



COMMONWEALTH OF AUSTRALIA

Official Committee Hansard

JOINT COMMITTEE OF PUBLIC ACCOUNTS AND AUDIT

Reference: Auditor-General's reports Nos. 27 (2007-08) to 2 (2008-09)

WEDNESDAY, 17 SEPTEMBER 2008

CANBERRA

BY AUTHORITY OF THE PARLIAMENT

INTERNET

Hansard transcripts of public hearings are made available on the internet when authorised by the committee.

The internet address is:

<http://www.aph.gov.au/hansard>

To search the parliamentary database, go to:

<http://parlinfoweb.aph.gov.au>

**JOINT STATUTORY
COMMITTEE OF PUBLIC ACCOUNTS AND AUDIT**

Wednesday, 17 September 2008

Members: Ms Grierson (*Chair*), Mr Georgiou (*Deputy Chair*), Senators Mark Bishop, Boyce, Bushby, Feeney and Lundy and Mr Baldwin, Mr Bevis, Mr Bradbury, Mr Butler, Ms King, Mr Morrison, Mr Neumann and Mr Robert

Members in attendance: Senators Mark Bishop, Bushby, Boyce and Feeney and Ms Grierson and Mr Neumann

Terms of reference for the inquiry:

Review of Auditor-General's Reports Nos 27 (2007/08) to 2(2008/09)

WITNESSES

BOND, Mr Kim, Senior Director, Performance Audit Services Group, Australian National Audit Office	1
BOYD, Mr Brian, Executive Director, Performance Audit Services Group, Australian National Audit Office	1
GALLAGHER, Mr Philip Francis, Manager, Retirement and Intergenerational Modelling Unit, Department of the Treasury	1
McCULLOUGH, Mr Paul, Revenue Group Executive Director, Department of the Treasury	1
MRAKOVCIC, Ms Maryanne, Division Manager, Taxation Analysis Division, Department of the Treasury	1
WHITE, Mr Peter, Group Executive Director, Performance Audit Services Group, Australian National Audit Office	1

Committee met at 12.01 pm**BOND, Mr Kim, Senior Director, Performance Audit Services Group, Australian National Audit Office****BOYD, Mr Brian, Executive Director, Performance Audit Services Group, Australian National Audit Office****WHITE, Mr Peter, Group Executive Director, Performance Audit Services Group, Australian National Audit Office****GALLAGHER, Mr Philip Francis, Manager, Retirement and Intergenerational Modelling Unit, Department of the Treasury****McCULLOUGH, Mr Paul, Revenue Group Executive Director, Department of the Treasury****MRAKOVCIC, Ms Maryanne, Division Manager, Taxation Analysis Division, Department of the Treasury**

CHAIR—Thank you everybody. I open today's public hearing which examines the Auditor-General's report No. 32 of 2007-08, preparation of the tax expenditure statement. I welcome representatives from Treasury. I ask participants to remember that only members of the committee can put questions to witnesses if this hearing is to constitute formal proceedings of the parliament and attract parliamentary privilege. If other participants wish to raise issues for discussion, I would ask them to direct comments to the committee. It will not be possible for participants to directly respond to each other. Secondly, given the short time available today, statements and comments by witnesses should be relevant and succinct, and of course that applies to questions as well.

I remind witnesses that the hearings today are legal proceedings of the parliament and warrant the same respect as proceedings in the House and the Senate. The giving of false or misleading evidence is a serious matter and may be regarded as a contempt of parliament. The evidence given today will be recorded by Hansard and will attract parliamentary privilege. Do any of the witnesses here today wish to make an opening statement before we proceed to questions?

Mr McCullough—Yes, we have a very brief opening statement.

CHAIR—Thank you, please proceed.

Mr McCullough—Thank you. Treasury views the publication of the tax expenditure statement as an integral part of budget reporting by the Australian government. The tax expenditures statement facilitates greater scrutiny of government assistance to taxpayers than other interventions in the economy undertaken through the tax system. Moreover, by promoting and informing public debate on the Australian tax system, the statement contributes to its ongoing design and improvement.

Treasury agrees, at least in principal, with all of the Australian National Audit Office, ANAO, recommendations. Where that agreement was qualified, as occurs in a few instances, that qualification reflects Treasury's views that either the particular matters are for the government to determine or, where the ANAO proposals would come at a cost, they are inconsistent with other government policy objectives such as reducing compliance costs for taxpayers.

