ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Inquiry into the Australian Government's response to the COVID-19 pandemic

2020 - 2021

Division: Macroeconomic Conditions Division
Topic: Alternative scenarios and modelling
Reference: Committee Hansard page 11 –30 July, IQ20-000185

Question:

Senator SIEWERT: To go back to part of my question, are you able to provide the alternative scenarios and your modelling to the committee so that we can get a picture of: if things get worse, what are the—
Dr Kennedy: I'll take on notice providing more information. I don't think the Chair will be too impressed with this, but I'll take on notice providing more information on how we think through and cost those different effects.
Ms J Wilkinson: The only other thing to add is that it really has been the case that our focus to date has been almost week to week and month to month. For example, the scenario that's outlined in the update, which is in box 2.2, looks at what happens if there's a longer shutdown in Victoria. That scenario is in the context where we have in place jobseeker and JobKeeper until the end of September quarter. Those have been announced to the end of the December quarter. Most of our analysis internally really has been very much in the here and now. I think it's honestly the case that we haven't been spending much time doing the sort of speculative, much longer term scenarios around what happens next year if there's a completely different world that emerges.

Answer:

The Treasury did not prepare specific scenarios around the central-case forecasts outlined in the July Economic and Fiscal Update (the July update). The July update contained estimates of the effect on GDP if health restrictions were reintroduced. The July update outlined that, if restrictions similar to those in place from late-March to mid-May were reintroduced across Australia in response to a second-wave of infections, that this would likely cost the economy at least $2 billion per week compared to where we may have been without a second wave of infections.

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Treasury Portfolio

Inquiry into the Australian Government's response to the COVID-19 pandemic

2020 - 2021

Division: Budget Policy Division
Topic: Forecasting on the impact on interest payments as a share of GDP
Reference: Committee Hansard page 12 – 30 July, IQ20-000186

Question:

Senator WHISH-WILSON: You're using an average bond yield of 0.8 per cent, I understand, to estimate the cost of the debt. What kind of impact do you think that recent debt issuance you talked about will have on yield, going forward? If you increase government debt by five per cent, for example, to fund infrastructure, have you done any forecasting on what that is going to do to yields? You can take that on notice, if you like.
Ms J Wilkinson: It wouldn't have an impact on yields, as such. Do you mean the impact it would have on interest payments as a share of GDP?
Senator WHISH-WILSON: Yes.
Ms J Wilkinson: I haven't done that calculation myself, but I'm happy to take that on notice.
Senator WHISH-WILSON: If you could take that on notice.

Answer:

If the Government were to increase government debt by 5 per cent ($34.2 billion) in 2020-21, then based on current yields, public debt interest payments would be estimated to increase by around 0.01 per cent of GDP in that year.

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Inquiry into the Australian Government's response to the COVID-19 pandemic

2020 - 2021

Division: Macroeconomic Conditions Division
Topic: Analysis on the impact of changes to the tax system
Reference: Committee Hansard page 19 – 30 July, IQ20-000190

Question:

Senator WHISH-WILSON: Thank you, Chair. I'd just like to continue my line of questioning from the last questions I asked, when Dr Kennedy was there. Just quickly to recap: I think we agreed it was a reasonable assumption that those who have been receiving jobseeker and the COVID supplement during this pandemic, with an effective increase in income, are likely to have increased their spending or certainly to have reduced their spending less than others given their situation. My second question was really about stage 1 of the tax cuts. I mentioned that growth in household consumption in the September 2019 quarter was at that point the lowest since the GFC despite the payment of the first lower- and middle-income tax offset in that quarter. I was just in the process of asking some questions. Why did this tax relief correspond with the lowest household consumption in a decade? Was it too early at that point to expect it to have had, for example, an impact on consumption? I was just getting an answer on that at that point in time, so I will just take off where we left, if anyone has a comment on that.
Mr Yeaman: I have one brief comment, and then my colleagues may wish to add. We've been having a quick look. I suspect we did do some analysis at the time about the impact of the changes to the tax system, including the impact on consumption, but we weren't prepared today to have that information in front of us.
Senator WHISH-WILSON: That's okay.
Mr Yeaman: So we will look at what we can provide to you on notice about that. I would make, I suppose, the obvious point that, at any given time, there are many things happening in an economy and you never quite know what the counterfactual is, of course, as you know.

