

SENATE ECONOMICS LEGISLATION COMMITTEE

SUPPLEMENTARY SUBMISSION

Treasury Portfolio

Schedule 2 of the Tax Laws Amendment (2010 Measures No. 5) Bill 2010, Wednesday 9 March 2011

TOPIC: CAPITAL PROTECTED BORROWINGS – CONSULTATION AND COSTINGS

Hansard Page: E11 and E12

I would now like to make a few comments about the consultation process. There was extensive consultation on these provisions prior to the 2008-09 budget and there was consultation post that budget announcement as well. The following has occurred since the budget: there have been two consultation meetings with industry; there has been a provision of industry submissions to the consultant following industry agreement to share that information; there was further advice from the consultant, as I indicated earlier; there has been further policy consideration of the issues and there has been public consultation on the technical details of an exposure draft bill and explanatory materials. Now that the consultation period has finished there is a consultation summary which notes that the public consultation was limited to the technical details of the exposure draft bill and the explanatory materials. It goes on to note that other issues raised in the ACMA submission regarding the design features of the capital protected borrowing provisions would be considered separately by the Treasury in consultation with industry and the ATO. I am happy to answer questions.

...

CHAIR—The questions of why this was done and the effects on revenue were raised by AFMA. It was suggested that the measure set out would raise \$170 million over the forward estimates period, and yet it was also mentioned that the 2008 measure would have cost \$28 million over the forward estimates period. Can you explain those two figures for us?

Mr Paul—If I could go to the 2008-09 budget statement, the costing for that over the forward estimates was \$70 million. In the 2010-11 budget the change of the rate, following consultation, from the housing loan rate to the housing loan rate plus 100 basis points added cost to revenue relative to the previous budget announcement, and that is where the figure of \$28 million over five years came from. The costing for the 2010-11 budget was \$170 million, which takes into account the \$70 million previous gain to revenue, the cost to revenue of \$28 million and the fact that the latest costing is for six years, rather than four years, because of the delay from the original 2008-09 budget. Because the provision had not been enacted, the revenue effect had not been factored in. It is now being factored in over a six-year period, and that will go forward from now. So it covers six years rather than the four-year period.

CHAIR—Did that take into account the drop in take-up of the capital protected instruments, which was mentioned by AFMA and also by the ASX?

Mr Paul—Yes, it did take that into account. There were two conflicting impacts on the latest costing. One was the forecast that it would fall significantly after the 2008-09 budget. Those measures were at the time when the exposure draft legislation was released. But against that was an increase in the forecast spread between the standard variable housing loan rate and the personal unsecured rate, which has the effect of increasing the gain to the revenue. So there were two conflicting tendencies. We are also advised that the modelling methodology between the 2008-09 budget measure and the time that the exposure draft provisions were released also contributed to the changed costings.

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In relation to the part of the transcript set out above, the following points of clarification are made:

- While there was extensive consultation on the capital protected borrowing provisions before the 2008-09 budget, it was in the context of the development of the provisions generally and was not in the period immediately prior to that budget.
- The costing of \$170 million was in relation to the 2010 Explanatory Memorandum, not the 2010-11 budget.
- The statement ‘... the forecast that it would fall significantly after the 2008-09 budget’ should instead be that ‘... the forecast value of the capital protected borrowings fell significantly after the 2008-09 budget’.