	2,163	2,021

(a) Largely Specific Purpose Payments to the states but with a small additional component for land transport research.

(b) See Outcome 1 of the Transport and Regional Services Portfolio Budget Statements 2005-06.

Other economic affairs

Table 16: Summary of expenses

	Estimates		Projections		
	2004-05 \$m	2005-06 \$m	2006-07 \$m	2007-08 \$m	2008-09 \$m
Tourism and area promotion	216	204	190	184	129
Vocational and industry training	617	691	744	789	823
Labour market assistance to job seekers and industry	1,940	1,828	1,972	2,062	1,985
Industrial relations	381	271	243	286	259
Immigration	808	899	916	935	969
<i>Total labour and employment affairs</i>	<i>3,746</i>	<i>3,689</i>	<i>3,876</i>	<i>4,072</i>	<i>4,037</i>
Other economic affairs nec	820	889	857	844	847
Total other economic affairs	4,782	4,782	4,923	5,100	5,013

Nature of expenses and major trends

The other economic affairs function includes expenses on tourism and area promotion, labour market assistance, immigration, industrial relations and other economic affairs not elsewhere classified.

Estimates for the labour market assistance to job seekers and industry sub-function reflect an overall increase in resourcing to the Job Network, Work for the Dole and other work assistance programs. The Government's *Welfare to Work* reform package increases the expenditure on labour market assistance to job seekers although this increase is partially offset by improved efficiencies in Job Network arrangements to be implemented from 1 July 2005.

Continuing growth in the vocational and industry training sub-function is due to an expected increase in apprenticeships/traineeships commencements.

The decline between 2007-08 and 2008-09 in the tourism and area promotion sub-function reflects the conclusion of additional funding arrangements announced in the context of the 2003 White Paper on Tourism.

Other purposes

Table 17: Summary of expenses

	Estimates		Projections		
	2004-05 \$m	2005-06 \$m	2006-07 \$m	2007-08 \$m	2008-09 \$m
Interest on Australian Government's behalf	3,896	3,614	3,532	3,525	3,356
Interest on behalf of states and territories	11	1	0	0	0
Interest received on Australian Government stock	0	0	0	0	0
<i>Public debt interest</i>	3,907	3,614	3,532	3,525	3,356
Nominal superannuation interest	4,882	5,654	5,478	5,766	5,894
General revenue assistance - states and territories	794	1,146	258	262	97
General capital assistance - states and territories	0	0	0	0	0
Debt assistance	33	220	0	0	0
Local government assistance	1,556	1,628	1,690	1,739	1,804
Revenue assistance to the States and Territories	160	165	169	173	178
Assistance to other governments	493	531	479	475	485
<i>General purpose inter-government transactions</i>	3,034	3,690	2,596	2,650	2,563
Natural disaster relief	84	104	104	94	94
Contingency reserve(a)	36	187	2,604	4,914	10,095
Total other purposes	11,943	13,250	14,314	16,948	22,002

(a) Asset sale related expenses are treated as a component of the contingency reserve.

Nature of expenses and major trends

The other purposes function includes expenses incurred in the servicing of public debt interest, and assistance to the state and territory governments and local government. The function also includes items classified to natural disaster relief, the contingency reserve, and costs of asset sales.

The increase between 2004-05 and 2005-06 in general revenue assistance to the states and territories reflects compensation for GST revenue forgone to the states and territories in allowing some taxpayers who are voluntarily registered for GST to pay and lodge annually. The decline in this sub-function from 2005-06 reflects the fact that the current National Competition Policy (NCP) agreements only provide for competition payments to 30 June 2006. A Council of Australian Governments (COAG) review of the terms and operation of the NCP arrangements, including an assessment of the future of NCP payments, is scheduled to be completed in 2005. This decline is offset by Budget Balancing Assistance as a result of the Reform of state taxes – payment of Budget Balancing Assistance measure. The Budget Balancing Assistance will facilitate the elimination of a range of inefficient state taxes consistent with the *Intergovernmental Agreement on the Reform of Commonwealth – State Financial Relations*.

The drop-off in the debt assistance sub-function between 2005-06 and 2006-07 reflects the cessation of the agreed debt redemption arrangements between the Australian Government and the states in 2005-06.

