

Senate Economics Legislation Committee

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Supplementary Budget Estimates

2014 - 2015

Department/Agency: Treasury

Question: SBT 4298

Topic: Income tax revenue - forward estimates

Reference: Hansard page no. 125 - 22 October 2014

Senator: Wong, Penny

Question:

Senator WONG: Can you tell me what FBO showed in terms of the performance of the revenue take, particularly the income tax take, as compared to what was anticipated at budget?

Mr Heferen : What the FBO does is reconcile the 2013-14—this FBO—estimate at budget to the 2013-14 outcome. It then does not make any projections on what that might mean for future years. But having said that, I think on page 5 of the FBO this does the reconciliation of tax receipts. Do you have it?

Senator WONG: Yes.

Mr Heferen : So on page 5—let's say we are talking about income tax—the estimate at budget for income tax—that is all those taxes listed above—is \$243 billion. The actual outcome was \$242.553 billion and the change is minus \$1.437 billion. The change on the 2014-15 budget is really driven by the company tax. That would be the biggest reduction, which is minus \$727 million.

Senator WONG: What is reason for that? Was there any particular parameter? Was there any particular driver which resulted in that? Or was this just within the bounds of what your estimate might have been?

Ms Purvis-Smith: Senator, I refer you to the top of the same page where it states that it is in relation to a higher level of refunds relating to previous income years. It is based on lower than expected monthly collections.

Senator WONG: Was that monthly instalment expectation consistent with what you included in the budget over the forward estimates? Do you see what I am saying? You have said these taxes underperformed as against the budget because of this.

Mr Heferen : Yes.

Senator WONG: What was the assumption over the forward estimates? Do you see what I mean?

Mr Heferen : I see: now we know this, what is that going to do to the forward estimates?

Senator WONG: Correct. What did you put into the budget? Which assumption? Was it the lower end or the higher end, given that dot point on page 5?

Mr Heferen: Part of the dot point is the high level of refunds relating to previous income years. So, to the extent there is a higher refund coming out of the income from a previous year, that would not ordinarily flow through. With the budget estimates on, say, corporate tax, we are talking about what was forecast in the budget compared to what was actually collected. So there we are talking about actual collections, analysing the actual collections, and saying there were refunds.

Senator WONG: I understand that but the explanation given as to why the actuals and the estimate were different is, I assume, that you had lower than expected monthly instalments and a high level of refunds relating to previous income years. To what extent would that be

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reflected in the forward estimates? You are saying the second component will not be—what about the first one?

Mr Heferen: The first one probably would.

Senator WONG: Would?

Mr Heferen: Probably. I say that to be helpful—it probably would because there are only two or three monthly instalments, and they were lower than expected—there is a question about how much lower. It was only \$700 million, which in the scheme of revenue forecasting is not a great deal. To be safe we would need to take that on notice.

Senator WONG: Can you do that.

Mr Heferen: Yes.

Answer:

To the extent there are flow on effects, the impact of lower than expected company tax receipts in 2013-14 will be factored into the forward estimates at the 2014-15 MYEFO. Lower than expected monthly instalments can impact receipts over the forward estimates in one of two ways. If the fall in company instalments is a temporary fall, then this may result in a higher balancing payment at the end of the financial year. This represents only a shift in the timing of when the tax is received by the Commonwealth. However, if the fall in company instalments is because of weaker expected profitability over the current year and beyond, then this will have a direct impact on company tax receipts over the forward estimates.