



COMMONWEALTH OF AUSTRALIA

# Official Committee Hansard

## SENATE

ECONOMICS LEGISLATION COMMITTEE

ESTIMATES

**(Budget Estimates)**

FRIDAY, 4 JUNE 2004

CANBERRA

BY AUTHORITY OF THE SENATE



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**SENATE**  
**ECONOMICS LEGISLATION COMMITTEE**  
**Friday, 4 June 2004**

**Members:** Senator Brandis (*Chair*), Senator Stephens (*Deputy Chair*), Senators Chapman, Murray, Watson and Webber

**Senators in attendance:** Senator Brandis (*Chair*), Senator Fifield, Mason, Sherry and Watson

**Committee met at 9.06 a.m.**

**TREASURY PORTFOLIO**

Consideration resumed from 3 June 2004

**In Attendance**

Senator Coonan, Minister for Revenue and Assistant Treasurer

**Treasury Outcome 2**

**Australian Taxation Office**

**Outcome 2: Effective government spending and taxation arrangements and the Australian Taxation Office**

Mr Patrick Boneham, Senior Adviser, Revenue Group

Mr Tony Coles, Manager, Superannuation, Retirement and Savings Division Revenue Group

Mr Matthew Flavel, Manager, Budget Policy Division

Mr Tony Free, Manager, Indirect Tax Division

Mr Peter Greagg, Manager, Tax Analysis Division

Mr Rob Heferen, General Manager, Commonwealth-State Relations Division

Mr Alan Mallory, Manager, Superannuation, Retirement and Savings Division Revenue Group

Mr David Martine, General Manager, Budget Policy Division

Mr Paul McCullough, Acting Executive Director, Revenue Group

Mr Geoff Miller, General Manager, Individuals and Entities Tax Division

Mr Neil Motteram, Acting General Manager, International Tax and Treaties Division

Ms Maryanne Mrakovcic, General Manager, Industry, Environment and Defence Division

Mr Peter Mullins, General Manager, Business Income Division

Mr Richard Murray, Executive Director

Mr Paul Roe, Manager, Budget Policy Division

Dr George Rothman, Senior Adviser, Tax Analysis Division

Mr Trevor Thomas, General Manager, Superannuation, Retirement and Savings Division

Mr Paul Tilley, Acting General Manager, Tax Analysis Division

Mr David Tune, General Manager, Social Policy Division

Mr David Turvey, Senior Adviser, Budget Policy Division

Mr Michael Carmody, Commissioner of Taxation

Mr Paul Duffus, First Assistant Commissioner

Mr Greg Farr, Second Commissioner  
Mr Kevin Fitzpatrick, First Assistant Commissioner  
Mr Bill Gibson, Chief Information Officer  
Ms Erin Holland, Deputy Commissioner  
Mr Mark Jackson, Deputy Commissioner  
Mr Mark Konza, Deputy Commissioner  
Mr Neil Mann, Deputy Commissioner  
Ms Donna Moody, Chief Finance Officer  
Mr Shane Reardon, Deputy Commissioner  
Mr Gregory Topping, Assistant Deputy Commissioner  
Ms Raelene Vivian, Deputy Commissioner

**CHAIR**—Good morning. This morning the Senate Economics Legislation Committee continues its examination of the budget estimates 2004-05 for the Treasury. The committee has set Friday, 16 July 2004 as the date for the submission of written answers to questions on notice. I remind officers that the Senate has resolved that there are no areas in connection with the expenditure of public funds where any person has the discretion to withhold details or explanations from the parliament or its committees, unless the parliament has expressly provided otherwise. I further remind officers that an officer of a department of the Commonwealth shall not be asked to give opinions on matters of policy and shall be given reasonable opportunity to refer questions asked of the officer to superior officers or to a minister. Evidence given in the committee is protected by parliamentary privilege. I remind you that giving false or misleading evidence to the committee may constitute a contempt of the Senate. I welcome to the table the minister and officers of the Treasury and of the Australian Taxation Office.

[9.08 a.m.]

#### **Australian Taxation Office**

**Senator SHERRY**—I have some questions on business activity statements. Does the ATO have any systems in place where eligible businesses can calculate their quarterly GST liability using turnover and a ratio supplied by the ATO?

**Mr Carmody**—Yes. Our GST expert was dismissed yesterday, but for lower level businesses—I am trying to refresh my memory—there are a couple of options that they can use. I do not believe it is a ratio; it is a figure that we give that is a quarter of a prior year's GST payments. So we do not calculate a ratio of sales to GST to give them a ratio that they can apply to their sales. Very basically, my memory is that, if they paid \$1,000 in GST under the actual method in the prior year, certain smaller businesses can elect to lodge quarterly instalments based on a quarter of their prior year GST liability. I think the fourth one is a wash-up statement, from memory.

**Senator SHERRY**—I do not know how far we are going to get if the person is not here, in terms of the detail that I have.

**Mr Carmody**—I am sorry. We did ask specifically, because Mr Mann, our GST person, had to be interstate to give a presentation externally. We asked the committee specifically to accommodate that.

**Senator SHERRY**—I have some more detailed questions on this issue. I might put them on notice because I do not think there is much sense, given what you have indicated. I have some questions on the Audit Office's report into the collection and management of activity statement information. Do we need Mr Mann for that?

**Mr Carmody**—No, but we did cover that with Senator Wong yesterday. We covered that fully.

**Senator SHERRY**—That is good. I have some superannuation issues now. I just want to get an update on some superannuation measures that were contained in the 2002-03 budget. There was a range of budget announcements which have not yet become law. I will run through some of them that are detailed on page 1-25 of Budget Paper No. 2 for the 2002-03 budget. The proposal to split superannuation contributions between couples has not yet passed the parliament. There are figures of money in the forward estimates for that proposal. Are those moneys still in the forward estimates?

**Mr McCullough**—That is probably a question for the Treasury. Unfortunately Mr Tilley, who is General Manager of our Tax Analysis Division and our numbers man, is delayed for just a few minutes. He is on his way. We may be in a position to answer that for you in just a few minutes, when Mr Tilley arrives.

**Senator SHERRY**—I have some other questions that I suspect Mr Tilley is going to have to deal with as well.

**Mr McCullough**—If they are costings questions, yes, he would be the right one.

**Senator SHERRY**—Witnesses are supposed to be here.

**Mr McCullough**—Could we possibly go on to another topic? He is genuinely only a few minutes away.

**CHAIR**—I just want to endorse Senator Sherry's protest. All senators are entitled to have the appropriate officers here. To the extent to which that is a reprimand, you should have the appropriate officers here. I know people take great pains to accommodate these estimates committees, but what Senator Sherry says is absolutely fair and proper.

**Senator SHERRY**—Let us just see how we go.

**Senator WATSON**—I might have a problem with that, because I think the records will show that this has been one of the longest estimates that we have had. There was an expectation that it was going to wrap up last night.

**Senator SHERRY**—No, that is not right.

**Senator WATSON**—It was presumed at about 11 o'clock. Given the large amount of time that has been given to these estimates and under the circumstances it is not unreasonable that, say, Mr Mann had a longstanding commitment, such that he had another duty. For that reason I think we would want to be just a little bit tolerant.

**CHAIR**—I accept that. Individual cases are individual cases. These are committees chaired by the government. They are, more than anything else, a forum for the opposition. Everybody is entitled to a fair go. I am probably more interventionist than most chairs—not in relation to Senator Sherry but in relation to, in particular, one opposition senator—in

protecting witnesses from being unfairly badgered or harassed, and I try to keep a very tight rein on questions and apply the standing orders with scrupulous fairness and impartiality. But I think on this occasion Senator Sherry has a fair point.

**Senator SHERRY**—I will run through some other issues and we will see how far we get, but most of the issues relating to superannuation issues do relate to costings and assumptions. But we will just see how we go. If he is late because of circumstances beyond his control than I do understand that. If there has been an accident or family problems then I understand that. I am going down the list in the table. There was the splitting of superannuation contributions. There was the provision to allow the baby bonus to be contributed to superannuation and there are some costings there. That was implemented by law. I wanted to know what actually happened in respect of those numbers in the forward estimates for the forward estimates years. Can anyone inform me on that?

**Mr McCullough**—Again, to the extent that it is a costings question, it will be much simpler for Mr Tilley, who will probably have that at his fingertips, to tell you when he arrives.

**Senator SHERRY**—Okay. My next question goes to children's superannuation. As to the costings for children's superannuation accounts, is it the same issue? Are they still in the forward estimates? I was going to ask if they have been revised. Is that something for Mr Tilley?

**Mr McCullough**—Yes.

**Mr Coles**—In relation to the child superannuation accounts, I guess on a broader policy matter rather than the costings side of things, the government has actually opened superannuation to everyone under 65—that is, in essence, it has broken the employment nexus—so I think that—

**Senator SHERRY**—Has that passed through parliament yet?

**Mr Coles**—The intent is to break it. It is not through parliament. It is a regulation change that is coming. But the intent is that it will apply from 1 July.

**Senator SHERRY**—I was going to get to that. I am just trying to deal with the issues from the 2002-03 budget and see where those costings and estimates have gone. Sure, there is a whole heap of issues related to those, which I was going to get to, but I am aware of that issue. Also in that table is deductibility for the self-employed, which was improved. Do you have any information on the costings of take-up, obviously, of the expansion of the deductibility for the self-employed in that table?

**Mr Mallory**—That measure, as you would be aware, was implemented from 1 July 2002. I would make the assumption, and Mr Tilley can confirm this, that they are already in forward estimates on the basis that the measure is introduced and up and running.

**Mr Tilley**—I apologise for being late, senators. The school bus did not turn up and I have been running three children to two different schools.

**Senator SHERRY**—That is okay, I understand. I myself have just jumped from one child to three children, so I do understand. I have been referring to a number of measures in the 2002-03 budget and the forward estimate periods for these measures. I want to start first with

the proposal—it is not law yet—to split superannuation contributions between couples. There were amounts of moneys from the 2003-04 financial year onwards. I want to know whether those amounts of money are still in the forward estimates.

**Mr Tilley**—I do not specifically know the answer to that. I could fairly readily check, but the general approach would be—and what I assume would apply in this case—that, when the government announces a measure, we cost that. The costing is published, and it is then incorporated into the forward estimates. That costing would then stay in the forward estimates until a decision was made to alter the original decision.

**Senator SHERRY**—Or drop it altogether, presumably?

**Mr Tilley**—Yes. Or, if some change was made, that subsequent decision would then be recorded as a new decision, with a new costing, and that new costing would then be incorporated as an adjustment to the forward estimates.

**Senator SHERRY**—It is the adjustment to the forward estimates that I am now interested in. The measure has not passed parliament yet. I know it has not been dropped; I have not seen any press release about it. What are the adjusted figures in the forward estimates?

**Mr Tilley**—I am at a slight disadvantage here because I am not familiar with the details of the measure.

**Senator SHERRY**—Is there anyone here who is?

**Mr Tilley**—There is. We have someone who is familiar with the policy issues and my division is responsible for the costing issues.

**Senator SHERRY**—I do not want to go to the policy issues; I just want to go to the costing.

**Mr Tilley**—Okay. Dr Rothman has also got some familiarity with this. I will continue to explain the general approach and then we can seek specific clarification. If necessary, we can obviously either take things on notice or check things reasonably quickly. If there has not been another decision to change the measure—and this is the bit that I am not familiar with—I would expect that the original costing would still be incorporated in forward estimates.