Part 3: Revenue, Expenses and Budget Funding

The increase between 2004-05 and 2005-06 in the nominal superannuation interest expense for superannuation reflects the increase in the total unfunded liability for the civilian and military schemes, with the balance represented by the increase in the nominal interest rates used by the actuary in calculating military superannuation liabilities.

The increased expenses in the contingency reserve from 2005-06 over the forward years is largely due to the conservative bias allowance – an allowance that compensates for the trend in expenses on existing Australian Government programmes to be underestimated by agencies in the forward years. The nature of the contingency reserve is discussed in more detail at Appendix B.

GENERAL GOVERNMENT NET CAPITAL INVESTMENT

In 2005-06, forecast net capital investment has increased by \$605 million since the 2004-05 MYEFO. This increase is due to the combined effect of new policy decisions of \$251 million and parameter and other variations of \$354 million.

Net capital investment estimates for the period from 2004-05 to 2008-09 are provided in Table 18.

Table 18: Estimates of total net capital investment

	2004-05		2005-06	2006-07	2007-08	2008-09
	MYEFO(a)	Revised	Estimate	Projections		
Total net capital investment (\$m)	705	652	1,020	617	1	-264
Real growth on previous year%(b)	6.3	13.4	49.8	-39.9	-99.8	-
Per cent of GDP	0.1	0.1	0.1	0.1	0.0	0.0

(a) As published in the *Mid-Year Economic and Fiscal Outlook 2004-05*.

(b) Real growth is calculated using the non-farm gross domestic product (GDP) deflator.

Net capital investment of \$652 million is expected in 2004-05, largely reflecting — various refurbishment/construction projects in the Department of Finance and Administration's property portfolio (such as the construction of the Immigration Reception and Processing Centre on Christmas Island), as well as activities associated with the construction of a nuclear reactor by the Australian Nuclear Science and Technology Organisation; security enhancements of various overseas diplomatic missions, overseen by the Department of Foreign Affairs and Trade (this is partially offset by the re-phasing of land purchases for chanceries in Bangkok, Jakarta and Kuala-Lumpur from 2004-05 into 2005-06); purchase of equipment by the Australian Federal Police for activities in Papua New Guinea, as well as the establishment of a National Protection Operations Centre for Australian diplomats; purchase of biological and chemical agent screening equipment, cargo management information technology infrastructure and new container x-ray machines by the Australian Customs Service; and investment in computer equipment and software by Centrelink. These investments have been partially offset by property sales by the Department of Defence and the Defence Housing Authority.

Reconciliation of net capital investment since the 2004-05 Budget

Table 19 provides a reconciliation of the 2004-05 Budget, 2004-05 MYEFO and 2005-06 Budget net capital investment estimates, showing the effect of policy decisions and economic parameter and other variations since the estimates were published in the 2004-05 Budget.

Table 19: Reconciliation of net capital investment

	Estimates		Projections	
	2004-05	2005-06	2006-07	2007-08
	\$m	\$m	\$m	\$m
2004-05 Budget net capital investment	148	45	-125	-429
Changes between 2004-05 Budget and MYEFO				
Effect of policy decisions	227	116	104	172
Effect of parameter and other variations	330	254	244	133
Total variations	557	370	348	304
2004-05 MYEFO net capital investment	705	415	223	-125
Changes between MYEFO and 2005-06 Budget				
Effect of policy decisions	12	251	166	83
Effect of parameter and other variations	-66	354	228	44
Total variations	-54	605	394	127
2005-06 Budget net capital investment	652	1,020	617	1

Discussion of changes between the 2004-05 MYEFO and the 2005-06 Budget, shown in the table above, can be found in Statement 2 (in the section titled Variations in net capital investment estimates). Further information on capital measures since MYEFO can be found in Budget Paper No. 2, *Budget Measures 2005-06*.

Net capital investment estimates by function

Table 20 provides estimates for Australian Government general government net capital investment by function for the period 2004-05 to 2008-09.