The tax expenditure statement is an evolving document and Treasury constantly strives to improve its quality and comprehensiveness. In that regard, we see the ANAO recommendations as a useful contribution to our own continuous improvement processes and internal review processes.

A key constraint to improving data quality of tax expenditure statements is the availability of data. In this regard we believe there is scope to improve the reporting of tax expenditures through greater clarity around the reliability of estimates and greater use of data held by other agencies. However, in considering whether to go beyond this data source, it is important to weigh the benefits derived from improving the reliability of estimates against increasing the compliance cost burden that would be imposed on taxpayers by collecting more data directly from them.

Finally, I would note that a key member of the Treasury team that assisted the ANAO with their audit is unable to be here today. In his absence, we have assembled a few people to assist the committee but we seek your indulgence if we need to take some of your questions on notice.

CHAIR—Yes, and thank you. We were aware of that but we do not reschedule so we always proceed. We are pleased you presented today and we note that you may want to take further information on notice and provide that for us at a later date.

I know my colleagues will have many questions. How are you going to go about improving data collection or encouraging data collection, knowing that there is a point where it is no longer cost efficient to do so?

Ms Mrakovcic—I think that there is an ongoing issue of trying to recognise where that data is actually available, where it exists in other agencies and where can go to better interpretation and acquisition of that data. In that regard, we will in fact be seeking to go out to other agencies, for example, and seek to improve our data collection from there.

I think that the bigger challenge is where in fact that data is simply not collected, maybe perhaps because the activity is exempt from taxation or whatever, in which case there really are limitations to our ability to access that data. I think that is what Mr McCullough was driving at in terms of a recognition that were we to in fact try to collect that data, new compliance mechanisms or reporting mechanisms may need to be set up which in fact would increase the burden on taxpayers relative to the current status quo.

The answer is that where it is practical within existing data collection activities that occur, perhaps in other agencies, we will be seeking to better access that, but there will be natural limitations to our ability to do so.

CHAIR—And I accept that and wonder then that when a new policy is introduced, whether that is the most appropriate time to do the cost benefit analysis of opportunity costs and benefits. Therefore, new policies would be developed with clear qualitative and quantitative indicators attached to them. Is that an area that needs progress and what is being done about that?

Ms Mrakovic—I am actually glad that you have asked that question because I think it highlights one of the interesting issues about recognising the relationship between the reporting of tax expenditures in the tax expenditure statement and the process that we go through in terms of the preparation of budget measures for consideration in the annual budget. When we go through the budget process and revenue measures are proposed and then basically go through that costing process, the benchmark that is actually used in those situations is the current forward estimates. So, you have an idea of what your current expectation on current policy is and that is embedded in your forward estimates of revenue. Then, when you cost the actual policy measures, they are in fact undertaken against those forward estimates. When we prepare those costings, we essentially seek to get as much information as we can on what, for example, the behavioural response of agents might be to the introduction of that tax policy and seek to basically cost it on that basis. When we prepare the tax expenditure statement, the forward estimates is not that benchmark; you actually have to come up with a benchmark that is based on account of actual, if you like, or review of how that activity has actually changed. When the tax expenditures are prepared and reported, they are done so on what we call a revenue foregone basis which looks at the quantity of the assistance that is actually given to the taxpayer rather than how much revenue you might expect to gain were in fact that tax expenditure to be reversed, for example. I do not know if I set that out as clearly as I could.

CHAIR—I would just like the Audit Office to comment then. Is that how you see the benchmarking being set? I think I heard three different methods there of setting a benchmark.

Mr Bond—Our understanding from our work in the Treasury and the ATO is that the revenue estimates which you see in the budget for revenue measures, including those which provide concessions, are based on a revenue gain method which we discussed in the audit report. Whereas the amounts reported in the tax expenditure statement, which are intended to be integrated into the budget reporting, are actually modelled on a different basis, the revenue foregone basis. There is a discrepancy between these two models and it can be quite substantial or it can be minor. The issue at hand for the audit was that we suggested firstly that there be some attention paid to applying the model that is used in the budget process to large tax expenditures so that parliament could get a gauge on some of those and their ongoing revenue effects. The revenue foregone method that is adopted in the TES will not show you those effects over time.

CHAIR—Did you want to comment on that Treasury?

