NATSEM BUDGET ANALYSIS 2017
ABOUT NATSEM AND STINMOD+

For over 20 years NATSEM has been, and remains, one of Australia’s leading economic and social policy research centres, and is regarded as one of the world’s foremost centres of excellence for microsimulation, economic modelling and policy evaluation.

NATSEM undertakes independent and impartial research, and aims to be a key contributor to social and economic policy debate and analysis Australia-wide and throughout the world using expert economic modelling of the highest quality, and supplying consultancy services to commercial, government and not-for-profit clients. Through its research NATSEM is an active contributor to social and economic policy debate and its research receives extensive media and public attention.

NATSEM was initially established at the University of Canberra in 1993 to develop microsimulation models for the Federal Government and to undertake broad social and economic modelling and research. A major modelling task was to develop STINMOD – a model of the personal income taxation and government benefits system. The Federal Government heavily relies upon this model through Treasury, Social Services and Employment to understand how policy impacts on families – both example families (cameos) and the broad impacts on different socioeconomic groups across the country. However, the 2016 Federal Budget was analysed using STINMOD+.

STINMOD+ is a static microsimulation model, which means it estimates the ‘day after’ impact of a policy. It measures the impact of the policy without any change in behaviour, for example, a decision to change working hours after a tax change. This is the same type of model used by the Commonwealth to estimate the impact of proposed tax/transfer policies. One advantage of this model is that it provides quick estimates of short run effects for the policy changes that do not change the economic structure significantly. However, it should not be used to estimate long term effects or policy changes that are likely to change economic agents’ behaviour.

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STATEMENT OF INDEPENDENCE

NATSEM has not received any funding for the modelling of the 2016/17 budget presented in this document or on our website. All modelling conducted by NATSEM for the budget 2017 has been funded internally by the University of Canberra as a service to the Australian community. NATSEM has no affiliation with any political party.
BUDGET 2017:
THE RETURN OF THE POPULIST “FAIR GO” “BIG GOVERNMENT” BUDGET

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1. THE 2017 BUDGET CONTEXT

The 2017 Australian Budget has been launched at a time of social and economic uncertainty. The Australian economy is presently characterised by a modest growth rate of 2.4%\(^1\), falling business and consumer confidence, subdued wages growth, a cooling housing market, and gross debt of $490 billion (as reported by the Australian Office of Financial Management). Moreover, the latest Grattan Institute research argues that Australia’s low investment environment risks “economic stagnation” as reflected in a five-year fall in mining investment. However, there are also signs that the Budget deficit is stabilising and nominal GDP evaluated at current market prices grew by 3% due to last year’s surprise mini-boom in commodity prices.\(^2\)

Although this is likely to temper concern over whether Australia will lose its AAA international credit rating, the prospects of the deflationary pressures easing over the year are unlikely given that global markets continue to be unnerved by the prospects of the British exit from the European Union, and a Trump Presidency. The election, however, of a more acceptable centrist populist politician in Emmanuel Macron to the French presidency has mitigated predictions of the imminent demise of the European Union. Crucially, Australia remains extremely vulnerable to volatility in China’s economic performance as it now more dependent on China as an export market than it has been on any other country since the United Kingdom in the 1950s. The key issue here of course is whether the Australian economy has the resilience to absorb the shocks of a further global economic downturn. As noted in Chart 1, the global economic outlook continues to paint a gloomy picture and revise projections downwards.

Against all of this, public confidence in the capacity of government to address policy fundamentals is very low. Two surveys conducted in 2016 and 2017 by the Institute for Governance and Policy Analysis (IGPA) and Ipsos suggest that a majority of Australian citizens only trust Federal Government to tackle issues of defence and national security. Notably there has been a significant decline in perceptions of the government’s ability to manage economic matters which will be of concern to the Prime Minister (see Figure 1). Political trust in political leaders and the institutions of politics matters, as it provides the glue that holds together the Australian political system. So how has the Turnbull Government responded to these economic and social pressures in Budget 2017?

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1. Gross Domestic Product (GDP) per capita is calculated by dividing the country’s gross domestic product, adjusted by inflation, by the total population.
2. Nominal GDP is Gross Domestic Product evaluated at current market prices. GDP being the monetary value of all the completed goods and services produced within a country’s borders in a specific time period.
Chart 1. World GDP and trade volume growth (IMF, World Economic Outlook, April 2014 to October 2016)

Figure 1. Confidence in the ability of Federal Government to address policy fundamentals (March and December 2016)
2. BUDGET NARRATIVE – THE RETURN OF THE POPULIST “FAIR GO” “BIG GOVERNMENT” BUDGET

We are a nation of the fair go. It's in our DNA and our Budget will reflect that. This budget will be committed to fairness, opportunity and security, ensuring that Australians are given the opportunity to get ahead, the economic growth that enables them to get ahead, to get a better job, better-paying job, to start a business, grow a business — to realise their dreams… Above all, this budget will be a thoroughly fair budget. It is a commitment to fairness, Australians understand that (Prime Minister Malcolm Turnbull, 8 May 2017).