Table 20: Estimates of net capital investment by function

	Estimates		Projections		
	2004-05	2005-06	2006-07	2007-08	2008-09
	\$m	\$m	\$m	\$m	\$m
General public services	245	624	281	147	-67
Defence	-85	-57	47	-103	-85
Public order and safety	118	55	26	1	6
Education	5	0	1	3	-1
Health	157	21	2	-5	-4
Social security and welfare	59	84	41	-8	-29
Housing and community amenities	95	139	117	-7	-56
Recreation and culture	-50	62	35	-10	-15
Fuel and energy	0	-1	0	0	0
Agriculture, forestry and fishing	0	3	-4	4	4
Mining, manufacturing and construction	5	9	11	8	2
Transport and communications	28	56	-2	-7	-11
Other economic affairs	71	18	32	-5	-5
Other purposes	3	5	29	-17	-3
Total net capital investment	652	1020	617	1	-264

Statement 6: Expenses and Net Capital Investment

Net capital investment is expected to rise between 2004-05 and 2005-06. This primarily reflects: the construction of the Christmas Island Immigration Reception and Processing Centre, the construction and fit-out of an extension to the Australian Security Intelligence Organisation's Central Office building, and various other construction projects managed by the Department of Finance and Administration; investment by the Australian Nuclear Science and Technology Organisation in a new nuclear reactor; the acquisition of land and refurbishment/security upgrades of various overseas missions by the Department of Foreign Affairs and Trade; and investment in information technology by several departments (including rebuilding the superannuation business system for the Australian Taxation Office and the implementation of the Department of Veterans' Affairs' information technology application development framework). This is partly offset by receipts from property sales by the Department of Defence and the Defence Housing Authority.

After 2005-06, net capital investment is expected to steadily decrease. This results from the conclusion of various construction projects, as well as the progressive conclusion of the Department of Foreign Affairs and Trade's overseas mission upgrades and various information technology-based projects.

Factors contributing to net capital investment, by function, include:

- **General Public Services** - the investment by the Department of Finance and Administration in its property portfolio, including construction of the Adelaide Law Courts building, construction and fit-out of an extension to the Australian Security Intelligence Organisation's Central Office building, and refurbishment of the Royal Australian Mint buildings and ANZAC Park East and West, investment by the Australian Nuclear Science and Technology Organisation in a new nuclear reactor at Lucas Heights, investment by the Commonwealth Scientific and Industrial Research Organisation (CSIRO) in new facilities under the CSIRO Infrastructure Plan, security enhancements, refurbishment and relocation of various overseas missions by the Department of Foreign Affairs and Trade, purchase of equipment by the Australian Federal Police for activities in Papua New Guinea and the Solomon Islands, and the provision of infrastructure in the Indian Ocean Territories by the Department of Transport and Regional Services;
- **Public Order and Safety** – the investment by the Australian Customs Service in additional cargo screening and x-ray equipment, cargo management information technology infrastructure, as well as equipment for the development of biometrics for border control;
- **Health** – the development of information technology systems associated with implementing the pharmaceutical provisions of the Australia-US Free Trade Agreement, developing a database register for a bowel cancer screening programme by the Department of Health and Ageing, and for investment in information technology infrastructure by the Health Insurance Commission for a range of measures, including the creation of eight new Medicare offices;

Part 3: Revenue, Expenses and Budget Funding

- **Social Security and Welfare** – the investment in information technology infrastructure for Centrelink;
- **Housing and Community Amenities** – adjustments to the Defence Housing Authority's property portfolio, such as revisions to the estimated timing of certain property sales due to changes in the property market outlook;
- **Recreation and Culture** – the continuation of the facilities upgrade for the Australian Institute of Sport and ongoing capital works at the National Gallery of Australia, offset by the divestment of the Australian Broadcasting Corporation's Gore Hill property in 2004-05 and the sale of radio broadcasting licences in 2004-05. There is also a capital injection in 2005-06 arising from the establishment of the Australian Communications and Media Authority, which follows a return of capital from the amalgamated agencies in 2004-05;
- **Transport and Communications** – the development of information technology systems including the replacement of the Australian Transport Safety Bureau's aviation database and systems for the administration of AusLink; and
- **Other Economic Affairs** – the ongoing replacement and upgrade of various meteorological radars in the Bureau of Meteorology's radar network, as well as the replacement of various meteorological field offices and the purchase of ocean tidal gauges (as part of the Tsunami Early Warning measure), and the upgrade and redevelopment of immigration detention facilities by the Department of Immigration and Multicultural and Indigenous Affairs.

