Senate Economics Legislation Committee

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Supplementary Budget Estimates

2016 - 2017

Division/Agency: Corporate and International Tax Division
Question No: 439
Topic: Multinational Tax / Thin Capitalisation
Reference: Written
Senator: Ketter, Chris

Question:

1) In the week prior to the Budget, media outlets were reporting the Government was considering reducing the thin capitalisation 'safe harbour' threshold from 60% to 50%. Has Treasury modelled changes to the safe harbour threshold?
2) Has Treasury modelled the impact of a reduction in the safe harbour threshold in this term of Government?
3) What would be the revenue implications of a reduction in the safe harbour threshold from 60% to 50%?
4) Setting aside the extra staff at the ATO to enforce existing multinational tax avoidance measures, would a reduction in the safe harbour threshold from 60% to 50% result in more revenue than the forecast revenue of the Diverted Profits Tax?
5) Why was thin capitalisation defined in the Treasury's 2016-17 Budget glossary (online) despite not being mentioned elsewhere in the 2016-17 Budget? [Push this question/point until you get a satisfactory answer]
6) This suggests thin capitalisation was in Budget until being cut out at the last minute, doesn't it?
7) Why was thin capitalisation taken out of the 2016-17 Budget?
8) The Government and/or stakeholders had clearly been backgrounding journalists on a change in the safe harbour threshold – why was this discussion occurring if the measure was not seriously being considered for the 2016-17 Budget.
9) What stakeholders have expressed concerns about a change in the thin capitalisation threshold from 60% to 50%?
10) Would changes to thin capitalisation – whether a change in safe harbour or shift to a worldwide gearing – yield more revenue than a Diverted Profits Tax? Why?

Answer:

1-4) Treasury is not in a position to disclose the nature of advice provided to the Government.

5-6) The online Budget glossary is a glossary of budget related terms. The Budget glossary was first released in 2015 to assist members of the public with Budget related terms. The glossary is a standing document of terms that may or may not be included in any particular Budget. The 2015 Budget glossary contained a definition of thin capitalisation. The exact same Budget glossary was released in 2016.

7) The Budget includes all decisions taken by the Government at the time of publication.

8) Treasury cannot comment on media speculation.

9) Treasury has not consulted on this proposal.

10) Thin Capitalisation and the Diverted Profits Tax are polices that target different activities undertaken by some multinationals to avoid tax. The revenue implications would depend on the detailed policy design and behaviours of taxpayers.