Ms Mrakovic—Yes. I would highlight the purpose for which the various estimates are prepared. Whether you choose the revenue foregone or the revenue gain or even the outlays equivalent method, which is a third way of looking at it, really comes down to what is the purpose for which you are using this information.

When you are considering the cost to total taxation revenue, then I think you would look at the revenue gain type of concept of the taxation expenditure. As I said, you then compare it to what

your forward estimates of revenue were going to be. However, if you are trying to come to a sense of what is the total value of a concession that is being provided to certain taxpayers, then the revenue foregone method is the method used internationally and by most OECD countries. We would not disagree that, according to the purpose for which you use those statistics, you should carefully select the appropriate method and, yes, there will be differences. I do not know that I would call it a discrepancy so much as differences depending on what your overarching objective is.

CHAIR—We would anticipate that that protocol would be written down somewhere and that advice would be used and followed by everyone; is that right?

Ms Mrakovcic—I do not know what you mean precisely by the protocol.

CHAIR—The protocol of setting that benchmark.

Ms Mrakovcic—The benchmarks and the way in which we construct those benchmarks are set out each year in the tax expenditure statement quite clearly.

Senator FEENEY—If I can just ask a question at this point?

CHAIR—Certainly.

Senator FEENEY—Would I understand then that the revenue foregone method would be a better method for ascertaining something like, for instance, the administration cost of a tax expenditure, whereas the revenue gained method would be a better methodology if a policy maker just wanted to know the raw net monies that could effectively be recouped by the Commonwealth if the tax exemption did not exist?

Ms Mrakovcic—The better way of perhaps seeing the differences between the two is in the notion of whether they incorporate behavioural responses to the actual taxation measure, or its reversal. When a new taxation measure is imposed, one process would assume that agents do not change their behaviour at all; they simply face this new tax measure and make exactly the same choices that they did before. We know that, in practice, people do change their behaviour in response to the relative price effects caused by changes in taxation. It is that behavioural response that I think is one of the ways in which the two methods differ from each other.

Mr Gallagher—On the outlay side of the budget you do not have forward estimates which incorporate behavioural response. If you are looking at spending on aged pension you never ask yourself the question, ‘What would behaviour look like if we abolished the aged pension?’ You have an accounting treatment which just says, ‘This is how much we’re spending.’ The revenue foregone approach parallels that in saying, ‘On the basis of existing behaviour, this is how much tax we’re not collecting.’ If we took the tax expenditure on employer’s superannuation contributions, we could say, ‘Given the personal tax rates which apply to the people who are making the contributions, if they had taken this quantum of dollars as cash income, this is how much tax they would have paid.’ It is very difficult for us, and it would be very difficult for me, and I have been working on it for a long time, to work out what savings behaviour would look like if we abolished the tax concessions on employer superannuation contributions because that would be a very radical change. As you know, the total tax expenditure on superannuation

exceeds \$17 billion. To make a change like that in the economy and then anticipate what the behaviour would be and therefore what revenue you would get, would be a very tall order.

Normally when we are costing a measure for the budget, such as mature age workers tax offset, it is a small measure and the behaviour change will not be large. But, if you make fundamental system changes and then apply behaviour change to them, you get a quite different estimate. It is far more difficult to do; it is an issue of quality of information and it is an issue of certainty. The ANAO has already commented on the degree to which, on a revenue foregone basis, we have relative reliability in our estimates, but it would be another thing in order to apply behaviour change on some very large pieces of the taxation system and say what the new world would look like to in order to get a revenue gain estimate.

Senator MARK BISHOP—When the previous government introduced the exemption for persons over the age of 60 from paying tax on certain income derived from superannuation—I think it was two years ago—so they effectively did not have to pay tax on superannuation income, does that mean that when the figures were provided in budget papers and in the tests, that the behavioural response of superannuation recipients over the age of 60 was not capable of being costed?

Mr Gallagher—No. In the revenue estimates that were shown in the budget papers and in the gold book that was published, the revenue estimates do include the behaviour change. Therefore, it was included in all revenue. Revenue is very important. Revenue is what we collect. The tax expenditure is what we do not collect. Similarly, on the outlay side, we look at the money we do spend; we do not look at the money we do not spend.

Senator FEENEY—In Senator Bishop's example there is a sum of money moved one category to another.

