CHARTERED ACCOUNTANTS
AUSTRALIA + NEW ZEALAND

24 July 2015

Mr Bert van Manen MP
Chair Standing Committee on Tax and Revenue
PO Box 6021
Parliament House
CANBERRA ACT 2600

By e-mail: TaxRev.Reps@aph.gov.au

Dear Sir

**Inquiry into the Tax Expenditures Statement**

Thank you for the opportunity to participate in the inquiry by the House of Representatives' Standing Committee on Tax and Revenue (the Committee) into the Tax Expenditures Statement, including the recommendations made by the:

- Australian National Audit Office (ANOA) in its reports of May 2008 and May 2013
- Joint Committee of Public Accounts and Audit (JCPAA) in its report of June 2009
- Australia's Future Tax System Review of December 2009 (Recommendations 137-139).

We have referred to these reports collectively as 'the reviews" in this submission.

## Chartered Accountants Australia and New Zealand

Chartered Accountants Australia and New Zealand is made up of over 100,000 diverse, talented and financially astute professionals who utilise their skills every day to make a difference for businesses the world over.

Members of Chartered Accountants Australia and New Zealand are known for professional integrity, principled judgment and financial discipline, and a forward-looking approach to business.

We focus on the education and lifelong learning of members, and engage in advocacy and thought leadership in areas that impact the economy and domestic and international capital markets.

We are represented on the Board of the International Federation of Accountants, and are connected globally through the 800,000-strong Global Accounting Alliance, and Chartered Accountants Worldwide, which brings together leading Institutes in Australia, England and Wales, Ireland, New Zealand, Scotland and South Africa to support and promote over 320,000 Chartered Accountants in more than 180 countries.

## Facts are needed

CA ANZ does not have access to the information required in order to comment upon the internal workings of government departments in relation to the creation of the Tax Expenditure Statements (TES). We can, however, provide comments about the TES from an external users' perspective.

A tax concession (or as economists like to call it, a tax expenditure), is a deviation from the normal tax treatment of an item or taxpayer. A tax concession can take many forms, including an exemption, an additional deduction or more immediate deduction, a deferral of a tax liability, the provision of a tax offset or credit, or a special tax rate.

Accurate and meaningful TES are essential for the good governance of Australia. As noted in each of the reports under consideration by the Committee, the aim of the TES is to:

- allow tax expenditures to receive a similar degree of scrutiny to direct expenditures;
- allow for a more comprehensive assessment of government activity; and
- contribute to the design of the tax system, by promoting and informing public debate on all elements of the tax system.

Unfortunately, the lack of completeness, reliability and transparency of the TES systems means that these objectives are not being met. This is particularly concerning because:

- In the context of a looming Federal election, where tax and Federalism issues will be key policies for debate, Australians are being asked to make long term decisions about both the taxation system and expenditure systems on a wide range of issues without being provided with adequate factual information about the existing tax base and tax concessions. This lack of information may distort where attention should be directed by only focussing on those tax expenditures which are quantified.
- Australia's use of taxation expenditures is large compared to other OECD countries and as a percentage of our GDP (see the charts in Appendix A).

## Lack of action

All of the reviews into the quality of Australia's TES have consistently indicated that Australia does not have adequate knowledge of its tax expenditures. Despite seven years passing since the initial 2008 ANAO report, little, if any, progress appears to have been made.

Indeed, our analysis indicates that, since these reviews, the percentage of tax expenditures which are unquantified has increased from approximately a third to half of all tax expenditures. During the same period, the reliability of those tax expenditures that have been quantified has not improved – over 40% of those tax expenditures which are quantified have a reliability rating of less than medium.

The degree to which tax expenditures are quantified and the level of the reliability of the quantified amounts differ according to the tax area that is being examined. Superannuation has a relatively high level of quantification of tax expenditures relative to other tax areas such as business taxes. This may be inappropriately skewing the tax reform debate by directing people's attention to an area that is quantified.

The differing methodologies by which tax expenditures can be measured was raised in each of the reviews. Each of the various methodologies have their advantages and disadvantages and a common theme of the reviews is that, due to the different perspectives that the alternative methodologies present, it is better to have a variety of measurements of significant tax expenditures. Currently, we only have half of the largest 20 tax expenditures (as determined by the revenue foregone method) quantified by two methodologies.

