



24 April 2020

Unlegislated measures carried forward in the budget estimates – April 2020

As part of its role of enhancing public understanding of the budget, the Parliamentary Budget Office (PBO) prepares an annual *Unlegislated measures carried forward in the budget estimates* report. This year's report provides updated estimates of the financial impact of two significant unlegislated measures that are included in the Government's budget baseline:¹

- **Research and development tax incentive reforms** – estimated to increase the underlying cash balance by \$6,160 million over the period from 2021–22 to 2029–30.
 - These reforms were first introduced in the 2018–19 Budget measure *Better targeting the research and development tax incentive* and later revised in the measure *Better targeting the research and development tax incentive – refinements* that was announced at the 2019–20 Mid-Year Economic and Fiscal Outlook (MYEFO).
 - The 2018–19 Budget measure introduced an intensity based research and development tax offset for large entities, increased the maximum amount of research and development expenditure eligible for concessional research and development tax offsets, and introduced a cap on cash refunds from the refundable tax offset.
 - The 2019–20 MYEFO measure revised the start date to 1 July 2019 and changed the number of intensity thresholds and rates.
- **Indigenous Recognition Referendum** – estimated to decrease the underlying cash balance by \$188 million in 2020–21. This measure was included in the 2016 Pre-election Economic and Fiscal Outlook.

It is important to note that much of this financial impact is incorporated in the 2019–20 MYEFO baseline and the PBO's estimates of significant unlegislated measures take into account new information since the measures were published.

The *Frequently asked questions* page of the PBO website contains further information on our costings approach.

The PBO welcomes feedback on its publications. Please send any suggestions for improvement or other comments to feedback@pbo.gov.au.

What is a significant unlegislated measure?

A measure that:

- requires legislation
- would have increased or decreased the underlying cash balance by at least \$100 million in any year of the forward estimates when announced, and
- the start date has passed or it has been more than a year since the measure appeared in budget or MYEFO papers.

¹ The baseline does not take account of the likely effects of the COVID-19 pandemic or associated policy response.

Unlegislated measures carried forward in the budget estimates — April 2020

Table 1: Estimated impacts of unlegislated measures, underlying cash balance impact (\$m)^{(a)(b)}

	2019–20	2020–21	2021–22	2022–23	Total to 2022–23	2023–24	2024–25	2025–26	2026–27	2027–28	2028–29	2029–30	Total to 2029–30	Assumed start date
Revenue measures														
<i>Research and development tax incentive reforms^{(c)(d)}</i>	-	-	685	564	1,249	604	636	666	698	732	768	807	6,160	1 July 2019
Expense measures														
<i>Indigenous Recognition Referendum^(e)</i>	-	-188	-	-	-188	-	-	-	-	-	-	-	-188	2020–21
Impact of unlegislated measures on the underlying cash balance^(f)	-	-188	685	564	1,061	604	636	666	698	732	768	807	5,972	
Impact of unlegislated measures on the underlying cash balance (% of GDP)	-	

Source: Commonwealth budget papers, Department of Finance unlegislated measures list, Department of Treasury nominal gross domestic product (GDP) forecasts and projections, and PBO analysis.

- (a) Estimates have been prepared with the latest information available to the PBO. Updated estimates take into account new data and economic parameters since the measure was published, the impact of changes in Government policies, and revisions to implementation timing, where relevant. A positive number indicates an increase in receipts or a decrease in payments. A negative number indicates a decrease in receipts or an increase in payments.
- (b) There is particular uncertainty around costing estimates at present given the significant impact the COVID-19 pandemic is expected to have on the budget and economic forecasts. Costings have been undertaken against the budget baseline as at the 2019–20 MYEFO, which does not take account of the likely effects of the COVID-19 pandemic or associated policy response.
- (c) The PBO has estimated the total cost of implementing the full suite of reforms to the research and development tax incentive that require legislation. This includes the measure *Better targeting the research and development tax incentive* announced at the 2018–19 Budget, as modified by the measure *Better targeting the research and development tax incentive – refinements* announced at the 2019–20 MYEFO. The PBO has costed the effects of this measure using 2017–18 company tax data which was not available for the 2019–20 MYEFO.
- (d) Given the current reporting date of 7 August 2020 for the Senate Economics Legislation Committee, the PBO has assumed that the measure will not be legislated before 30 June 2020. As such, the PBO has adjusted the timing of receipts and payments related to the 2019–20 income year to coincide with the expected lodgement of amended tax returns from 2020–21. This affects the profile of the estimates, but not the aggregate financial impact. A later start date would change the costing estimates presented here.
- (e) The PBO has assumed the referendum would be conducted in 2020–21, separate to a general election process. The cost of undertaking a referendum in 2020–21 was estimated by growing the original estimates published in the 2016 Pre-election Economic and Fiscal Outlook by movements in the consumer price index and growth in the Australian population.
- (f) Totals may not add due to rounding.
 - Indicates nil.
 - .. Indicates not zero but rounded to zero.

