



*Picture source: [www.budget.gov.au](http://www.budget.gov.au)*

## **THE FEDERAL BUDGET – A PAY PERSPECTIVE** **By Nick Milne**

Despite slightly subdued forecasts, due primarily to the drought, geopolitical tensions, the value of the Australian dollar, the economic position of our primary trading partners (the US, Japan and the EU) and, more recently, SARS, the economic outlook as forecast in the 2003-2004 Federal Budget is anything but glum:

- GDP for the 2003-2004 Financial Year is predicted to be a healthy 3.25 per cent, remaining stronger than that of the US, Japan and Europe.
- The CPI is forecast to remain moderate and well within the Reserve Bank's target of 2-3 per cent.
- Unemployment, while not decreasing, is not expected to rise and should therefore remain around 6 per cent.

However, the Government is keenly aware of the risks, both internally and externally, to the domestic economy. It is hoped this Budget will assist Australia in maintaining its strong economic position – a situation created on the back of major reforms throughout the previous decade.

From a remuneration point of view, the Budget contains changes for personal income tax rates. The main changes are:

- Cuts to personal income tax worth \$10.7 billion dollars over 4 years.
- Raising the income tax thresholds (as illustrated in the table below.).

The first tax cuts since the introduction of the GST on the 1<sup>st</sup> July 2000 are aimed at increasing the average Australian taxpayer's disposable income and addressing the issue of 'bracket creep'. Static brackets allow taxpayers to 'creep' into a new threshold, even if they only receive a CPI salary increase. Entering a new bracket means that an individual will ultimately pay more tax and receive little or no benefit from the pay increase. By raising the tax thresholds, employees are less likely to enter higher tax brackets after receiving nominal increase.

Many argue that the Government should address the issue of bracket creep completely by indexing the thresholds to the CPI. In doing so, an individual receiving a CPI increase will retain the purchasing power of their income and not 'creep' into a new threshold. Under this system, an employee who enters a new tax bracket will have done so because they are truly earning more and have not simply had their wage adjusted to meet the increase in the cost of living.

## PERSONAL INCOME TAX THRESHOLDS

Current Tax Thresholds	New tax thresholds from 1 July 2003	Tax Rate
Income Range ( \$ )	Income Range ( \$ )	(%)
0 – 6,000	0 – 6,000	0
6,001 – 20,000	6,001 – 21,600	17
20,001 – 50,000	21,601 – 52,000	30
50,001 – 60,000	52,001 – 62,500	42
60,001 +	62,501 +	47

Source: Budget Papers

**ENDS**

### Note:

CSi monitor pay trends in Australia and New Zealand and produce a number of industry-specific salary surveys. We can provide information or advice about all remuneration issues, from executive pay to global pay practices.

For further information please contact;

*Mr Peter Barton*

Managing Director on (02) 9415 3455

*Ms Erica Holburn*

Marketing Communications Officer on (02) 9415 3455 or 0404 139 650

*Mr Jairus Ashworth*

Professional Services Manager on (02) 9415 3455 or 0414 893 621