Mr Gallagher—There was significant behaviour change applied in those costings. In particular, for example, we made allowances for changes in salary sacrifice behaviour because now, with tax removed from any benefit, we anticipated an increase in salary sacrifice behaviour as one of the examples where alterations were made in the revenue estimates. That was not in the superannuation head of revenue because it was salary sacrificed. The modification was in the personal tax revenue. We have significant reporting on the revenue we do collect and we have significant reporting on revenue measures. In the documents, we have a whole budget statement, Budget Paper No. 2, which reports to you both revenue and expenditure costings and these costings will have first round behaviour change in them.

Senator MARK BISHOP—Continuing this point, on the tax expenditure concession that was granted then and continues, behavioural patterns were identified and are being costed over time? Are they being costed over time and would it be possible in the out years to exactly and accurately identify the quantum of the tax expenditures that were granted?

Mr Gallagher—The interesting thing is that it gives us an income tax benchmark. In an income tax benchmark, your money should be taxed at marginal rates when you earn it, and interest or earnings that you get should be taxed as you go along at proper marginal rates. But, when you take money out of say a bank account, you are not taxed at that point. So, in actual fact there was no tax expenditure on the end benefit and there was no increase in the tax

expenditure on the end benefit. The tax we used to get was an offset to calculation of the tax expenditure. It was not a tax expenditure itself because of the benchmark. This is something that they talk about in the Audit Office report, that the benchmark and the choice of benchmark, is very important. Many people in the financial services industry would believe that we should be using an expenditure tax benchmark for superannuation and not be using the Haig-Simmons income tax benchmark that we use.

CHAIR—Can you explain further? There are some inconsistencies that the audit report brings some information to. One is the drastically varying figures for the same tax expenditure between the budget papers and the tax expenditure statements. Why does that occur?

Ms Mrakovcic—I think I would go back to that earlier answer in terms of the difference being the behavioural response. As Mr Gallagher explained, when tax expenditure type measures are considered in the budget process, there is an attempt made to try and think about the behavioural response and to incorporate those into the costings of those tax expenditure measures when they are put into the budget papers and the decision is taken. Then that it is reported against the current forward estimates. That is the process by which the government makes the decisions around what measures it will incorporate in the budget. When the whole stock of tax concessions that exist over a period of decades, several years of decisions, are reported in their totality, the method that is undertaken is the revenue foregone method, and that does not incorporate behavioural responses. In the form in which they are reported, and recognising the objectives are different for the different purposes, the approach taken is different.

CHAIR—Would that still occur then if detailed statements on tax expenditures were included in the Mid-Year Economic and Fiscal Outlook in accordance with the Charter of Budget Honesty? Is that a way to explain and to report more regularly on it and therefore give us an explanation for the data?

Ms Mrakovcic—The purpose for which the statistics are reported is the main element of the differences, not the forum or publication by which they are reported.

Mr Gallagher—The issue about reporting in MYEFO is the extent of the detail which is required and the amount of work that is required at exactly the same time as we are doing revenue estimates and costings. This is a very large publication. The suggestion here is that we make it even larger. To compile a very large publication such as this, which runs to almost 200 pages, and add it to the MYEFO, would severely complicate the MYEFO process. It would also severely complicate the delivery of the important information on the economy, on expenditure, on revenue and on measures taken since the budget that that document contains. There is an efficiency issue and there is a resource issue in terms of the Treasury.

CHAIR—Do you agree with that, Audit Office?

Mr Boyd—I think the integration of reporting of detailed tax expenditures in the MYEFO is not something we have suggested. It is something the act currently requires but it just does not occur that way currently. Our perspective is that part of it is the important feedback loop. As we comment on paragraph 25 of our summary:

The different methodologies adopted in the Budget papers and in the TES impedes analysis of the actual cost of new tax expenditures in terms of what was expected when they were introduced.

I do not think our suggestions would actually mean the TES would get any greater. One of the things we did suggest was that Treasury should publish its own estimate of how reliable that tax expenditure is. Our perspective was that there is plenty of room in the existing tabulation in the TES for including one extra item of information which we think would be quite valuable to tell the reader that this tax expenditure of \$X million is, in Treasury's view, this reliable rather than that reliable. We think that will be quite useful information to the reader.

CHAIR—We have not had any questions from this side.