The big ideas underpinning the Australian Budget have shifted since 2016 from narratives on whether the Budget will “repair” the economy and an emphasis on “jobs and growth” delivered through the knowledge economy, to a stronger focus on renewal through Big Government spending. As Saul Eslake predicted in The Conversation, “The first budget of the returned Turnbull government will be largely about burying the legacy of its predecessor”. This is a return to Big Government “warts and all” designed to offer as little room for manoeuvre to the Opposition as possible.

It also highlights that the 2014 Abbott-Hockey Budget will be viewed as the historical outlier. Indeed Budget 2017 has all the hallmarks of a pre-election budget and has left commentators wondering why now and not in election year! A targeted tax and spend ‘Fair-Go’ Budget represents a seismic ideological shift from the Treasurer’s declaration last year that “Lower expenditure for lower taxes is the best way to support jobs and growth.”

Three central themes are emphasized: the listening government; there was no alternative; and “good” and “bad” debt.

“The Listening Government”

In response to declining trust and confidence in government and reflected in the Prime Minister’s disappointing performance at the 2016 Federal election there is a populist veneer to Budget 2017. The Prime Minister and the Treasurer have both adopted the language of a listening government in pre-budget speeches as well as the budget speech itself – “we are listening”, “we understand your frustrations”, “this is a fair and responsible Budget”, and it provides “fairness, opportunity and security for all Australians” (unless you have a drug problem!). The key populist policy is of course the new transaction tax of $6 billion to be levied on Australia’s Big Five Banks over the next four years. Announced without any formal consultation with the five banks this flies in the face of the popular Australian perception that Coalition governments privilege Big Business (or Trade Unions in the case of a Labor Government). This was the most unexpected measure in Budget 2017.

“There was no alternative”

The Treasurer has made it clear that Budget 2017 is “Plan B” as the Senate did not approve big ticket fiscal consolidation measures in Budget 2014. This is demonstrated in the formal termination of the “zombie” spending cuts which the Senate did not pass left over from the 2014 Budget (but still contributing circa $8.5 billion to the Budget bottom-line as forecast in MYEFO 2016). The Government will continue to seek savings from the same areas but these will not be determined by legislation and will
be smaller. The key tax to help stabilise spending through revenue (in addition to the new transaction tax on Australia’s Big Five Banks) is the increased Medicare levy which will be paid by all Australians and will be used to offset the operational deficit in the National Disability Insurance Scheme.

“Good” and “Bad” Debt

The narrative of “good” and “bad” debt pervades the 2017 Budget and is used to justify a significant federal commitment to infrastructural spending of $75 billion over ten years. The notion of “good” debt being that government borrowing to fund targeted infrastructure investment at a time of record low interest rates has strong economic and public value. The suite of measures include the establishment of the Western Sydney Airport Corporation at Badgerys Creek, the Snowy Hydro 2.0 scheme, the Bruce Highway upgrade, Western Australia infrastructure, and the Melbourne to Brisbane inland rail link. Indeed, the ACT was the only state or territory to miss out on a sizable disbursement with $1.5 million dedicated to upgrading the Monaro Highway, and the rest allocated to planning for the duplication of Pialligo Avenue.

Budget Assumptions

Inevitably there are also some contestable assumptions underpinning this Budget which will need to be monitored carefully.

The Treasurer’s statement that the “signs of an improving economy are there to be seen...the global economic outlook is improving” is at best wildly optimistic and leaves the Australian economy highly vulnerable to vacillations in the global economy (see Table 1).

The evidence remains thin on whether a continued focus on small and medium size businesses, however innovative, is the key to high economic performance in the global economy. Indeed data on the performance of the Growth Centres and the National Innovation and Science Agenda remains limited.

We also have no idea as to whether significant investment in infrastructure will deliver large dividends to the Australian economy.

Moreover, the creation of new state owned enterprises such as the Western Sydney Airport Corporation and the buy-back of the Snowy Hydro scheme is a strange occurrence under a Liberal Government and appears at odds with international trends.

