

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Inquiry into the Australian Government's response to the COVID-19 pandemic

2020 - 2021

Division: Macroeconomic Conditions Division
Topic: COVID-19 and social distancing assumptions in the Budget Update
Reference: Written Question from Senator Siewert – 31 July, IQ20-000201

Question:

1. The July Economic and Fiscal Update outlined a number of assumptions around the lifting of the COVID restrictions and the ongoing impact of the virus:
 - a. What was the justification for using the assumptions contained on pg. 28 and 29 of the Budget Update compared to other hypothetical assumptions?
 - b. What input was received from the Department of the Prime Minister and Cabinet?
 - c. What input was received from the Department of Health?
 - d. What input was received from the Chief Medical Officer?
 - e. Would you be able to supply us with a list of all the inputs that went into determining those assumptions?
2. Has Treasury put a probability on the central assumptions scenario compared to other scenarios?
3. Were any alternatives considered, for example using a less optimistic scenario for health outcomes and COVID restrictions, or providing a range of scenarios in the Update?
4. Were any estimates made about unemployment and GDP growth under alternative scenarios with different health and social distancing assumptions? If so, what were they?

Answer:

1.
 - a. The central-forecast assumptions outlined in Box 2.1 of the Economic and Fiscal Update (the July update) are consistent with announced policy by the Commonwealth and relevant State Governments as at the time of the publication of the update. The assumptions are also informed by consultation with officials from other departments and agencies, including the Department of the Prime Minister and Cabinet, the Department of Health, the office of the Chief Medical Officer and state and territory treasuries.
 - b. Throughout the COVID-19 pandemic, Treasury officials have been in regular contact with relevant officials from other departments and agencies with respect to the economic impacts of COVID-19, including from the Department of the Prime Minister and Cabinet, the Department of Health and the Chief Medical Officer. These consultations have informed the key assumptions.
 - c. See answer to b.
 - d. See answer to b.

- e. The central-forecast assumptions reflect announced policies by the Commonwealth and relevant State Governments, and are also informed by consultation with officials in other departments and agencies, including the Department of the Prime Minister and Cabinet, the Department of Health, the Chief Medical Officer and state and territory treasuries.
- 2. No.
 - 3. The July update contains estimates of the effect on GDP if health restrictions were reintroduced. The July update outlined that, if restrictions similar to those in place from late-March to mid-May were reintroduced across Australia in response to a second-wave of infections, that this would likely cost the economy at least \$2 billion per week compared to where we may have been without a second wave of infections.
 - 4. See answer to 3.

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Inquiry into the Australian Government's response to the COVID-19 pandemic

2020 - 2021

Division: Individuals and Indirect Tax Division
Topic: Distributional impact of personal income tax cuts
Reference: Written Question from Senator Siewert – 31 July, IQ20-000202

Question:

1. Can I confirm with you that, as currently legislated, the low and middle income tax offset (LMITO) is to be phased out at the end of the 2021-22 financial year?
 - a. Can you please provide a table of the impact of the LMITO on total tax paid by \$10000 taxable income increments from \$0 per annum to \$200,000 per annum for the 2021-22 financial year?
2. And can I confirm with you that from July 2022, the top threshold of the 19% tax bracket moves from \$37,000 to \$45,000, the top threshold of the 32.5% tax bracket moves from \$90,000 to \$120,000 and the low income tax offset (LITO) increases from \$445 to \$700?
 - . Can you please provide a table of the impact of these changes on total tax paid by \$10000 taxable income increments from \$0 per annum to \$200,000 per annum for the 2022-23 year?
3. What total percent of the net change of the transition from Stage 1 in 21-22 to Stage 2 in 22-23, in terms of impact on the fiscal balance, is driven by decreased tax revenue from taxpayers earning over \$90,000 per annum?
4. Please provide any evidence Treasury has about the propensity to spend and save for income earners over \$90,000 compared to those below \$90,000 per annum?
5. What work has Treasury undertaken to analyse the fiscal, stimulatory or distributional impact of bringing forward the Stage 2 tax cuts to 2021-22 or 2020-21?
 - . What assumptions, if any, were made about the early phase out of the LMITO or overlap of the LMITO with Stage 2?

