Independent Modelling of Federal Budget 2017-18

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HOW DOES THE BUDGET AFFECT US?

On Tuesday 9 May 2017, the Australian Federal Government unveiled its budget proposal and associated vision for policy priorities.

NATSEM independently modelled some selected budget measures, including the Medicare levy increase, HELP scheme for university students, changes to the family tax benefit (FTB), childcare subsidy, energy assistance payment for pensioners and more. This brochure briefly reports some of our findings.

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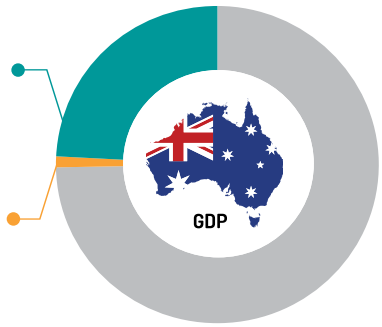
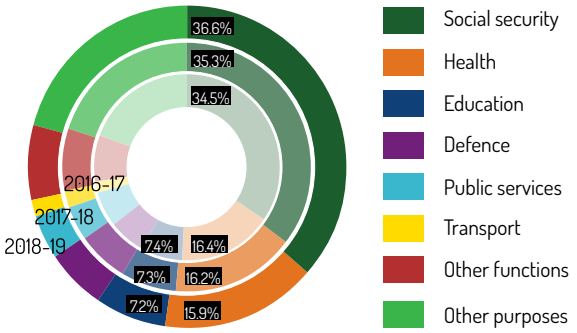
Budget Overview



The Commonwealth Government is expected to collect a total revenue of $444.4 billion in FY 2017-18, which is 24.4% of the size of the economy (GDP). On the expenditure side, the federal government is expected to spend $464.3 billion over the next financial year, a 3.0% increase compared with 2016-17. This translates to an expected fiscal deficit of $20.3 billion (1.1% of the GDP), raising the total public net debt to approximately $354.9 billion, which amounts to $14,400 for everyone, including children in Australia.

Social security expenditure is the fastest growing category in the budget, and is expected to account for 36.6% of total federal government expenditure in FY 2018-19. Public services, on the other hand, account for a shrinking total percentage, dropping from 6.0% in FY 2016-17 to 4.4% in 2018-19.

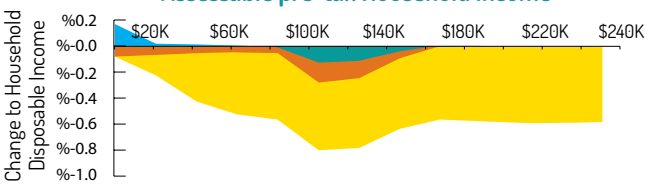


Distributional Impact of the Budget Measures

A number of measures introduced in this year's budget will directly impact household incomes. The Medicare Levy is set to increase by 0.5% starting from FY 2019-10, which will affect all taxpayers in Australia. For families with children, there are proposals to increase the rate at which the FTB-A phases out for families with an annual income over $94,316, and a two-year freeze on FTB. Additionally, the government announced that it would make a one-off payment ($75 for singles, $125 for couples) to certain pension beneficiaries by the end of the current financial year. We examine the distributional impacts of these measures both individually and jointly.

