Senate Select Committee on the Scrutiny of New Taxes

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Carbon tax pricing mechanisms

24 March 2011

Topic: Tax to GDP ratio

Question:

Senator CAMERON—I am sorry, Dr Parkinson; I am going to have to go to a division in the Senate chamber.
CHAIR—I will see whether I can organise a pair for you for any further divisions, Senator Cameron. Dr Parkinson, I am interested in the impact of the carbon tax on taxes as a share of the economy. Have you done some work to assess that? I guess you cannot because you do not know what the price is going to be.
Dr Parkinson—No.
CHAIR—But you know what the range is. If it is going to be at least $26 per tonne, which is the equivalent to what it would have been under the CPRS, what would be the impact of overall taxation as a share of the economy?
Dr Parkinson—We have a $1.3 or $1.4 trillion economy, so if we are talking $11 or $12 billion then that is a bit less than one percentage point of GDP equivalent.
CHAIR—But in terms of your targets, like keeping taxation as a share of GDP below a certain—
Dr Parkinson—I am flattered, but they are the government's targets rather than my targets.
CHAIR—Okay, but are you confident that you will be able to stay below the government's targets once the carbon tax is in place?
Dr Parkinson—I know what you as saying.
CHAIR—You know what I am getting at.
Dr Parkinson—I know exactly what you are getting at, but you have me at a disadvantage. I am going to beg off on the fact that I have only been in the job two weeks and I cannot recall what the current tax-to-GDP ratio is or what the government's cap is. My recollection is that it should be fairly comfortable underneath it. I have a recollection, but I cannot be sure.
CHAIR—Isn't the cap 24.6 per cent? Does that sound right, 24.6 per cent of GDP?
Mr Heferen—Are you talking about the target?
CHAIR—No, if we have a cap above which the government has said it would not raise the share of taxation as a share of GDP, my understanding is that it is 24.6 per cent. If I look at the budget papers, and I do not have them in front of me either, but in the out years I think you are getting close to 24.1 per cent in one of the out years if you put a carbon tax on top of that.
Mr Heferen—Like Dr Parkinson, I have only been in the job a few weeks, but my understanding is that the tax-to-GDP ratio is something quite a bit lower than that cap.
CHAIR—In the out years?
Mr Heferen—We would have to take that on notice.

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Answer:

The Government's medium-term fiscal strategy includes the objective to keep taxation as a share of GDP below the level for 2007-08 of 23.5 per cent, on average. The Government is meeting that objective.

The Government's most recent Budget forecasts were released in the 2011-12 Budget on 10 May 2011. These have the tax to GDP ratio increasing from 20.3 per cent of GDP in 2010-11 to 22.9 per cent in 2014-15, well within the Government's target for the ratio (Table 1).

Table 1: 2011-12 Budget estimates

	2010-11	2011-12	2012-13	2013-14	2014-15
Tax-GDP ratio (%)	20.3	21.8	22.7	22.9	22.9
Nominal GDP ($b)	1388.8	1475.5	1559.7	1642.3	1729.2
Current tax receipts ($b)	282.5	321.1	353.4	375.3	395.4

The tax to GDP ratios will be updated along with normal Budget updates.