Let’s look at these measures now in a little more detail.
A SNAPSHOTS OF BUDGET 2017 OUTCOMES

AND THE WINNERS ARE …

Australians with Disability
Funding guaranteed for the National Disability Insurance Scheme, which is expected to cost $21 billion a year once it is fully implemented in 2020.

Federal Police
An extra $321 million is to be invested in the Australian Federal Police over four years for specialist officers targeting terrorism, organised crime, and child exploitation and is understood to be funded by cuts to foreign aid.

First-home Buyers
To help save for a deposit faster, people will be able to salary sacrifice into their superannuation funds.

Former Combatants
$350 million has been appropriated to help reintegrate and support returned soldiers.

Free to Air Networks
Free-to-air networks are to have their annual licence fee abolished and replaced with a much smaller yearly payment which will save them about $90 million a year. This is aimed at levelling the playing field with new market providers such as Amazon, Google and Netflix. The package also bans gambling advertising during live sport broadcasts.

GPs and Medical Specialists
The freeze on Medicare rebates paid by the government has been lifted.

Local Government, Community and Not-for-profit Providers of Affordable Rental Housing
The Government will provide $63.1 million over four years from 2017-18 (including $4.8 million in capital) to the Department of the Treasury to establish the National Housing Finance and Investment Corporation (NHFIC).

The NHFIC will operate an affordable housing bond aggregator to provide cheaper and longer term finance for community housing providers by aggregating their borrowing requirements and issuing bonds to the wholesale market at a lower cost and longer tenure than bank finance. The design of the affordable housing bond aggregator and the NHFIC will be informed by the Affordable Housing Implementation Taskforce. The NHFIC will also administer the National Housing Infrastructure Facility, which will provide financial assistance to local government for related infrastructure.

Older Australians
Concession cards are to be returned to those who lost them after pension asset-test changes earlier this year and a one-off energy bill payment is to be made to pensioners worth $75 for singles and $125 for couples. In addition, retirees can invest $300,000 from the sale of their homes into their super funds.
Parents of Temporary Residents
The establishment of a temporary sponsored parent visa will allow relatives of overseas permanent residence to stay in Australia for up to 10 years.

Rural Australians
The strong performance by the National Party in the 2016 Federal Election has been rewarded with an inland rail network (Brisbane to Melbourne) which will help move agricultural goods to market more efficiently. The Government has also allocated $1 billion to fund the Landcare Programme.

Schools
An extra $18.6 billion is to be invested over 10 years, distributed on a needs-based model with average increases of 4.1 per cent per student.

Small businesses
Small businesses are able to access a one-year extension of the instant asset write-off scheme for capital equipment expenses up to $20,000.

State Governments
State and territory governments differentially benefit from the $18.6 billion investment in schools and from the investment in infrastructure.

AND THE LOSERS ARE …

Adult Australians in employment
Most Australian tax payers will pay more tax. The Medicare Levy, however, is a way of spreading the pain. It is set to increase by 0.5 percentage points (2 to 2.5% of taxable income) from 1 July 2019 to help fund the NDIS.

Big Five Banks and Senior Bank Executives
This is a new levy designed to generate $6.2 billion of revenue from 1 July. Banks will also face fines of up to $200 million if they cover up misconduct by executives. Senior Bank executives could also be stripped of bonuses, deregistered or disqualified if they breach new accountability rules. The Big 5 Banks include Commonwealth Bank, Westpac, National Australia Bank, ANZ and Macquarie.

Foreign Aid
The Aid Budget has been frozen for two years from 2018 and the saving will be diverted to the Australian Federal Police to fund specialist officers targeting terrorism, organised crime, and child exploitation.

Foreign Property Investors, Workers and Employers of Foreign Workers
A range of measures have been introduced to increase the financial obligations of foreign property investors and workers. A “Ghost house” tax of $5,000 per annum will be applied to foreign investors who leave properties vacant for more than six months. Foreign property owners will also have to pay the capital gains tax on their property when they and foreign ownership of new developments will be capped at 50 per cent.
Under the new Temporary Skills Shortage Visa employers will have to pay a levy of up to $5,000 for each foreign worker they employ. The levy will be put towards a fund to train Australian apprentices and trainees. Australian permanent residents and most New Zealand citizens will no longer be able to apply for Commonwealth supported university places. The only concrete gain for foreigners and it is an important one, is the establishment of a temporary sponsored parent visa which will allow relatives of overseas permanent residence to stay in Australia for up to 10 years.