**Senator SHERRY**—The costing changes because it has not been implemented in the first year for which it was costed. Obviously it would be moved out. Whether it is moved out at the same cost—

**Mr Tilley**—This measure had a start date of 1 July 2003.

**Senator SHERRY**—Yes. So we have a figure of \$3 million for the 2003-04 financial year and a figure of \$4 million for the 2004-05 financial year. Clearly, it has not passed the parliament. So, in terms of the cost in those two years in the forward estimates, I want to know whether that has just been moved forward.

**Mr Tilley**—We will see if we can get a specific clarification on that. In terms of a forward estimates process, though, it is not material anyway. In terms of forecasting a revenue head, we are not pretending that we forecast to anything like that level of precision. In terms of doing a superannuation revenue head, we do not forecast in that way.

**Senator SHERRY**—Is this budget measure in this budget paper—and I am coming to a number of others; you were not here when I mentioned the other three or four measures like this—in the forward estimates?

**Dr Rothman**—Yes, that is roughly in the forward estimates.

**Senator SHERRY**—Do we have an adjusted figure for the extra two years in the forward estimates period?

**Dr Rothman**—I have not looked at that recently. The way that that sort of measure is costed is very much related to take up and flow of funds. I think you would get very close to the right answer just by moving along one year. I do not specifically remember that costing.

**Senator SHERRY**—I anticipated that.

**Dr Rothman**—I think that would be close.

**Senator SHERRY**—The next measure was children's superannuation accounts, which was implemented on 1 July. I just want to know whether it is still in the forward estimates. The figures that were in the forward estimates in table 7—\$1 million for 2002-03 and then \$1 million in 2004-05, \$2 million—are they still in the forward estimates?

**Dr Rothman**—I am not absolutely sure, but I believe that policy is essentially superseded by the more general policy in the retirement income statement of allowing people under 65 to take that up—

**Senator SHERRY**—But that is not law yet, is it?

**Dr Rothman**—No.

**Senator SHERRY**—So put that aside—and I understand its relevance. But are the figures for the children's superannuation accounts up to 2005-06, or up to the point when the other policy that you referred to actually becomes law, still there?

**Dr Rothman**—All I can say is that I am generally across these costings and it has not come across my area. I work in the retirement income modelling unit with Mr Gallagher, and I do specialise in the superannuation part. Therefore, because they have not been changed, I imagine they are still there.

**Senator SHERRY**—Sorry, imagining they are still there—you either know or you do not know.

**Dr Rothman**—I do not specifically know.

**Senator SHERRY**—That is fine; if you do not know, tell me.

**Dr Rothman**—I do not know.

**Senator SHERRY**—Fine.

**Dr Rothman**—But I am not aware of any change made to them.

**Mr Tilley**—This might not help you, but when you say they are still there, we do a costing when a measure is announced. Then, if another measure is announced, we do a costing of that new measure. The way we do the forward estimates, it is not as if we are taking all the

measures and adding them up to get our forward estimates. Once the measure has taken effect, it then just becomes part of the total base, and we just forecast that total base.

**Senator SHERRY**—Yes, I know, which is why I am trying to find out.

**Mr Tilley**—Whether this is in or not—we could not tell the difference, if you know what I mean. We forecast the total base; we do not forecast this specific measure, even on the original costing.

**Senator SHERRY**—It has not been dropped. It may be superseded by a new measure, but it has not been dropped. Has it been costed downwards at all, since its implementation? Dr Rothman, do you know?

**Dr Rothman**—I believe there have been changes, but I do not know the detail.

**Senator SHERRY**—Who would know that detail?

**Dr Rothman**—It would be possibly Mr Gallagher. In the normal course of events, most of the superannuation measures pass my desk, but not all of them.

**Senator SHERRY**—You have not been able to help us too much so far.

**Dr Rothman**—Well, I am trying.

**Senator SHERRY**—That is not a criticism of you, Dr Rothman. I just want to know what the score is. Either you know or you do not know; imagining is not too positive, I have to say.

**Dr Rothman**—Various measures are recosted. I think it is a matter of scale, as well. Important measures, where we get new information, are recosted as part of the budget process.

**Senator SHERRY**—Let us press on and see how much we can find out. Mr Tilley, there was also the measure to allow the baby bonus to be contributed to a superannuation fund. Again, that is law and was law from financial year 2003-04, and you have amounts in the forward estimates. Were those figures still there?

**Mr Tilley**—The answer to that is the same as the previous answer.

**Senator SHERRY**—Were they revised down?

**Mr Tilley**—If there is a new measure which changes that revenue head, then that will change the forward estimates. We will not specifically go back, in the normal course of events, and specifically change or review this particular costing. It becomes part of the forward estimates.

**Senator SHERRY**—No, I understand that, but clearly, if the take-up rate is not as much as you anticipated, you may change the forward estimate. Has that happened with this measure?

**Mr Tilley**—We may change the forward estimate—that is right. We can check this, but I do not think it would happen specifically with regard to this measure. We might do a general change in the assumptions about take-up rates or would take that into account in a general revision of the forward estimates, but not as a matter specifically of redoing this costing.

**Senator SHERRY**—I am asking whether or not there has been a revision of the costing of the measure. Do you or do you not know? Has it been revised or has it not been revised?

**Mr Tilley**—I will check that for you.

**Senator SHERRY**—Regarding deductability for self-employed persons, the amounts in the forward estimates from 2003-04, has there been any revision to the costings in the forward estimates of that measure?

**Mr Tilley**—The answer to that question is the same as the previous answer.

**Senator SHERRY**—You do not know?

**Mr Tilley**—I can give the general answer, which I have done obviously.

**Senator SHERRY**—You keep repeating ‘generally’. I am asking quite specific questions. I do not think they are unreasonable.

**Mr Tilley**—I will take the question on notice.

**Senator SHERRY**—I thought that lot would take us five minutes and we have spent half an hour.

**Mr Tilley**—We attempt to be as helpful as we can in trying to explain to you how we do costings and how we do forecasts. To the extent that we cannot give specific answers, I will take them on notice.

**Senator SHERRY**—I think it was on Wednesday evening that I asked specifically about the Income Tax (Superannuation Payments Withholding Tax) Bill. I did not know at that stage that Mr Gallagher was not going to be here. Evidence was given by Mr Gallagher. There were others who gave evidence. I think someone from the tax office gave evidence as well. We had evidence to both the estimates and the economics legislation committee. Mr Cicchini—

**Mr Coles**—Was that Raph Cicchini?

**Senator SHERRY**—Yes, and there were some other officers. Quite a bit of evidence was given about a range of issues: number of visa classes; the assumptions of the total number of people, which was given as 180,000; the transfer rate over time, which was given as 80 per cent; a discussion about the tax rate. Is anyone able to answer specific questions about the issues that were discussed at that time—issues relating to the matters I just touched on and that we received evidence about?

**Mr Coles**—No, essentially not into that sort of depth and detail. Essentially the—

**Senator SHERRY**—Why not?

**Mr Tilley**—He is trying to explain.

**Mr Carmody**—Essentially that sort of detail is held by Mr Gallagher, who cannot make it today. We can talk about the broader policy intent. I think there is no disaggregation of the numbers, which you were probably going to lead to. I think that was answered by Mr Smith and Mr Gallagher as well.

**Senator SHERRY**—Yes, Mr Smith was one of them.

**Dr Rothman**—That was about temporary residence?

**Senator SHERRY**—Yes.

**Dr Rothman**—I have received some briefing on that.

**Senator SHERRY**—It goes to the detail of the number of visa classes, the take-up rate and the 180,000—the issues we discussed at the previous estimates and legislation committee.

**Dr Rothman**—I was not briefed on that level of detail. I do know some of the things that have changed. There has been some revision of those assumptions.

**Senator SHERRY**—Which assumptions have been revised?

**Dr Rothman**—Basically, the assumptions that have been revised have been in relation to take-up, having regard to some experience from the tax office. The tax officers can talk about that. In the primary framework, which was set up to show how many temporary residents come here, how much they earn, on what sort of visa class they come here and what the proportions of the various visa classes are, most of those assumptions are still in place. The key changes that have taken place are in questions of how many people take up this option. This is only an option. Previously, you put your superannuation in and when you left the country you could not take it out.

**Senator SHERRY**—I understand.

**Dr Rothman**—You know all that. The key issue in all these things is take-up. In order to achieve take-up you need to know about the policy. The tax office is in charge of disseminating information.

**Senator SHERRY**—The tax office are going to tell us about the take-up rate, are they? Just before we get to the take-up rate and the tax office—and we are obviously very keen to follow up on the detail—you have referred to the base assumptions that I have touched on. I want to go to the base assumption from the superannuation contributions from the temporary residents into the system. There were two groups. There was the amount of money that was in the system already from the temporary residents who had been here from 1997 to 2002—the bank, if you like. Then there was the ongoing revenue that was going to flow into the system from temporary residents. I think the figure of 180,000 temporary residents per year was used. Do you have the figure for that? Has that changed?

**Dr Rothman**—I do not believe the flows have changed; it is the assumption as to what the take-up proportion is. I think the basic framework is the same.

**Senator SHERRY**—We have one figure for the base, the bank. Do you have the figure for the inflow each year? We got the 180,000, as I recall, but do you have the money inflow figure?

**Dr Rothman**—I did not bring it with me. I have seen spreadsheets with those figures in them. I would have to take that on notice.

**Senator SHERRY**—Back to the tax office. What is the take-up rate?

**Mr Jackson**—For the 2002-03 year, reporting in October, there were 7,420 applications made, of which 4,832 were online, and 134 of those were rejected for visa related reasons by DIMIA. The figure for those made by paper was 2,083, with 175 rejected.

**Senator SHERRY**—What is that as a proportion of the take-up rate, Mr Jackson?

**Mr Jackson**—I can give you numbers of how many claims were made and paid.

**Senator SHERRY**—What was the payment?

**Mr Jackson**—I do not have that information. That information has not been released; it is with the government.

**Senator SHERRY**—I thought we were making an advance when you gave me the numbers.

**Mr Jackson**—I am here to help.

**Mr Carmody**—He does not have them, basically.

**Mr Jackson**—I can tell you how many hits there have been on the web site, though, Senator.

**Senator SHERRY**—Don't go through all that again. Hits do not mean take-up, as you well know. So the figure is 7,420 in that financial year.

**Mr Jackson**—Yes.

**Senator SHERRY**—And you got \$70 million from 7,420 people?

**Mr Jackson**—I cannot comment on that.

**Senator SHERRY**—So the figure has been revised. I have been told it has been revised.

**Mr Jackson**—I have heard discussions here previously that the figure has been revised, yes.

**Senator SHERRY**—It has been revised down?

**Mr Jackson**—I seem to recall that the conversation was around that area.

**Senator SHERRY**—That is correct, isn't it?

**Mr Jackson**—I would really need Treasury to confirm that, but I think that is the case.

**Senator SHERRY**—It has been revised down. That is because of the take-up rate. The other assumptions, I think you have already said—

**Dr Rothman**—They are broadly the same.

**Senator SHERRY**—So it is critically the take-up rate.

**Dr Rothman**—Yes.

**Mr Coles**—Perhaps I can refer you to what Mr Smith said on 19 February. Basically, he said that the \$70 million per annum figure has been downgraded but the government has not published a separate estimate. We can take that question on notice.

**Senator SHERRY**—You know I know that. For the record, this would be the second time I have asked for the figure of the revenue collected in the adjusted down forward estimates. Another senator has also asked for this and there was obviously an order of the Senate, which I am sure you are aware of, so it is the fourth time you have been asked. Will you provide the figure?

**Mr Coles**—I think that is a matter to be taken on notice.

**Senator SHERRY**—So you refuse to provide it today?

**Mr McCullough**—It is not that I refuse to provide it today. I have been through this before. Those sorts of questions where there is no published disaggregation of a figure need to be taken on notice by us in order to have a reasonable opportunity to run them by the minister.

