**Senate Standing Committee on Economics**

ANSWERS TO QUESTIONS ON NOTICE

**Treasury Portfolio**

Additional Estimates

26 February 2014

## Question: AET 3158

## Topic: Effect of company tax on UCB projections

## Hansard Page: Page 96, 26 February 2014

## Senator WONG asked:

**Senator WONG**: If you look at page 4 of MYEFO, you have the UCB projections out to 2023-24. We had evidence today, and also evidence from Mr Tune, about what assumptions are driving that and about the fact that the government chose the assumptions which this is predicated on, as opposed to PEFO where you have a number of different assumptions. Even accounting for that, if you compare where the identical assumptions lead you at PEFO—which is a surplus in excess of one per cent as of 2023-24—to this, you can see that there is a very substantial change in the outcome. I am trying to understand what is driving that. In part, what I am suggesting to you is that if you have a lower GOS figure—and therefore, as a result, lower company tax—that is going to be one of the factors that are driving this UCB projection out to 2023-24 being significantly lower than PEFO. Is that correct?

**Mr Brake:** That is correct.

**Senator WONG:** Are you able to give me a quantitative assessment of that effect in chart 1.1 on notice?

**Mr Heferen:** We will have to take that on notice.

**Senator WONG:** Do you understand the question?

**Mr Heferen:** Because of the weakened economic outlook as a function, in part, of corporate profitability, that leads to a lower company tax, and how much of that lowered company tax goes into the underlying cash balance revision is here on page 4.

**Senator WONG:** I suppose the other way of asking it would be to ask what the equivalent figure to $7.1 billion is out to 2023-24. There must be some projections around that in order to construct chart 1.1.

**Mr Heferen:** It may be the case where, after the forward estimates, we just bundle it all up into the overall tax to GDP ratio and let that run. So we might take them apart or we might do it all as one, but we will take that on notice.

## Answer:

Medium term total tax receipts projections are calculated by aggregating projections at the head of revenue level. Company tax receipts are projected over the medium term using a similar methodology to that used over the forward years. These estimates are based on:

- projections of corporate profitability and other economic parameters relating to company tax (for example parameters relating to depreciation and investment activity);
- changes to government policy (if any); and
- timing differences between economic activity and when the related tax is paid.

The main difference between the methodologies is that the medium term projections assume that gross operating surpluses for business (corporate and unincorporated) all grow at the same rate. This means that there is no distinction between different industries or sectors except for features of the tax systems related to the timing of payments and some specific treatments of deductions for capital. Medium term projections at the head of revenue level are not published.