## Impact on reform

Australia is currently facing a number of challenges, such as an aging population, transitioning from the mining boom and digitalisation of our economy, each of which poses substantial issues for our tax system. The adequacy of Australia's revenue stream and the appropriateness of Australia's expenditures are currently the subject of several government reviews[1]. The ability of these reviews to generate thoughtful, practical recommendations is dependent, amongst other things, on the quality of the information that they rely on.

The ability of non-government organisations to participate in these discussions thoughtfully is also dependent upon a deeper understanding of how tax expenditures are calculated. The first recommendation made by the 2008 ANAO review was for Treasury to systematically review its tax expenditure methodology and publicly publish its findings. It is understood that Treasury only partially undertook such a review. There has been no publication of the results of the reviews that were undertaken, and no greater insights provided as to why particular tax expenditures are modified.

## A broader review of tax revenue forecasts is required

We are also concerned that the deficiencies of the TES system are also indicative of Australia's revenue forecasting ability more broadly. There have been a number of reviews into Treasury's forecasting ability, the latest of which is the 22 February 2013 Review of Treasury Macroeconomic and Revenue Forecasting[2]. This review found that whilst Treasury modelling techniques were similar to its overseas counterparts, it cast doubt over Treasury's use of information.

There also appears to have been little work done regarding long term revenue trends. The intergenerational reports have considered the impact of an aging population upon expenditure (such as health and aged care) but have constantly assumed that tax revenue will be at around 23% of Australia's GDP. This assumption has been made despite it being repeatedly noted that the impact of bracket creep in relation to personal taxation is not sustainable, and that a greater proportion of consumption will be in relation to currently exempt GST items. Both of these factors are likely to make a substantial impact on future revenue flows but little work has been publicly released about the quantitative impact these changes will have on future revenue.

It cannot be emphasised enough: for both good governance and good policy making, the financial consequences of various options need to be understood from both a theoretical and practical perspective. This involves Treasury improving the completeness, reliability and transparency of its calculations of tax expenditures, costings and revenue forecasts. This is a matter of urgency now, given the substantial tax reform options that Australia has to consider in order to maintain its existing living standards into the future.

## A review of TES is also required

Having such a large proportion of assistance being provided through the taxation system adds substantial complexity to the tax law and contributes to high compliance costs. Whilst using tax expenditures rather than grants can reduce the need for government administration in various departments, it adds administration costs across all taxpayers and to the Australian Taxation Office (ATO) which has to administer an unwieldy system in areas in which it does not necessarily have an expertise.

Given the number of tax expenditures being provided, the lack of oversight of them and the lack of knowledge of how much revenue is being lost our organisation recommends that tax concessions, be reviewed to ensure that they are still appropriate and that further work be undertaken to improve the measurement of them. We also encourage the implementation of the many recommendations that have been made in relation to tax expenditures to ensure that they are incorporated better into the budgetary process.

---

[1] Re:think, Reform of the Federation
[2] http://treasury.gov.au/PublicationsAndMedia/Publications/2013/Forecasting-review

I would be happy to discuss any aspects of our submission with you. I can be contacted on [redacted] or by email at [redacted]

Yours faithfully,

[redacted]

**Michael Croker**
**Tax Leader Australian**
**Chartered Accountants Australia and New Zealand**

## Detailed submission

### Degree to which TES are quantified

The chart below demonstrates that despite the numerous recommendations by the various reviews, Australia's quantification of its tax expenditures has not improved. Indeed, it is consistently becoming worse with the percentage of tax expenditures which are unquantified increasing from almost a third between 2006-2011, to almost half in 2014.

| TES year | Number of estimates in TES | Number of unquantified estimates | Percentage of estimates that are unquantified |
|---|---|---|---|
| 2006 | 272 | 86 | 32 |
| 2007 | 299 | 91 | 30 |
| 2008 | 324 | 99 | 31 |
| 2009 | 337 | 106 | 31 |
| 2010 | 349 | 110 | 32 |
| 2011 | 364 | 115 | 32 |
| 2012 | 363 | 152 | 42 |
| 2013 | 355 | 154 | 43 |
| 2014 | 297 | 145 | 49 |

The TES is divided into several areas. The percentage of tax expenditures which are not identified varies between areas. For some areas this is particularly bad - for example, the number of tax expenditures not quantified for FBT is 63%, for CGT it is 57%, for business taxation it is 42% and for GST it is 35%. In contrast other areas have a low percentage of unidentified tax expenditures, for example – for individuals it is 12.5% and for commodities it is 12%.