APPENDIX A: EXPENSE BY FUNCTION AND SUB-FUNCTION

Table A1: Estimates of expenses by function and sub-function

	Actuals	Estimates		Projections		
	2003-04 \$m	2004-05 \$m	2005-06 \$m	2006-07 \$m	2007-08 \$m	2008-09 \$m
General public services						
Legislative and executive affairs	732	850	788	826	941	787
Financial and fiscal affairs	3,522	3,730	3,685	3,864	3,763	3,798
Foreign affairs and economic aid	2,162	2,936	3,063	2,885	3,041	3,138
General research	1,910	2,206	2,324	2,455	2,512	2,509
General services	453	539	576	629	648	657
Government superannuation benefits	2,069	2,487	2,363	2,409	2,434	2,479
Total general public services(a)	10,848	12,748	12,799	13,067	13,339	13,368
Defence	12,937	14,190	15,600	15,851	16,791	17,238
Public order and safety						
Courts and legal services	549	663	716	772	824	832
Other public order and safety	1,837	1,828	2,005	2,020	2,036	2,061
Total public order and safety	2,386	2,490	2,721	2,792	2,860	2,892
Education						
Higher education	4,549	4,735	5,164	5,353	5,528	5,660
Vocational and other education	1,332	1,425	1,571	1,590	1,612	1,635
Non-government schools	4,452	5,091	5,508	5,916	6,338	6,670
Government schools	2,284	2,595	2,851	3,023	3,181	3,234
<i>Schools</i>	6,735	7,686	8,359	8,939	9,519	9,904
Student assistance	650	569	530	547	569	598
General administration	0	1	1	1	1	1
School education - specific funding	130	118	105	111	107	107
Total education	13,398	14,533	15,729	16,541	17,336	17,905
Health						
Medical services and benefits	12,909	14,672	15,688	16,053	16,530	17,067
Hospital services	1,599	1,663	1,808	1,951	2,108	2,272
Health care agreements	7,512	8,008	8,407	8,852	9,310	9,478
<i>Hospital services and health care agreements</i>	9,110	9,671	10,214	10,803	11,418	11,750
Pharmaceutical services and benefits	6,752	7,214	7,536	8,025	8,735	9,615
Aboriginal and Torres Strait Islander health	255	312	374	363	381	408
Health services	963	1,218	1,211	1,207	1,195	1,170
Other health services	1,149	1,566	1,621	1,687	1,752	1,843
<i>Other health services</i>	2,111	2,784	2,832	2,895	2,947	3,013
General administration	506	633	655	654	669	687
Health assistance to the aged	139	254	244	249	257	272
Total health(a)	31,783	35,541	37,544	39,041	40,937	42,812
Social security and welfare						
Assistance to the aged	27,164	28,220	29,876	31,656	33,483	35,310
Assistance to veterans and dependents	5,737	6,017	6,136	6,185	6,220	6,216
Assistance to people with disabilities	10,694	11,658	12,308	12,829	13,454	14,207
Assistance to families with children	24,993	25,458	26,691	27,995	28,584	29,307

Part 3: Revenue, Expenses and Budget Funding

Table A1: Estimates of expenses by function and sub-function (continued)

	Actuals		Estimates		Projections	
	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
	\$m	\$m	\$m	\$m	\$m	\$m
Social security and welfare (continued)						
Assistance to the unemployed	5,443	5,181	5,041	5,676	6,164	6,509
Assistance to the sick	86	87	88	87	86	77
<i>Assistance to the unemployed and the sick</i>	5,529	5,269	5,129	5,763	6,250	6,586
Common youth allowance	2,248	2,219	2,347	2,487	2,545	2,618
Other welfare programmes	637	1,273	1,355	1,422	1,483	1,535
Aboriginal advancement nec(a)	1,429	1,367	1,419	1,452	1,478	1,510
General administration	2,398	2,333	2,302	2,349	2,447	2,499
Total social security and welfare	80,830	83,814	87,564	92,138	95,943	99,789
Housing and community amenities						
Housing	1,247	1,457	1,467	1,580	1,618	1,636
Urban and regional development	138	155	215	148	123	132
Environment protection	250	274	286	274	251	126
Total housing and community amenities	1,634	1,887	1,968	2,003	1,992	1,894
Recreation and culture						
Broadcasting	1,097	1,191	1,240	1,225	1,238	1,241
Arts and cultural heritage	679	825	888	876	888	874
Sport and recreation	207	217	308	242	225	201
National estate and parks	185	240	234	232	211	156
Total recreation and culture(a)	2,168	2,473	2,670	2,575	2,563	2,472
Fuel and energy	3,502	3,871	4,212	4,198	4,340	4,848
Agriculture, forestry and fishing						
Wool industry	57	54	58	59	60	60
Grains industry	129	125	126	122	121	100
Dairy industry	114	326	316	307	296	288
Cattle, sheep and pig industry	130	121	124	123	124	124
Fishing, horticulture and other agriculture	168	229	202	195	196	190
General assistance not allocated to specific industries	384	370	378	359	340	324
Rural assistance	452	457	279	136	59	26
Natural resources development	423	404	861	1,096	1,041	343
General administration	181	177	175	172	170	167
Total agriculture, forestry and fishing	2,038	2,263	2,520	2,571	2,408	1,622
Mining, manufacturing & construction	1,609	1,754	1,916	1,820	1,802	1,833
Transport and communication						
Communication	529	525	486	421	360	323
Rail transport	450	15	118	45	31	45