**Senator SHERRY**—I understand.

**Mr McCullough**—There is a reason for that, of course.

**Senator SHERRY**—Yes, and you agree that I have asked for this on previous occasions. You have referred it back and the answer has been, no.

**Mr Tilley**—I think Senator Mackay asked us this previously. We took it on notice then.

**Senator SHERRY**—That refusal was after referral to the Treasurer's office.

**Mr Tilley**—We have taken on notice for the minister to provide a response.

**Senator SHERRY**—The minister said no?

**Mr Tilley**—That is my understanding.

**Senator SHERRY**—I am not going to jump on you.

**Mr Tilley**—I assumed you knew.

**Senator SHERRY**—I do, but I want to confirm this for the fourth time. That is all. I just want to get it on the record. Let us move on. But there are some issues about the details of the assumptions that you are aware, Dr Rothman, I have asked for. Unfortunately, Mr Gallagher has gone home.

**Dr Rothman**—I am aware that you have asked us.

**Mr Jackson**—I might add on to that measure. Sorry, I should not have been flippant about it before, but the amount of contact we are having through our web site from people has been growing regularly. We are now up to 10,000 hits a month on average, which is up from about less than half that last year when the measure was first introduced. There is a growing awareness of that and I expect the rate will increase but I have not got any further information on rates for this year, because there is no reporting as yet.

**Senator SHERRY**—I understand that. The bottom line though is how much money is collected, Mr Jackson.

**Mr Jackson**—Correct.

**Senator SHERRY**—There is a lot of difference between interest and take up. Going back to the children's super account, did the tax office ever do an industry survey to determine what the take-up rates were on that?

**Mr Jackson**—Yes. I was asked that last estimates. We did have a look at the data and there is no requirement for providers to notify us of those accounts being opened and the information we had in our data set was not sufficient for us to be conclusive of what the numbers are, so I was not able to give a number.

**Senator SHERRY**—So you do not have any data?

**Mr Jackson**—No, we do not have data that would allow us to determine children's accounts.

**Senator SHERRY**—I accept you do not have that. Did you do an indicative survey?

**Mr Jackson**—No.

**Senator SHERRY**—Going back to the 2002-03 budget papers, there is a provision for an education campaign, the so-called choice of superannuation, of \$28.7 million. What has happened to that?

**Mr Jackson**—Was that money which was notionally allocated within the ATO budget's choice?

**Senator SHERRY**—Yes.

**Mr Jackson**—The tax office was going to absorb that funding. Because the measure has not yet become law, the money has been reallocated to other priorities at this point. If that measure passes, we would look again at the budget allocation internally and find the way forward there.

**Senator SHERRY**—So it is no longer in the forward estimates internally?

**Mr Jackson**—It is built into our funding.

**Mr Carmody**—In the total.

**Senator SHERRY**—It is in the total, yes.

**Mr Jackson**—But we do not have it in a pot by the door, if you like, waiting to be used. It is being deployed to other things at the moment.

**Senator SHERRY**—I suspect we will get to those other things in a moment. Turning to the co-contribution scheme—the existing co-contribution scheme, not the announced changes since it passed—I am looking at the supplementary EM, because there were some negotiated changes in both that and the surcharge tax reduction. The EM had the cost estimated at \$220 million in 2004-05, \$235 million in 2005-06, \$220 million in 2006-07 and \$205 million in 2007-08. That is the existing scheme that passed the parliament, not the changes that have since been announced. Do those figures still remain the same in the forward estimates?

**Dr Rothman**—I did not have exactly those figures but they are very close.

**Mr Tilley**—They will be the same other than that, with regard to the new measure announced in the budget, the cost will incorporate the—

**Senator SHERRY**—I know that. This is the basic cost and there are new measures, which I am going to get to. My understanding is that, if we take this financial year of 2004-05—

**Mr Tilley**—Next financial year.

**Senator SHERRY**—The contributions are going in at the moment, in this financial year.

**Mr Tilley**—They are going in in 2003-04.

**Senator SHERRY**—Yes, but the moneys are paid by the government in the next financial year—2004-05.

**Dr Rothman**—That is correct. We have advice from the tax office that almost all of it will be paid the following year. Some small proportion is paid the year after that where there are complications.

**Senator SHERRY**—Mr Jackson, is the tax office responsible for coordinating that?

**Mr Jackson**—Yes.

**Senator SHERRY**—Can you briefly explain the process? You get data from funds, presumably?

**Mr Jackson**—The process is very similar conceptually to the one that works for the superannuation surcharge. There is a system that compares tax return information, taxable income and added back fringe benefits against the member contribution information reported by the fund. Where the criteria are met, the co-contribution payment will be accrued to the actual fund. On some of those, we need both the tax return and the member contribution statement to make the co-contribution payment. The tax return lodgment cycle is such that some returns move towards the end of the year and we will not have time to process them. There are also the usual amendments and the like which will flow out in the cross years.

**Senator SHERRY**—As to the budget estimate for that figure of 2004-05 for the payment, what number of people or individuals was that based on?

**Dr Rothman**—I am just trying to remember the actual number. I do not have that detail on the number in front of me. The way that number was constructed was that it was based on the actual number of people who currently make member contributions. So there are people already making member contributions who, under the new scheme, would be eligible. We take eligibility into account. We have a sample file of taxpayers without individual details so that we cannot recognise the people. We have a sample of that from the tax office. Basically, it is the surcharge data set. That gives us a base of people who are currently or already making it without any behavioural change. That is the last available file. It is a couple of years out of date—or, rather, not out of date but the best available. We have to move that along a couple of years and then add some behavioural change.

**Senator SHERRY**—Yes, I remember this discussion with Mr Gallagher, but do we have the figure?

**Mr Tilley**—We can check. We can take it on notice.

**Dr Rothman**—I may actually recall it during the course of the hearing, but I do not recall it just now. Yes, we did say 540,000.

**Senator SHERRY**—Yes, I thought it was about half a million.

**Dr Rothman**—We actually told you in the Senate debates; I do remember it now.

**Senator SHERRY**—In the chamber—I could not recall it coming in here.

**Dr Rothman**—It was in the Senate chamber, when the debates were held. Sorry, it just took me a little while to think of that. It is about 540,000 in the first year, and there are slight changes from year to year, but it is very much that figure, yes.

**Senator SHERRY**—Coming back to you, Mr Jackson, you do not know at this point in time whether that figure is accurate, do you, until you make the payments?

**Mr Jackson**—That is right. It is an estimate based on some data that we have, and we will not know until the payments are made.

**Senator SHERRY**—Do you have any idea of when we will know what an accurate figure is for a year? It will presumably be close to the end of the next financial year.

**Mr Jackson**—Of course, yes, we will not know the precise figure until the end of the next financial year, but we will probably have some indication. Most of the member contribution statements will be with us in October, and the bulk of tax returns, particularly for low-income earners, will be lodged by the 31 October deadline. Many of those are refunds, of course. So we will probably have some indication by the end of this calendar year.

**Senator SHERRY**—That is the existing measure. There have been two announcements: one pre budget and one in the budget. I want to go to those. The measure to change the criteria for people earning less than \$450—the SG minimum—is in the budget papers forward estimates. That is for \$45 million starting in 2004-05; then 2005-06, \$50 million; \$50 million; and \$50 million. Am I right that those figures in the forward estimates are on top of the original costings we have just been referring to?

**Dr Rothman**—You are correct.

**Senator SHERRY**—What is the estimated increase in numbers as a consequence of these changes?

**Dr Rothman**—That constitutes advice to the government that has not been published, and I will have to take that on notice.

**Senator SHERRY**—I know, but it is the base figure.

**Dr Rothman**—Sorry, we did the base figure, which was announced in the Senate. This is an additional number of people becoming eligible because of that. That additional number of people has not—

**Senator SHERRY**—Do you know the figure, Dr Rothman?

**Dr Rothman**—I do know the figure.

**Senator SHERRY**—Why can't you tell me?

**Mr Tilley**—Because of the reasons we have been through already. We will take it on notice. The government may choose to provide that number. We will take it on notice and respond.

**Senator SHERRY**—I do not think it is unreasonable, when we have cost estimates of a change of a measure, to ask questions about and get a response to the assumption—this is an assumption, obviously. I do not think it is unreasonable.

**Mr Tilley**—Neither do I, and we are agreeing to answer the question. We are simply going through the established procedure that—

**Senator SHERRY**—No, no. On previous occasions, we have received information about assumptions made without it being put on notice. What is the difference with this issue?

**Mr Tilley**—Previously, the government may have chosen to provide particular additional information. All I am saying is that we will take it on notice and seek advice.

**Senator SHERRY**—So if I ask other detailed questions about assumptions, I am wasting my time?

**Mr Tilley**—We will be as helpful as we can, within the constraint that, with unpublished data, it is for the government to decide what—

**Senator SHERRY**—But there are lots of things you give us that are unpublished data. Let me give you an example. I just had a discussion with Dr Rothman about the base data used for the assumptions of the tax transfer for temporary residents, and some of that data came from this estimates committee. It did not come on notice; it came from Mr Gallagher and others at the time—Mr Smith, I think, although a lot less. That did not come from being taken on notice; it came from evidence given by the officer who worked out the assumptions. Why did it happen then and not now?

**Mr Tilley**—I am not familiar with exactly what was provided and what was not provided previously. We have a general practice with the committee, as I understand it, which has been established previously, and we will follow that general practice. Within that constraint, we will be as helpful as we possibly can.

**Senator SHERRY**—We have a bill in the parliament, which was presented to the House of Representatives. Are you aware that it has gone through?

**Mr Tilley**—Yes.

**Senator SHERRY**—You want this dealt with in the Senate? But that is not your concern; it is the government's concern.

**Mr Tilley**—The minister is here.

**Senator SHERRY**—You are not willing to authorise the officers to give us the material?

**Senator Coonan**—Normally it is dealt with by Mr Gallagher. I do not know what these officers feel comfortable doing. They have said that they wish to take it on notice and to consult in a more informed environment, so I think they ought to be given that opportunity.

**Senator SHERRY**—The other announced major change in the budget is the \$595, the \$730 and the \$790 over the three years of the forward estimates. Again, can you confirm that those changes to the co-contribution scheme are in addition to the two sets of the base plus the other change we have been referring to?

**Mr Tilley**—I can confirm that.

**Senator SHERRY**—I anticipate I will not get the answer, but can you provide me with the assumptions on the projected take-up rates?

**Dr Rothman**—I can give you a general description of how we approached the take-up issue. I am not in a position to give you the details.

**Senator SHERRY**—Let us start with your general description approach and see whether that leads us anywhere.

**Dr Rothman**—In relation to the take-up, we had regard to the base level and to taking time for the measure to be disseminated and understood throughout the community. So there is an increase in take-up over the forward estimates period. We also had regard to an IFSA survey, which we had available to us, but we did not use those assumptions because there is quite a lot of difference between a survey and people's actual behaviour. For example, for the base figures they quote in the IFSA survey they asked a set of people: 'Are you doing it now?' and

‘Would you do it under a certain set of assumptions?’ Of course, they did not have the \$1.50 for \$1 payment, which is the new policy, but they have extrapolated their previous data. They say there is quite a lot of difference between people saying they will do something and them actually doing it and finding the money. So they regard their take-up rate as an upper estimate. Also, in looking at their survey, we found that the actual number of people doing it now is somewhat lower than what IFSA said. There are two things about the survey—

**Senator SHERRY**—Why the reference to IFSA?

**Dr Rothman**—Because we had regard to their survey. This is a new policy, and we are looking for as much information as we can. We cannot be precise about the take-up, as you know from previous experience. We have no experience with this particular policy but we do have some experience with people already making member contributions, so that is the base. Then one of the few other reference points is an IFSA survey which asked about 1,000 people.

