

Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Budget Estimates

31 May – 2 June 2011

Question No: BET 224

Topic: RSPT

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Senator Cormann asked:

Mr Heferen: Senator, I do not want to be difficult but you made the proposition that the revenue is at an all-time high. In fact if you look through the budget the tax-to-GDP ratio is relatively low.

Senator CORMANN: No, sorry; you are misunderstanding me. When the RSPT was announced it was going to raise \$12 billion. Then a whole heap of concessions were made and surprisingly the revenue only dropped by \$1.5 billion. The reason for that was significant upgrade in commodity price assumptions. The terms of trade are very high. We do not know what your assumptions are because the government does not want to release them publicly, but the commodity prices right now for iron ore are at record highs. I think that that is generally understood. There will be a supply response at some point. The previous secretary of the Treasury has said that on a number of occasions. When you have record high international prices for iron ore, as we have now, those prices are likely to come off to more normal levels over time, and consequently the revenue from the mining tax over time, as your 10-year projections reflect. Your 10-year projections reflect an expectation by Treasury that over time the revenue drops off and plateaus off. The point is that the revenue estimates from the MRRT are quite high now but are likely to plateau off, whereas the cost of the related measures is likely to go up. I am trying to get the same information for the cost of the related measures as we have got for the revenue over 10 years. You might have to take that on notice because I want to move through quite quickly.

Ms Mrakovcic: Senator, on the point you are making in relation to the profile of MRRT revenues over the 10-year period, what the former secretary, Dr Henry, mentioned on a number of occasions was that they were projections based on technical assumptions such as—yes, they included a profile full of commodity prices or the terms of trade but more importantly they also assumed things like the exchange rate, for instance, not changing over time.

Senator CORMANN: I understand.

Ms Mrakovcic: That would not be credible over a 10-year period. In fact, you would anticipate that you would have some kind of movement of exchange rates in response to terms of trade. I think it is for those kinds of reasons that the former secretary mentioned on a number of occasions how unreliable those estimates were and how it fact coming to a conclusion about what the revenue profile would be in those out years, whether it is flat, rising or declining, would actually not be a sound conclusion to come to.

Senator CORMANN: I totally understand how unreliable they are, because in July 2010 we were told that the revenue estimate was \$10.5 billion and by the time of MYEFO four months later it was \$7.4 billion on the basis of exchange rate changes. So I understand that there is a whole heap of variables that will result in changing revenue estimates. However, you have to make a judgment at a point in time. You made a judgment at a point in time as to what the best estimate, based on the best available information, was going to be in terms of the revenue implications. What I am trying to find out is, given that it was announced as an overall package, whether you have next to it a best guess, based on the best available information, on what the cost of the related budget measures was going to be—namely, the proposed reduction in the company tax rate and the proposed increase in compulsory super from nine per cent to 12 per cent. I really would like you to take it on notice so that I do not waste much more time.

Senator Sherry: We will take it on notice. When you say 'related measures', there are some other measures as well?

Senator CORMANN: There are three that spring to mind—the reduction in company tax, the increasing compulsory super from nine to 12 and the infrastructure fund, but that is of course something figure over—

Senator Sherry: There is also the new write-off measures for small business—1,000 to 5,000—and there is also the standard tax deduction.

Senator CORMANN: Beautiful. If I could get the cost over the 10-year projection—

Senator Sherry: Any of those measures?

Senator CORMANN: That is right. Of course, with the infrastructure fund, given that it is \$6 billion over 10 years, we pretty well know what that is going to be over 10 years. But for those other measures can I get the cost on notice.

Senator Sherry: Okay, we will take that on notice.

Answer:

Estimates of the impact of the various budget measures announced as part of the *Stronger, Fairer, Simpler* package have been provided in the Budget papers for the relevant forward estimates period, and updated for changes in the announced policy as required under the *Charter of Budget Honesty Act 1998*. Medium and long term revenue impacts of the individual measures are not available.