Senate Economics Legislation Committee

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Budget Estimates 30 May – 1 June 2006

Question: bet 47

Topic: **Company Tax Revenue**

Hansard Page: **Written**

Senator SHERRY asked:

I refer you to Chris Richardson, recent budget monitor and his notion of the accelerator. Let me read from the latest version of the monitor:

> In the 2005-06 Budget, Treasury allowed for a downswing in commodity prices in its projections. But at the same time it added a second new feature – an 'accelerator'. This accelerator essentially assumes revenues from profit taxes grow faster than profits themselves.
>
> The net impact of those two changes was that, whereas Access sees a fading boost to revenues from the current boom in later years, Treasury sees a climbing one.
>
> Make no mistake here – the shape of Australia's future depends heavily on which picture of our future proves to be more accurate.

p74 of the introduction.

Questions –

(1) Do you accept this interpretation of Chris Richardson?

(2) Company tax revenue has risen by the following: 18.8% in the fiscal year 2005/2006 (Company Tax Revenue, Budget Paper No.1 5-38). Company Revenue has risen by the following: 12% in the fiscal year 2005/2006 (Business Indicators: Company Profit Before Income Tax, Australian Bureau of Statistics Table 9). So would you accept that company tax is growing faster than company profits?

(3) From an independently observers view, having company taxes increase more rapidly than company profits seems unsustainable. On what basis does the Treasury believes this can be sustained over the forward estimate period?

(4) Is it assumed that the average company tax rate will fall again over the forward estimates?

(5) The effective company tax rate must be rising if the company profits are growing slower than company tax. For current trends to be sustained is there not effectively an assumption that the effective company rate is increasing, and in recent years approaches the company tax rate itself? Is this the assumption that Treasury is using and if so on what basis?

(6) Is Treasury assuming that the level deductibility is very low for the additional component on company taxable income that is above trend and if so what is the justification for this?

Answer:

(1) No. The 2005-06 Budget did not incorporate "an accelerator". A description of the revenue forecasting methodology is at page 5-7 of 2005-06 Budget Paper No. 1.

(2) See pages 5-7 of 2005-06 Budget Paper No. 1.

(3) The 2005-06 company tax receipt estimate published in the 2006-07 Budget is based on receipts received by the Australian Taxation Office at the time of the Budget and expectations of receipts for the remainder of the financial year. The 2006-07 estimate is based on the collections experience at the time of the Budget and expectations of growth in the corporate income tax base. The projections of company income tax from 2007-08 to 2009-10 are based on projections of growth in the corporate income tax base and a technical assumption that iron ore and coal prices return progressively to their long-run average levels from 2007-08 to 2008-09.

(4) No.

(5) No. The effective corporate tax rate (measured as the ratio of company income tax paid to gross operating surplus) is only slightly higher than its long term average and is not approaching the statutory company tax rate (see Box 5.2, pages 5-13 to 5-15, of 2006-07 Budget Paper No. 1).

(6) No.