**Senator SHERRY**—Yes, I have seen the survey.

**Dr Rothman**—We had regard to that but we did not put in take-up assumptions as high as those because we believe that in practice people, while they have good intentions, will not actually do it. I was making another point to you in relation to the IFSA survey that another reason why we did not use their numbers—and you could say this is the only practical point of reference why I did not use that, although I know you have not specifically asked me that—is that we found discrepancies between our data, based on tax office data, and their survey data, which says how many people were making it before the change in policy. So that is the broad way in which we approached it.

**Senator SHERRY**—Did you do any work on the joint incomes of couples, by lower-middle and middle-higher incomes?

**Dr Rothman**—That information is not on our base file. We looked around to see what limited information we could get on that. We do not have an authoritative picture of that.

**Senator SHERRY**—Did you do any work on that? Have you looked at the issue?

**Dr Rothman**—We have looked at the issue.

**Senator SHERRY**—Doesn’t the current bill—the tax office might be better able to answer this—have a provision in it for some sort of report on joint income in terms of the take-up rates of the existing measure?

**Mr Jackson**—I think it does. At the time that was organised, we looked at the information we had. Although it will not be precise, we should be able to get some sense of that match across tax returns, assuming people nominate their spouse and we are able to make those connections.

**Senator SHERRY**—When approximately would you have that?

**Mr Jackson**—That probably will not be until the end of this first operational year.

**Senator SHERRY**—We talked earlier about the \$220 million for 2004-05 in the original scheme. In the Australian Taxation Office portfolio budget statements, not the budget papers, there is a revised cost of the scheme of \$275 million for 2004-05. What does that represent?

**Mr Tilley**—This is in the ATO’s PBS?

**Senator SHERRY**—Yes, you have \$275 million written down there.

**Mr Jackson**—Is this the appropriation for the payment—

**Senator SHERRY**—It is the appropriation of the low-income earners co-contribution. We know it is \$220 million. I assume the \$275 million includes the extra—

**Dr Rothman**—I think that makes sense. I have \$230 million as the figure for 2004-05 for the original policy. We just discussed—

**Senator SHERRY**—The \$40 million.

**Dr Rothman**—I think it was \$45 million.

**Senator SHERRY**—You have \$230 million for the cost of the original policy?

**Dr Rothman**—That is what I have in front of me.

**Mr Tilley**—It will be in the budget papers.

**Senator SHERRY**—I have the EM here and it says \$220 million.

**Dr Rothman**—I am sorry, I do not have that now. We can check that.

**Senator SHERRY**—Can you double-check those figures?

**Mr Tilley**—It could be cash or it could be accruals. We just need to make sure.

**Dr Rothman**—It may be a difference between cash and accruals. The extension to no employer support is \$45 million in 2004-05, so that adds up.

**Senator SHERRY**—Yes, I think that clears that matter up. Also in the budget there is an \$8.2 million implementation campaign, which I assume the tax office is responsible for oversighting.

**Mr Jackson**—Yes.

**Senator SHERRY**—Does this \$8.2 million include the costs of the campaign that is already operating or are these additional new moneys?

**Mr Jackson**—That cost is for the implementation of the changes, including any campaign around public education. There will be some systems changes and other things that need to happen, but that is for next year. That is a replacement of a number for the 2004-05 year. It is not in addition to it, as I understand.

**Senator SHERRY**—I am still not clear. Is the \$8.2 million over and above what has been spent to date on the pig campaign?

**Mr Jackson**—Yes, it is.

**Senator SHERRY**—Let us come back to the pig campaign. What has been spent to date on the pig campaign?

**Mr Jackson**—Do you mean the public education campaign?

**Senator SHERRY**—Yes, of course. I would not refer to it is anything else, would I?

**Mr Jackson**—No.

**Senator SHERRY**—And pigs will fly, of course. Let us get to the pig.

**Mr Jackson**—There has been about \$4 million spent on television and press advertising. That includes the construction of the advertisement itself that goes to air. There has been about \$1.1 million spent on a letter mail-out to people we could identify who were, from the material we had, eligible or likely to be eligible for this payment and for whom we had appropriate mailing details. About another \$1.2 million or \$1.4 million was spent on our client contact centre for responding to telephone calls, correspondence and the like.

**Senator SHERRY**—So it is about \$6.3 million or \$6.4 million so far. Are there any other expenditures on the current campaign that are outstanding?

**Mr Jackson**—For this year, there will be about another \$1.5 million in June for the wrap-up of the television and press campaign. There will be some more costs in our call centre and the like.

**Senator SHERRY**—So that \$1.5 million is for ads running through between now and the end of June?

**Mr Jackson**—That is right.

**Senator SHERRY**—Does that include newspapers as well?

**Mr Jackson**—Yes, it does.

**Senator SHERRY**—I have not heard anything on the radio. Does it include radio?

**Mr Jackson**—No, there are no radio campaigns. It is television and press. With the increase of the threshold to \$40,000, it is a much larger demographic and the advice we had was that the only effective way to reach those people was with a TV campaign. So the program was expanded 12 months ago to do that.

**Senator SHERRY**—But the campaign that has been run to date has been based on the original scheme?

**Mr Jackson**—Yes, that is right. Do you mean the \$40,000 threshold?

**Senator SHERRY**—Yes.

**Mr Jackson**—Yes.

**Senator SHERRY**—Who was the advertising agency responsible for coordinating the campaign?

**Mr Jackson**—There were three parties involved. The Campaign Palace, I think, is the one that actually did the advertising campaign itself—the TV shoot. Is that what you are referring to?

**Senator SHERRY**—Can you take on notice the detail on who got what and details of expenditure?

**Mr Jackson**—I will just confirm that, because there was the actual preparation of the advertisement, there was some market testing of the material to see if it resonated with the community and then there was a third activity. So there were three different players.

**Senator SHERRY**—I want any and every company or firm that in any way had anything to do with the campaign.

**Mr Jackson**—I can get that for you in a few minutes.

**Senator SHERRY**—Thank you. You refer to market testing. What do you mean by ‘market testing’?

**Mr Jackson**—When the concept brief for the campaign was prepared we wanted to test it with the market to ensure that it would achieve the desired outcome, which was that people would recognise it for what it was and understand the intention of the message.

**Senator SHERRY**—Were you involved in sitting in sessions to look at the market testing?

**Mr Jackson**—I was not personally involved.

**Senator SHERRY**—Was anyone from the tax office involved?

**Mr Jackson**—Yes. Our communications and marketing people were involved in that.

**Senator SHERRY**—Who were they?

**Mr Jackson**—I think the officers involved were Mr Murtagh, who is the assistant commissioner with responsibility for that area, and Mr Andrew Lander, who is the marketing and communications manager.

**Senator SHERRY**—Presumably this would include opinion testing and focus group testing.

**Mr Jackson**—That sort of thing, yes.

**Senator SHERRY**—Has the tax office had any other superannuation campaigns over the last financial year?

**Mr Jackson**—No.

**Senator SHERRY**—If I add this up it looks as though it will touch close to \$8 million by the time the campaign is finished.

**Mr Jackson**—Including our call centre and our internal responses, that would be about right.

**Senator SHERRY**—On top of that, we have another \$8.2 million for another campaign.

**Mr Jackson**—Yes, for next year.

**Senator SHERRY**—What work has been done so far on the next campaign?

**Mr Jackson**—There was going to be an extension of this campaign into next year in any event, but at the moment we are just reviewing that and looking at what is happening with the proposed changes to the legislation. The change in the threshold from \$40,000 to \$58,000 could have a significant impact on the demographics involved and, therefore, how we may want to target that education. It would seem to me that it will still need to be a mass campaign because it is an even larger number, but there might need to be some change in the shift, in the focus, and maybe we will need radio advertising or other supplementary approaches.

**Senator SHERRY**—Do you include in that observation the changes at the bottom end, at the qualifying end? I am not being told what the numbers are, not meaning you, but there must be substantial numbers of people at the bottom end who are eligible. There would be millions of them.

**Mr Jackson**—Yes, but they would substantially have been picked up in this campaign. The original campaign was targeted, as I recall—it was a while ago—at under 27,000, and that is primarily the bottom end.

**Senator SHERRY**—It was down to a minimum qualifying superannuation contribution of \$450 a month, and that minimum is going. I do not know the number but it must be enormous.

**Mr Jackson**—I see what you mean now. Yes, we will be looking at that as part of the process that we need to adjust to target those more specifically.

**Senator SHERRY**—At this point in time, have any contracts been signed or discussions held with advertising agencies for the second campaign, the \$8.2 million campaign?

**Mr Jackson**—I would have to check whether the existing contracts and arrangements extend the boundary of the year. As I said, the campaign that is running now was going to continue into next year. Off the cuff, I would say that there probably is a contract that will take us through. There is probably an option in the contract or something of that nature, but I will have to check that for you. Yes, just to confirm for you, the Campaign Palace is the advertising agency.

**Senator SHERRY**—There was an article in the *Financial Review* which was obviously based on a leak.

**Mr Jackson**—Surely not, Senator! I cannot imagine that would be the case.

**Senator SHERRY**—It referred to the size of the pig. Do you know the article I am referring to?

**Mr Jackson**—Yes, I did see that.

**Senator SHERRY**—I must say that I was a bit surprised to see it on page 3 of the *Financial Review* on a Saturday.

**Mr Jackson**—It must have been a slow news day.

**Senator SHERRY**—I can see the amusing side of it, but I thought featuring it on page 3 was a little surprising.

**Senator Coonan**—It probably reflects the size of the leak, Senator Sherry.

**Senator SHERRY**—I can see the funny side of it, but I was still surprised that a paper like the *Financial Review* would have had it on page 3. It is still a serious issue. There was obviously a leak. Has an investigation been mounted to determine where the leak may have come from?

**Mr Jackson**—There has not been a formal investigation in the tax office. I have made inquiries of the officers involved and have been given assurances that it did not come from them. There has not been a formal engagement of our security area to look at it.

**Senator SHERRY**—There was considerable detail in the article. I was surprised at the level of detail about phone calls being made to the Perth Mint, which seemed to indicate that someone had very good knowledge of last-minute arrangements being made. I am just

surprised that there has not been a more thorough investigation than you are indicating, Mr Jackson.

**Mr Jackson**—You may be surprised. As I said, I did talk personally to the officers involved and was given assurances that they had no role in it. I can have a more detailed look at it.

**Senator SHERRY**—You have concluded the investigation.

**Mr Jackson**—There has been no further investigation.

**Senator SHERRY**—As far as you are concerned the investigation is concluded—and nothing was concluded, effectively.

**Mr Jackson**—I concluded that, however the information came to the newspaper, it did not come from the tax office.

**Senator SHERRY**—The other possibilities were probably the Perth Mint and a source within the government—that is the only other place I can think of.

**Mr Jackson**—I do not know. It is speculative.

**Senator SHERRY**—It is either the mint, within the tax office or government.

**Mr Jackson**—There are other places.

**Senator Coonan**—That is entirely speculative.

**Senator SHERRY**—Are there any other suggestions as to where the leak could have come from? They are the only ones it could possibly be. I would like to have leaked it, but I am sorry to say I did not.

**Senator Coonan**—It is terrible that whoever did did not keep you in mind, Senator Sherry.

**ACTING CHAIR (Senator Watson)**—Unauthorised access to information is something that I think society generally does not support.