Failure to quantify various tax expenditure areas can result in undue emphasis being given to those areas which are highly quantified (such as superannuation) as opposed to those that are lowly quantified (such as CGT).

CA ANZ has undertaken research to try to determine whether the significance of various areas of tax expenditures is affected if the unquantified amounts are also taken into account. This was done by attaching a notional number, or ''parameterised estimate' to the TES for various areas. The parameterised estimate represents:

- the average of the likely range that was indicated by Treasury as being the possible unquantified size of the tax expenditure; or
- for amounts which were shown as being in excess of $1,000 million where an average could not be used, the minimum amount (i.e. $1,000 million). Fortunately there were only 4 such items – but all of these items were included in the business section[3] and indicate that business tax expenditures may be significantly underestimated.

[3] The four business tax expenditures whose unquantified cost was estimated in excess of $1,000M were - B3 – income tax exemption for States; B13 – exemption for foreign branch profits from income tax; B29 – off market share buy backs; B69 – philanthropy income tax exemption for charitable, religious, scientific and community service organisations.

As indicated in the TES, the ranges provided for the unquantified tax expenditures “are provided as a broad guide only. They are based on assumptions and judgment and should be treated with caution.” The guesstimates should be understood in that context.

The table below shows the results that were generated from the 2012 TES in relation to the 2012-13 year.

| Item | TES est | Parameterised estimate | New total | % of TES est | % of new total |
|---|---|---|---|---|---|
| A – Individuals | 11,248 | 770 | 12,018 | 9.8% | 9.0% |
| B – Business | 8,013 | 8,517 | 16,530 | 7.0% | 12.5% |
| C – Super | 33,961 | 0 | 33,961 | 29.5% | 25.7% |
| D – FBT | 5,032 | 1,210 | 6,242 | 4.4% | 4.7% |
| E – CGT | 34,932 | 3,225 | 38,157 | 30.3% | 28.9% |
| F – Commodity | (2,490) | 560 | (1,930) | (2.2%) | (1.5%) |
| G – Natural | 0 | 435 | 435 | 0% | 0.3% |
| H – GST | 20,994 | 2,430 | 23,424 | 18.3% | 17.6% |
| I – carbon | 3,330 | 75 | 3,405 | 2.9% | 2.6% |
| TOTAL | 115,020 | 17,222 | 132,242 | | |

This table suggests that the non-quantification of tax expenditures may, for example, be giving superannuation tax concessions relatively more prominence that would be the case if all tax expenditures were quantified.

## Reliability of the TES

The Parliamentary Budget Office has stated in its technical note about the reliability of costings that “the three most important factors affecting the reliability of costings are the quality of the data available to undertake the costing, the number and soundness of any assumptions made in the costing analysis and the volatility of the costing base itself.”[4]

The table summarises the reliability of those tax expenditures which are quantified. It appears that, as Treasury has looked at the reliability of the quantified tax expenditures, it has increasingly discovered that they are based on estimates rather than facts.

In 2008, 44% of all tax expenditures were ranked as having a reliability of very low, low or medium/low. Until 2011, the number of tax expenditures with these low levels steadily increased (47% in 2009, 50% in 2010 and 52% in 2011). Since 2011, there has been a decrease in the number of tax expenditures with these low levels of reliability (48% in 2012, 44% in 2013, and 43% in 2014) so that we are now at the same level of reliability as we were back in 2008.