Statement 6: Expenses and Net Capital Investment

Table A1: Estimates of expenses by function and sub-function (continued)

	Actuals		Estimates		Projections	
	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
	\$m	\$m	\$m	\$m	\$m	\$m
Transport and communication (continued)						
Air transport	176	156	142	125	125	125
Road transport	1,356	1,682	1,670	2,015	2,163	2,021
Sea transport	204	213	222	234	233	233
Other transport and communication	101	131	168	132	130	132
Total Transport and Communication	2,816	2,723	2,806	2,972	3,042	2,879
Other economic affairs						
Tourism and area promotion	135	216	204	190	184	129
Vocational and industry training	624	617	691	744	789	823
Labour market assistance to job seekers and industry	1,750	1,940	1,828	1,972	2,062	1,985
Industrial relations	277	381	271	243	286	259
Immigration	753	808	899	916	935	969
<i>Total labour and employment affairs</i>	<i>3,403</i>	<i>3,746</i>	<i>3,689</i>	<i>3,876</i>	<i>4,072</i>	<i>4,037</i>
Other economic affairs nec	748	820	889	857	844	847
Total other economic affairs	4,286	4,782	4,782	4,923	5,100	5,013
Other purposes						
Interest on Australian Government's behalf	3,982	3,896	3,614	3,532	3,525	3,356
Interest on behalf of States and Territories	19	11	1	0	0	0
Interest received on Australian Government stock	0	0	0	0	0	0
<i>Public debt interest</i>	<i>4,001</i>	<i>3,907</i>	<i>3,614</i>	<i>3,532</i>	<i>3,525</i>	<i>3,356</i>
Nominal superannuation interest	4,898	4,882	5,654	5,478	5,766	5,894
General revenue assistance - states and territories	647	794	1,146	258	262	97
General capital assistance - states and territories	0	0	0	0	0	0
Debt assistance	37	33	220	0	0	0
Local government assistance	1,511	1,556	1,628	1,690	1,739	1,804
Revenue assistance to the States and Territories	171	160	165	169	173	178
Assistance to other governments	409	493	531	479	475	485
<i>General purpose inter-government transactions</i>	<i>2,775</i>	<i>3,034</i>	<i>3,690</i>	<i>2,596</i>	<i>2,650</i>	<i>2,563</i>
Natural disaster relief	62	84	104	104	94	94
Contingency reserve(b)	35	36	187	2,604	4,914	10,095
Total other purposes	11,771	11,943	13,250	14,314	16,948	22,002
Total expenses	182,005	195,012	206,081	214,806	225,400	236,568

- (a) There has been some reclassification of expenditure that was previously reported under the Aboriginal advancement nec sub-function (social security and welfare) to other primary functions.
(b) Asset sale related expenses are now treated as a component of the contingency reserve.

APPENDIX B: THE CONTINGENCY RESERVE

The contingency reserve (other purposes function) is an allowance, included in aggregate expenses figuring, to reflect anticipated events that cannot be assigned to individual programmes in the preparation of the Australian Government budget estimates. The reserve is an estimating device used to ensure that the budget estimates are based on the best information available at the time of the Budget. It is not a general policy reserve.

While the reserve ensures that aggregate estimates are as close as possible to expected outcomes, it is not appropriated. Allowances that are included in the reserve can only be drawn upon once they have been appropriated by Parliament. These allowances are removed from the reserve and allocated to specific agencies for appropriation and for outcome reporting closer to the time when they eventuate.