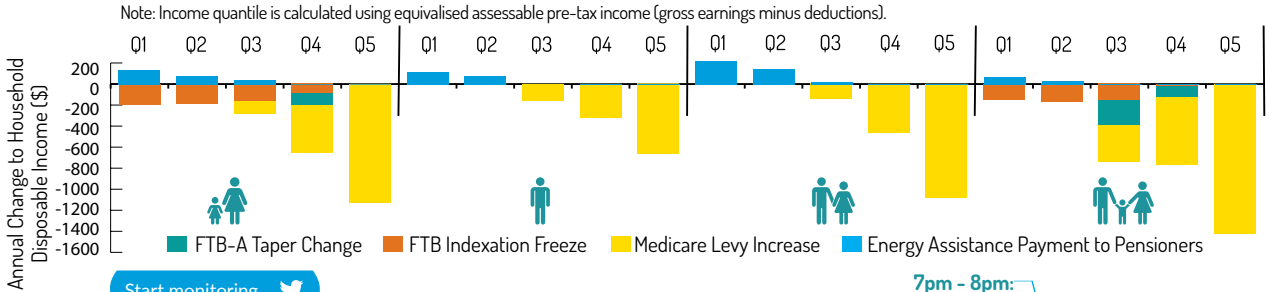
Our modelling suggests that the FTB-A change will disadvantage families at the middle income most, with nearly $400 loss a year for couples with children in the middle income quintile. For a couple earning $110,000 with two kids aged over 12, they are expected to lose $183 a year due to FTB indexation freeze and $783 a year due to the taper rule changes. Higher income families are less affected as they do not receive FTB. Medicare Levy increases would also affect Australians in all income groups, but the lower income households would experience less impact proportional to their current disposable income, due to the various tax offsets and the taper. While families with children are more likely to experience changes in their income based on the selected measures, the net impact may be very different depending on their child care uses due to changes in childcare support payments (see the section on "Childcare Subsidy").

Assessable pre-tax Household Income



Average Change ($)

Note: Income quantile is calculated using equivalised assessable pre-tax income (gross earnings minus deductions).

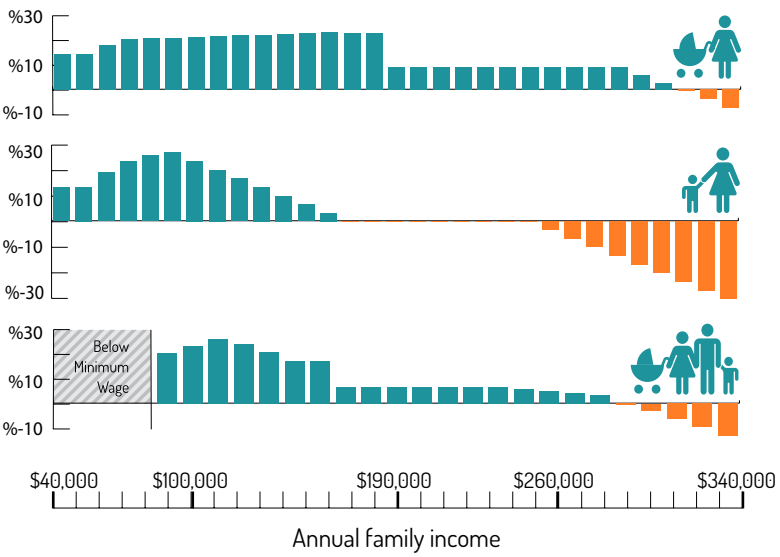


Source: Twitter.com. The data was collected by NATSEM via Twitter API. Data bars report the number of tweets for each 10 minutes interval. Selected trending keywords are reported.

Childcare Subsidy

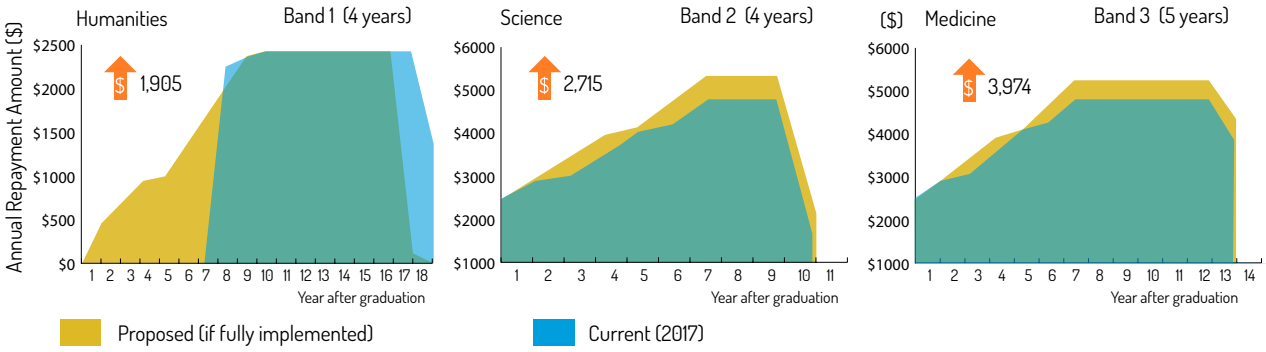
The child care subsidy reform commencing in July 2018 will replace the current child care benefits and child care rebate. Assuming an annual cost of $27,500 for a non -school aged young child and $8,800 for a school aged child, our modelling using STINMOD+ suggests families with an annual income between $120,000 - $160,000 for couples with one young child and one school aged child ($70,000 - $110,000 for single parents with one school aged child, $70,000 - $180,000 for single parents with one young child) would benefit most from the change. Families with lower income may also benefit but to a lesser extent, depending on their childcare use. Households with unemployed or part-time parents using full-time childcare could be worse-off due to activity tests. Those with higher income may lose as shown.