[4] Parliament of Australia, Parliamentary Budget Office, Factors influencing the reliability of costings of policy proposals The PBO’s approach to reliability ratings *Technical note 01/2015*

### TES reliability ratings by year for 2006 to 2011

| | Reliability Rating | | | | | |
|---|---|---|---|---|---|---|
| | Very low | Low | Medium-Low | Medium | Medium-High | High |
| 2006 | 19 (12%) | 38 (23%) | 20 (12%) | 33 (20%) | 11 (7%) | 41 (25%) |
| 2007 | N/A. No reliability estimates included in TES. | | | | | |
| 2008 | 9 (4%) | 49 (24%) | 32 (16%) | 81 (40%) | 25 (12%) | 8 (4%) |
| 2009 | 9 (4%) | 50 (24%) | 39 (19%) | 81 (39%) | 24 (11%) | 6 (3%) |
| 2010 | 8 (4%) | 60 (27%) | 41 (19%) | 82 (37%) | 21 (10%) | 8 (4%) |
| 2011 | 9 (4%) | 73 (30%) | 43 (18%) | 88 (37%) | 21 (9%) | 7 (3%) |
| 2012 | 9 (4%) | 55 (26%) | 38 (18%) | 85 (40%) | 17 (8%) | 7 (3%) |
| 2013 | 8 (4%) | 51 (26%) | 27 (14%) | 83 (43%) | 22 (11%) | 4 (2%) |
| 2014 | 5 (3%) | 43 (28%) | 18 (12%) | 66 (43%) | 16 (10%) | 4 (3%) |

Note 1: Totals may not equal 100 per cent due to rounding.
Note 2: The published totals of reliability estimates in the annual TES did not always equal the actual totals of ratings of reliability estimates. The numbers above are the actuals.
Source: ANAO Audit Report No.32 2007-08 (p.69) and annual TES.

## Explanation of TES calculations is required

To help improve the reliability of the tax expenditures, Recommendation 1 of the ANAO 2008 report was:

> "that the Department of the Treasury develop an approach for the conduct of an ongoing prioritised review of the existing program of tax expenditures; and publish for each tax expenditure information on the timing and outcome of the review."

The 2013 ANAO report noted that this was only partially implemented and that the systematic review and evaluation of tax expenditures on an ongoing basis commenced in 2008 but ceased in 2011, without publicly reporting the results.

The lack of publicly available information regarding the determination of the quantum and reliability of tax expenditures is frustrating. For example, in the debate about whether GST should be imposed on imported services, it is reasonable to factor into policy considerations the estimated tax expenditure trend from both a current, historical and future perspective. If this is undertaken then the following result appears.

**Extracts of the quantified tax expenditure for GST on imported services from various years[5]**

| 2006/7 | 2007/8 | 2008/9 | 2009/10 | 2010/11 | 2011/12 | 2012/13 | 2013/14 | 2014/15 | 2015/16 |
|---|---|---|---|---|---|---|---|---|---|
| | | | | 150 | 150 | 170 | 180 | 190 | 210 |
| | | | 120 | 150 | 150 | 160 | 170 | 190 | 210 |
| | | 110 | 120 | 150 | 160 | 180 | 210 | 230 | 260 |
| | 900 | 950 | 900 | 950 | 1,050 | 1,100 | 1,200 | 1,250 | |
| 750 | 900 | 950 | 900 | 1,000 | 1,100 | 1,200 | 1,300 | | |
| 750 | 900 | 950 | 1,050 | 1,150 | 1,250 | 1,350 | | | |
| 700 | 800 | 850 | 900 | 1,000 | 1,100 | | | | |

A cursory review of these numbers indicates that there has obviously been a change in how this tax expenditure was calculated. The only comment about this change in the relevant TES (2012 TES) is that there were “improvements to modelling methodology and data”.

A similar story can be told in relation to the 2012 TES in relation to the methodology for calculating the tax expenditures for GST in relation to health – residential care etc. It increased from $160M to $1,100M. Once again the only explanation was “improvements to modelling methodology and data”.

Each TES continually reinforces the message that tax expenditure estimates in different editions of the TES are generally not comparable. Estimates may change between editions as benchmarks are modified, new tax expenditures are identified, revised or new data becomes available, or changes in modelling methodology are made. That said, not providing any details regarding how any tax expenditures are calculated let alone modified does not advance our knowledge of how tax policy decisions affect our economy.

CA ANZ recommends that greater information about the calculation of tax expenditures be made available – including the data used, the reliability of that data, the assumptions made and sensitivity analysis.

