Parliamentary
Budget Office

Policy costing

Corporate Super Profits Tax		
Person/party requesting the costing:	Mr Adam Bandt MP, Australian Greens	
Date costing completed:	18 June 2021	
Expiry date of the costing:	Release of the next economic and fiscal outlook report.	
Status at time of request:	Submitted outside the caretaker period	
	☒ Confidential	☐ Not confidential

Summary of proposal:

This proposal would introduce a new super-profits tax at a rate of 40 per cent that would apply to company profits that exceed an allowance for a corporate equity threshold with effect from 1 July 2022.

Only post company tax Australian sourced profits would be subject to the super-profits tax and the allowance for corporate equity threshold would equal shareholder equity multiplied by 5 per cent plus the long-term bond rate.

- Companies would be entitled to a tax offset that would refund the equivalent of the super-profits tax paid on the first $100 million of turnover.
- The allowance for corporate equity means that if a company's return on equity is below 5 per cent plus the long term bond rate, no super-profits tax would be payable.
  - A company in this situation would accrue super-profits tax losses which could be carried forward to later years and used to offset future super-profits tax liabilities.
- Companies would be able to look back over the ten years prior to the introduction of the tax and accumulate a balance of super-profits losses that could be utilised from the start of the proposal.
- Super-profits tax would not be deductible for company tax purposes.
- The payment of the super-profits tax would generate dividend imputation franking credits.
- Mining and oil and gas companies liable for resources rent taxes would be exempt from this proposal.

Costing overview

The proposal would be expected to increase the fiscal and underlying cash balance by $52,880 million over the 2021-22 Budget forward estimates. This impact reflects an increase in revenue of $53,000 million and an increase in departmental expenses of $120 million.

This proposal would be expected to have an ongoing impact that extends beyond the 2021-22 Budget forward estimates period. A breakdown of the financial implications over the period to 2031-32 is included at Attachment A.

Australian Taxation Office departmental costs to collect and ensure compliance with the super-profits tax are estimated to be $20 million per year with additional set-up costs of $60 million in 2021-22.

There is no difference between the fiscal and underlying cash balance.

Uncertainty

There is a **very high degree of uncertainty** associated with this costing.

The two components that form the basis for the super-profits tax are very sensitive to international and domestic economic conditions. Company after tax profit represents the net of two relatively large revenue and cost amounts which themselves can be quite volatile. The value of shareholder equity can also fluctuate over time. Any short-term fluctuations around the time of the equity valuation may affect the tax payable. Any of these sources of volatility could have significant implications on the amount of tax payable from year to year.

There are also inherent uncertainties associated with the methodology used to undertake the costing because it is based on historic levels of economic activity and company profits.

There is also considerable uncertainty associated with projecting the super-profits tax revenue into future years, especially given the uncertainty about growth in different industries. For example, the recent increases in iron ore prices have resulted in significant increases in mining industry profits while other industries, such as travel, accommodation and tourism have had significantly lower profits because of COVID-19.

Table 1: Financial implications ($m)[(a)]

	2021–22	2022–23	2023–24	2024–25	**Total to 2024–25**
Fiscal balance	-60	17,280	17,380	18,280	**52,880**
Underlying cash balance	-60	17,280	17,380	18,280	**52,880**

(a) A positive number represents an increase in the relevant budget balance; a negative number represents a decrease.

– Indicates nil.

Key assumptions

The Parliamentary Budget Office (PBO) has made the following assumptions in costing this proposal.

- Super-profits tax paid have been reduced by 20 per cent to account for an estimated behavioural response by companies in order to reduce their tax liability.
- The super-profits tax would be calculated and paid on a quarterly basis.
- The following dividend imputation assumptions were made.
  - Companies would pay out 70 per cent of their after tax profits as dividends.
  - Domestic shareholders would receive 40 per cent of total dividends paid out and would have an average marginal tax rate of 32 per cent.

