

Senate Economics Legislation Committee
ANSWERS TO QUESTIONS ON NOTICE
Treasury Portfolio
Budget Estimates 2014
3 June to 5 June 2014

Department/ Agency: Treasury

Question: BET 701 - 703

Topic: Temporary Budget Repair Levy

Reference: Hansard – pages 7 - 11, 5 June 2014

Senator: Wong

Question:

701. Senator WONG: Obviously we do not have the equivalent policy position in 2014-15 to 2015-16. But, in terms of orders of magnitude, you are talking of around about \$400 million which is forgone as a result of the differential starting date in the 2014-15 year? I am just eyeballing this, in terms of looking at the growth of the—

Senator Cormann: While officials are looking for this, the general point that I would make is that whatever interaction you are trying to get to between the temporary budget repair levy and the fringe benefits tax is, of course, the exact same interaction as there was with your flood levy, for example.

Senator WONG: I am sorry; Mr Brake, are you able to help me? Do you know what I am asking for? This is a net position in the 2014-15 year, and I am just trying to work out how much the later start date of the fringe benefits tax change means in terms of forgone revenue.

Mr Brake: On page 518 of budget paper 1—

Senator WONG: Is this one of those graphs where I am supposed to eyeball it and work out what it is?

Mr Brake: No. The increase notice is—

Senator WONG: Thank you. I much prefer tables; tables are better.

Mr Brake: You will see that, in footnote C, right down the bottom—

Senator WONG: It is 680.

Mr Brake: I am sorry; 518.

Senator WONG: Hang on; I am lost then.

Mr Brake: I am sorry; 518.

Senator WONG: Yes. I am sorry; is it the footnote with C, where it says \$680 million?

Mr Brake: Yes.

Senator WONG: That is not my question. My question is: in the 2014-15 year—do you understand what I was asking or do I need to repeat it?

Mr Brake: Yes. There would be a number of factors as to why the 2014-15 figure is lower than the 2015-16 figure. One would be the FBT difference in the start date and there would be some other differences as well.

Senator WONG: Okay. Can I repeat the question? **I want to understand how much revenue forgone as a result of the FBT start date there is in the 2014-15 year.**

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Mr Heferen: I think we would be able to say unequivocally that the vast bulk of that would be as a result of FBT.

Senator WONG: The vast bulk of what?

Mr Heferen: Of that difference. If you take in BP2, the 600 to the 1.15, there will be some variances, but if that—

Senator WONG: You have more people going into the top marginal tax rate. I assume that this is one of the reasons why it increases—

Mr Heferen: Yes; 600 is the personal tax change. There will be issues about different amounts of withholding. But, fundamentally, that \$400 million or \$500 million difference—

Senator WONG: What is the difference? You must know it because you have calculated it.

Mr Heferen: What I was saying was that the bulk of that—

Senator WONG: Is the FBT.

Mr Heferen: would be about FBT.

Senator WONG: Thank you.

Mr Heferen: But, to provide a precise estimate, we would have to take that on notice.

Senator WONG: I am just trying to get it broadly. You cannot tell me how much the differential start date for FBT in the 2014-15 year costs in terms of revenue forgone. Come on; you must be able to tell me that. You calculated it for the purposes of calculating the 600.

Mr Heferen: We would have to take that on notice.

Senator WONG: On what basis? Do you not have it here?

Mr Heferen: No, we do not have it here.

Senator WONG: If you do not have it here, it is fine. If you are politically concerned, maybe you should be clear about that.

Mr Heferen: No, I am not saying—

Senator Cormann: We will take it on notice.

Senator WONG: You do not have it here?

Senator Cormann: You cannot reflect on the officer at the—

Senator WONG: I am really tired of you telling me that I cannot reflect.

Senator Cormann: I am really tired of you being condescending and rude. The proof is that I am here at the table, representing the government. The officer at the table has just taken the question on notice, in the exact same way as the same officer at the table used to take questions on notice when I used to ask questions. There is absolutely nothing wrong with that. For you to reflect on the officer's motivations, quite frankly, is entirely inappropriate. The reason it has been taken on notice is that he is not in a position to provide the answer here at this point in time.

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Senator WONG: Mr Heferen, that is actually what I am asking you. Are you taking it on notice because you do not have it or because you want to get instructions?

Mr Heferen: I am taking it on notice because we do not have it.

Senator WONG: Fair enough.

702. **Senator WONG:** The question I asked was in relation to 2014-15. **Can I also ask the same question in relation to 2016-17, that is, how much revenue is forgone—is that the appropriate way to articulate it—as a result of the different end dates for the increase in the FBT rate compared with the top marginal tax rate?**

Mr Brake: Yes.

Mr Heferen: Again, we will have to take that on notice.

Senator WONG: Yes, I understand. **Regarding the treatment of PBIs and health promotion charities, hospitals and so forth that is referenced in the measure, are you able to give me some sense of the cost of that?** It is at the bottom of page 15.

Mr Heferen: I understand the issue. We will need to take that on notice. Again, this is something that relates to the salary packaging strategy for a number of PBI and health promotion charities. We are talking about people on certainly not the top marginal rate but lower marginal rates.

Senator WONG: I know the policy issue. I am just trying to get a sense of the coverage and the cost of the coverage. So the first question is: on notice, can you tell me what is the cost of that—shall we call it—broad exemption or protection?

