



Australian Government

**Australian Government Response to the
House of Representatives Standing
Committee on Tax and Revenue Report on the
Tax Expenditures Statement**

NOVEMBER 2016

Australian Government response

Recommendation 1:

That Treasury devote fewer resources to estimating smaller, technical tax expenditures. This could involve reviewing them less frequently and reporting them as a range.

Response

The Australian Government supports the recommendation. Estimates for smaller, technical tax expenditures will be reviewed every three years on a rolling basis and reported in size ranges.

Recommendation 2:

That the Government give Treasury an ongoing mandate to conduct prioritised reviews of tax expenditures and publish the results — building upon Recommendation 1 from the ANAO's 2008 audit report.

Response

The Australian Government considers that existing processes, including annual Budget preparations, are sufficient to ensure the regular review of tax expenditures.

Recommendation 3:

That Treasury develop a method of aggregating tax expenditures to support its obligation under section 12 of the *Charter of Budget Honesty Act 1998* to give an overview of tax expenditures in the Budget Papers. The overview can be tailored to the needs of the Budget Papers, rather than exactly reflecting the Statement. Consultation may assist on this.

Response

The Australian Government considers that its existing practices relating to the preparation of the Budget Papers satisfy its obligations under section 12 of the *Charter of Budget Honesty Act 1998*. In particular, the practice of not aggregating revenue forgone estimates remains appropriate and is consistent with international practice.

Recommendation 4:

That Treasury model the long run interactions between superannuation and the age pension, develop present value estimates of the future costs and benefits of superannuation and its tax concessions, and publish the results. The Tax Expenditures Statement should reference or briefly summarise this research in the context of the superannuation estimates. This should occur at least once every five years and also following significant changes in policy.

Response

The Australian Government supports periodically publishing an analysis of the long run interactions between superannuation and the age pension and estimates of the future costs and benefits of superannuation and its tax concessions. It considers that it would be sufficient for this analysis to be undertaken and published broadly every five years, with the specific timing depending on Government priorities at the time.

Recommendation 5:

That Treasury include in the Statement information on revenue collected through superannuation taxation, which could constitute a reference in the table of large tax expenditures and further information later in the document.

Response

The Australian Government considers that reporting superannuation revenue figures in the Budget and MYEFO is sufficient. It also notes that *Taxation Statistics*, published annually by the Australian Taxation Office, provides detailed data about the tax system.

Recommendation 6:

That Treasury retain the comprehensive income tax benchmark for savings in the Tax Expenditures Statement.

Response

The Australian Government supports the recommendation noting that reporting savings tax expenditures against an expenditure tax benchmark in future editions of the Tax Expenditures Statement, in addition to an income tax benchmark, should be explored by the Treasury.

Recommendation 7:

That Treasury:

- incorporate the capital gains tax exemption for the main residence into the benchmark;
- develop a transparent process and criteria to assist consideration of benchmarks which reflect the practical possibility of a tax concession being abolished; and
- consult with stakeholders on the benchmarks used in the Tax Expenditures Statement.

Response

The Australian Government considers it appropriate to continue reporting the capital gains tax exemption for the main residence as a tax expenditure as this exemption departs from the comprehensive income tax benchmark. As stated in the 2015 Tax Expenditures Statement (at p3), the choice of benchmark should not be interpreted as indicating a view on how an activity or taxpayer ought to be taxed.

It would not be appropriate to assess benchmarks against the 'practical possibility of a tax concession being abolished' as this would involve a judgement about potential future decisions of the Executive Government and the Parliament.

The Australian Government supports consulting stakeholders on the benchmarks used in the TES.

Recommendation 8:

That Treasury consider ways of increasing the visibility of warnings in the Statement to better draw the attention of readers to the Statement's limitations.

Response

The Australian Government supports the recommendation.

Recommendation 9:

That Treasury include in the Statement an informative explanation of data and methods for large estimates and when estimates are substantially revised, either in terms of size or reliability.

Response

The Australian Government supports the recommendation.

Recommendation 10:

That Treasury and the Australian Taxation Office consult with stakeholders on possible data sources and apply a prioritised approach to data improvements.

Response

The Australian Government supports the recommendation.

Recommendation 11:

That Treasury produce longer term estimates for tax expenditures where they are expected to differ significantly from the forward estimates presented in the Statement. Deciding which tax expenditures should receive this treatment could be subject to materiality considerations and consultation.

Response

The Australian Government does not support the recommendation, as long-term estimates would be inherently highly unreliable. However, the TES will note where long-term estimates are likely to differ from the published estimates for a tax expenditure.

Recommendation 12:

That Treasury gradually expand the number of revenue gain estimates that it calculates for the Tax Expenditures Statement, with a focus on larger tax expenditures and those relevant to public debate. Stakeholder consultation may assist in this process.

Response

The Australian Government considers that the current approach for reporting selected revenue gain estimates in the TES is appropriate.

Recommendation 13:

That Treasury include selected memorandum items in the Tax Expenditures Statement. The decision on which items to include could be based on their size, relevance to public debate, and stakeholder consultation.

Response

The Australian Government considers that the current scope of the Tax Expenditures Statement is appropriate (that is, reporting tax expenditures only). It also notes that *Taxation Statistics*, published annually by the Australian Taxation Office, provides detailed data about the tax system. Further, Senators and Members of the House of Representatives who wish to enhance public debate may ask the Parliamentary Budget Office to produce estimates of the revenue impact of potential tax changes.