**Senator Coonan**—It is a serious issue.

**ACTING CHAIR**—It says something about the press who are prepared to disseminate such information from such unauthorised sources. There is unfinished business sometimes and that can often lead to a wrong conclusion. As a parliamentarian you have to be very wary about picking up pieces of paper that are allegedly leaks and disseminating that for a particular political benefit or some other cause.

**Senator SHERRY**—Has the government sought an investigation?

**Senator Coonan**—I have not authorised or sought any investigation. It is really a matter for the officers to a certain extent or the government unit. At a certain point before these things are released, as I understand it, the information is not exactly closely held. There are a lot of people that have it—for instance, it is not like a cabinet document. Whilst I do think it is very regrettable, I do not think there is anything further that my office can gain by trying to find out the source of it. I did not make a call to the Perth Mint—somebody asked me that—

**Senator SHERRY**—I would not suggest the minister would be calling the Perth Mint to sort out the pig size.

**Senator Coonan**—or anybody on my behalf that I am aware of.

**ACTING CHAIR**—It was receiving stolen goods or stolen information.

**Senator SHERRY**—Is there any other education campaign or information campaign on superannuation issues in the forward estimates besides the co-contribution campaign, Mr Jackson?

**Mr Jackson**—Not that I am aware of. I could not be categorical on that. I will check, but I do not think so.

**Senator SHERRY**—I was not aware of any myself and I could not see anything else.

**Mr Jackson**—I am not aware of anything.

**Senator SHERRY**—The so-called choice campaign is in your general pool of moneys to be used if the legislation is passed.

**Mr Jackson**—That is correct. Can I just confirm that the Campaign Palace is the agency that did the advertising work? There are options on the contract for next year. They have not yet been exercised. We are considering that at the moment.

**Senator SHERRY**—Do you have the detail on the other firms that are involved?

**Mr Jackson**—We will find that out.

**Mr Carmody**—Senator, while there is a break and we are clearing things up, I need to defend myself against suggestions of harshness in fringe benefit tax amendment provisions. In fact, I was very generous when the legislation was drafted. According to the legislation that has been provided to me, the general amendment period is three years—less than the general amendment period for income tax purposes. Where there is fraud or evasion any time and in any other case involving avoidance of tax it is six years, but the general rule is three years, not seven, as I think you were suggesting last night.

**ACTING CHAIR**—Thank you very much for clarifying that.

**Senator SHERRY**—I would like to come now to the general issue of tax revenue from superannuation in the budget papers. The figures are referred to in a number of places, but if we look at Budget Paper No. 1, on page 5-20, under total superannuation funds we can see that the two subcategories are super surcharge and earnings. Let us go to contributions and earnings. What are the tax revenue areas in the contributions and earnings figures in the budget for this year? Let me give you an example. Obviously, there is contributions tax and fund earnings tax. Are there any others? For example, where is the tax revenue from the temporary residents? Is that in that figure?

**Dr Rothman**—I do not believe so.

**Senator SHERRY**—Where is it, then?

**Dr Rothman**—Someone from the tax office may be able to correct me, because it is actually quite complicated. We did debate about where that was, and I cannot remember exactly.

**Senator SHERRY**—I am sure you must know where the revenue is that you are getting from all the backpackers.

**Dr Rothman**—Perhaps Mr Jackson can help you with that.

**Mr Jackson**—Sorry, Senator, I am afraid I was distracted by looking for the—

**Senator SHERRY**—Can you go to page 5-20 of Budget Paper No. 1. It has the tax breakdown. Listed under super funds we have contributions and earnings, super surcharge and total super funds. I just want to know what taxes are included in the subheading of contributions and earnings. Obviously, that includes the contributions tax and the fund earnings tax. My question then related to the tax on departing residents. Where is that?

**Mr Jackson**—We do not prepare these papers. I cannot comment on where that is included. That is really a question for Treasury.

**Senator SHERRY**—I am glad you are both here.

**Dr Rothman**—I actually do believe now, on recollection, that it is within that head, because it is collected from superannuation funds.

**Mr Tilley**—If it is collected from superannuation funds it is in that head.

**Dr Rothman**—It should be in that head. There was some debate about it because normal end benefits taxes are not in that.

**Senator SHERRY**—It is not a surcharge obviously. It seems to me that there are only the two categories. It had to be in the—

**Dr Rothman**—The other place would have been within the normal income tax system because end benefits taxes are collected within the personal income tax system.

**Mr Tilley**—If that is not correct, we will let you know.

**Senator SHERRY**—There was also a special one-off revenue measure of \$600-odd million. Where is that included?

**Dr Rothman**—That is included within it.

**Senator SHERRY**—Within the contributions—

**Dr Rothman**—It is a contributions tax. The government brought forward a one-off payment to extinguish its liabilities to the Telstra and Australia Post superannuation schemes. That is explained in the budget papers. Because those are funded schemes they pay contributions tax, so that payment attracted a contributions tax payment. That is part of the reason why the growth was so high in that year.

**Mr Tilley**—Part of the reason.

**Senator SHERRY**—I am glad you have brought us to that. Let us put that aside. What are the reasons for the growth? There are obviously a number of different taxes in this group. What are the reasons? Could you go through each of the different types of taxes and explain whether there has been a variation upwards or downwards?

**Dr Rothman**—There are two principal heads, as you know: contributions and earnings. Earnings have improved and are continuing to improve, primarily because, as you know, the superannuation funds went through a period that reflected the poor returns on the stock market. The returns to members were lower. That is recovering. As the stock market recovers, the realised capital gains of superannuation funds tend to rise. It is actually quite difficult to

predict precisely the extent to which they will rise, but they do rise as the stock market recovers. We are now talking about earnings. The earnings obviously come from dividends, fixed interest and so on, but the big variable component is the realised capital gains, and that is improving significantly now.

**Senator SHERRY**—What are the projected growth rates in those estimates with respect to the earnings tax?

**Mr Tilley**—I think 22 per cent is the growth in that total revenue head, but, as Dr Rothman has explained, that has the significant \$600 million impact of the one-off payment.

**Senator SHERRY**—I would exclude that.

**Mr Tilley**—If you extract that, I think the growth rate is 8.9 per cent.

**Dr Rothman**—That is for earnings, plus contributions—

**Mr Tilley**—The total revenue.

**Senator SHERRY**—My question related to the earnings. Let us deal with that first.

**Dr Rothman**—I do not know that figure. It is an unpublished figure.

**Senator SHERRY**—Yes, I know it is unpublished. It is not in any budget papers.

**Dr Rothman**—I do not actually know it, as a matter of fact.

**Senator SHERRY**—Would Mr Gallagher know it?

**Dr Rothman**—No, Mr Gallagher would not know.

**Senator SHERRY**—Who does know?

**Dr Rothman**—The two are protected—

**Mr Tilley**—We have had this discussion before. The way we do these revenue estimates is that we focus on estimating the revenue head that we publish in the budget papers. As part of that we will do work, obviously, on the underlying components of it, but it is not necessary that we precisely forecast those and have anything like the same level of confidence in those underlying components that we have in the total revenue head. Our focus is on that total.

**Senator SHERRY**—But you still have an estimate, don't you?

**Mr Tilley**—It is likely that there is some sort of estimate of the disaggregated components but I would not want to give the impression that we have some estimate that we have a lot of specific faith in or a level of faith in.

**Senator SHERRY**—I know that, but people do put a lot of faith in your estimates.

**Mr Tilley**—The ones we publish.

**Senator SHERRY**—They also put a lot of faith in the ones you do not publish—on the contributions tax collected, for example—as we well know.

**Mr Tilley**—Thank you, Senator.

**Senator SHERRY**—Do not kid me that they do not put faith in it. Of course they do.

**Mr Tilley**—I am saying we do not put the same faith in—

**Senator SHERRY**—You do not put faith in your own figures?

**Mr Tilley**—No. We do not put as much faith in the disaggregated components as we do in the estimates that we publish. This is where we focus. These are the numbers that we—

**Senator SHERRY**—You referred to the 8.9 per cent aggregate. Is it the fund earnings tax that has been in a disaggregate greater than the 8.9 per cent? Is it the factors that Dr Rothman has been referring to that have led to a more significant growth in fund earnings tax as distinct from contributions tax, for example, which is the other major component?

**Dr Rothman**—I think relatively it would be more important but I do not know the exact detail. I will explain what normally happens to contributions tax. It goes up because of growth in earnings and it goes up because of increases in employment base. This includes both the compulsory SG and voluntary contributions. If the percentage of voluntary contributions goes up more—for example, we expect the co-contribution to improve the extent of voluntary contributions—then that will also add to the growth.

**Senator SHERRY**—The co-contribution is after tax, isn't it?

**Dr Rothman**—Yes, but there will be some secondary effect in earnings. I am sorry; it is really a secondary effect. It will not actually improve the contributions. They have to be salary sacrifice or employer contributions to be included in this head. The other thing that happens is that from time to time the SG goes up. Its last increase was—

**Senator SHERRY**—That is finished.

**Dr Rothman**—It is but it does take some time for the effects to flow through. There is a pattern of collections. Some of that will still happen even though that last increase happened on 1 July 2002. Some of the growth in 2003-04 will be related to that. In a normal year you might expect contributions to grow perhaps six or seven per cent, something of that order, without any impact of the SG.

**Senator SHERRY**—Was that six to seven?

**Dr Rothman**—I said six to seven, yes.

**Senator SHERRY**—I have asked for this before and I will ask for it again: would you provide the breakdown by category or subcategory of contributions and earnings, contributions tax projections, earnings tax projections and obviously now the transfers from temporary visitors visas, which is included in that figure?

**Mr Tilley**—We will take that on notice.

**Senator SHERRY**—Can you confirm that I have asked for that on previous occasions and it has not been granted? You can confirm that it has not been provided, can't you?

**Mr Tilley**—I do not have that in front of me.

**Senator SHERRY**—You do not recall me asking about this on previous occasions?

**Mr Tilley**—I was not here, unfortunately, but I am aware that you have asked for some of that before—certainly about the temporary residence—and we have taken it on notice.

**Senator SHERRY**—I have asked about the contributions tax before.

**Mr Tilley**—That is the bit I did not have in front of me but I have no doubt that that is the case.

**Senator SHERRY**—Thank you.

**Proceedings suspended from 10.34 a.m. to 10.47 a.m.**

**Senator SHERRY**—I want to go to a number of expenditure and revenue measures that I could not find in the budget papers but have been announced by the Treasurer in his ‘Australia’s demographic challenges’ document and the associated press release.

**Mr McCullough**—Mr Tilley will be able to help you there, I am sure. If you want to give us the first example, Senator, we might be able to help.

**Senator SHERRY**—Press release No. 011 of 25 February has an attachment A containing expenditure measures. Do you know the document I am talking about?

**Mr Tilley**—I think I am familiar with it. In budget paper No. 2, we will present a list of all measures since the previous budget. We have split it between those up to MYEFO and those after MYEFO. If you look at—

**Senator SHERRY**—What page are you looking at?

**Mr Tilley**—page 17—the group of measures that come under the heading, ‘A more flexible and adaptable retirement income system’, there are half-a-dozen measures there.

**Senator SHERRY**—They are the measures I want to go through. Let us go through them and I will get to the issues. Removing the work test for those below age 65 is from the press release; is that there?

**Mr Tilley**—Yes.

**Senator SHERRY**—Let us go to that one first. That is not law yet, is it? We have had a brief exchange—

**Mr Tilley**—We have the policy people down the other end of the table.

**Mr Boneham**—We are hoping to have legislation in place. It will be a regulation amendment by the end of this month.

**Senator SHERRY**—But it requires legislation?

**Mr Boneham**—A regulation amendment.

**Senator SHERRY**—A regulation amendment; that is not unusual. Can you explain the basis for the costings of this measure?

