Wayne Swan’s surplus-saving mini-budget: 10 key points

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James Thomson

Federal Treasurer Wayne Swan has been forced to swing the axe and cut spending to save Labor's much-promised 2012-13 budget surplus, with this morning's Mid Year Economic and Fiscal Outlook statement revealing a $20 billion drop in revenue over the next four financial years.

Swan's revised outlook suggests Labor can keep its promise – but only just.

Australia will post an underlying cash deficit of $371 billion in 2011-12 and a surplus of just $1.5 billion in 2012-13 – down from the $3.5 billion forecast by Swan in May.

While Treasury still expects the Australian economy will grow by 3.25% in the 2012-12 financial year, Swan used the release of the MYEFO to paint a dire picture of the global economy and its impact on Australia.

"Global economic and financial conditions have deteriorated markedly in recent months, and the risks to global stability from the European sovereign debt crisis have intensified. Global growth prospects have been downgraded markedly in 2012, with the euro area expected to return to recession," Swan said.

"This has led to a weaker near-term economic and fiscal outlook for Australia since the budget and substantial reductions to government revenues."

It's also led Swan to swing the axe and try to bring the budget back in line. Here are 10 key points from the MYEFO:

1. We're still growing

Treasury expects the Australian economy to grow at 3.25% in 2011-12 (down from May's prediction of 4% growth) and the same rate in 2012-13. Growth is then tipped to drop to 3% for 2013-14 and 2014-15.

2. The surplus is still alive

Wayne Swan's treasured surplus promise remains alive. After a big $37.1 billion deficit for 2011-12, Australia is expected to return to surplus in 2012-13 – but it's just $1.5 billion, down from $3.5 billion in May's Budget forecasts. That doesn't give Swan much room to move.

3. Employment growth is muted

Don't expect the Labor market to do much for a few years. Employment is expected to grow by just 1% in 2011-12 and 1.5% in each of the following financial years.

4. Tax revenue has fallen in a hole

The Government's tax take has been slugged by a range of things – poor sharemarket and property returns which mean poor capital gains tax returns, muted employment (lower income taxes) and lower company profits, except from the mining sector. Tax revenue has fallen by $20 billion over the next four years – a huge hole to fill.

5. Deferral of automatic deductions in personal tax returns

Remember the Government's plan to allow workers to claim $500 worth of tax expenses automatically, with this amount to increase to $1,000 in 2013-14? The second stage of this (that is, the increase from $500 to $1,000) appears to have been deferred, saving $1.17 billion over the next four years.

6. Crackdown on living-away-from-home allowances

The march of workers to remote areas has apparently caused a surge in rorts of valuable living-away-from-home allowances and the Government has had enough. Changes in this area will raise an extra $700 million over the next four years. Labor will also extend the phase out of the Dependent Spouse Tax Offset to those aged 60 years and under at July 1, 2012.

7. Super co-contribution wound back

The Government will save about $1 billion over the next four years by reducing co-contributions on superannuation and better targeting the contributions it does make towards low income earners.

8. Family payments have been cut

So-called middle-class welfare has long been suggested by economists as a cost cutting target and the Government has obliged. The baby bonus will be cut from just under $5,500 to $5,000 and frozen there. In addition, some family tax benefits will be linked to immunisation.

9. Better data matching by the ATO

The taxman is expected to raise a further $436 million over the next four years through better data matching, which underlines the increased sophistication of the ATO's work.

10. Public service asked to find cuts

Swan has asked the public service to come up with a cut in spending totally 2.5%.