Job Seekers
The obligations of job seekers have been increased. Job seekers who regularly miss Centrelink appointments or turn down suitable work will have payments reduced or cancelled. A drug test trial is to be piloted for 5000 new welfare recipients. Jobseekers who test positive to drugs will have their payments quarantined and will be compelled to use the new Cashless debit card. It is estimated that about 450 people each year will be blocked from claiming the Disability Support Pension on the basis of drug and alcohol abuse alone. Jobseekers aged up to 49 will now have to undertake 50 hours of approved activity a fortnight.

Universities
A new 2.5 per cent efficiency dividend is to apply in 2018 and 2019, saving the government $2.8 billion.

University Students
The cost of a four-year degree will rise 7.5 per cent and lower HECS threshold means students will have to pay back government loans as soon as their income hits $42,000.

In the next section there follows more detailed analysis of the potential impact of key Budget 2017 changes focusing on individual and household impacts.
4. A DISTRIBUTIONAL IMPACT ANALYSIS OF SELECTED BUDGET MEASURES

A number of measures that have direct impact on household incomes were introduced in this year’s budget. The Medicare Levy is also set to increase by 0.5% starting from FY 2019-10, which will affect all taxpayers in Australia.

For families with children, there is a proposed measure to increase the rate at which the FTB-A phases out for families with an annual earning over $94,000, and a two-year freeze on FTB starting from 2017-18. Additionally, the government announced that it would make a small 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 FTB freeze and the FTB-A taper change will disadvantage families at the middle-income range, as shown in the Figure above. Households in this income range tend to be families with children. Couples with children in the middle-income quintile are likely to lose around $150 a year due to the indexation freeze, $240 due to the taper rule change. This is on top of the increase in the Medicare levy increase, which will tax families in the middle-income quintile for another $340.

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. Families with children are more likely to experience changes in their income but their net impact may be very different depending on their child care uses due to changes in childcare support payment (see the section below on “Childcare Subsidy”).
The Medicare Levy increase will affect all taxpayers in Australia and by implication all income groups. However, lower income households will experience less impact proportional to their current disposable income due to the existence of various tax offsets and the taper of the Medicare Levy.

**University Students**

University students are one of the groups that will be most affected by this year’s budget as it introduced a range of measures including an increase in student course fee contribution and changes to the minimum repayment threshold.

These changes will not impact all students in the same way, as they are dependent on course choice and study duration. Indeed, the field of study or “Band” a certain course is categorised under determines the HECS contribution that a student will need to make.

Band 1 courses include Behavioral Science, Clinical Psychology, Education, Foreign Languages, the Humanities, Social Studies, and Visual and Performing Arts. Band 2 courses include Agriculture, Allied...
Health, the Built Environment, Computing, Engineering, Mathematics, Science, Surveying, and Statistics. Band 3 courses include Accounting, Administration, Commerce, Dentistry, Economics, Law, Medicine, Nursing, Veterinary Science, and Visual and Performing Arts.

Current student contributions and, as a result, total graduation debt, depends on the Band category: $6349 for Band 1, $9050 for Band 2 and $10596 for Band 3. (see http://studyassist.gov.au/sites/studyassist/helppayingmyfees/cspspages/student-contribution-amounts).

**Budget 2017 Changes**

The government proposes an increase to the student contribution to the tuition fee by up to 7.5% and will lower the first income threshold for repayment to $42,000. The repayment threshold will also be indexed by inflation, rather than the faster growing average weekly earnings.

**Table 2. The repayment rate in financial year 2017-18 (current system)**

<table>
<thead>
<tr>
<th>2017-2018 Repayment threshold</th>
<th>Repayment % rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below $55,874</td>
<td>Nil</td>
</tr>
<tr>
<td>$55,874 - $62,238</td>
<td>4.0%</td>
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<tr>
<td>$62,239 - $68,602</td>
<td>4.5%</td>
</tr>
<tr>
<td>$68,603 - $72,207</td>
<td>5.0%</td>
</tr>
<tr>
<td>$72,208 - $77,618</td>
<td>5.5%</td>
</tr>
<tr>
<td>$77,619 - $84,062</td>
<td>6.0%</td>
</tr>
<tr>
<td>$84,063 - $88,486</td>
<td>6.5%</td>
</tr>
<tr>
<td>$88,487 - $97,377</td>
<td>7.0%</td>
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<tr>
<td>$97,378 - $103,765</td>
<td>7.5%</td>
</tr>
<tr>
<td>$103,766 and above</td>
<td>8.0%</td>
</tr>
</tbody>
</table>