Changes to the childcare support payment (% of childcare cost)

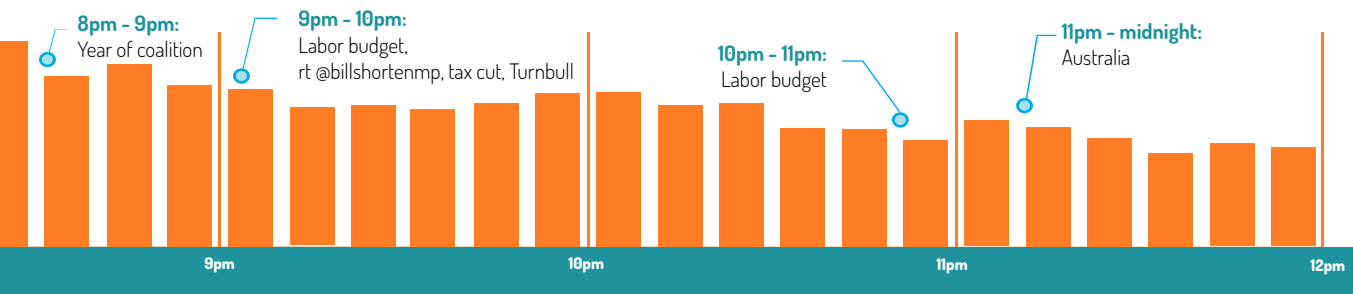


HELP Changes

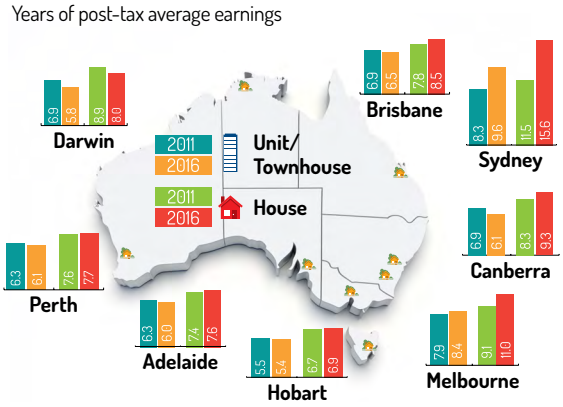
University graduates will have to repay higher student loan debt with lower incomes. The proposed scheme will increase the total student debt of a 4-year degree of Humanities (Band 1 course) and Science (Band 2 course) by $1,905 and $2,715 respectively, and a 5-year Medical degree (Band 3 course) by $3,974 if the proposal is fully implemented today. Those study majors with less than average earning potential would face more financial stress after graduation as they will have to start to repay earlier.



Assuming a starting wage at 50% of average weekly earnings (AWE) for humanities degree students, 75% AWE for those studying science or medicine, and an annual wage growth rate of 5% until reaching 75% AWE for the former and 100% for the latter, humanities graduates will fully pay back the debt 18 months earlier but their repayment-free period would be reduced by six years. Science and medical graduates will not face substantial changes to their repayment periods. Instead, their annual repayment amount will increase under the proposed scheme.