Mr Heferen: Yes.

Senator WONG: **Secondly, are you able to tell me approximately how many taxpayers you are assuming would fall into that category?**

Mr Heferen: In the category of the PBI?

Senator WONG: Who are covered by that sentence: 'Cash value of benefits received by employees of PBIs, health promotion charities, public and not-for-profit hospitals, public ambulance services and several other tax exempt entities will be protected by increasing the annual FBT caps.' So presumably you must have costed that in order to get your net position in the measure. I am trying to get two aspects of that information: (a) what is the cost of it; and (b) approximately how many taxpayers are covered by that?

Mr Heferen: Yes. We will take that on notice.

Mr Brake: I do have some information on the number of people who may benefit from the PBI treatment. In 2011-12, around 500,000 employees of public or not-for-profit hospitals, PBIs et cetera utilised the FBT exemption and around two-thirds of those individuals were very close to or breaching the current caps on exempt benefits. They may otherwise have been affected by an erosion in value of the concessions, if the cap had not been lifted. But we can look into getting more precise information.

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Senator WONG: What about those taxpayers earning less than \$180,000 who receive fringe benefits but are not in a concessional industry? They are in a position, are they not, where there is a tax disincentive to salary package; correct?

Mr Heferen: That is correct.

Senator WONG: And they all face a high FBT rate?

Mr Heferen: Currently they face a high FBT rate, because the FBT rate is the top marginal rate, plus the Medicare levy.

Senator WONG: But they will face an even higher one for whatever the period is?

Mr Brake: For the two years.

Senator WONG: April 2015 to March 2017; is that right?

Mr Heferen: That is correct.

Senator WONG: Do we have any sense of the number of people who earn less than \$180,000 who receive fringe benefits but are not in a concessional industry—the number of taxpayers?

Mr Heferen: There will be a number of people who are not in the top marginal rate who receive fringe benefits, but those fringe benefits are concessional, like motor vehicle fringe benefits, for argument's sake. As for the number of people who would voluntarily pay the 47 per cent as opposed to their statutory rate—the people who are in there and getting a salary package to get a fringe benefit that is taxed at a higher rate than they would have been taxed had they taken that benefit as wages—I do not know, but I suspect our starting proposition would be 0, that people would not forgo tax that they did not have to. But there may be some quirk in that. So it may be useful, in the answer where we are taking on notice a set of things, to put that in just for clarity.

703. **Senator WONG: Are you able to give me on notice some indication of those two components of behavioural change—company tax and super? How do you calculate it? How much income is shifted to the company tax so that revenue—**

Mr Heferen: I certainly would not like to understate the level of rigour and detail we have put into this, but I also would not like to overstate it.

Senator WONG: As I said to Mr Brake, I do not want to ask a question and have the answer that comes back saying, 'This is too much work.' So I am happy to phrase my question in such a way that it aligns with the work that you have already done.

Mr Heferen: I understand the question and we will take that on notice.

Senator WONG: I do not need how many people, if that is too hard, but I would not mind understanding how much you have reduced—I guess it is—this revenue line to factor it in.

Mr Heferen: We probably would use an elasticity point too. With respect to what makes that up, we will provide the answer on notice.

Senator WONG: With lots of references to elasticity in the answer, I would say. The non-economists—

Mr Heferen: We will detail what is meant by that curious term.

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Answer:

701-702.

The increase in the FBT rate to 49 per cent for two FBT years (1 April 2015 to 31 March 2017) is estimated to raise \$680 million over the forward estimates (Budget Paper 1, page 5-18, Table 8, footnote (c)). The impact of applying the higher FBT rate over the same period as the Temporary Budget Repair Levy has not been estimated.

The revenue impact of temporarily increasing the annual FBT caps for employees of certain tax-exempt entities to ensure they are not made worse off by the increase in the FBT rate was factored into the costing of the gain to revenue from the higher FBT rate.

Statistical data on the remuneration of not-for-profit employees who received an FBT exemption and had reportable fringe benefits in 2011-12 is published in *Taxation Statistics* ([See Detailed tables, Charities and deductible gifts, Table 2](#)).

Additional statistical information on the percentage of these employees who are close to or breaching the current caps was provided by Mr Brake at the hearing.

Comprehensive distribution information on the income of all employees who receive fringe benefits from other types of employers is not available. This is because employers are not required to apportion all benefits on which FBT is paid on an employee-by-employee basis in their FBT returns.

However, some employees are required to report certain fringe benefits they receive from their employer in their personal income tax return for the means-testing of some tax concessions and charges. Statistical data on the taxable income of employees who had reportable fringe benefits in 2011-12 is published in *Taxation Statistics* ([See Detailed tables, Individual tax, Tables 2 - 4](#)).

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Estimates of the gain to revenue from the Temporary Budget Repair Levy were prepared using a microsimulation model that included a 'taxable income elasticity' to capture a range of potential behavioural responses, including labour supply, migration, investment, business structures, entrepreneurial activity, tax avoidance, and income sheltering, by high income earners. The elasticity that was applied in the modelling was informed by available empirical research from a range of countries on the response of taxpayers to a change in their marginal tax rate. The modelling did not separately quantify the impact of each type of behavioural change because of the uncertainty in the share of the overall elasticity that might be related to each type of behavioural response.