The contingency reserve makes allowance in the budget and forward years for anticipated events including the following:

- an allowance for the tendency for estimates of expenses for existing government policy to be revised upwards in the forward years;
- commercial-in-confidence and national security-in-confidence items that cannot be disclosed separately;
- decisions made too late for inclusion against individual agency estimates;
- the effect on the budget and forward estimates of economic parameter revisions received late in the process and hence not able to be allocated to individual agencies or functions; and
- provision for events and pressures that are reasonably expected to affect the budget estimates.

The contingency reserve also includes expenses associated with the Government's major asset sales and associated administration costs.

STATEMENT 7: DEBT MANAGEMENT

This statement discusses debt management, including maintaining the Commonwealth Government Securities (CGS) market and the proposed investment of financial assets in the Future Fund.

As announced in the 2003-04 Budget, the Government has decided to continue to issue Treasury bonds, despite the Australian Government's strong fiscal position, in order to support low cost interest rate risk management throughout the economy. Treasury bond issuance will be tightly targeted to support the Treasury bond futures market – a key interest rate risk management market.

The Government's decision to establish the Future Fund for the purpose of offsetting unfunded Government superannuation liabilities will not affect the issuance strategy for CGS. Issuance in 2004-05 and planned issuance for 2005-06 reflects the Government's continuing policy stance of maintaining around \$5 billion per bond line, which is consistent with continued liquidity. The issuance of Treasury Notes to meet within year financing requirements may increase as a result of transfers of assets to the Future Fund in 2005-06.

Background	7-2
Establishment of the Future Fund.....	7-3
Issuance in 2004-05 and 2005-06.....	7-4

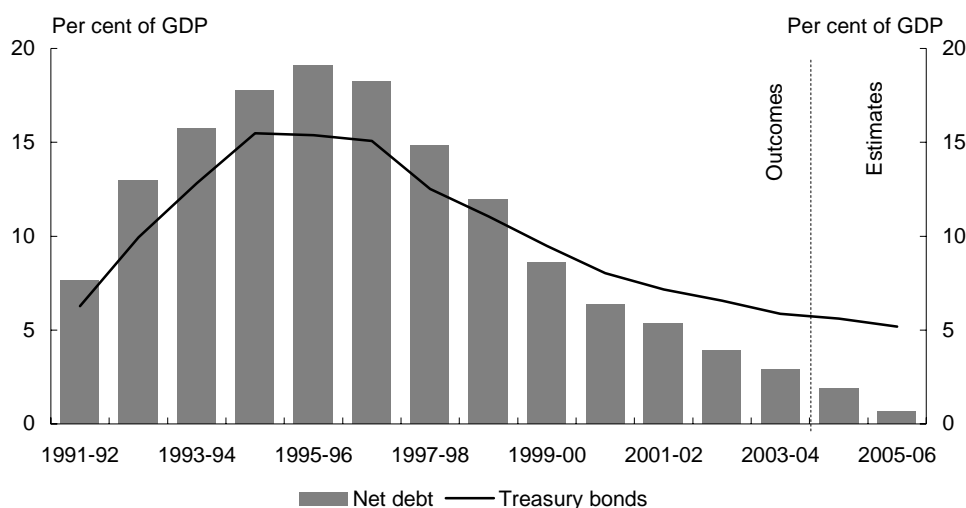
STATEMENT 7: DEBT MANAGEMENT

BACKGROUND

The Government's strong fiscal management since 1996 has significantly reduced Australian Government general government sector net debt. Net debt has fallen from a peak of 19.1 per cent of gross domestic product (GDP) or around \$96 billion in 1995-96 to an estimated 1.9 per cent of GDP or around \$16.3 billion in 2004-05.

Reductions in gross debt outstanding have accompanied the fall in net debt. This is reflected principally in declining Commonwealth Government Securities (CGS) on issue. In particular, Treasury bonds on issue have fallen from around 15 per cent of GDP in 1995-96 to an expected 5 per cent of GDP in 2004-05.

Chart 1: Australian Government general government sector net debt and Treasury bonds on issue^(a)



(a) Treasury bonds on issue are net of Australian Government holdings and debt on issue for the states and territories.

Source: Australian Bureau of Statistics Cat. No. 5513.0, Australian Government Final Budget Outcomes, Australian Office of Financial Management, and Treasury estimates.

In line with the public review of the CGS market in 2002-03 the Government will continue to issue debt, despite a strong fiscal position, in order to maintain a liquid and efficient Treasury bond and Treasury bond futures market. The strategy remains focused on moving towards an issuance pattern that results in around \$5 billion in each bond line with a new long and a mid-term bond being issued in alternate years. This will see maturities exceed issuance in some years as the issuance strategy moves towards its long-term steady state.

