

**SPEECH BY KELVIN THOMSON MP  
TO  
THE ASSOCIATION OF INDEPENDENT RETIREES (AIR) LIMITED  
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**THE BUDGET CONTEXT – The Boom in China and India**

For the past few years there has been an unprecedented commodity boom fuelled by demand from China and India. I remember, when I was younger, people saying, if only we could sell a Ford or a Holden to everyone in China – think of how rich we'd all be. It never happened, of course. But now something like that is happening. The Budget papers show the Government expects to yield almost \$16 billion more in tax receipts in the next financial year than was forecast for this financial year in last year's Budget; \$16 billion more than they thought they would get, just one year on.

And the commodity boom, fuelled by demand from China and India, is a key reason for this.

**TAX CUTS**

New tax rates and thresholds are being introduced from July 1. People will pay no tax on the first \$6000 of their earnings, 15c in the dollar on the amount between \$6,000 and \$25,000, and 30c on earnings between \$25,000 and \$75,000. Someone who earns over \$75,000 will be paying 40c in the dollar on that money, and the top tax rate of 45c in the dollar will now not cut in until \$150,000.

I support the tax cuts, but I don't think people should get too excited about them. They're not so much tax cuts as giving back money which the Government has been able to collect through bracket creep, and increased petrol taxes, GST, HECS, pharmaceutical charges, and so on. The Budget Papers show that even with the tax changes, income tax revenue for the government increases by \$7.9 billion or 4.9%.

Just about everyone earning under \$60,000 per year get less than \$10 per week in tax cuts, and for many people soaring petrol prices and mortgage repayments soon take care of that.

The euphoric initial reaction to the Budget reminded me of the story I heard of the Spanish conqueror of Latin America, Torquemada, who for years was in the habit of killing and torturing the native South Americans in order to keep them under the thumb. Then he stopped killing and torturing them – I don't know the reason why! But the locals turned around and worshipped and revered him for it. It did seem to me that the applause the Government got simply for giving back some of the mountains of our money they'd accumulated in petrol tax, GST etc., was in a similar category.

## THE SUPERANNUATION CHANGES

The Government made a point on Budget night of saying that the superannuation changes would simplify the system and reduce the need for financial planners. In looking at what they've put out so far – an 80/90 page consultation paper, which raises more questions than it answers – I suspect the financial planners won't be looking for another line of work just yet – in fact I think their business will boom as people try to arrange their retirements and their financial affairs to take advantage of the changes.

Those changes which are apparently final are:-

1. No tax on final super payouts for Australians over 60. I would be interested to know if any members here benefit from this. Instinctively I would think you don't, although whether it means you could go back into the workforce for a month, put money in, and then "retire" with that amount tax-free, is a moot point. The cost to the Budget of abolishing the exist tax is not great, because not many people actually pay it. The Budget papers show that even with the axing of the exit tax, taxation revenue from super funds to the government will rise - \$5.9 billion next year, \$6.4 billion, \$7 billion and \$7.6 billion in the following years.
2. Workers can access their money as a lump sum, a series of lump sums, or as a pension. I and some of my colleagues are somewhat concerned if the changes encourage people to move back from annuities back in the direction of lump sums. I have said to AIR meetings previously that I strongly support people taking their super as an annuity or pension rather than a lump sum – the horror stories of people blowing lump sums are simply too frequent for me to be comfortable with the lump sum approach.
3. The reasonable benefit limit will be abolished.
4. A new annual contribution rate of \$50,000 will be introduced to put limits on the amount that can be invested.
5. Self-employed people will be able to claim full deductions for their contributions.
6. The current assets test taper rate will be halved to \$1.50 a fortnight. This is intended to reduce disincentives to invest in super while claiming the old age pension, and will take effect in September next year.
7. Workers will be able to make deductible superannuation contributions until they are 75.

## CHANGES FOR PENSIONERS, SELF-FUNDED RETIREES AND CARERS

1. Pensioners and self-funded retirees will get a one-off bonus of \$102.80 by the end of June. (cost to budget is \$192.5 million).
2. Utilities allowance will be extended to recipients of the mature age, partner and widow allowances (cost to budget of \$35.6 million).
3. Full- time carers will be a one-off payment of \$1000, and part-time carers will get a payment of \$600, again by June 30. (cost to budget of \$358 million).
4. Government will save some money (estimated at \$71.7 million over 5 years) by widening the asset test that determines how much people will pay for their nursing home care. So from now on, if a person gives money or assets above \$10,000 in a year to their children or relatives, the value of that gift will be counted among their assets to decide how much they should pay for aged care. The measure will bring the aged care assets test into line with the pension assets test. It will stop people transferring assets into their children's or partners names to stop them from being counted among their assets.

On the other hand, older people with large blocks of land that have been in the family for 20 years or more, and who are unable to sell it to pay for care, will have increased access to the aged pension.

\$1.1 billion over the next four years for the new "Medicare" Smartcard. Everyone accessing Medicare or Social Security benefits will have to have one. Will replace all the existing Medicare, Social Security, and Veterans cards. Will have your photo, will have data stored on it and medical records if you wish. Labor is not opposing the Smartcard principle, but is raising cost and privacy issues. We have doubts about capacity of this Government to do this project without it turning into a debacle.

## **A WORD ABOUT THE FUTURE**

The immediate future looks pretty good. Treasury forecasts GDP increase for 2006-2007 of 3.25%, CPI increase of 2.75%, unemployment stable at 5.25%, wages growth of 4%.

But it does forecast rising a current account deficit from \$56 billion to \$62 billion.

And I know from talking with many self-funded retirees over the years that they are not merely interested in what is in it for them in the short-term, but also in what kind of future we are building for our children and for our grandchildren.

I mentioned at the outset that the economic growth in China and India is fuelling an era of great income and budgetary riches for Australia. But the rise of China and India and other countries around the world is not all going to be a one-way miraculous thing for Australia. What if instead of it being about us selling them all Fords and Holdens, we end up buying their equivalents of the Ford and Holdens.

This critical issue is why Labor has had such a lot to say about Australia's skill shortages, and why Kim Beazley's Budget Reply concentrated as much as it did on Apprentices. For those of you who missed it, Kim said a Labor government would pay \$800 per year, for up to four years, in every apprentice's Skills Account, to get rid of up-front TAFE fees. He also announced that we would give every Australian student the opportunity to study at specialised trades schools, through school-based apprenticeships.

He also proposed a \$2000 Trade Completion bonus to encourage kids to finish their courses and produce an extra 10,000 tradespeople. The other thing Kim proposed was no foreign apprentices. The fact is that under the Howard government in the last 10 years we've had an increase of 270,000 skilled migrants come to Australia, over the same period as 300,000 Australians – mostly young – have been turned away from TAFE because there were no places here.

Now we are seeing foreign apprentices coming to Australia. Many go to areas where youth unemployment is already high and wages are low. To get their visas foreign apprentices must accept whatever wages and conditions are on offer. Over time this will ruin the job prospects and cut the wages of young Australians.

We should abolish foreign apprenticeship visas and make a serious effort to train young Australians.

