



Parliament of Australia
Parliamentary Budget Office

Phil Bowen PSM FCPA
Parliamentary Budget Officer

Senator Richard Di Natale
Leader of the Australian Greens
Parliament House
CANBERRA ACT 2600

Dear Senator Di Natale

Please find attached a response to your costing request, *Worldwide Gearing Ratio* (letter of 23 June 2016).

The response to this request will be released on the PBO website (www.pbo.gov.au).

If you have any queries about this costing, please contact Colin Brown on (02) 6277 9530.

Yours sincerely

Phil Bowen

24 June 2016



Policy costing—during the caretaker period for the 2016 general election

Name of proposal:	Worldwide Gearing Ratio
Summary of proposal:	<p>The proposal would remove the current thin capitalisation rules so that a company's limit of allowable debt deductions would be determined by the debt to equity ratio for their global operations.</p> <p>This proposal would have effect from 1 September 2016.</p>
Person/party requesting costing:	Senator Richard Di Natale, Australian Greens
Date of public release of policy:	22 June 2016 http://greens.org.au/sites/greens.org.au/files/Tax%20Avoidance%20Package_0.pdf
Date costing request received:	23 June 2016
Date costing completed	24 June 2016
Expiry date for the costing:	Release of the next economic and fiscal outlook report

Costing overview

This proposal would be expected to increase the fiscal and underlying cash balances by \$1,750 million over the 2016-17 Budget forward estimates period. This proposal would have an ongoing impact beyond the forward estimates period.

Departmental expenses are not expected to be significant and have not been included in this costing.

This costing is considered to be of low reliability. To reliably cost this proposal would require detailed knowledge of the current tax practices of large multinational companies and their likely behavioural responses to this proposal. As there is very little reliable data on which to base these estimates the costing is highly sensitive to a range of assumptions.

Table 1: Financial implications (outturn prices)^{(a)(b)}

Impact on (\$m)	2016–17	2017–18	2018–19	2019–20	Total
Fiscal balance	150.0	600.0	500.0	500.0	1,750.0
Underlying cash balance	150.0	600.0	500.0	500.0	1,750.0

(a) A positive number represents an increase in the relevant budget balance, a negative number represents a decrease.

(b) Figures may not sum to totals due to rounding.

Key assumptions

- The available Australian Taxation Office (ATO) company data on thin capitalisation shows that very few companies have used the ‘worldwide gearing debt amount’ test to determine their allowable deduction amount, with most using either the safe harbour or arm’s length test. This means that most companies have not been required to submit information on the level of their worldwide gearing to the ATO.
- In the absence of this information the Parliamentary Budget Office (PBO) has calculated the average debt/equity ratios by industry group. Companies are assumed to have a worldwide gearing ratio equal to the average of their industry.
- The costing makes an allowance for the possibility that some companies may alter their behaviour in order to avoid the impact of this proposal.
- The ATO would not vary the company pay as you go (PAYG) instalments in the first year of the proposal. Where this proposal results in a company paying higher income tax in relation to the 2016-17 income year, this would flow through to higher PAYG instalments in subsequent years.

Methodology

The financial impact of this proposal is based on ATO unit record debt deduction data for multinational companies. The impact of this proposal was estimated by calculating the allowable debt deduction under the proposed rules (worldwide gearing test only) for each company and subtracting the current amount of allowable debt deductions (where companies can use the safe harbour, arm’s length or the worldwide gearing test).

Estimates are rounded to the nearest \$50 million.

Data sources

- ATO unit record data from the thin capitalisation schedule.
- ATO international dealings schedule data.
- Budget 2016-17 parameters.