**Table 3. The repayment rate in financial year 2018-19 (new system)**

<table>
<thead>
<tr>
<th>2018-2019 Repayment threshold</th>
<th>Repayment % rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below $42000</td>
<td>Nil</td>
</tr>
<tr>
<td>$42000 - $44520</td>
<td>1.00%</td>
</tr>
<tr>
<td>$44520 - $47191</td>
<td>1.50%</td>
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<tr>
<td>$47191 - $50022</td>
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<tr>
<td>$50022 - $53024</td>
<td>2.50%</td>
</tr>
<tr>
<td>$53024 - $56205</td>
<td>3.00%</td>
</tr>
<tr>
<td>$56205 - $59577</td>
<td>3.50%</td>
</tr>
<tr>
<td>$59577 - $63152</td>
<td>4.00%</td>
</tr>
<tr>
<td>$63152 - $66941</td>
<td>4.50%</td>
</tr>
<tr>
<td>$66941 - $70958</td>
<td>5.00%</td>
</tr>
<tr>
<td>$70958 - $75215</td>
<td>5.50%</td>
</tr>
<tr>
<td>$75215 - $79728</td>
<td>6.00%</td>
</tr>
<tr>
<td>$79728 - $84512</td>
<td>6.50%</td>
</tr>
<tr>
<td>$84512 - $89582</td>
<td>7.00%</td>
</tr>
<tr>
<td>$89582 - $94957</td>
<td>7.50%</td>
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<tr>
<td>$94957 - $100655</td>
<td>8.00%</td>
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<tr>
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<td>8.50%</td>
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<td>$106694 - $113096</td>
<td>9.00%</td>
</tr>
<tr>
<td>$113096 - $119882</td>
<td>9.50%</td>
</tr>
<tr>
<td>$119882 and above</td>
<td>10.00%</td>
</tr>
</tbody>
</table>

Source: Budget 2017
This section models the impact of such changes on student debt, assuming the changes will take place in the upcoming financial year (2017). To account for the price adjustment, we reduced the 2018 government threshold by 2%. This particular assumption makes only minimum differences for the calculation. While there are no other direct student-centered measures, accompanying cuts to overall University funding could add additional administrative fees from universities to student bills. For the purpose of simplicity, we do not consider the second round effects in this analysis.

**Impacts on Students**

Students will be affected in different ways, depending on whether they obtain scholarships or other grants and whether they defer their entire tuition fee in the HECS scheme. In addition, their repayment will depend on whether they are able to obtain a Commonwealth-supported (CSP) place.

The model assumes that the student accumulates the debt without early repayment during the study period, and would immediately find a job with a starting salary of 50%, 75% or 100% of the average wage. It is clearly conceivable that Science and Medical degree students will receive a higher starting wage. The model also assumes the annual wage will increase by 5% a year until the increase reaches 25% of the average wage. This means that for a student with a starting salary of 75% of the average wage, his or her wage profile will plateau at 100%. All calculations are in 2017 value. The average earning in 2017 is assumed to be 2% higher than the one in 2016, which was at $79,049 per annum. Students studying Band 1 degrees (e.g. Education or Social Work) will accrue $1905 additional student debt with a four-year degree and will pay off their debt either earlier than the original scheme or around the same time as before. In this case, the student could repay faster due to the early start of repayment at the relatively low wage level depending on their starting salary. The proposed scheme will increase the total debt of a 4-year Band 1 degree by $1905, and the student will pay back the debts 18 months earlier, assuming the graduate earns a starting salary of 50% of the average wage ($39524 p.a., increasing at 5% p.a. until reaching 75 % of the average wage). The average annual repayment would be $1816 (a $586 decrease).

Figure 3. Outstanding Debt for students taking a 4-year degree in Band 1 courses, assuming 50% AWE as the starting salary (left) and 75% AWE as the starting salary (right)
For Students in Band 2 courses, the total amount of debt will increase by $2715 for a four-year degree and their average annual repayment amount will go up by 7 to 10 percent, although the repayment duration will not be affected much. The proposed scheme will increase the total debt of a 4-year Band 2 degree by $2715, and the student will pay back the debts 1 month later, assuming the graduate earns a starting salary of 75% of the average wage ($59286 p.a., increasing at 5% p.a. until reaching 100% of the average wage). The average annual repayment would be $4143 (a $265 increase).

Figure 4. Outstanding Debt for students taking a 4-year degree in Band 2 courses, e.g. Computing, assuming 75% AWE as the starting salary (left) and 100% AWE as the starting salary (right)

Students in the most expensive courses, e.g. Law and Medical Science will experience the highest HECS debt increase (circa $3974 for a five-year degree) and their average repayment amount will go up by 6 to 11 percent, depending on their starting salary. The proposed scheme will increase the total debt of a 5-year Band 3 degree by $3974, and the student will pay back the debts 2 months earlier, assuming the graduate earns a starting salary of 100% of the average wage ($79049 p.a., increasing at 5% p.a. until reaching 125% of the average wage). The average annual repayment would be $7321 (a $683 increase). These students are most adversely affected by the absolute debt increase.