Senator BUSHBY—I was just going to comment on a comment made by Miss Mrakovcic. You said that the tax expenditure statement, when you add all the tax concession together, is done on the revenue foregone method. If you actually included the first round behavioural effects, some of those might be of greater cost and some might be of lower cost. The overall picture is not necessarily a particularly accurate costing of what it really costs government because there are so many variables in there; it could be much higher or much lower or cancel each other out. How useful is it if it does not actually present the real picture of what those concessions cost government?

Ms Mrakovcic—It comes down to again the purpose of why you are looking at those numbers.

Senator BUSHBY—What is the purpose of actually putting those there if it is not to show what it costs government?

Ms Mrakovcic—For example, it may be that the intention is to get a sense of what is the value of the concession that is being provided to those taxpayers. Some commentators would argue that the revenue foregone method is the clearest way of seeing what the value of that tax expenditure actually is.

Senator BUSHBY—I appreciate that.

Ms Mrakovcic—If your objective is to actually get a feel for how much it is costing the government in terms of the revenue gain that they might make from that tax expenditure not existing, then you might choose to adopt the revenue gain method. All we can highlight is that it is basically the majority international practice in most OECD countries to use the revenue foregone method in the reporting of tax expenditures. As I said, that is quite different to the budget process.

Senator BUSHBY—Is that changing at all? You say it is the method usually adopted. Are nations around the world changing that practice? Are any of them moving towards a different method?

Ms Mrakovcic—I do not know that there are countries that are changing but there are some countries that take a different approach or seek to report against a number of benchmarks. I do not have those details to hand but there are different approaches. I think the ANAO actually

point to some and we certainly would agree with that, but it is the case that most OECD countries use revenue foregone.

Senator FEENEY—Do you have a preference yourself in terms of revenue foregone or revenue gain?

Ms Mrakovcic—Senator, I have been in this job for two weeks, so it is early days for me to come to a personal view on some of these issues.

Mr Gallagher—I have been in my job for over 15 years and I have been associated with the tax expenditure statement for all of the last 15 years. I think that revenue foregone is actually closer to outlays. What you are asking for in revenue gain is a costing and a costing including behaviour change. The budget papers show the cost of age pension for 2008-09 to be \$26.6 billion. However, if you were to abolish the age pension, you would not save \$26.6 billion. Most of the people on the age pension would just go to disability support pension, so 80 per cent of what you thought would happen did happen. There is nowhere on the outlay side of the budget that that costing is presented. Similarly, in the tax expenditure statement that costing is not presented. When we do a briefing for the government and the Treasurer, we take the revenue gain approach. When we do tax expenditure reviews for the purposes of the expenditure review committee, if the expenditure review committee wants to look at a particular tax concession, we take the revenue gain approach. That is the appropriate place to do it because that is the place where costings are considered.

Senator BOYCE—Ms Mrakovcic, you mentioned you mentioned earlier attempts to gauge behavioural response. Could you explain what that encompasses for Treasury; what does Treasury do to measure behavioural response?

Ms Mrakovcic—Essentially, if you are trying to get a feel for how taxpayers will change their behaviour in response to a measure that you are considering, you might go to a variety of sources. There might be academic studies that give you some indication of how a similar measure introduced in other countries, for example, may have resulted in changing behaviours there. You might draw on models that are around both internally in Treasury and outside.

Senator BOYCE—To what depth would that be undertaken? Just one budget measure, for instance, could involve a six month research project, could it not, if you were going to do this?

Ms Mrakovcic—Again, it depends on the complexity of the measures and how much experience there is with similar measures. It may be that there is actually quite a wealth of material around in terms of changes to personal tax rates or something because it is something that happens quite often. If it is the introduction of a completely new tax or an exemption on something that has not been around for a long time, it may be very difficult to come to a view. It is certainly not an exact science.

Senator BOYCE—I am not suggesting it is. I was trying to get a sense of how much rigour was involved in assessing behavioural response.

Ms Mrakovcic—We certainly try and be as rigorous as we possibly can, and also appropriately cautious in terms of an understanding of this. The revenue gain method requires

presuming that [counter factual] by reversing that behaviour with, as Mr Gallagher pointed out, sometimes absolutely huge ramifications for the way in which economic agents change their behaviour. Therefore, you want to be fairly certain that you actually have a good appreciation of that effect before you start reporting it, precisely because it may be that people looking at those estimates will say, 'Look how much revenue we could in fact save were we to get rid of that.' If you then did, there may very well be no revenue gain whatsoever.

