

**Senate Standing Committee on Economics**

**ANSWERS TO QUESTIONS ON NOTICE**

**Treasury Portfolio**

Additional Estimates

26 February 2014

**Question:** 3029

**Topic:** Tax-to-GDP ratio

**Hansard Page:** Page 97, 26 February 2014

**Senator WONG asked:**

**Senator WONG:** Are you able to tell me what chart 1.1 does assume or what it is predicated on in terms of the tax-to-GDP ratio beyond the forwards.

**Mr Brake:** Can you just repeat that?

**Senator WONG:** Chart 1.1 is the UCB projection out to 2023-24. Are you able to tell me the tax-to-GDP ratio assumption underpinning this chart both in the forwards and out to 2023-24?

**Mr Hefernen:** We will have to take that on notice. I am pretty sure that any material here will only go out to the forward estimates.

**Senator WONG:** You will come back to me. I am trying to get a sense of the difference between the PEEFO F3 and Chart 1.1. Okay?

**Answer:**

Chart F3 in the 2013 Pre-Election Economic and Fiscal Outlook shows the underlying cash balance projected to 2023-24. Two scenarios are modelled:

a) No policy change. This scenario limits real growth in payments to 2 per cent a year beyond the forward estimates until a surplus of at least 1 per cent of GDP is achieved (this spending constraint is applied from 2017-18 to 2020-21 when a 1 per cent surplus is projected). It also places a ceiling on taxation revenue as a share of GDP of 23.7 per cent, which is reached from 2017-18 in the scenario. These constraints reflect the former Government's fiscal strategy.

b) Underlying trend. The constraints on real spending growth and the tax-to-GDP ratio are removed.

Chart 1.1 in the 2013-14 Mid-Year Economic and Fiscal Outlook (MYEFO) shows the underlying cash balance projected to 2023-24 assuming no constraints on real spending growth or the tax-to-GDP ratio. That is, it is equivalent to the 'underlying trend' line in 2013 PEFO Chart F3.

The differences between the PEFO (underlying trend) and MYEFO charts are a result of revisions to the economic and fiscal parameters underlying the projections as well as policy decisions made since PEFO.