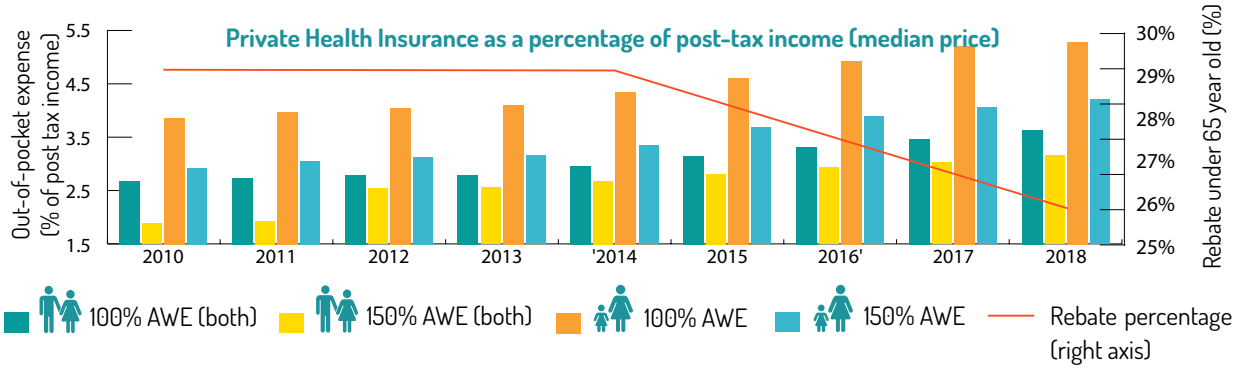
Housing



Housing prices have been on the rise for all capital cities over the last five years in Australia. This section examines housing affordability over time by comparing the median price with the post-tax income for someone earning an average income in his or her state. Over the past few years, Sydney saw the biggest increase in its housing prices, costing more than 15.6 years of earnings for a median-priced detached house, a 6-year surge compared with the price just five years ago. The second highest increase is observed in Melbourne, in which the price for a detached house is equivalent to 11 years of earnings. These two cities house more than 40% of the Australian population. Darwin is the only capital city in Australia that has experienced a drop in the income-price ratio, while Hobart seems to the most affordable capital city, with a median house price at 7 years of local average earnings after tax. The price-income ratio changes in attached properties, such as units and townhouses, are more moderate throughout Australia with the exception of Sydney.

Private Health Insurance

Nearly half of all Australians opted into private health insurance, but the cost of doing so is at the highest level in recent years. Private health insurance premiums have been rising with an annual increase of around 5.6% between 2010 and 2017, exceeding CPI and the average wage growth. Moreover, the private health insurance rebate, an incentive provided by the government to adopt private health insurance, is declining from 30% in 2010 to around 25% in 2018 for those under 65 years of age. The income threshold introduced in 2012 further limits the rebate.



Our modelling suggests that the private health insurance premium after rebate is expected to cost 65% more in 2018 than it did in 2010 for couples both working full-time earning average salaries, accounting for 3.6% of their post-tax income. For single parents, the out-of-pocket premium expense will be even higher at 5.3%.

Methodology

For the purpose of brevity, the analyses presented in this brochure are designed to provide only a selected overview of the main findings. More detailed and in-depth analyses are available on our website http://www.ausbudget.org/.

The economic model behind the estimation of the tax and the transfer policies is a microsimulation model called STINMOD+, which applies Commonwealth Government tax and transfer rules to data at individual and household levels, and computes the complex interactions between different policies. Government agencies worldwide, including those in Australia, often use similar modelling techniques with varying complexities. Data used in this work is derived from multiple sources, including ABS Survey of Income and Housing, Household Income and Labour Dynamics of Australia, ATO Taxation Statistics – Individual sample files, ABS Labour Force Survey and others. Numbers presented are preliminary estimates which may contain sampling and non-sampling errors. This work is internally funded by the University of Canberra as a service to the Australian community. NATSEM has no affiliation with any political party.

For more information about the modelling analyses and STINMOD+, please contact Dr Jinjing Li at:
(02) 6201 2776 jinjing.li@canberra.edu.au Please visit our website for full analysis at www.ausbudget.org.