

**Senate Standing Committee on Economics**

**ANSWERS TO QUESTIONS ON NOTICE**

**Treasury Portfolio**

Budget Estimates, 2 June – 4 June 2009

**Question: bet 33**

**Topic: Revenue Forecast – Bracket Creep**

**Hansard Page: E96**

**Senator Bushby asked:**

**Senator BUSHBY**— ...In your assumptions behind the forecast of future government revenues has Treasury assumed there will be no further tax cuts and no indexation of tax brackets between now and 2015-16?

**Mr Parker**—There are no further tax cuts in the forward estimates.

**Senator BUSHBY**—Is there any indexation of tax brackets?

**Mr Parker**—Not as far as I am aware. When the projections are done, they are always done on a no-policy change basis. ...

**Senator BUSHBY**—...Following on from my question about whether there were any further tax cuts or indexation of tax brackets in the forecast to which we have heard the answer is no, how much has been calculated to be added to government revenues from fiscal drag or bracket creep for each of the years up to and including 2015-16?

**Mr Parker**—I would have to take that question on notice. ...

**Senator BUSHBY**—...Thank you. That answers Senator Coonan's question. In terms of my question about how much has been forecast to be added to the revenue as a result of bracket creep or fiscal drag; you will take that on notice?

**Ms Mrakovcic**—Yes, we will.

**Answer:**

Reliably estimating the effect on government revenues from fiscal drag or bracket creep is difficult because of the many assumptions inherent in the calculations. Any estimates will not only be highly dependent on the assumptions made in the course of the calculation – but are likely to be highly sensitive to alternative assumptions. Such concerns are exacerbated when considering the uncertainties in seeking to calculate the impact into the future over what is a forecast or projection (where the underlying revenues are being projected on the basis of a set of a economic and other parameter assumptions).

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The assumptions include issues such as the scope of the calculation (which of the rates and thresholds are involved), the period examined, the evolution of income distribution, the assumed growth rate of various income and expense items on the personal income tax return, the choice of indexation rate used to estimate the extent of fiscal drag, behavioural responses to alternate rates and thresholds, and the composition of individuals' income tax across different revenue heads. Added to this would be the assumptions underpinning the expected growth in forecast/projected government revenues as a result of economic and other parameters, as well as the expected impact of policy measures on the estimates (such as legislated personal income tax and threshold changes).

However, some qualitative observations can be made about fiscal drag in the 2009-10 Budget revenue forward estimates and medium term projections. The changes to personal income tax rates, offsets and thresholds between 2008-09 and 2010-11 are substantial and likely to dominate any fiscal drag over the same period. With no currently legislated changes to personal income tax rates, offsets or thresholds after 2010-11, fiscal drag will act to increasingly offset the impact of policy changes, with the net impact dependent on the assumptions underpinning any calculation referred to earlier.