Senator BOYCE—Are those figures always based on Treasury research or would they rely on ministerial briefing and advice in some situations?

Ms Mrakovcic—The way in which we cost revenue measures, which is where we seek to incorporate behavioural changes, is by drawing on academic studies, modelling and on previous experiences with similar measures. Basically, we take responsibility for those costings and we try and make sure that they have as objective a base that we can find for them.

Mr Gallagher—They will be Treasury assumptions. In looking at behavioural change for a costing, the research and the assumptions will initially be made by the costing team and they will be discussed with the policy area of the department. I cannot think of any case in the last 15 years where we have actually had assumptions set by the minister's office.

Senator BUSHBY—Thank you, Chair. I think, Mr Gallagher, it was you who mentioned first round behavioural effects. Do you ever look at second or third round behavioural effects as part of that process?

Mr Gallagher—Occasionally. In terms of the issues which I deal with, we always look at what happens to the people directly impacted by taxation policy and what they will do. If you create an incentive for people to invest in First Home Saver Accounts it would be silly not to think that some people might change their behaviour and put money into the First Home Saver Account. It is obvious that you would look at the first round behaviour. However, we do stay clear of thinking that the effect of that would lead to a change in interest rates or any other general macroeconomic effects. There have been occasions when the second round has been formally included in Treasury costings of significant government packages. There was a second round behaviour allowed for in the ANTS package, in the review of business taxation and in Australians Working Together. In these cases, the normal guidelines of not including second round behaviour were waived. Because of the scale of those packages, it was thought necessary to take a broader economic view.

CHAIR—I am hoping both the Audit Office and Treasury will accept some questions on notice. We have quite a few questions that members have put forward to be asked. I particularly want to ask one regarding the zero rated benchmark adopted for the customs duty tax. Why did you choose a zero benchmark?

Mr McCullough—Perhaps that is one we could take on notice.

CHAIR—All right. We will have to bring this hearing to a conclusion.

Senator FEENEY—Chair, could I just squeeze in one more?

CHAIR—Yes, one more, quickly, on the record and then the others will go on notice.

Senator FEENEY—There are 98 tax expenditures which have been found to be, at least to date, unquantified. I wonder what you might tell us either now or on notice about your plans, your intentions and your aspirations for rendering them quantifiable and better reported in tests or whether they are tax exemptions which have attributes making them intrinsically unquantifiable.

Mr Gallagher—The issue here often goes to the quality of the data and therefore the underlying quality of the estimate. I believe that we are working across a number of areas. In particular, I know that my unit is working on the owner occupied housing related tax expenditures. We are trying to get a reasonable estimate for owner occupied housing tax expenditure. We are hoping that once we have a model fully tested then we may be able to get some further developments. Even then, it may be an exploratory estimate given the scale of the estimate involved. Certainly we are looking, where feasible. It means often that you have to look well beyond tax data. An issue such as the capital gains on owner occupied housing is not something for which there is readily available data, but it is something that we are trying to have a look at.

CHAIR—Senator Boyce, a quick question.

Senator BOYCE—Just a process question; the ANAO report was done, sent to Treasury, Treasury read it and then what happens? What interaction is there between Treasury and ANAO about these reports outside this hearing?

Mr McCullough—You mean after?

Senator BOYCE—You saw their report; what response and interaction happens after that?

Ms Mrakovcic—We have responded to it in terms of setting out our agreement, including with qualifications in a couple of places, which Mr McCullough highlighted. I would go back to the comments that were made in the opening statement in relation to both those questions. One is that we are in the process of trying to continuously improve the document. Certainly that area of unquantifiable estimates is one where we would be very keen to improve the quality and the reliability of the data that is being presented. In relation to the second one, having accepted those recommendations, we will be looking to where we can move forward.

Senator BOYCE—So, there is a formal response to ANAO?

CHAIR—What are the expectations, Mr White, of the Audit Office?

Mr White—We have got agreement on the recommendation, albeit with a couple with qualifications and Treasury is working to implement the recommendations. They are looking to improve the reporting. I think it is useful that this committee has conducted an inquiry. Whether or not you want to put mechanisms in place where you want to hear from Treasury in a year's time on how they have gone is really up to the committee; that has been done before.

Senator BOYCE—Is it possible to get a list of the recommendations where you say that these must be referred to government?

Mr White—They are all in the report.