ESTABLISHMENT OF THE FUTURE FUND

The decision to maintain a CGS market while continuing to achieve a number of budget surpluses has allowed the Australian Government to accumulate significant financial assets, which have been used to assist in meeting within year financing requirements and to reduce the cost of its debt portfolio.

The outstanding stock of CGS is not the only significant liability on the Australian Government's balance sheet. The Australian Government has never fully funded its superannuation liabilities which are now valued at around \$91 billion. To offset these superannuation liabilities, the Government will use budget surpluses to build a dedicated financial asset fund – the Future Fund (the Fund). This will reduce calls on the budget in the future, at a time when significant intergenerational pressures are expected to emerge.

The Fund is expected to be established later this year with seed capital sourced from the 2004-05 Budget surplus and from previous surpluses held on deposit at the Reserve Bank, once the Final Budget Outcome for this financial year is known. The Fund will be invested in a broad range of financial assets and will be managed by an independent statutory agency governed by an appropriately qualified board. Contributions to the Fund will be made from future budget surpluses and assets sales with the aim of offsetting the superannuation liability by around 2020. Details of the financial implications of the Fund are in Statement 2.

The decision to establish the Future Fund will not affect the issuance strategy adopted by the Government as a result of the review of the CGS market in 2002-03. Issuance in 2004-05 and planned issuance for 2005-06 reflects the continuing policy stance consistent with maintaining liquidity in the CGS market. The transfer of assets to the Future Fund is likely to necessitate some additional use of Treasury notes to manage the Government's within year financing requirements.

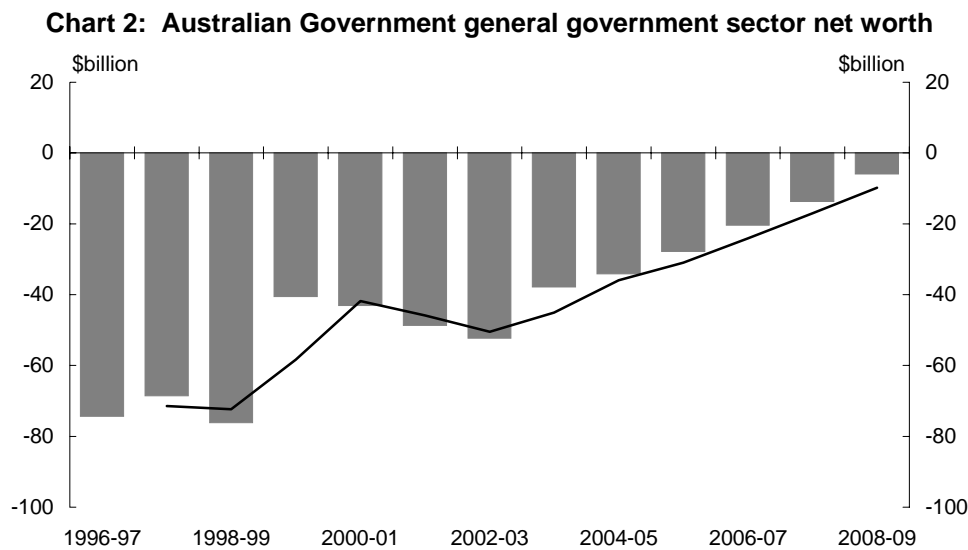
Implications for net debt and net worth

The investment strategy adopted in relation to the Fund will affect the exact impact on the Government's balance sheet. As the Fund and its managing board have not yet been established, standardised assumptions have been made about asset returns for the purposes of this budget. This could mean there will be marginal changes across the forward estimates when the actual initial transfer to the Fund is determined and an asset allocation is set.

Assuming a diversified holding of financial assets, net debt would be expected to rise slightly in the early years. This is because the Government's holdings of cash and fixed-interest securities, including realised budget surpluses, would be converted in part into equities, which will not be offset against gross debt. Beyond the forward estimates period, net debt is expected to fall slowly due to compound growth in the overall asset portfolio, including fixed interest and cash holdings.

