

Senate Economics Legislation Committee
ANSWERS TO QUESTIONS ON NOTICE
Treasury Portfolio
Budget Estimates
2016 - 2017

Department/Agency: Treasury
Question: BET56-65
Topic: Underlying Cash Balance
Reference: Written - 27 May 2016
Senators: Penny Wong and Chris Ketter

Question:

(GRAPH) Referring to Budget Paper 1, 3-11, the UCB projection through to 2026-27 is presented as follows: Note: A tax to GDP cap of 23.9 per cent is applied to these projections from 2021-22. Net Future Fund earnings are included in projections of the underlying cash balance from 2020-21 when drawdowns from the Future Fund commence. Source: Treasury projections.

56. How is a ten year costing figure to be derived from this chart?

57. If you removed the government's (self-imposed) tax-to-GDP cap of 23.9% from 2021-22 that is referred in the note accompanying the graph, what would you expect to happen to the UCB projection line?

58. If you removed the company tax cut package from the assumptions that underpin this graph, what would happen?

59. What underlying assumptions have resulted in the 2016-17 Budget line overtaking MYEFO in 2019-20?

60. Has Treasury commissioned work on the legislation for this package of measures?

61. If a company tax cut reduces Commonwealth Consolidated Revenues by an amount, say \$50 billion (or whatever the number turns out to be) over 10 years, and the deficit is projected to reduce over the same period, is the tax burden shifting in effect from companies to individuals as the Govt is forced to lower expenses in order to offset declining revenues?

Senator Ketter also asked the following additional questions:

62. Mr Turnbull tells us we can see it there, Mr Fraser, can you explain to the committee how we can see the ten year cost in the graph?

63. What impact does stripping out the \$XX billion [the figure Fraser supplies] from the company tax cut package have on the 'line'?

64. Whose idea was it to name these measures the 'Ten Year Enterprise Tax Plan'?

65. Who made the final decision to have a ten year 'glide path' described in BP2-41?

Answer:

56. The chart reflects the underlying cash balance projected from 2016-17 to 2026-27. The projections of total receipts and total payments, which take into account policy measures, are used to construct the medium term projection.

57. If projected tax receipts as a proportion of GDP were assumed to grow beyond 23.9 per cent the underlying cash balance would improve from 2021-22.

58. As noted by the Secretary to the Treasury before the Committee on 6 May 2016, the cost of the proposals to lift the small business entity threshold and reduce the company tax rate to 25 per cent to 2026-27 was estimated at \$48.2 billion in cash terms at the time of the 2016-17 Budget, which has been incorporated into the medium term projections of the underlying cash balance. Removal would affect projections of the underlying cash balance up to the point that tax receipts reach 23.9 per cent of GDP.

59. Changes in the underlying cash balance over the forward estimates (until 2019-20) between the 2015-16 MYEFO and the 2016-17 Budget are outlined in Budget Paper 1, Statement 3: Fiscal Strategy and Outlook, Table 5: Reconciliation of underlying cash balance estimates, page 3-24.

60. As part of the Tax Laws Amendment (Enterprise Tax Plan) Bill 2016 the legislation to reduce the company tax rate to 25 per cent and increase the small business entity turnover threshold has been introduced into Parliament.

61. This is not necessarily the case. The forward estimates are published in the Budget, with projections of the underlying cash balance over the medium term. The projection methodology takes into account Government policy as well as a number of technical assumptions.

62. See response to question 56.

63. See response to question 58.

64. The “Ten Year Enterprise Tax Plan” is the package title used in the 2016-17 Budget, which was circulated by the Treasurer and the Minister for Finance.

65. The scheduled reductions in the company tax rate were a decision of the Government, as reported in the 2016-17 Budget, circulated by the Treasurer and the Minister for Finance.