## Better use of information is required

Previous reviews have indicated that Treasury could make substantially better use of existing data. For example:

- Recommendation one of the 22 February 2013 *Review of Treasury Macroeconomic and Revenue Forecasting* states that: “Given the importance of information on economic conditions obtained from business liaison - and the capacity of this source to inform the forecasts - Treasury should investigate with the Reserve Bank of Australia more formal channels through which to exchange insights from their respective programs, such as during the quarterly joint forecasting rounds (without compromising the confidentiality of liaison contacts). Similarly, Treasury should also investigate whether further information can be drawn from the Australian Taxation Office’s liaison with large corporate taxpayers for revenue forecasting purposes.”

[5] Source: various TES

- Recommendation 4 of the 2008 ANAO report was "that the Department of the Treasury promote more comprehensive reporting on taxation expenditures by:
    - liaising with Commonwealth entities that collect revenue to identify all entities that also administer forms of relief from Commonwealth taxes, including tax expenditures; and
    - developing arrangements, as part of the preparation of the annual Taxation Expenditure Statement, to obtain relevant data from entities outside the Treasury portfolio."

From an external perspective, it appears that these recommendations are still valid. For example, the current TES shows 28 separate tax expenditures for GST. Of these 28 tax expenditures, 11 have a reliability rating of medium, 8 have a reliability rating of low, and 9 have 'not applicable' next to them as no estimate is provided at all. Thus, 32% of the GST tax concessions are unquantified, 28% of the GST concessions have a low reliability and 40% have a medium reliability rating.

MYOB notes in their report on GST and small business that "in Australia there are up to eight reporting codes used to pinpoint which GST free status is applicable for each sale or purchase" [6] which are known as 'G codes' and that "currently business must tag every line item on an invoice and select whether GST applies, and if the good or service is exempt, they must also identify which type of 'No GST' code pertains to the transaction."[7]

Thus it would appear that the government has access to detailed information about the exact size of at least 8 GST tax concessions and should be able to provide taxation expenditure estimates that are more reliable than 'medium'. As an aside, we note that deliberations are underway within the ATO to simplify the Business Activity Statement by, amongst other things, doing away with G codes.

The lack of use of the information that is being provided to Government is concerning. Not only does it prevent useful analysis of potential tax reforms, it also substantially adds to the compliance costs of business without any discernable benefit. This has led to calls by some for a reduction in red tape by reducing the amount of information that the Government collects.

An alternative approach is to ensure that the information collected fits into natural accounting systems and can be automated through standard business reporting so business, government and society can benefit through the streamlined use of detailed information.

We note that the Government has recently established the Digital Transformation Office (DTO). The DTO's web site states that:

> "The Digital Transformation Office will transform the way public services are designed and delivered, making them simpler and easier to use. All new and redesigned services will be digital by default. This means that everyone will be able to access public services digitally from start to finish on their mobile device or PC.
>
> The DTO will set digital design standards for all public services, improve the way government information is presented, better link digital, face-to-face and telephone delivery channels, and develop and expand common IT platforms such as myGov."[8]

These are important aims. However, it is also important that Government is able to effectively use the information that it collates. This requires a whole of government approach.

[6] http://files.myob.com/news/the-costs-of-gst-hitting-small-business-hardest.pdf

[7] Same as above.

[8] https://www.dto.gov.au/

CA ANZ recommends that the Digital Transformation Office prioritise a review of how the government currently uses information that it collects, with a particular emphasis on increasing the understanding of tax expenditures.

## Various measurements of tax expenditures

There are at least three ways the notional cost of tax expenditures can be measured.

Firstly, there is the revenue foregone approach which is used in the TES in Australia and most OECD countries. Under this approach the estimates identify the financial benefit to taxpayers of receiving a tax expenditure relative to taxpayers that do not.