Answer:

1. Yes. See response to question 3.
2. Yes. See response to question 3.
3. Detailed distributional information and the financial impacts of the 2018-19 Personal Income Tax plan over the then forward estimates and medium-term was tabled by the previous Treasury Secretary as part of the opening statements for the 2018-19 Budget Senate: <http://treasury.gov.au/sites/default/files/2019-03/Senate-Estimates-May-2018-Attachment-1.pdf>.

Further information on the plans announced in the 2019-20 Budget and the 2018-19 Budget can also be found in the documents below:

- <https://budget.gov.au/2019-20/content/download/taxes.pdf>
- https://www.aph.gov.au/~media/Estimates/economics/bud1920/AddInfo_1.pdf?la=en

4. Please refer to response 191.

5. Treasury routinely provides advice to its portfolio ministers, including in respect of economic conditions, fiscal measures and the potential impacts of different policies. Providing further information about this advice would disclose the deliberations of Cabinet.

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2020 - 2021

Division: Macroeconomic Conditions Division
Topic: Infrastructure and Debt
Reference: Written Question from Senator Siewert – 31 July, IQ20-000203

Question:

Government spending on infrastructure and services (Public Final Demand) is one of the few indicators in the Economic and Fiscal Update not going backwards this financial year.

1. What impact is this spending forecast to have on the economy? Is it a positive impact or negative impact?
2. In relation to a hypothetical further increase in government infrastructure spending above that forecast in the Update: would this have a positive or negative effect on GDP? Has there been any alternative scenario modelling undertaken?

Answer:

1. New public final demand is forecast to increase by 4½ per cent in 2020-21, providing support to the economy through a range of channels, including spending on the National Disability Insurance Scheme, transport infrastructure, healthcare and other essential services. This positive impact is expected to contribute around 1 percentage point to economic growth in 2020-21.

2. An additional increase in new public infrastructure spending would be expected to have a positive effect on GDP, although it is broadly recognised that public investment can, in some instances, crowd out private investment. The net impact on economic growth will therefore depend on the extent of any crowding-out effect, but this effect is not expected to be large in the current environment.

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2020 - 2021

Division: JobKeeper Division
Topic: JobKeeper
Reference: Written Question from Senator Siewert – 31 July, IQ20-000205

Question:

1. What modelling was done to arrive at the predictions that:
 - a. From Sept - Jan 1.4 million workers (of the current 3.5 million) will remain on JobKeeper with 175,000 of them on the lower tier of \$750 p/fn.
 - b. From Jan - March 1 million workers (of the 1.4 million workers in the Dec quarter) will remain on JobKeeper with 125,000 of them on the lower tier of \$650 p/fn.

Answer:

These estimates have been updated since the publication of the July Economic and Fiscal Update. The Prime Minister and Treasurer released updated estimates on 7 August 2020, which include:

- Around 4 million JobKeeper recipients by the end of the September quarter 2020.
- Around 2.24 million recipients in the December quarter 2020.
- Around 1.75 million recipients in the March quarter 2021.

These estimates are based on the latest health and economic outlook, as well as experience with the JobKeeper program to date. The projected flows to the two payment tiers from 28 September 2020 are also informed by analysis of the ABS labour force statistics.

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Inquiry into the Australian Government's response to the COVID-19 pandemic

2020 - 2021

Division: Macroeconomic Conditions Division
Topic: Unemployment
Reference: Written Question from Senator Siewert – 31 July, IQ20-000207

Question:

1. In your forecasts, you have projected that unemployment would be at 9.25% in December and 8.75% by the June Quarter 2021. Has Treasury made projections about:

- a. December and June underemployment?
- b. December and June unemployment and underemployment by gender?
- c. December and June youth unemployment and underemployment?

Answer:

- a. Treasury does not forecast underemployment.
- b. Treasury does not forecast unemployment or underemployment by gender.
- c. Treasury does not forecast unemployment or underemployment for different age cohorts.