



Policy costing

Increasing penalty units from \$210 to \$300	
Party:	Australian Labor Party
Summary of proposal: This proposal would increase the value of the Commonwealth penalty unit from \$210 to \$300. Penalty unit values would continue to be indexed according to the current three-yearly schedule, with the next indexation year being 2020-21. The proposal would have effect from 1 July 2019.	

Costing overview

This proposal would be expected to increase the fiscal balance by \$726 million and increase the underlying cash balance by \$354 million over the 2019-20 Budget forward estimates period. These impacts are entirely due to an increase in revenue.

A breakdown of the financial implications of this proposal over the 2019-20 Budget forward estimates period is included at [Attachment A](#). The proposal would be expected to have an ongoing impact that extends beyond the 2019-20 Budget forward estimates period.

The proposal would be expected to have a positive revenue impact which increases over time as the value of penalty units is indexed every three years by movements in the consumer price index (CPI).

Departmental expenses have not been included as this proposal would not be expected to significantly change the complexity of administering Commonwealth penalties.

There is a difference between the fiscal and underlying cash balance implications, as a proportion of penalties are paid in the financial years following the year that the penalty was imposed and because of the timing of actual collections and bad debt write-offs.

The revenue estimates for this proposal are subject to a high degree of uncertainty as they are based on the average of historical penalty unit liabilities, and assumptions that these averages will not change over time or in response to the proposal. The historical data on penalty unit liabilities has a high degree of volatility. There is also a chance that the proportion of bad debts may increase as the penalty unit value increases.

Table 1: Financial implications (\$m)^{(a)(b)}

	2019–20	2020–21	2021–22	2022–23	Total to 2022–23
Fiscal balance	213	225	172	116	726
Underlying cash balance	53	88	101	112	354

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

(b) Figures may not sum to totals due to rounding.

Key assumptions

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

- The total volume of penalty units raised each year would remain constant and would not change as a result of this proposal.
- The proportion of each year's penalty units eventually remitted would remain constant.

Methodology

The financial implications for this proposal were estimated by multiplying the difference between the baseline and the proposed value of the penalty unit in a financial year by the assumed volume of penalty units in that year, with adjustments for the timing of bad debts and cash collections.

The total volume of penalty units for each year was based on the annual average of total unremitted penalty unit liabilities for the period 2014-15 to 2017-18.

Estimates have been rounded to the nearest \$1 million.

Data sources

The Treasury provided the penalty unit costing model for the 2016-17 Mid-Year Economic and Fiscal Outlook measure *Commonwealth penalty units – increase in value*.

The Australian Taxation Office provided historical information on total penalty unit liabilities, and their timing and collection profiles.

Attachment A – Increasing penalty units from \$210 to \$300 – financial implications

Table A1: Increasing penalty units from \$210 to \$300 – Fiscal balance (\$m)^{(a)(b)}

	2019–20	2020–21	2021–22	2022–23	Total to 2022–23
Total revenue	213	225	172	116	726

- (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.
- (b) Figures may not sum to totals due to rounding.

Table A2: Increasing penalty units from \$210 to \$300 – Underlying cash balance (\$m)^{(a)(b)}

	2019–20	2020–21	2021–22	2022–23	Total to 2022–23
Total receipts	53	88	101	112	354

- (a) 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.
- (b) Figures may not sum to totals due to rounding.