

Senate Economics Legislation Committee
ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Budget Estimates

2014 - 2015

Department/Agency: Treasury

Question: BET 54

Topic: Costing for the Instant Asset Write-off Scheme

Reference: Hansard page no. 56 - 02 June 2015

Senator: McAllister, Jenny

Question:

Senator McALLISTER: Thank you, Chair. I wanted to come back to the instant-asset write-off scheme, and we have talked about it a little bit with the ATO this morning. I was hoping you might talk me through the key assumptions that Treasury used—I am not sure which officer to talk to, but perhaps Mr Heferen—that underlie the \$1.8 billion costing for the measure.

Mr Heferen: This is the accelerated depreciation?

Senator McALLISTER: Indeed. It is the instant asset write-off.

Mr Heferen: The key assumption we use is to estimate the assets that would be of a value of under \$20,000, and for the particular turnover of those companies—the \$2 million turnover—we estimate what an appropriate bring-forward might be that, because of the fact that there is a \$20,000 write-off, people would actually bring forward in the year that they would ordinarily put off. To inform that we have looked at the past, where we had the change from \$1,000 to \$6,500. Admittedly, that was not nearly as big, but there was a behavioural change in that. We observed what occurred there and we have made some extrapolation to approximate what would be a reasonable scenario moving to \$20,000. Before I go on I will check with Mr French to see if I have covered the things I need to cover.

Mr French: That is right.

Senator McALLISTER: As part of that process, did that generate an estimate about the number of businesses, for example, that might take up the measure in each year.

Mr Heferen: I will pass to Mr French for that.

Mr French: The costing is based on the value of the assets rather than the number of businesses.

Senator McALLISTER: Right, but not least because—

Mr French: So we do not have the number of businesses.

Senator McALLISTER: Do we have the expected value of each claim, or a kind of curve that models the numbers—the kinds of values we would expect.

Mr French: As Mr Heferen just outlined, we have made some assumptions regarding the proportion of the total value that would fall below the \$20,000.

Senator McALLISTER: And that would occur in each year. You may not be able to do it today, but is it possible to provide us with some of those numbers.

Mr French: We can take that question on notice.

Senator McALLISTER: I think it would be helpful to understand what the value of the claim you are expecting is in each year, and, if possible, how many claims are spread across. Would that be possible?

Mr French: We will see what we can do in relation to those questions.

Senator McALLISTER: That would be helpful. Do you feel that this approach produces a particularly reliable costing? There is always uncertainty, but how would you classify the

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reliability of these costings, Mr French?

Mr French: There are always questions of reliability around our costings.

Mr Heferen: These are as good as it gets.

Senator McALLISTER: Really. These are at the very certain end? Some things are more certain than others. This is at the end of 'very certain'?

Mr Heferen: In the context of corporate and business tax costings, our practices in Treasury are certainly as good as if not better than anywhere we have seen.

Senator McALLISTER: I do not doubt that. But within Treasury you are doing activities, some of which produce more certain estimates than others. In terms of the work the Treasury does, how would you categorise the reliability of these estimates?

Senator Cormann: He has already said that it is on the more certain end. Obviously, budget estimates, as we said yesterday, are estimates.

Senator McALLISTER: Indeed.

Senator Cormann: At some point in the future we will be able to review what actually happens when we review the actuals against the estimates. In the meantime, obviously, estimates are based on the best available information and expertise and advice available to provide these sorts of forecasts. I think the officer well and truly answered your question.

Senator McALLISTER: It is actually the case that some things have a broader band of uncertainty than others. What I am asking the department is whether or not the modelling that has been used generates a very

certain or a less certain answer, relative to the other work undertaken by Treasury, not relative to other kinds of processes.

Senator Cormann: And Mr Heferen said that this is at the certain end. But they are still estimates. We do not resile from the fact that they are estimates—

Senator McALLISTER: Of course.

Senator Cormann: And ultimately they will be tested by what actually happens in the market. We will have the opportunity later this year and early next year to have a conversation about what actually happened in the market compared to what we expected to happen.

Senator McALLISTER: Very good. Still thinking, though, about the process of estimation—

Senator Cormann: This is a measure, incidentally, which you support.

Senator McALLISTER: Yes, of course, but as we have discussed here, we are interested in having robust information to get good outcomes for the taxpayer. I am wondering whether Treasury did any sensitivity testing, in particular, whether there were any worse case scenarios where we had higher levels of uptake or higher values of claims and what the costings were for those alternative scenarios.

Mr Heferen: I think because of the scheme of things, in a \$400 billion budget this is relatively small issue. So we find big variabilities are keeping with our revenue forecasting, dealing with company tax, and probably superannuation taxes, but with individual taxes and excises and so forth, the forecasting is more straightforward, the behavioural response is a lot easier to predict. When we have these sorts of measures with, say, a billion dollars year on year, any aggregate changes at the margin do not—it sounds a bit silly because obviously a billion dollars is a lot of money but relative to the \$400 billion tax collections it is one four-hundredth. So if we did some sensitivity analysis, it would not represent big changes at the edges.

Senator McALLISTER: So you did do the sensitivity analysis?

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Mr Heferen: I think we would have a set of scenarios about how much we can trust this information, about what happens if the assets are of a slightly higher value. To be fair on these the time spent thinking vigorously about sensitivity analysis is much more on the overall forecasting side and not on the measure costing side.

Senator McALLISTER: Notwithstanding that, would it be possible to provide, perhaps on notice, the outcomes of the sensitivity analysis around—

Mr Heferen: If we have done anything, as Mr French said, we will take it on notice and see what we can provide.

Answer:

The costing of the accelerated depreciation measure is based on the historical value of asset purchases by small business not the number or value of individual claims. It is assumed that between 18.5 per cent to 26.5 per cent of the value of the historical small business purchases would have been under the \$20,000 threshold.