**Mr Tilley**—I can. We are the costings end of the policy. We are unfortunately split across the table.

**Dr Rothman**—It involves—I did not do this personally, but I have had some briefing on it—an assessment of behavioural change by people who have now become eligible who were not eligible before, and it has regard to the attributes of this pool of people. So you identify the pool of people who would not have been eligible before—people who did not meet employment rules or two-year rules and so on—and then you form a view as to what their take-up will be having regard to their age, gender and the general pattern of contribution to

superannuation. So there is a pool of people who were not eligible. We form a view on their take-up based on similarities in age, gender and so on from people who were eligible. That is the basic way that we do it. It is still uncertain; it is a new measure and we cannot be certain about take-up.

**Senator SHERRY**—I understand that but I want to go to some of the specifics. I understand the general approach. What do you mean by the ‘attributes’ of the people, in specific terms?

**Dr Rothman**—I mean things like their age, their gender and their income.

**Senator SHERRY**—And what would identify about their age, their gender and their income?

**Dr Rothman**—We have tax files that we can find those things from. We also have to find the group of people who did not have employment income before and therefore were not eligible for this measure. They may have had investment income but they did not have employment income so they were not eligible. So we find the pool of people—

**Senator SHERRY**—Yes, I understand that. I am trying to find out what these characteristics are. Is Investment income one?

**Dr Rothman**—Yes, their investment income and their age. We know, for example, that older people generally contribute more to superannuation.

**Senator SHERRY**—Let’s just deal with the income issue first. The areas other than employment from which they could receive income could be dividend shares, presumably rental—is rental income included?

**Dr Rothman**—I did not actually do it and I do not recall whether rental income is there, but it would have been a general bundle of income. I do not think we would have made too much fuss whether it was from rental property or from dividends.

**Senator SHERRY**—I just needed to know whether rental income is included, because it is a pretty significant income for some people.

**Dr Rothman**—We certainly have that available on the file, and I imagine it would have been put in as a factor.

**Senator SHERRY**—Did Mr Gallagher do these calculations?

**Dr Rothman**—No, one of my colleagues did them, but she reported directly to Mr Gallagher. I did not personally supervise those calculations.

**Senator SHERRY**—I do not think we can go much further on that then.

**Mr Boneham**—I want to clarify a previous statement that I made. There is also a consequential amendment in relation to the removal of the aged 65 restriction which is currently in the Superannuation Laws Amendment (2004 Measures No. 2) Bill. That is to restrict the deduction for people under age 18.

**Senator SHERRY**—But we have not had the bill for the removal of the work test in parliament.

**Mr Boneham**—It is not actually going to be a bill; it is going to be an amendment to the SIS regulations and the RSA regulations.

**Senator SHERRY**—So there is no other bill in relation to this measure?

**Mr Boneham**—No.

**Senator SHERRY**—And those regulations?

**Mr Boneham**—They will hopefully be gazetted by the end of the month.

**Senator SHERRY**—The end of June?

**Mr Boneham**—Yes.

**Senator SHERRY**—Moving to the provision simplifying the SG notional earnings base: I know that bill has gone through the reps; it obviously has not gone through the Senate. Who has some knowledge of this one?

**Mr Mallory**—That is in the super laws amendment No. 2 bill.

**Senator SHERRY**—I am looking at the costings of that provision. It is a phase-out by 2010, isn't it?

**Mr Mallory**—The introduction of the simplified earnings base will have effect from 1 July 2010, but there is an expectation that employers will gradually move towards that higher earnings base.

**Senator SHERRY**—That is what I find a little odd. You say 'expectation' but it seems to me that under the bill they can hold back till 2010 if they want to. They do not have to do it, in other words.

**Mr Mallory**—They do not have to do it immediately. It would probably seem prudent that they would phase it in and factor it into their cost base. In addition, it is assumed that, with the original SG having been phased in over a period of time to allow the increases to be factored into the remuneration packages for workers, the same thing will take place for those employers moving off the grandfathered earnings basis.

**Senator SHERRY**—Is that the assumption behind the costing—a gradual phase-in?

**Mr Mallory**—I believe that that was the case, yes.

**Senator SHERRY**—Who did the costing?

**Dr Rothman**—I did this costing with one of my colleagues. I am aware of the detail of the costing.

**Senator SHERRY**—Excellent. How have you come up with the figures? Have you assumed an even phase-in over the period through to 2010? How have you calculated a cost when there is no requirement until 2010?

**Dr Rothman**—I can confirm that we assumed a phase-in. We consulted our colleagues in the tax office in finalising this and we agreed on what seemed a plausible phase-in. But we do not know whether our phase-in will be right or not. It is reasonably even.

**Senator SHERRY**—Have you assumed a constant phase-in from 2004-05 through to 2010? I am just looking at the figures. There is the base of \$10 million; you add \$5 million to

get \$15 million; you add \$6 million to get \$21 million; and then you add \$3 million. If it were a constant phase-in cost I would have expected that, rather than plus three in 2007-08, it might have been seven or something like that.

**Mr Tilley**—There is more than one effect going on here. There is the impact of the increase in employer deductions or a reduction in personal income tax, but then there is the contributions tax. Even if you did assume, as I think Dr Rothman said, a reasonably even phase-in—whether it is exactly even I do not know—that does not necessarily translate into an even step-up in the costings, given these different effects going on.

**Senator SHERRY**—So it is not a constant increase in cost, because of that mixture of factors.

**Dr Rothman**—It is a mixture of at least two factors combined together, yes.

**Senator SHERRY**—So the rate of cost is declining slightly in the outer years?

**Mr Tilley**—That is right. As you pointed out, it steps up by five in the first two years and three in the final year.

**Senator SHERRY**—Is that decline in cost likely to continue, Dr Rothman?

**Mr Tilley**—We do not publish the figures beyond 2007-08—

**Senator SHERRY**—I was not asking that.

**Mr Tilley**—but I think your assumption sounds broadly plausible, yes.

**Senator SHERRY**—I think this is going to end up going to the legislation committee anyway. There are a few other questions about some of the assumptions that are made about an employer—surveys et cetera—which involve the Department of Employment and Workplace Relations. Did the detailed survey work on the numbers of people, industries—those sorts of things? That is what it says in the EM.

**Dr Rothman**—We got the best information we could, but there were some limits to the information available on this.

**Mr Mallory**—We and the Department of Employment and Workplace Relations consulted with some of the industry groups to get a feel for the likely impact that was consistent with the government's response to a Senate select committee recommendation where the Senate select committee recommended the removal of the grandfathered earnings basis.

**Senator SHERRY**—Coming back to the announcements, there is a measure in the press release which says, 'Reduce assets test exemption for complying income streams to 50 per cent and allow market linked complying pensions,' and then there are some net costs in the out years. Can you give me some indication of where that is in the budget papers?

**Mr Boneham**—In the budget papers it is actually a Family and Community Services measure, not a Treasury measure.

**Senator SHERRY**—What page is that on?

**Mr Tilley**—It is an expense measure.

**Mr Boneham**—Yes, it is an expense measure.

**Mr Tilley**—I can find it for you.

**Senator SHERRY**—I want to know where the full net cost that is in the press release is contained.

**Mr Boneham**—It is on page 161.

**Mr Tilley**—‘Assets test exemption for income streams’.

**Senator SHERRY**—Thanks for that. There are two components here. There is allowing market linked complying pensions and then there is the reduction in the assets test exemption. What is the breakdown of those sets of figures?

**Mr Boneham**—Those costings are done by Family and Community Services.

**Senator SHERRY**—So you do not have them?

**Mr Boneham**—No.

**Senator SHERRY**—That includes the costing for the market linked complying pensions?

**Mr Boneham**—I believe so.

**Senator SHERRY**—I thought Treasury were doing the work on that.

**Mr Boneham**—The Treasury cost is on the RBL, which is on that page as well. There is a related revenue measure—

**Senator SHERRY**—Which is that?

**Mr Boneham**—That is the cost of extending the market linked income stream to give eligibility to the market linked income stream to the higher pension RBL.

**Senator SHERRY**—‘Allow market linked complying pensions’—that is the RBL stuff, is it?

**Mr Boneham**—Yes.

**Senator SHERRY**—But I recall from previous estimates committees that Mr Brake was the person coordinating the work in this area. I am surprised you do not have the breakdown of the two components of this.

**Mr Boneham**—The main costing on this is the extension of the assets test exemption, which is a Family and Community Services issue rather than a Treasury issue.

**Senator SHERRY**—I understand that, but what is the cost of the market linked pensions?

**Mr Boneham**—On the basis of the tax measure?

**Senator SHERRY**—Yes.

**Mr Boneham**—As I said, that is on page 161. There is a cost of \$100,000 in 2004-05, \$200,000 in 2005-06, increasing to \$400,000 in 2006-07 and \$500,000 in 2007-08.

**Senator SHERRY**—So all the detail on the impact on the number of people, the estimated take-up rates of market linked pensions and the counterbalancing assets test exemption is in FaCS?

**Mr Boneham**—That is right.

**Senator SHERRY**—You do not have any detail on it here at all, other than the RBL?

**Mr Boneham**—I am not aware of how the RBL costing was estimated.

**Senator SHERRY**—You are not aware of that?

**Mr Boneham**—No.

**Senator SHERRY**—And that is the only one that is in the area, apparently.

**Mr Tilley**—We may be able to comment on our part but we cannot comment on the FaCS part. But I am sure they can provide that information. In fact I think they are in another estimates committee next door. I guess you cannot just switch.

**Senator SHERRY**—I cannot be in two places. You were going to comment on the RBL.

**Mr Tilley**—I am saying that that is the bit that is relevant to us. Would we have costed this?

**Dr Rothman**—I did not personally. If you are asking about the exact change to the RBLs, I am not aware of that. Some analysis of market linked pensions was done in our area. It did involve FaCS people as well, because they have detailed information about things like people holding allocated pensions. There will be some movement from allocated pensions to market linked pensions, and we consulted them about that sort of thing. I think we were saying that this is a net; is this exactly the same as the market linked pensions measure, which has been called something different?

**Senator SHERRY**—This is the so-called growth pensions. That is my understanding.

**Dr Rothman**—Okay. We did have an involvement in that, although the final result may not be ours. We did consult with the Department of Family and Community Services about it. It is quite difficult because of behavioural changes again, with people switching their pattern of investment in retirement. As I understand it, some will take up the market linked pensions mainly from allocated pensions. The net cost seems to be very small. A lot of the effects net out.

**Senator SHERRY**—The last measure I want a response on is the compulsory cashing of benefits at age 75. What is the detail of how those estimates were arrived at?

**Mr Tilley**—Are you asking about ‘requiring compulsory payment of superannuation benefits for people over 75’?

**Senator SHERRY**—Yes, I am looking at the press release at the moment. It is on page 19 of Budget Paper No. 2.

**Dr Rothman**—Again, I personally was not involved. We did not know that you going to ask questions about this, so I did not get detailed briefing. As I understand it, primarily the difference is that the money held in the superannuation system is concessionally taxed. When we have the compulsory cashing, these people would have looked in detail at the amounts held by people over 75, and then they would not have to pay income tax outside the superannuation system on those assets. That is primarily the difference between a personal income tax inflow and a loss of superannuation taxes. That is one of the reasons why this thing changes size. It is a timing difference.

