Senate Finance and Public Administration Legislation Committee
ANSWERS TO QUESTIONS ON NOTICE
BUDGET ESTIMATES 2013-2014

Prime Minister and Cabinet Portfolio

Department/Agency: Australian National Audit Office
Outcome/Program: Performance Audit Services
Topic: Audit of Treasury's Tax Expenditures / Treasury Tax Reporting Procedures
Senator: Ryan
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Question:

1. Did Treasury feedback to you when they might meet that particular hurdle you have set them? *[JCPAA Recommendation No.7: That Treasury publish a paper for inclusion in the Tax Expenditures Statement calculating the 20 largest tax expenditures using both the revenue forgone and revenue gain methods to allow comparison with the Budget Paper]*

Answer:

Q1. The Treasury has not advised the ANAO when it may be able to apply the revenue gain method to each of the 20 largest tax expenditure items (as recommended by the JCPAA).

Paragraph 4.21 of the 2013 ANAO report notes that the Treasury outlined in TES 2011 the difficulties in producing estimates of the value of tax expenditures on a revenue gain basis for all 364 tax expenditures namely:

- estimating the revenue gain from removing tax concessions requires the application of ad-hoc policy assumptions;
- estimating revenue gain requires information about existing taxpayer behavior and the behavioural response of taxpayers to specific policy changes for estimates, which in most cases is not available; and
- calculating comprehensive revenue gain estimates that provide a reliable estimate of aggregate tax expenditures would require the specification of assumptions regarding the order in which tax expenditures are removed and how activity would flow to alternative concessions.[1]

Treasury's emphasis was on the criteria for applying the revenue gain method. Treasury advises in TES 2011 that its approach to selecting estimates prepared on a revenue gain basis is largely informed by their size. The Treasury noted that the TES 2011 contains estimates: 'from 10 of the largest tax expenditure items' and these tax expenditures were chosen because they 'best illustrate the considerable differences that can arise between estimates

[1] Department of the Treasury, *Tax Expenditures Statement 2011*, p. 208.

calculated on the revenue forgone basis and those prepared on the revenue gain basis, and how these differences can vary between tax expenditure items' (paragraph 4.24 of the 2013 ANAO report).

Paragraph 4.27 of the 2013 ANAO report further explains that there are a range of criteria on which Treasury's decision to prepare an estimate on a revenue gain basis is made. These criteria include: the size of the estimate; the potential difference between the revenue forgone and revenue gain estimates; the level of uncertainty around the behavioural response; and the effect of the uncertainty on the estimate. Within the context of the TES, the ANAO noted that there would be benefit in the Treasury clearly specifying the criteria, and providing reasons in terms of these criteria as to why the revenue gain method has not been used for large tax expenditure items.