Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Additional Estimates 2012

15 – 17 February 2012

Question: AET 1264-1267

Topic: For quantifying the costs and benefits of tax treaties

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Senator Cameron asked:

Let me just put these on notice because I really want to get back to the loss of revenue in the TPG case. I will put these on notice: given that the protocol has been in operation for nearly a decade, what are the costs and benefits to Australia of the operation of the protocol? With the benefit of a decade of operation of the protocol, is it possible to say that the evidence provided by Treasury to the Joint Standing Committee on Treaties in 2002 and subsequently expanded upon by the Treasury secretary on 25 June 2002 was accurate—that is, has the net benefit to Australia of the protocol been $70 million? If not, what has been the net benefit or loss?

Answer:

On 25 June 2002 the then Secretary to the Treasury, Dr Henry, provided the Joint Standing Committee on Treaties (JSCOT) with “a quantitative analysis of the static benefits” of the Protocol. That analysis resulted in an estimated net annual national benefit of $70 million to Australia from the Protocol. However, as it is based on a static analysis by definition it is not possible to update this estimate for subsequent events.

Senator Cameron asked:

Has the ATO or Treasury developed any methodologies for quantifying the costs and benefits of tax treaties that are an advance on those available in 2002 consistent with recommendation 5 of the committee?

Answer:

No. As Dr Henry’s letter of 25 June 2002 noted:

> “We have not undertaken any dynamic economic modelling on the benefits of the Protocol, as these are very difficult to quantify. We note that most countries face similar difficulties in quantifying the benefits of tax treaty changes.”

Treasury has subsequently undertaken work to attempt to develop a more comprehensive tax treaty costing model. Some first round effects, such as those relating to the (typical) reduction in Australian withholding tax rates on outbound dividends, interest and royalties, are estimable with a relatively high degree of confidence.

While important to JSCOT’s national interest deliberations, second round effects, such as the broader benefits arising from tax treaties’ role in promoting bilateral trade and investment and economic growth are more difficult to quantify. These factors are typically excluded from Treasury’s budget costing estimates, consistent with the Budget Process Operational Rules.