**Senator SHERRY**—I would like to move on to—

**Mr Jackson**—Before you do that, I have the information about the agencies involved in the co-contributions campaign. There are a number of agencies. The Campaign Palace did advertising production work, Worthington Di Marzio did the market testing effectiveness test, Universal McCann did the media buy, 3P Pty Ltd did cost benchmarking and Porter Novelli did some ad hoc media placements for us. There are no other planned campaigns this year, subject to any passage of legislation.

**Senator SHERRY**—I now want to go to the measure that we started to touch on earlier—taxation and superannuation compliance, which is on page 260 of Budget Paper No. 2. In the table it says, 'Related revenue,' and there is an explanatory paragraph. There is a lot of money. What is the breakdown of the estimates? What are the particular provisions and components of this measure?

**Mr Carmody**—Do you want me to answer that?

**Mr Tilley**—I think it is a tax office compliance measure.

**Senator SHERRY**—I do not mind as long as someone answers it.

**Mr Carmody**—There is a combination of measures there. Under employer obligations, we have done some pilot work on matching pay-as-you-go withholding credits claimed by employees with amounts remitted to us by employers. Whilst generally there is a high level of compliance, there is an indication of some level of underremitting by employers as a result of that exercise. On the basis of that, we have sought additional funding to address that issue. The second element is our small to medium enterprise compliance. Partly, this is what I was speaking about yesterday, which was concerns about increasing, particularly at the higher end those, our coverage of audits. So we have some additional funding to undertake more intensive risk reviews and, as appropriate, depending on the results of those, to undertake audit activities. I think it has been indicated before to this committee that, with the growth in investment property claims and so on, we are seeking to expand our capital gains tax and rental deductions coverage. As part of that also, I think I mentioned yesterday that we were looking at some profiling of tax agents—because there are some where there are on the face of it higher levels of claims—and also at expanding our review of what seem to be rated as high risk refunds before they are issued. So we have received money for that. In the superannuation surcharge area we have identified a work load where we have not been able to match some of the details provided to us as to the particular employers. We are going to undertake a fairly extensive program to address that situation.

**Senator SHERRY**—Why is that?

**Mr Carmody**—When we do not get tax file numbers from the funds or when they are inaccurate then we have to go through quite a detailed matching program. We already match a high percentage of those or a reasonable percentage of those—

**Senator SHERRY**—At that income level?

**Mr Carmody**—but there is more we can do and we have been provided additional funding to do that.

**Senator SHERRY**—Is that because, at that level of income, you are more likely to get TFNs or do you have a problem matching because there are a lot of people who do not provide TFNs at all and who may not even fall into the surcharge tax?

**Mr Carmody**—That is one of the issues. We have to then find out which ones are likely to fall into the surcharge category and then proceed from there.

**Senator SHERRY**—They are issued with an assessment, aren't they?

**Mr Carmody**—The fund gets the surcharge.

**Senator SHERRY**—The fund gets the assessment. But that includes people who do not provide TFNs?

**Mr Jackson**—Where we are able to match them it does include it. On some occasions it is quite difficult to be sure in the match. This will help us to do some additional work around that matching.

**Senator SHERRY**—So you issue assessments against the fund for people who should not be paying it, effectively?

**Mr Carmody**—No. What we are saying is that we get details from funds that we then match to the individual employees to determine whether they are in the range that requires surcharge to be paid. We get every detail, so we have to do a matching to try and get to the ones who should be paying surcharge. At the moment, we have a number of what are called exceptions, where we do not have the immediate information to enable that matching. It has become a fairly intensive work load, so there is some additional funding here to catch up on the backlog of those. They are the issues that give rise to collections of government revenue. There are also improvements for superannuation guarantee, but they go towards the employee.

**Senator SHERRY**—Yes, I will get to that in a second. We have very precise related revenue for each year. For the measures you have gone through, what is the detail of the revenue from those areas?

**Mr Carmody**—Next year—

**Senator SHERRY**—Yes, take next year as an example.

**Mr Carmody**—Taking next year as an example, on employer obligations excluding the surcharge, there is collections revenue of \$85 million. For the small to medium enterprises it is \$10 million, although that rises to \$35 million to \$45 million because there is a period of implementation. Again, I think the bulk of that revenue is at the higher end of that market. For the individuals market—that is, profiling agents, capital gains tax, rental deductions et cetera—to be quite precise, there is \$12.4 million in the initial year. Again, that rises more substantially in later years as you are implementing it. The surcharge next year is \$36 million. That is cash collections.

**Senator SHERRY**—Do you have the figures for the other years?

**Mr Carmody**—Yes.

**Senator SHERRY**—I do not want them verbally, but can you give a copy to the committee?

**Mr Carmody**—I have them in other papers, but we can get a copy quickly.

**Senator SHERRY**—What intrigued me was the big jump in 2005-06, which then drops back in the two following years. Why is that?

**Mr Carmody**—Some of these involve backlogs of issues.

**Senator SHERRY**—I am assuming you do not have figures beyond 2007-08.

**Mr Carmody**—No.

**Senator SHERRY**—Does that rate of decline continue or does it level off at some point?

**Mr Carmody**—We have done figures for 2007-08. The main ones where there are backlogs are in the superannuation surcharge. As I mentioned, that is an area where we have had issues.

**Senator SHERRY**—But seven years on the surcharge has been kicking along.

**Mr Carmody**—Yes.

**Senator SHERRY**—You are getting another \$36 million from changing the administrative system again. I am not complaining about improving the system.

**Mr Carmody**—It is just improving the system. As I said, we have done a fair bit of work in the matching of these but we have not been successful in handling it as well as we could have been, so we have gone to the government to get extra funding to assist us there.

**Senator SHERRY**—The other issue I was going to refer to in this program is this. There is a reference to lost superannuation: '4.6 million accounts will be matched with tax file numbers'. What does that mean? What are you doing?

**Mr Jackson**—We now have a fairly high penetration of tax file numbers in the lost members register. We are talking about the lost members register here. We have a fairly high penetration of file numbers. We have three current activities for matching. One of those is that we simply respond to telephone calls, and I think we get about 10,000 calls a month or something of that nature. We have a SuperSeeker product, which allows individuals to log onto our web site, and we have a SuperMatch product, which allows funds to do that. I guess what those products are doing is maintaining the lost members register at around about the level it is now. It has been between 4.5 million and 4.7 million or 4.8 million for some time.

**Senator SHERRY**—That is the number but not the quantum.

**Mr Jackson**—That is the number of accounts that are on there, yes.

**Senator SHERRY**—The quantum is going up at about half a billion dollars a year.

**Mr Jackson**—The revenue amount is, yes. I guess that reflects growth and other things in the economy.

**Senator SHERRY**—Yes.

**Mr Jackson**—We are looking here to take some additional action. That will probably include matching the TFN and the lost members register with tax return information to get a current address and then writing to that person to say: 'We think you may have money in such and such a place. You might want to contact the trustee of that fund and you may want to

move that money to your active account.’ There is a whole lot of issues around that, as you would appreciate, including the hurdle of releasing money out of existing funds into a separate fund and issues of whether or not people want to do that. We did some analysis previously and people wanted to leave it there.

**Senator SHERRY**—It is a more proactive approach.

**Mr Jackson**—It is.

**Senator SHERRY**—Essentially, you notify them where you can but it would still require the active decision making of the individual.

**Proceedings suspended from 11.19 a.m. to 11.23 a.m.**

**CHAIR**—The hearing is resumed.

**Senator SHERRY**—Mr Jackson, to continue with the issue of the matching with TFNs: will it still require the active decision of the individual to contact the fund to get the clearance to consolidate the account?

**Mr Jackson**—Yes, it will. We will simply advise them that they may have money there and the name of the fund. We have not quite finalised the process yet, but we will probably give them contact details and those kinds of things to make it as easy as possible.

**Senator SHERRY**—Have you had a look at the number of tax file numbers you have got on the lost superannuation register?

**Mr Jackson**—Yes. It is about 84 per cent.

**Senator SHERRY**—Has it been increasing over time?

**Mr Jackson**—Yes, it has been increasing.

**Senator SHERRY**—Do you have any further information on the increasing collection of TFNs on the register?

**Mr Jackson**—I have not got a trend series on that, I am afraid.

**Senator SHERRY**—For the 4.6 million lost super accounts, you have 84 per cent of TFNs at the present time?

**Mr Jackson**—That is right.

**Senator SHERRY**—Okay.

**Mr Jackson**—I have just been trying to check that it is not 87. I am pretty sure it is 84 per cent. It is either 84 or 87, but I am pretty sure it is 84.

**Senator SHERRY**—But has the trend been increasing?

**Mr Jackson**—Yes, it has been. I do not have the series, but it has been increasing.

**Senator SHERRY**—You might take on notice if you have the series. Presumably if we went back, say, 10 years, there would have been fewer TFNs provided for lost accounts?

**Mr Jackson**—Yes. I am not sure when the lost members register was set up, but certainly initially there would have been relatively lower numbers, and now it is getting quite high.

**Senator SHERRY**—Yes. With respect to the moneys other than lost superannuation—other superannuation moneys that are sitting in ERFs, or eligible rollover funds, which is where most of the lost moneys sit—are you going to TFN those people?

**Mr Jackson**—We will be dealing with any individuals who are listed on the lost members register.

**Senator SHERRY**—It is only the lost members?

**Mr Jackson**—Yes.

**Senator SHERRY**—So you have not had a look at other unclaimed moneys in super that are sitting in ERF accounts—

**Mr Jackson**—Other registers? No, we have not.

**Senator SHERRY**—where they are not declared lost. There are other categories of moneys in ERFs.

**Mr Jackson**—I guess there is probably an infinite amount of work that could be done around reuniting people with their super. People do change jobs, move on and change addresses all the time, but we have the responsibility for the lost members register. That is where our focus is. We need to start there.

**Senator SHERRY**—Even though you have 84 per cent TFNs, you are not suggesting that you would be able to track down 84 per cent of the people, are you? Before you answer, there is a reason I would suggest that you are still going to have a problem. Let us take someone who has gone overseas, for example, who has a TFN. They would be more difficult to contact.

**Mr Jackson**—They will be. As I said, it depends upon the match with the TFN. We look at the person's tax return information and see if we have a current address for them. If we have a current address for them, that is the sort of person we would endeavour to contact over a period of time. They may have gone overseas, and I am sure there will be some names on there like Mickey Mouse, and other things. There will be some of those kinds of things where we will find it difficult to contact people.

**Senator SHERRY**—I am sure there would be too, but how would they have a TFN?

**Mr Jackson**—I do not know.

**Senator SHERRY**—They do get TFNs, do they?

**Mr Jackson**—They may not have TFNs, but there will be other names on the register. Not only those with TFNs are on the register; there are those with none.

**Senator SHERRY**—Yes, I know. Are there any legislative or regulatory requirements necessary for the implementation of this measure?

**Mr Jackson**—No, not as far as I am aware. Obviously we will just reconfirm that before we start moving ahead. Eighty-four per cent is the correct number. The answer to your question is: not that we are aware, because what we are doing is essentially a voluntary activity. We are simply advising these people that we believe there is money in an account that they may not be aware of and if they would like to move that money to an active account

they can do so. As things stand, there are about a million accounts that churn each year—it is quite a high turnover; that is not a static number.

**Senator SHERRY**—No, I know that. They are constantly coming on and off.

**Mr Jackson**—Correct.

**Senator SHERRY**—Presumably there is a hard core that have been there for a long time.

**Mr Jackson**—There would be, and we have sampled some in the past, particularly at the higher levels. People have said that they know the money is there and they are quite happy for it to stay there.

