



Australian Government

The Treasury

EXECUTIVE MINUTE

Ms Sharon Grierson MP
Chair
Joint Committee of Public Accounts and Audit

**JOINT COMMITTEE OF PUBLIC ACCOUNTS AND AUDIT (JCPAA) REPORT No. 414:
REVIEW OF AUDITOR-GENERAL'S REPORTS TABLED BETWEEN AUGUST 2007 AND
AUGUST 2008**

This response relates to the Joint Committee of Public Accounts and Audit's recommendations in Report No. 414 regarding Audit Report No. 32 2007-2008 on the preparation of the Tax Expenditures Statement (Chapter 4, recommendations 7, 8 and 9).

Response to the recommendation(s)

Recommendation No. 7

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.

Estimates of six tax expenditures using the revenue gain approach were published in the 2008 Tax Expenditures Statement (TES). The tax expenditures were chosen to highlight the impact of behavioural assumptions on estimates (that is, the differences between the revenue gain and revenue foregone approaches). It is also intended that the 2009 TES include a limited number of estimates of tax expenditures using the revenue gain approach. This time it is intended to focus on the largest tax expenditures (on a revenue foregone basis).

It should be noted that there remain practical difficulties in making revenue gain estimates including the information or assumptions needed for the behavioural responses of taxpayers to policy changes and the assumptions must be made regarding the policy specifications for removing each tax expenditure.

Recommendation No. 8

That Treasury further investigate the merits of the Canadian model of taxation expenditure reporting, publishing its findings in the paper proposed in Recommendation 7.

Treasury has conducted further investigation of the Canadian model of tax expenditure reporting. In particular, it has noted the use of 'memorandum items' alongside tax expenditures in order to provide information on Canada's tax system. Treasury does not intend to move further in that direction at this time. However, Treasury will continue to monitor international developments in the reporting of tax expenditures and will incorporate developments, as appropriate, that will improve the content and usefulness of Australia's TES.

Treasury also notes that Australia takes a broad view of what constitutes a tax expenditure and incorporates a substantial amount of information regarding benchmarks and individual tax expenditures. This information is more comprehensive than that provided by most other countries. Information on a number of the memorandum items identified under the Canadian system, such as tax deductions, are published in detail in the ATO's annual *Taxation Statistics* report.

Recommendation No. 9

That Treasury include information in the Budget Papers on the extent to which tax expenditure reporting has improved through the receipt of reliable data from other agencies.

Information on the reliability of tax expenditure estimates is now being reported within the TES. The first such information was provided in the 2008 TES. In addition, summary information reporting on the number and value of quantified tax expenditures within each reliability category is also provided. This information will allow broad monitoring of improvements over time as more reliable data is identified and incorporated into estimates.

Incorporating this information into the TES is more appropriate than including it separately in the Budget papers.



Dr Ken Henry
Secretary