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Senate Economics Legislation Committee

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Budget Estimates, 1 to 4 June 2004

Question: Bud 81

Topic: **Costings of the Baby Bonus**

Hansard Page: **E83**

Senator Collins asked:

Did Treasury or the ATO do the original costings of the baby bonus in 2001?

...

Mr Tilley—I do not know the exact circumstances. I was not here when the original costing was done. I do not know the exact circumstances of how it was done and what assumptions were made.

...

Senator JACINTA COLLINS—So what were the assumptions in the original costing?

Mr Tilley—That I am not familiar with.

Senator JACINTA COLLINS—Are you not familiar with it or is that confidential?

Mr Tilley—I am not familiar with it. That is the bit I definitely know.

Senator JACINTA COLLINS—Is there someone here who is familiar with it?

Mr Tilley—No, the costing was done some time ago. I am happy to take these questions on notice, but I cannot provide any more detail than that. I am simply not aware.

Senator JACINTA COLLINS—How about the revised costing? Is there someone here who is familiar with the change in the assumptions in the revised costing?

Mr Tilley—I am happy to take the question on notice if you have a particular question about the assumptions underlying a costing.

Answer:

Treasury prepared the original Baby Bonus estimates at the time of the 2001 election under the Charter of Budget Honesty election costing provisions. Information on the costing assumptions and methodology, included in the public release of the costing, is attached.

The costing response included the following caveats or qualifications:
'The lack of longitudinal data gives uncertainty for this costing. Actual cost may well be lower than estimated because take-up may not be 100%, and actual incomes may well recover more in the pre-school years than was apparent from the cumulative income distributions used.'

PUBLIC RELEASE OF COSTING

Person making the request: Prime Minister

Date of request: 31 October 2001

Name of policy to be costed: First Child Tax Refund

Date of public release of policy: 28 October 2001

Costing request provided by the Prime Minister

Additional information requested (including date): -

Additional information received (including date): -

Costing methodology used:

There was no national longitudinal data available showing the decline in mother's income after the birth of a first or subsequent child. Existing ATO data does not cover characteristics of children. The ABS income survey provides cross-sectional information of relevance to the costing, and this information is uprated and reweighted to the present in STINMOD outyears.

Tables of the distribution of personal exertion income were obtained for:

- Women under 35 with no children;
- Women with one child under 5, aged under 3 or 4 to 5 years; and
- Women with two children, at least one under 5.

These income distributions may understate the extent to which mothers with preschool children return to work.

The cumulative proportions in these income distributions were used to map a series of average changes in incomes for a first child and second or subsequent child. The first child tax refund corresponding to this series of average changes were calculated, and a minimum of $500, and a cap of $2500, were assumed for all new qualifying births.

The ABS publication, *Births 1999*, was used to provide estimates of the total number of confinements (245,000) and the number of first confinements in the current relationship (117,000) was used to approximate the number of first births for mothers (it probably overestimates). Allowance was also made for deaths, permanent emigration and long term emigration based on RIM demographic models.

A timing model for second and subsequent births was established in order to model the number and characteristics of qualifying births by year. Full takeup was assumed for the resident population. Births were assumed to be spaced evenly throughout the year for the purposes of calculating the pro-rata first year and fifth year entitlements.

Financial implications (out-turn prices)[(a)]

	Current financial year	Current financial year + 1	Current financial year + 2	Current financial year + 3
Fiscal balance ($m)		**- 85**	**- 250**	**- 390**
Underlying cash balance ($m)		**- 85**	**- 250**	**- 390**

(a) A positive number for the fiscal balance indicates an increase in revenue or a decrease in expenses or net capital investment in accrual terms. A positive number for the underlying cash balance indicates an increase in revenue or a decrease in expenses or net capital investment in cash terms.

Caveats or qualifications to the costing:

The lack of longitudinal data gives uncertainty for this costing. Actual cost may well be lower than estimated because take-up may not be 100%, and actual incomes may well recover more in the pre-school years than was apparent from the cumulative income distributions used. In addition, the costing has been undertaken on the assumption that there is no means test applying to the $500 minimum payment.