Figure 5. Outstanding Debt for students taking a 5-year degree in Band 3 courses, e.g. Law, assuming 75% AWE as the starting salary (left) and 100% AWE as the starting salary (right)
Childcare Subsidy

Starting in July 2018, the new Child Care Subsidy will replace the current Child Care Benefit (CCB) and Child Care Rebate (CCR). The current payment system is a combination of a means tested CCB, and a non-means tested but capped CCR (covers 50% of fees up to an annual cap of $7,500). Low-income families and families on income support obtain the maximum benefit, yet for families on higher earnings, the payment tapers. Few families with income above $180,000 per annum receive child care benefit for formal child care costs although they may still be eligible to receive childcare rebate. The new scheme will be implemented with a single means- and activity- tested subsidy. Payment will cover 85% of fees for families on $65,710 or less but tapers down to 50% of charges for families on $170,710-$250,000 and further down to 20% for families on $250,000-$340,000. Families earning more than $350,000 receive no subsidy. Fee support caps are based upon an hourly rate ($11.55 centre-based day care, $10.70 family day care, $10.10 outside school hours care) and another $10,000 annual cap on subsidies is applied to families earning more than $185,710.

The existing policy provides for up to 24 hours of CCB payment per week notwithstanding number of hours worked by a couple or a single parent, and 50 hours CCB subsidy for at least 15 hours working, training or studying. Under the new policy, a new activity test ensures that parents will only receive a subsidy where both parents undertake an approved activity for at least eight hours per fortnight each. The subsidised hours per fortnight per child of care are up to 36 hours if they work for more than 16 hours per fortnight and increase to 100 hours when they work greater than 48 hours. For families with incomes of around $65,000 or less, who fail to meet the activity test requirements, they will be qualified to receive up to 24 hours of support for each child per fortnight.

This new child care subsidy, although sometimes advertised as the "simplified" childcare support policy, is quite complex and will affect different households with varying impacts. This article estimates the monetary implications of this child care reform for some of the most common household types in Australia.

Method of Analysis

We compare the new childcare subsidy scheme with the current policy using STINMOD+, a tax and transfer microsimulation model developed by NATSEM at the University of Canberra. For consistency purposes, we use financial year 2018 as the benchmark year. We update all existing benefit rates and income limits in line with CPI adjustments as a forecast for 2018-19. Under this projection, the rate of CCB is expected to provide up to $4.75, $4.96 and $5.16 per hour for families with one, two or more than two non-school-aged children respectively. 85 percent of those rates are applied to school-aged children while more than 100% of those rates are for part-time care depending on the hours of care.

Key modelling assumptions are listed below.

- Earnings: The minimum wage and the average weekly earning data are obtained from Fair Work Australia and the ABS respectively. The 2018 values are projected using an average of growth rates of the most recent five years (2.68% for minimum wage and 3.05% for an average wage). High-income workers are assumed to receive twice the average wage level. Three types of earnings are assumed to be at $18.7/hour, $42.4/hour and $84.8/hour.
- Care fees and hours: Care Fees and hours vary substantially across different care centres and states. On average, we project the long day care rate of approximately $11/hour (based on the rate of $7.20/hour in 2012 and an average annual growth rate of 7%). See: https://www.mychild.gov.
We assume the outside school care rate for school-aged children is 85% of this rate ($9.35/hour). We assume a year of childcare for a non-school aged child costs $27,500, assuming 48 hours of long day care per week, and the annual cost for a school-aged child is $11,700, which covers both out-of-school and vocational care throughout the year, averaging at 24 hours a week.

- Three typical households include single parents with a non-school aged child (3 years old), single parents with a school aged child (8 years old), and couples with both non-school and school aged children (3 and 8 years old). Couples with only one type of child (either school aged or non-school aged) are not explicitly included in the analysis, but their results are comparable to the single parent households albeit at a higher household income level. All these family types account for more than 50% of Australian households (based on the 2013-14 Survey of Income and Housing). Three labour force statuses, full-time, part-time and unemployed, are included in the analysis. We exclude Jobs, Education and Training Child Care Fee Assistance (JET) in the analysis as it has only a limited payment duration and will be replaced by the child care subsidy.