**Senator SHERRY**—I understand the recent announcement on same-sex super or interdependent relationships will require a legislative change.

**Mr Coles**—Yes, there are amendments to both the Superannuation Industry (Supervision) Act and the Income Tax Assessment Act.

**Senator SHERRY**—I understand that they are not in the bill that was passed by the Reps this week, are they?

**Mr Coles**—They have not been included in any bills yet. That is correct.

**Senator SHERRY**—So they are being drafted?

**Mr Coles**—They are in the process of drafting.

**Senator SHERRY**—Which bill?

**Mr Coles**—I do not think that has been finalised as yet.

**Senator SHERRY**—Costings?

**Mr Coles**—As I understand it, they have not been finalised yet either.

**Senator SHERRY**—Are they being done at the moment?

**Dr Rothman**—We have done preliminary costings and we are consulting with our colleagues at the tax office to refine those costings.

**Senator SHERRY**—So there is a cost?

**Dr Rothman**—There is a cost.

**Senator SHERRY**—I remember discussing the issue of same-sex couples and super with Treasury on a previous occasion and I think it was indicated that it was not that they could not do it but that they would find it very difficult to come up with an accurate costing.

**Mr Tilley**—Sometimes that is the case. We have a style in the budget papers: when we think the cost is zero we present it a particular way; when we think it is unquantifiable, but not zero, we put stars. We are hopeful that we can do a costing, where you can actually quantify a costing, but there are degrees of uncertainty, obviously.

**Senator SHERRY**—When will the amendments be released—has a date been determined yet?

**Senator Coonan**—No, it has not—the officers are correct. We have got four superannuation bills coming up: SLAB 1 and 2, the budget co-contribution surcharge and

choice. I have not decided yet which bill to put it into. The drafting is being finalised but it has not been released. I have not got a date for it.

**Senator SHERRY**—We had a brief discussion yesterday about the proposed changes to the superannuation regulations on small superannuation funds. Are you able to provide any further detailed information about the quantum of alleged levels of abuse occurring in this sector?

**Mr Coles**—As we discussed yesterday, it is not possible to quantify or estimate the total costs of those superannuation integrity measures because funds are not required to report this information. The other thing is that we need to take into account that these arrangements were legal, in effect, in defined benefit pension issues. However, to give a flavour to the potential costs, the government is aware of one individual that saved around \$1 million in tax through the RBL compression arrangement alone. There are also some additional age pension costs outside the Treasury portfolio. As I also identified yesterday afternoon, the government was concerned about the rather rapid promotion and possible take-up of the arrangements, so it has acted to nip it in the bud quickly. I guess the real concern was that we did not want some future mass marketed scheme type of arrangement to develop. We want to make sure that the law is clear and clarified.

**Senator SHERRY**—How did you become aware of that example? That is a pretty substantial figure that you have given.

**Mr Coles**—Information was sought from the ATO as to whether the arrangement was appropriate.

**Senator SHERRY**—By whom?

**Mr Coles**—By a financial planner. We also have seen other tables of the promotion of it. I was not at the conference myself but at least one person has said that there are no RBL problems through this defined benefit pension. The payment of the RBL is discretionary.

**Senator SHERRY**—Do you have the written material from that conference?

**Mr Coles**—As I said, I was not at that conference. I think that comment was made by the presenter and was not included in his written documents. I have been given some of the papers of that conference.

**Senator SHERRY**—Including that paper?

**Mr Coles**—That is correct.

**Senator SHERRY**—Will you provide that to committee please?

**Mr Coles**—We should be able to do that.

**Mr Tilley**—I think Mr Coles was saying that it was an oral comment.

**Mr Coles**—Yes, it was an oral comment and not included in the paper. It was a presentation. As you know, Senator, often at these conferences you provide a written paper and then you talk to your written paper.

**Senator SHERRY**—This is hardly overwhelming evidence you are giving us. It is pretty scarce on the ground.

**Mr Coles**—I think Senator Murray said yesterday that he was seeing very widespread promotion of it as well, so it is not just Treasury or the ATO who identified this arrangement. If you do some Web searches and things like that you will find that the information is often alluded to. There is not a lot of direct promotion of it but it certainly is promoted.

**Senator SHERRY**—Has the ATO done a job in this area? Mr Carmody and Mr Jackson, have you had people checking up on these arrangements in the last couple of years to ferret out these activities?

**Mr Jackson**—No, they are currently legal.

**Senator SHERRY**—Yes. They are legal but have you done an assessment? Have you sent people in and done surveys of these small super funds to find out the level of activity?

**Mr Jackson**—No, we have not done that.

**Senator SHERRY**—As much as I am sympathetic to the measure—

**Senator Coonan**—It is also a prudential measure that would cause a prudential problem.

**Mr Coles**—That is correct. On one side there is RBL compression, which is the industry term; the other side of it is, as we have been advised by the Government Actuary, that the funds are prudentially unsound. So the government reacted on the integrity of the retirement incomes system, but it also identified that small funds as a whole are somewhat restricted in the guarantee that they are able to provide a defined benefit pension.

**Senator SHERRY**—Obviously the issue of the RBL compression requires the actuary, whoever that is, to certify it. Have there been any discussions with the Institute of Actuaries of Australia, for example, to determine whether actuaries are behaving within their code of ethics and not outside of the behaviour that the Institute of Actuaries would expect?

**Mr Coles**—As is general with integrity measures, we do not raise the issue with industry. We sought advice from the Australian Government Actuary in relation to the measure and he said that it can be done. As I understand it, there is a divergence of views within the actuarial profession as to whether it is an appropriate outcome for small funds to provide these pensions. So, in direct answer to your question, no, we did not consult with the Institute of Actuaries.

**Senator SHERRY**—Have you identified any actuary or actuaries actively involved in this work of RBL compression?

**Mr Coles**—I have not personally identified any actuaries involved. We know that they must be out there because these arrangements are being promoted and, presumably, implemented.

**Senator SHERRY**—Whether it is you personally or not, has the tax office or Treasury identified people who are more active than others in this area?

**Mr Jackson**—We have not identified anybody.

**Mr Coles**—You might recall, Senator, you also commented in the media in December last year in relation to this issue, so I think that you were raising concerns about the issue yourself. While I do not have the media release, I think there was a comment that this was occurring.

**Senator SHERRY**—Yes. I am just interested to see what evidence you have gathered as a result of media comments that do occur around this issue from time to time. I am a little surprised that so far you do not have more material.

**Mr Coles**—As we identified, the arrangement was probably at the initiation stage, where it was germinating, and we sought to nip it in the bud.

**Senator SHERRY**—I am assuming that Treasury had an input, but did you have an input in the *More help for families* document, which gives the little cameos of the benefit from *More help for families*.

**Mr Tilley**—Are you referring to the cameos in one of the glossies that were released by the Treasurer as part of the budget?

**Senator SHERRY**—Yes. There are about 20 or 30 of them, I think. You had an input into that?

**Mr Tilley**—Yes.

**Senator SHERRY**—There is a series of columns in the document that show the increased assistance and the total additional benefit per annum, per week. Was Treasury providing the data on the government's superannuation co-contribution per annum?

**Mr Tilley**—Yes.

**Senator SHERRY**—I notice there is also a column in all of them: 'Disposable income per annum'. Have you noticed that? You have the document there?

**Mr Tilley**—I have it in front of me.

**Senator SHERRY**—It has 'Private income per annum', and it has the income levels, starting at zero, going up the scale. Is it realistic to portray a person with a private income of zero as having a reasonable expectation of picking up the \$500 increase in the co-contribution?

**Mr Tilley**—This was put together as part of the whole package, so I do not know all these in detail, but these are cameos. It is not an average outcome. It is a cameo of a—

**Senator SHERRY**—Best case scenario.

**Mr Tilley**—It is a cameo of a situation that could occur.

**Dr Rothman**—That can arise, yes. It is potential.

**Senator SHERRY**—But it is not a guaranteed outcome for those people, is it?

**Dr Rothman**—No, it is not a guarantee.

**Mr Tilley**—It would depend on the particular circumstances. The thing about cameos is that you are trying to describe a certain situation rather than saying, 'This is the case for everyone.'

**Senator SHERRY**—It is a hypothetical situation?

**Mr Tilley**—It describes a situation of someone with certain characteristics.

**Senator SHERRY**—Dr Rothman, you would have—you may not have—looked at the detail. We have already touched on the assumptions with respect to the co-contribution

scheme. From a modelling perspective, if a person is on a private income of zero, what do you think is a reasonable expectation that they will be putting \$1,000 into superannuation?

**Dr Rothman**—I do not know that, Senator. I know that it is possible. We have conceived of a case where it is possible.

**Senator SHERRY**—It is ‘possible’.

**Dr Rothman**—It is possible.

**Senator SHERRY**—Would you rate it as low, medium or high?

**Dr Rothman**—I do not know.

**Senator SHERRY**—You must make assumptions about this to do the costings.

**Mr Tilley**—We do to do costings, but that is a different issue from cameos.

**Dr Rothman**—There are people with quite low taxable incomes who are making member contributions now. We have those individuals on our files.

**Senator SHERRY**—Good. I am glad you have the individuals in the files; you can give us more details.

**Dr Rothman**—We do not have comprehensive files. The tax office has comprehensive files. We have a large sample.

**Senator SHERRY**—Sorry?

**Dr Rothman**—The tax office has a comprehensive data set; we have a large sample in which individuals are not identified.

**Senator SHERRY**—Let us come back to the tax office then. How many people in its data series does the tax office have on a private income per annum of zero making contributions? I am just interested to know what the approximate number is.

**Mr Jackson**—I have not got a number like that to hand. I will have to take that on notice.

**Senator SHERRY**—But it would not be very high, would it?

**Mr Jackson**—I think you are asking me the same question you just asked the Treasury—

**Senator SHERRY**—They have referred me to you, so what would you expect?

**Mr Jackson**—I do not know. I think commonsense would suggest an answer, but I do not know.

**Senator SHERRY**—I was going to say: what would your commonsense then suggest, Mr Jackson?

**Senator Coonan**—He does not know.

**Senator SHERRY**—Bugger all, I suspect.

**Mr Jackson**—I do not know, Senator. I could get you the numbers.

**Senator SHERRY**—Okay, if you could get the number of people contributing with private incomes per annum of zero. I know there would be some, but these cameos give the impression that everyone is going to do it. The production of the cameos and the final sign-off of them went through the Treasurer’s office, I assume, with the budget papers.

**Mr Tilley**—The budget papers are the Treasurer's. Treasury obviously provides the substantial advice in the preparation of them but, in the end, the Treasurer publishes the papers. But these are obviously prepared by Treasury.

**Senator SHERRY**—With input from the Treasurer's office obviously, and the Treasurer himself, I assume.

**Mr Tilley**—Of course. But, in terms of the actual production process, there is a lot of us and only one Treasurer so, obviously, we do the work to put it all together.

**Dr Rothman**—Mr Tilley said there were a lot of us. He was not implying that there were too many of us.

**Mr Tilley**—That is not a savings option, Senator!

**Senator SHERRY**—There are some issues I have not raised because Mr Gallagher is not here, but that is it.

**Mr Carmody**—There was a question about a reply to the November estimates by Senator Wong—there was some uncertainty whether the committee had it or not. Do we know whether the committee had it? If not, I have a copy here.

**CHAIR**—We have received it, thanks, Mr Carmody. That concludes the examination of the budget estimates for the Treasury, 2004-05. I thank officers of the Treasury, of the Australian Taxation Office and of agencies within the department for their ready cooperation, and the secretariat and Hansard for their assistance. These estimates hearings are concluded.

**Committee adjourned at 11.48 a.m.**