Table 2: Estimated impacts of unlegislated measures, fiscal balance impact (\$m)^{(a)(b)}

	2019–20	2020–21	2021–22	2022–23	Total to 2022–23	2023–24	2024–25	2025–26	2026–27	2027–28	2028–29	2029–30	Total to 2029–30	Assumed start date
Revenue measures														
<i>Research and development tax incentive reforms^{(c)(d)}</i>	178	314	611	584	1,687	625	658	689	722	757	795	833	6,766	1 July 2019
Expense measures														
<i>Indigenous Recognition Referendum^(e)</i>	-	-188	-	-	-188	-	-	-	-	-	-	-	-188	2020–21
Impact of unlegislated measures on the fiscal balance^(f)	178	126	611	584	1,499	625	658	689	722	757	795	833	6,578	
Impact of unlegislated measures on the fiscal balance (% of GDP)	..	..	..	..		..	..	..	..	..	..	..

Source: Commonwealth budget papers, Department of Finance unlegislated measures list, Department of Treasury nominal gross domestic product (GDP) forecasts and projections, and PBO analysis.

- (a) Estimates have been prepared with the latest information available to the PBO. Updated estimates take into account new data and economic parameters since the measure was published, the impact of changes in Government policies, and revisions to implementation timing, where relevant. A positive number indicates an increase in revenue or a decrease in expenses. A negative number indicates a decrease in revenue or an increase in expenses.
- (b) There is particular uncertainty around costing estimates at present given the significant impact the COVID-19 pandemic is expected to have on the budget and economic forecasts. Costings have been undertaken against the budget baseline as at the 2019–20 MYEFO, which does not take account of the likely effects of the COVID-19 pandemic or associated policy response.
- (c) The PBO has estimated the total cost of implementing the full suite of reforms to the research and development tax incentive that require legislation. This includes the measure *Better targeting the research and development tax incentive* announced at the 2018–19 Budget, as modified by the measure *Better targeting the research and development tax incentive – refinements* announced at the 2019–20 MYEFO. The PBO has costed the effects of this measure using 2017–18 company tax data which was not available for the 2019–20 MYEFO.
- (d) Given the current reporting date of 7 August 2020 for the Senate Economics Legislation Committee, the PBO has assumed that the measure will not be legislated before 30 June 2020. As such, the PBO has adjusted the timing of revenue related to the 2019–20 income year to coincide with the expected lodgement of amended tax returns from 2020–21. On a fiscal balance basis, the timing of expenses related to the refundable tax offset is unchanged as these accrue in the year of the activity. A later start date would change the costing estimates presented here.
- (e) The PBO has assumed the referendum would be conducted in 2020–21, separate to a general election process. The cost of undertaking a referendum in 2020–21 was estimated by growing the original estimates published in the 2016 Pre-election Economic and Fiscal Outlook by movements in the consumer price index and growth in the Australian population.
- (f) Totals may not add due to rounding.
- Indicates nil.
- .. Indicates not zero but rounded to zero.

Table 3: Financial implications of unlegislated measures as originally published, fiscal balance impact (\$m)^(a)

	2017–18	2018–19	2019–20	2020–21	2021–22	2022–23	Total to 2022–23	Original start date
Revenue measures								
<i>Better targeting the research and development tax incentive^(b)</i>	-	-	175	435	585	570	1,765	1 July 2019
Expense measures								
<i>Indigenous Recognition Referendum^(c)</i>	-160	-	-	-	-	-	-160	2017–18
Impact of unlegislated measures on the fiscal balance^(d)	-160	-	175	435	585	570	1,605	

Source: Commonwealth budget papers, Department of Finance unlegislated measures list, Explanatory Memorandum to the Treasury Laws Amendment (Research and Development Tax Incentive) Bill 2019, and PBO analysis.

- (a) Estimates provide the fiscal balance impact of the original measure. A positive number indicates an increase in revenue or a decrease in expenses. A negative number indicates a decrease in revenue or an increase in expenses.
- (b) The estimates are from the Explanatory Memorandum to the Treasury Laws Amendment (Research and Development Tax Incentive) Bill 2019 before Parliament. The Bill implements the measure *Better targeting the research and development tax incentive* announced at the 2018–19 Budget (p. 21-22), as modified by the measure *Better targeting the research and development tax incentive – refinements* announced at the 2019–20 MYEFO (p. 165-66). The financial impacts as presented in the Explanatory Memorandum have been revised since the 2018–19 Budget to account for the impact of policy and parameter variations. It does not include the impact of departmental funding and compliance measures also announced with the 2018–19 Budget.
- (c) The estimates are from the 2016 Pre-election Economic and Fiscal Outlook (p.36).
- (d) Totals may not add due to rounding.
- Indicates nil.