Answer:

Low and middle income tax offsets boosted household disposable income by $4.5 billion in the September quarter 2019, leading to a 10-year high quarterly growth rate in disposable income of 2.8 per cent. We expect some of this increase in disposable income was spent by households in the quarter and in subsequent quarters. Other factors can also affect the spending patterns of households, such as income growth and wealth effects, and there can be volatility across quarters. For example, household consumption grew by 0.5 per cent in the December quarter 2019 following growth of 0.1 per cent in the September quarter 2019.

Senate Select Committee on COVID-19

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Inquiry into the Australian Government's response to the COVID-19 pandemic

2020 - 2021

Division: Macroeconomic Conditions Division
Topic: Distributional impacts of transitioning to the stage 2 tax cuts
Reference: Committee Hansard page 20 – 30 July, IQ20-000191

Question:

Senator WHISH-WILSON: Senator Siewert may have some more questions on that in a second, if we have time. Looking at your model, your distributional impacts of transitioning to the stage 2 tax cuts—I'll put this on notice to you, because there's a fair bit of detail—I'm particularly interested that we're aware that stage 2, as it roll outs through to 2022, is going to disproportionately benefit wealthier Australians in their tax offsets. Given these propensities to spend that we've been discussing amongst different income cohorts, do you agree that delivering extra post-tax income [inaudible] per year—I'll send you my analysis on that; I'd take my full 10 minutes if I went through that now—will have less stimulatory impact than a program delivering for low-income earners who earn below $90,000, and especially those who earn below $19,000? And do you agree that the kinds of stimulus payments we're paying to low-income Australians are fairer and more efficient economically?
Ms J Wilkinson: As the secretary has said and as Mr Yeaman has outlined, the government has already introduced a range of different ways in which it's provided support to the economy. Through this next phase, there are a range of different ways in which the government can provide support. Some of them would have more of a shorter term impact, which I think is what the secretary outlined; others would have an impact over a longer period of time. We factor all of that into the advice that we provide government. At the end of the day, it's a matter for government to decide what package of measures are the measures that they think are most appropriate to support the economy at any point in time.

Answer:

Marginal propensities to consume tend to be higher for households that have low incomes and/or are liquidity constrained.

Cash transfers from government to households can be an effective means of stimulating demand in the short-term. Lower personal income tax rates also increase households' disposable income which also increases consumption and is an effective means of stimulating demand. Further, lower personal income tax rates provide a sustained benefit in the long run by increasing the returns to working, leading in general to higher labour force participation. This in turn raises the return to capital which stimulates investment and the demand for labour, leading to higher employment.

The Government's Low and middle income tax offsets are targeted to low and middle income earners, with the maximum $1,080 being received by those on incomes from $48,000 to $90,000. In the September quarter 2019 for example, this boosted household disposable income by $4.5 billion, leading to a 10-year high quarterly growth rate in disposable income of 2.8 per cent.

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Inquiry into the Australian Government's response to the COVID-19 pandemic

2020 - 2021

Division: JobKeeper Division
Topic: JobKeeper payment – tax and turnover definitions for businesses
Reference: Committee Hansard page 23 – 30 July, IQ20-000193

Question:

Senator PATRICK: Do you have any figures or any idea on how many participants in the economy rely exclusively on input tax sales?
Ms J Wilkinson: Is that for their whole business—so they don't produce any GST taxed supplies?
Senator PATRICK: Yes.
Ms J Wilkinson: I don't have those data. Perhaps the tax commissioner or the tax office might have those data. We're happy to make some inquiries for you to see whether we can get those data, but, no, I don't have those data.
Senator PATRICK: I'll let you partially take that on notice, noting that the tax commissioner is coming up.
Ms J Wilkinson: I'm happy to do that

Answer:

Information on how many entities only deal with input taxed sales is not available from ATO data.