**Reform Impacts: Average Typical Households**

**Full-time working, single parent with non-school aged child**

Full-time working, single parents with non-school-aged children will become better off regardless of their income level below $320,000 where the child care subsidy under the new scheme reaches the CCR cap (see Figure 6). However, those in the middle-income group benefit the most from the new policy: an increase of up to 23% of fees subsidised for families earning around $168,000 per year, compared with a 14.5% increase for those on the low income. This is largely due to the taper design of the CCB, where the benefit starts to drop before the family has an income of $50,000.

Additionally, the lower income single parent households may be exempted from the income test as they could receive Centrelink payment such as Parenting Payment Single. The taper threshold for the new child care subsidy is set a higher value of $65,710.

Figure 6. Full-time working, single parent with non-school aged child
Full-time working, single parent with a school aged child
Similarly, under the new scheme, single parents working full-time receive a higher child care subsidy if their income is below $170,710. Beyond this income threshold, 50% of the fee is covered, equal to the CCR rate without any CCB based on the existing policy (See Figure 7). Again, a more generous subsidy increase goes to families earning average income: an increase of up to 27% of fee subsidised for families on around $90,000 per year, compared with a climb by 13.5% for those on the low income.

Figure 7. Full-time working, single parent with school-aged child

Full-time working couples with non-school and school aged children
The new child care subsidy scheme affects full-time working couples differently at different income levels. Couples with a joint income below $170,710 become much better off. Those who earn between $170,710 and $250,000 are less affected because 50% of fees subsidised under the new policy is closer to 33% which they get under the current scheme ($7,500 for the first child and 50% rebate for the second child). Couples at the higher rate of earnings will be worse off once their joint income reaches $300,000.

Figure 8. Full-time working couple with both non-school and school aged children
Variations in Parameters
In this section, we examine how variations in working hours, hours of care and child care prices can affect the child care subsidy. We only report the analytical results for the first typical type of household (single parents with non-school-aged child) as similar patterns can be observed in other family types.

Working hours
Controlling for same care hours (28 hours/week) and similar care fees ($11/hour), a single parent working more than 8 hours/week will receive a higher benefit from the new scheme regardless of their wage income (see Figure 4). The difference comes from the activity test. Following the current policy, only 24 hours of care are subsidised if parents work less than 15 hours/week. Meanwhile, all 28 hours of care are supported if parents work more than 8 hours/week under the new scheme.

Figure 9. Child care subsidies at different working hours

Childcare hours
Holding the care rate constant ($11/hour), a combination of job status and the number of care hours will affect the benefit that a household can receive. Unemployed parents face a subsidy reduction if enrolling their children for more than 12 hours/week in long day care (see Figure 10a). This threshold is set up for low-income earners who fail to meet the activity test under the new scheme. Under the current policy, this type of household can enjoy at least 24 hours per week of CCB subsidy plus CCR without any activity test.
When entering the labour force, higher subsidy goes to part-time workers if sending their children to a childcare centre for less than 44 hours/week (Figure 5b). There is no payment gain for full-time workers with kids who spend up to 50 hours/week in care (Figure 5c).
Hourly rate of childcare
Keeping the care hours at 28 hours per week, single parents working part-time and earning low or average wages will be worse off under the new scheme if care rates deviate much from the assumed average hourly rate. The impact to high wage earners however, is limited. (Figure 11).

Figure 11. Subsidies at different rates of child care (single parents with a part-time job)
**Conclusion**

The child care subsidy reform commencing in July 2018 will replace the current scheme of child care benefit and child care rebate. Our modeling reveals that full-time working parents become better off regardless of their income level under $320,000 for single parents with non-school aged child, $180,000 for single parents with school-aged child and $310,000 for a couple of parents. There is a consistent trend that those in the middle-income group are expected to gain most from the new scheme. Unemployed parents, in contrast, will face a subsidy reduction if their children were enrolled for more than 12 hours per week in long-day care. In some cases where child care prices deviate much from the national average, part-time working parents with low or average wages, who are sending their kids into part-time care, could become worse off under the new scheme.

**Medicare and Private Health Insurance**

The budget has increased funding for medical services in Australia. All tax-payers are expected to pay a higher income tax while at the same time, the private health insurance rebate has been dropping steadily over the years.

Many Australians have private health insurance, partially motivated by avoiding the hefty Medicare levy surcharge (MLS), and partially motivated by wanting a better health care service or reducing certain medical related out-of-pocket expenses. In December 2016, 46.6% of the Australian population had private hospital cover. The proportion of the population insured has only changed slightly since 2000 according to the Australian Prudential Regulation Authority (APRA). Empirical research suggests many of the taxpayers opted to be insured due to the tax hike around the Medicare levy surcharge threshold in Australia (Kang et al., 2015).