Secondly, there is the revenue gain approach which measures how much revenue would increase if a concession were removed. “It involves making assumptions about the way taxpayers would respond to policy changes. It also requires assumptions about the order in which tax expenditures are removed.”[9]

Thirdly, the outlay equivalence approach. “This approach estimates how much direct expenditure would be needed to provide a benefit to a recipient - assuming the payment is subject to the usual tax treatment for that type of income - that is equivalent to the tax expenditure.”[10]

Recommendation 5 of the 2008 ANAO report was that: “the Department of the Treasury and the Australian Taxation Office identify opportunities to develop estimates of large or otherwise significant tax expenditures using the revenue gain method.” A similar recommendation was made by the JCPAA. Recommendation 7 of the JCPAA report was: “That Treasury publish a paper for inclusion in the Tax Expenditures Statement calculating the twenty largest tax expenditures using both the revenue foregone and revenue gained methods to allow comparison with the Budget Papers.” The 2013 ANAO report noted that: “The Treasury has partially met related JCPAA Recommendation No. 7, to include in the TES the 20 largest tax expenditures using both the revenue gain and revenue forgone methods.”

The 2014 TES shows revenue gain estimates for 10 of the twenty largest tax expenditures under the revenue foregone method. The top two revenue foregone tax expenditures do not have a revenue gain estimate as “those estimates are either very small and uncertain (housing) or because of the significant uncertainty regarding the magnitude of response effects to a change (CGT discount).”

The 2014 TES also contains numerous warnings about the reliability of the revenue gain estimates, such as:

- Revenue gain estimates should be treated with caution as they assume that a tax expenditure is abolished, which may be implausible in many cases.
- The revenue gain can be difficult to estimate as there is usually little, if any, information on how taxpayers might react to the removal of a tax expenditure and the behavioural assumptions that have been used can be difficult to meaningfully substantiate.
- Judgments also need to be made about likely policy settings – for example, whether it is realistic to assess the abolition of a single tax expenditure (for example, a particular GST exemption) while keeping other tax expenditures unchanged (for example, other GST exemptions)

[9] http://taxreview.treasury.gov.au/content/FinalReport.aspx?doc=html/publications/Papers/Final_Report_Part_2/chapter_g5-2.htm
[10] As above

Whilst all these concerns are legitimate, our organisation believes that publicising the work that has been undertaken to produce these numbers will benefit the whole community. The publication of this work could also allow a wider range of people to contribute to the debate about how to improve them.

> CA ANZ recommends that information about how individual tax expenditures are calculated and how and why changes to individual tax expenditures were made be published.

## Need for independent costings

Given the numerous reviews and recommendations that have been made in relation to tax expenditures and the inertia that has occurred in this area, consideration should be given to funding an independent body to shadow Treasury's estimates.

Further comments are noted below on several organisations that could undertake costings independently – namely:

- Parliamentary Budget Office;
- Tax Reform Commission;
- Australian Taxation Office.

### *Parliamentary Budget Office (PBO)*

The purpose of the PBO is to increase transparency and support informed public debate by providing independent and non-partisan analysis of the budget cycle, fiscal policy and the financial implications of proposals11. However, there are two limitations which restrict the ability of the PBO to achieving this:

- Firstly, in performing these functions, the PBO must use the government's economic forecasts, parameters and fiscal estimates, and is prevented from preparing independent economic forecasts, or preparing independent budget estimates, whether whole of government, agency or program12.
- Secondly, the limited resources of the PBO to date have been used almost exclusively for the benefit of politicians or political parties (who, for legitimate reasons, are not obligated to release the information requested), and not the general public[13].

As noted in the Centre for Policy Development's submission on the performance of the PBO:

"the PBO is an outlier [in relation to international comparisons]. It has a disproportionate emphasis on election commitments. Otherwise, it exercises relatively few functions and has a passive role in reviewing assumptions behind costings and alternative policy proposals."

To truly enable the PBO to assist in costings, there would need to be both legislative change to allow the PBO to independently determine the parameters that it uses in determining costings

[11] Section 64B, *Parliamentary Service Act 1999*.
[12] Section 64E (2), (3), *Parliamentary Service Act 1999.*
[13] The ANAO's analysis of PBO data also shows extensive utilisation of the PBO services by parliamentarians, with the then opposition Liberal- National Coalition (500 requests) and the Australian Greens (404 requests) making the most requests in the lead up to the election outside of the caretaker period. During the same time-frame, there were a further 12 requests made by individual parliamentarians (independent member or private members).

and a substantial increase in its funding to allow it to publicly provide costings regarding policy alternatives of items both currently before Parliament and in relation to policy issues that are in the public interest without referral from Parliamentarians. Ideally the costings would provide an explanation of how they were determined and a sensitivity analysis as well as a reliability rating.