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Inquiry into the Australian Government's response to the COVID-19 pandemic

2020 - 2021

Division: JobKeeper Division
Topic: JobKeeper payment – tapering
Reference: Committee Hansard page 25 – 30 July, IQ20-000194

Question:

Ms J Wilkinson: In part that drew upon the analysis in the JobKeeper review that did show what the distribution was of income being received by individuals who were eligible for the JobKeeper payment. It was clear from the work of the review that there were some people who were very part-time, whose normal hours for the month of February looked like they were earning certainly well less than $1,500, but also less than $750. So the intention, broadly, was designed to come up with an amount which would continue to provide support to people who were longer term part-time employees but, at the same time, recognising that, for some of those employees, that's just the minimum amount that businesses have to pay them. So, for some of those employees who may have been paid higher hourly rates by their employer or for some of those employees who have taken on additional hours since 1 February, businesses will continue to pay them at higher rates which are commensurate with the hours that they're working.
CHAIR: Is there anything you can provide the committee that goes to that in a bit more detail, as to how the tapering was informed by data—the data you were getting through the review, presumably, about what people were earning and how businesses were tracking? Take it on notice.
Ms J Wilkinson: I'm happy to take that on notice.

Answer:

The Treasury Review considered data from a range of sources to analyse the impact of the JobKeeper Payment. One source of data was based on 2.1 million employees eligible for JobKeeper, and reported to the ATO in Single Touch Payroll (STP), and who were on a regular weekly, fortnightly or monthly pay cycle through February 2020 and received pay.

Analysis of this STP data found that around a quarter of JobKeeper recipients had an income increase in their JobKeeper nominated job relative to their February earnings in that same job. The value of the income increase was around $130 when averaged across all JobKeeper recipients, and around $550 for those receiving the increase in income. This data only captures income from the JobKeeper job, so does not capture income that employee earned from secondary jobs, and does not capture any changes in hours worked that occurred after February 2020. Further information on this data is available in the Treasury Review of the JobKeeper Payment.

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Inquiry into the Australian Government's response to the COVID-19 pandemic

2020 - 2021

Division: JobKeeper Division
Topic: JobKeeper payment – sole traders
Reference: Committee Hansard page 25 – 30 July, IQ20-000195

Question:

CHAIR: We're very short of time. What happened with the sole trader issue? There was some advice on the website that got removed. I note the review says that sole traders were 40 per cent of organisations and 12 per cent of individuals. So they're a reasonably big chunk of the people and businesses using JobKeeper. What happened there?
Ms J Wilkinson: You're right—a significant amount of support to sole traders has been provided through the JobKeeper program. There were a range of different design parameters that government was considering. There was a Treasury mistake that was made where we finalised a webpage a couple of weeks before the final decisions were taken and the announcement was made. There were a range of different changes. That change hadn't been picked up. It certainly was not in the fact sheet or any other material that Treasury published at the time.
CHAIR: So it was considered as part of the redesign of the program but wasn't proceeded with?
Ms J Wilkinson: There were a range of different design parameters that were considered.
CHAIR: Okay. And it was taken down once the mistake—
Ms J Wilkinson: As soon as we found out—as soon as we did.
CHAIR: I will ask this anyway, though I fear I know what the answer is going to be. Is there any opportunity for the committee to have a look at what those various design parameters were?
Ms J Wilkinson: I think that does go to a question of the deliberations of the government and the deliberations in cabinet. I can take that question on notice.

Answer:

The Government considered a wide range of options about how to amend the JobKeeper Payment in the process of making the decision announced on 21 July. These deliberations are Cabinet-in-confidence as they are directly pertinent to the deliberations of Cabinet.