Part 3: Revenue, Expenses and Budget Funding

Net worth over the forward estimates is likely to improve modestly due to the establishment of the Future Fund because this broader measure includes all assets and liabilities. In addition, transfers of funds between asset classes as the Fund establishes itself will have no impact on net worth. Beyond the forward estimates, net worth is expected to rise steadily due to an expectation of higher average returns on the Fund than current arrangements.



Source: Australian Bureau of Statistics Cat. No. 5513.0, Australian Government Final Budget Outcomes, Australian Office of Financial Management, and Treasury estimates.

ISSUANCE IN 2004-05 AND 2005-06

The debt issuance programme is directed at maintaining liquid and efficient Treasury bond and Treasury bond futures markets. Accordingly, the volume and timing of Treasury bond issuance takes account of the need to have an appropriate range of Treasury bonds available for inclusion in Treasury bond futures baskets. The programme is moving towards a pattern where new 5-year and 13-year Treasury bonds are launched in alternate years, with total issuance over two years of around \$5 billion in each line.

In 2004-05, two new stocks were launched – the February 2017 and August 2010 Treasury bonds. The volumes currently on issue are \$3.2 billion for the February 2017 Treasury bond and \$2.6 billion for the August 2010 Treasury bond. It is intended to issue a further \$600 million of the August 2010 Treasury bond in the period remaining to 30 June 2005.

In the first half of 2005-06, issuance will be focused on the February 2017 Treasury bond and the August 2010 Treasury bond to support the operation of the 3-year and

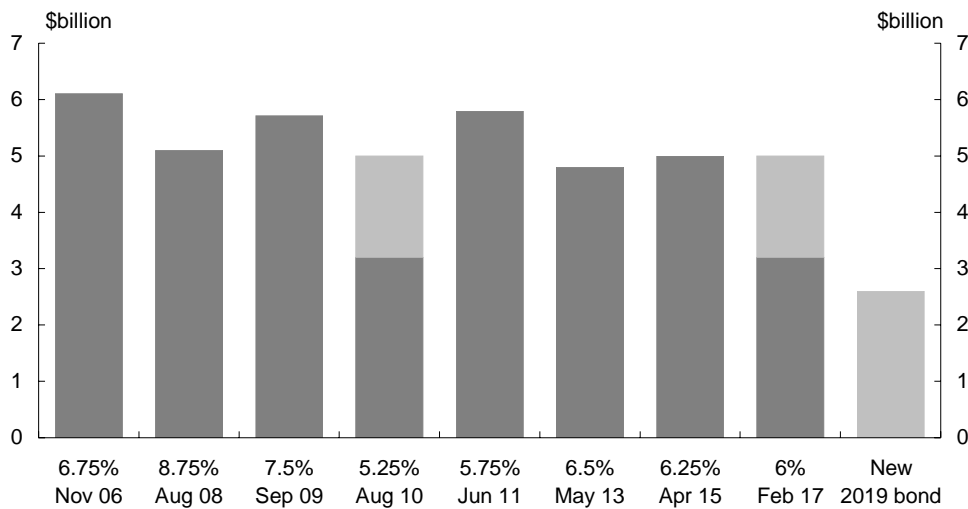
10-year Treasury bond futures contracts. Additional stock will be issued to bring the total volume on issue for each of these bond lines to \$5 billion by December 2005.

In early 2006 a new 13-year Treasury bond, a March 2019 bond, will be issued to support the operation of the 10-year Treasury bond futures contract. It is planned to issue \$2.6 billion of this new 13-year Treasury bond during 2005-06. The remaining issuance necessary to bring this bond line up to \$5 billion will be undertaken in the first half of 2006-07.

Total Treasury bond issuance during 2005-06 will be \$6.2 billion, while scheduled maturities during this period, net of Australian Government holdings, are \$6.7 billion. As a result, the total stock of Treasury bonds on issue, net of Australian Government holdings, will be around \$48 billion at 30 June 2006.

Treasury notes may need to be issued during the financial year to meet within year financing requirements. The magnitude of this issuance will depend on the size and timing of the transfer of assets to the Future Fund.

Chart 3: Benchmark Treasury bonds outstanding expected at 30 June 2006^(a)



(a) Treasury bonds on issue are net of Australian Government holdings. The October 2007 Treasury bond is excluded from the chart as it is not considered a benchmark bond line.

Note: The dark grey columns represent bonds outstanding at the beginning of the 2005-06 financial year. The light grey columns indicate new issuance in 2005-06.

Source: Australian Office of Financial Management and Treasury estimates.