Methodology

Super-profits tax

The financial implications of this proposal were estimated using a microsimulation model developed by the PBO that uses historical longitudinal data over the period from 2003-04 to 2017-18. The historical financial implications were then grown over the actual period that the tax would apply (from 2022-23 onwards).

- The super-profits tax liability for each affected company is determined based on their reported net profit, turnover and shareholder equity for each historical financial year.
- Super-profits tax losses were then accumulated over the ten years prior to 1 July 2014 (the simulated start date) for each company. The accumulated super-profits loss balance was used to offset any super-profits that were made in the years following 1 July 2014. Additional super-profits tax losses that accrue after 1 July 2014 were also added to the balance.
- If no prior year super-profits tax losses were accumulated prior to 1 July 2014 the company would become liable for super-profits tax from the simulated start date if its return was large enough.
- The first year impact of the proposal was the average historical super-profits tax estimate for the years between 2014-15 and 2017-18. This impact was then grown over the period from 1 July 2022 to 2031-32 by Treasury's corporate gross operating surplus growth parameter.
- As specified in the proposal, the estimates take into account the imputation system flow through effect on personal income tax.
  - Super-profits tax would lower company profits and in turn the distribution of dividends.
  - Super-profits tax paid also generate franking credits.

The financial implications have been rounded consistent with the PBO's rounding rules as outlined on the PBO Costings and budget information webpage.[1]

Other

- Ongoing departmental expenses to administer the proposal were based on the departmental expenses for previous measures with similar levels of administrative complexity. The additional upfront setup cost in 2021-22 represents the costs of preparing to implement the new tax.

Data sources

The Australian Taxation Office provided company tax return data for the 2003-04 to 2017-18 financial years.

Commonwealth of Australia, *2021-22 Budget*, Canberra: Commonwealth of Australia

Commonwealth of Australia, *2020-21 Mid-Year Economic and Fiscal Outlook,* Canberra: Commonwealth of Australia

[1] https://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Budget_Office/Costings_and_budget_information

Attachment A – Corporate Super Profits Tax – financial implications

Table A1: Corporate Super Profits Tax – Fiscal and underlying cash balances ($m)[(a)]

	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27	2027–28	2028–29	2029–30	2030–31	2031–32	Total to 2024–25	Total to 2031–32
Revenue													
Super-profits tax	-	*17,300*	*24,000*	*25,200*	*26,800*	*28,400*	*30,000*	*31,600*	*33,300*	*34,900*	*36,800*	***66,500***	***288,300***
Personal income tax	-	-	*-6,600*	*-6,900*	*-7,300*	*-7,800*	*-8,200*	*-8,700*	*-9,200*	*-9,600*	*-10,100*	***-13,500***	***-74,400***
Total – revenue	**-**	**17,300**	**17,400**	**18,300**	**19,500**	**20,600**	**21,800**	**22,900**	**24,100**	**25,300**	**26,700**	**53,000**	**213,900**
Expenses													
Departmental													
ATO	*-60*	*-20*	*-20*	*-20*	*-20*	*-20*	*-20*	*-20*	*-20*	*-20*	*-20*	***-120***	***-260***
Total – expenses	***-60***	***-20***	***-20***	***-20***	***-20***	***-20***	***-20***	***-20***	***-20***	***-20***	***-20***	***-120***	***-260***
Total	**-60**	**17,280**	**17,380**	**18,280**	**19,480**	**20,580**	**21,780**	**22,880**	**24,080**	**25,280**	**26,680**	**52,880**	**213,640**

(a) A positive number for the fiscal balance indicates an increase in revenue or a decrease in expenses or net capital investment in accrual terms. A negative number for the fiscal balance indicates a decrease in revenue or an increase in expenses or net capital investment in accrual terms. A positive number for the underlying cash balance indicates an increase in receipts or a decrease in payments or net capital investment in cash terms. A negative number for the underlying cash balance indicates a decrease in receipts or an increase in payments or net capital investment in cash terms.

\- Indicates nil.