CHAIR—My question on notice is that is you talked the work you are doing; I would really like you to submit to us a modelling for a policy that illustrates the thinking, the way it is costed and the way the cost benefit analysis is done so that we can see some of that work. If there is one that you could make available to the committee, I think it could help us. It is the pre-work before we get to the situation that we see reported on. I think that would be interesting too and we will be submitting other questions. Is there a problem with that?

Mr McCullough—Just a question of clarification. When you say a modelling for a policy, are you talking about in the budget context that Mr Gallagher described earlier?

CHAIR—Yes, a particular policy that has a tax concession and therefore revenue foregone implications.

CHAIR—Yes, you would like to suggest one, Senator Feeney?

Senator FEENEY—The private health insurance rebate. You must have modelled revenue foregone, you must have modelled behavioural change impacts and you may have even modelled the impact that it would have had on the broader public health budget. It might sever as a good example.

Senator BOYCE—They did not quite get that right.

Mr McCullough—If you are asking for us to supply a modelling of a particular policy that is—

Senator FEENEY—A modelling of how you measure a tax exemption.

Mr McCullough—Okay. We might be able to do that, but that is a little different from—

Senator FEENEY—No, we are not pretending we are the minister.

CHAIR—No, and we understand that sometimes you prepare these confidentially therefore I was thinking one that has already been done that is in operation already, would be one that would be very easy for you to give to us.

Mr McCullough—Perhaps we take that on notice as we have to think about that a little more.

CHAIR—You do not want to suggest something do you in that light.

Mr McCullough—It is not a question of a particular issue; it is a question for me of how it really relates to tax expenditures. Modelling policy is one thing; tax expenditure is a different thing.

CHAIR—The sort of policies we are talking about are things like education costs for tax rebates. You must certainly have to give some advice on those when they are developed.

Senator FEENEY—If the private health insurance rebate were to disappear, you must have a sense of revenue gained as the tax exemption presently stands.

Mr McCullough—This is where I am having trouble. If you want us to pick a tax expenditure and then calculate for you the revenue gain if the tax expenditure was removed, I think we would have difficulty with that.

CHAIR—I want some evidence that suggests that policies are modelled when there are going to be tax revenues foregone. I want to see some evidence of the sort of work that goes into advising policies so that when we have to measure it there has been some forward work. I may be Pollyannaish but I am assuming that that is done for many policies.

Ms Mrakovcic—Just to clarify; it is not the actual tax expenditure statement or the way in which it is reported in the tax expenditure statement that you are seeking information on, it is actually how we go about the costing of a revenue measure which is a tax expenditure measure?

CHAIR—Yes, and that would provide the basis for the further reporting that will arise from that policy's operation.

CHAIR—Senator Bishop wants to put one quickly on notice.

Senator MARK BISHOP—I refer you to page 19 of Budget Paper No. 2, part 1, revenue measures, and the table attached to crude oil excise and condensate and in particular to row 4 of the figures. The current year 2007-08 shows a revenue figure of \$80 million. There is a discussion in paragraphs 4 and 5 of it being revenue foregone to the Western Australian government being reimbursed by the Commonwealth. The tax measure comes into effect from 13 May 08 towards the end of the financial year. Could I have an explanation of why the figure is \$80 million for effectively six weeks in the financial year towards the end of 2008, compared to the other four figures in the out years which are roughly between \$72 and \$85 million? Why is the figure of \$80 million so high when it appears to be only for six weeks of the financial year? Is there another reason as to why the figure is so high in terms of reimbursement to the Western Australian government?

Ms Mrakovcic—We will take it on notice.

Senator MARK BISHOP—Yes.

Ms Mrakovcic—I would just flag that it is an outlays measure; it is an expense. Finance has responsibility for outlays and expense measures, but we will take it on notice and see what we can do.

CHAIR—On behalf of the committee I thank all the witnesses who have given evidence today. It has raised a great deal of interest with the committee. We will put those additional questions on notice, thank you. We would like a reply within four weeks of your receiving those questions. We do not usually do this, but this is such a complex area that we would like some

additional questions accepted on notice. I thank you very much for your attendance and declare this public hearing closed. Thank you.

Resolved (on motion by **Senator Bishop**):

That this committee authorises publication, including publication on the parliamentary database, of the transcript of the evidence given before it at public hearing this day.

Committee adjourned at 12.45 pm