Health insurance premiums have gone up steadily over the past years. The most recent figure from the Department of Health suggests that the average annual increase of the health insurance premium is above 5.6% between 2010 and 2017, far exceeding the consumer price index (CPI) and the average wage growth rate, as shown in the figure below. The fast growth makes health insurance more expensive both in real dollar terms and in terms of the percentage of household income. Moreover, the health insurance rebate, an incentive provided by the government to adopt private health insurance, is declining from 30% in 2010 to 25.93% in 2017 for those under 65 years of age. Additionally, an income threshold was introduced in 2012. It is currently set at $90,000 for singles (double for families).

Over the past decade, private health insurance premiums now far exceed CPI, and this is underpinned by the declining value of incentives to participate in these schemes. Let’s consider the evidence in more detail.
Assumptions and Methodology
This section uses STINMOD+, a tax and transfer estimation model developed by NATSEM, to estimate the real expense of health insurance. We use the official figures from the Department of Health for changes in the health insurance premium, and the 2016 health insurance price for singles and couples are from the median value reported by Canstar. As most people with private health insurance have a salary close to or exceeding the Medicare levy surcharge threshold, we assume four different income levels, which are at 100%, 125%, 150% and 200% of the average weekly earnings in our analysis. We model single and couple households separately, assuming all adult family members are working full time at the same wage level. We focus on the working age population in this analysis, so that no one in the household is older than 65. We also assume the health insurance premium will increase at an average pace in 2018 (5.6%) and the wage increase at 2% in the next year. The average full-time weekly earning is $1,516 ($79,049 p.a.) in 2016.

Insurance Premiums and Rebates
Figure 13 below shows the typical rebate amount for families at 100%, 125%, 150% and 200% of the average earning level, given a median health insurance premium ($2,721 p.a. before rebate for singles, and $5,463 p.a. before rebate for couples). As seen, couples with double the average salaries were no longer able to reclaim any rebate since the reform in 2012. Couples on average incomes receive around $1,600 rebate annually, and singles at a comparable income level get half of that.
Figure 13. Health insurance rebates at the median price

Figure 14 shows the out-of-pocket private health insurance expense as a proportion of the post-tax income (wage minus the income tax). As seen, health insurance out-of-pocket costs are growing rapidly, and are expected to reach more than 3.5% for households earning an average salary. The ratio is even higher for single parents, who are expected to spend more than 5.3% of post-tax income. Higher income families pay a higher insurance premium out-of-pocket due to the lower rebate and were negatively affected by the policy shifts in the past years, but they have a relatively smaller out-of-pocket ratio due to their higher earnings. Given the continuing increase in the insurance premium and the out-of-pocket cost, earners around the average earning level will probably have fewer incentives to be insured. Some families would have no tax incentives to participate as the Medicare levy surcharge is between 1 to 1.5% of the salary, while the insurance premium can easily exceed that even accounting for the rebate. It would be interesting to observe whether the increasing premium would lead to a decline in private health insurance participation in the upcoming years.

Figure 14. Health insurance premium as a proportion of after-tax income.
PARTING SHOT – THE ARTFUL BUDGET

The first Morrison-Turnbull budget displayed a degree of fiscal responsibility and balance but without engaging in the radical adjustments required to transform Australia’s economy. There was much kite flying of new policy in the run-up to the 2016 Budget and it is now clear that the Government decided to leave out the tough decisions that would require significant negotiation, particularly around the series of reforms necessary to get federalism working in the national interest such as City deals, national infrastructure and tax reform. The challenge was to achieve in George Megalogenis’s terms a “balancing act” between staving off recession and affecting a new politics of change and renewal. As Megalogenis argued at the time in his Quarterly Essay, this would require courageous leadership and the 2016 Budget fell short in this regard.

In contrast, the 2017 package is an artful budget that seeks to address the problem of anti-politics that fuelled Brexit and Donald Trump’s presidential election and the rise of the independents in the 2016 Federal Election. As an example of statecraft, the budget includes some artful measures for bridging the disconnect between government and citizen – the reapproachment with Gonski, the demonization of the Big Five banks and Senior Bank Executives, the full economic funding of the NDIS via the increased Medicare Levy and the revitalisation of Australia’s national state building project through large-scale infrastructural investment (even if it is spread over 10 years). This is the stuff of courageous leadership and does represent a shift away from the rhetoric of the Abbott-Hockey austerity budgets. However, the historic investment in infrastructure, and large revenue raising taxes suggests that a commitment to “depression economics” as Paul Krugman puts it, remains.
REFERENCES