***Tax Reform Commission***

As noted in our submission to the Re:Think Tax Discussion Paper[14], we believe that the tax reform focus and tax expenditure process should be redirected in part towards a stronger and more collaborative public policy-making organisation which can out-last the political cycle. Such an organisation would formulate, on a project by project basis, tax policy on a range of key policy areas and would be directed by a tax reform roadmap. It would bring together public and private sector experts to work on a project basis.

An organisation such as our proposed Tax Reform Commission could have a division that is modelled along the lines of the Congressional Budget Office (CBO). The CBO provides a wide range of services. For example, it regularly publishes projections of budgetary and economic outcomes that are based on the assumption that current laws regarding federal spending and revenues will generally remain in place. Those projections, which are known as baseline projections, cover a 10-year period and the reports on those projections usually describe the differences between the current projections and previous ones; compare the economic forecast with those of other forecasters; and show the budgetary effects of some alternative policies.

In addition, the CBO provides formal, written estimates of the cost of virtually every bill approved by Congressional committees to show how the bill would affect spending or revenues over the next 5 or 10 years and each cost estimate describes the basis for the estimate.

***Australian Taxation Office***

The advantages of providing the ATO with the responsibility and funding for the provision of independent costings is that it has a statutorily independent head and a substantial amount of the primary information that is needed for those costings.

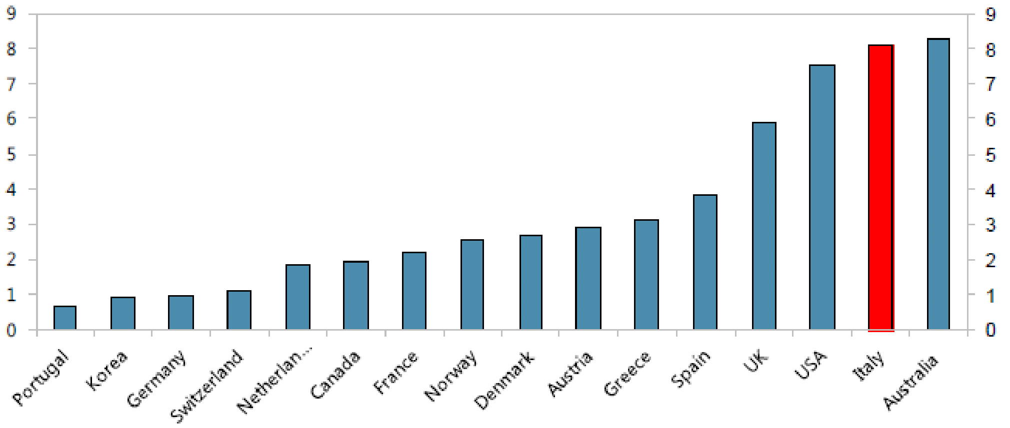
The Committee should consider the costs and benefits of funding an independent body to both provide information that is fundamental to our taxation system and to guide the future tax reform process.

[14] http://www.charteredaccountants.com.au/Industry-Topics/Tax/Exposure-drafts-and-submissions/Submissions/Treasury/120615-Tax-reform-and-the-politics-of-the-achievable

## Appendix A - Taxation expenditures are significant

Australia's use of taxation expenditures is large compared to other OECD countries.  The following chart compares Australia to a variety of selected advanced economies.

**Figure 1. Tax Expenditures in Selected Advanced Economies**
(Percent of GDP)




Sources: OECD (2010); United States, National Commission on Fiscal Responsibility and Reform (2010).
Note: Higher values may arise from more comprehensve reporting (recent estimates for Italy are higher due to change in benchmark).

As noted in the footnote to the chart, the tax expenditures could actually be substantially higher if they are comprehensively reported.  Australia's estimate of its tax expenditures is likely to be underestimated due to the high proportion of tax expenditures which are unquantified.

*Estimated Tax Expenditures 2002-03 to 2009-10*