

**Senate Standing Committee on Economics**

**ANSWERS TO QUESTIONS ON NOTICE**

**Treasury Portfolio**

Budget Estimates

1 June – 3 June 2010

**Question: BET 132**

**Topic: Type-of-Activity Unit**

**Hansard Page: E117-118 (03/06/2010)**

**Senator ABETZ asked:**

**Senator ABETZ**—Let us move on. This document tells me at page 7, if I am reading it correctly, that the operating profit before tax is \$63.636 billion, yet when I go to the document entitled *Stronger, fairer, simpler: a tax plan for our future: an overview* put out by Treasurer Swan, I have a bar graph for resource profits as coming in at about \$90 billion for 2008-09. I am just trying to get a handle as to what the difference between those figures might be and what it might be due to. As I go on, you can take some of the questions on notice if you are unable to answer them now.

**Mr Farrell**—Yes.

**Senator ABETZ**—Just remind me: do we date the global financial crisis to the collapse of Lehmann Brothers in September 2008?

**Mr Farrell**—Yes.

**Senator ABETZ**—So the profit figures for 2008-09 would be the financial year in which we would say the global financial crisis occurred?

**Mr Farrell**—Yes. In the company's report on this, we run the statistical collection in respect of that financial year, but you would be aware that many companies do not operate on a July to June financial year, and those companies that report on a different financial year may have reported on a different financial year based on their financial accounts. So it would vary from company to company.

**Senator ABETZ**—It would, but the totality of profit and income is still that \$63.636 billion, if that is the right—

**Mr Farrell**—Within the context of that collection, yes.

**Senator ABETZ**—figure that I have identified. What does the TAU—and please do not ask me to remember what it stands for, although it is in your glossary or definitions at the back—

**Mr Farrell**—It stands for type-of-activity unit.

**Senator ABETZ**—That is right. Unfortunately you do not have the chart on page 43, where there is the heading, 'contribution to sales and service income' and then the left-hand column is the TAU. What does that tell us? Is it a case of the higher the percentage the better or the higher percentage the worse in relation to contribution to sales and service income?

**Mr Farrell**—Let me explain what a TAU is so that you get the context. The register of businesses we use for our collections comes from the Australian Business Register. At the very top end of the size of businesses, the structures of companies are much

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more complex, and the structures for organisational and other reporting purposes may or may not suit the reporting for statistical purposes, so we changed the structure of the businesses at the top end into type-of-activity units for the purposes of statistical reporting. So we are talking about the very large companies in Australia with very complex structures. We work with those companies to identify the best methods for reporting for statistical purposes for those organisations. We restructure them for statistical purposes, and the units that come out of that process are called type-of-activity units. Good examples might be a mine which has substantial construction activity or other businesses that cut across industries and would otherwise contribute very differently according to those types of activities.

**Senator ABETZ**—So what are you telling us on page 43, where you have a heading ‘Contribution to sales and service income’ and then list the various sectors, and down the left-hand side you have got the TAU percentage?

**Mr Farrell**—I really need to look at it, Senator.

**Senator ABETZ**—All right. If you can take that on notice, because in that chart mining is 89 per cent and, if I read the chart correctly—if the term is right—is making the highest, what, contribution?

**Mr Farrell**—Yes.

**Senator ABETZ**—Yes, the highest contribution?

**Mr Farrell**—Without seeing it, I suspect what you are talking about is specialisation and coverage, and what that means is, if you put all the mining companies together, what proportion of the total mining activity in Australia would that cover—that is, those companies that are predominantly involved in mining. It might end up being, say, 85 per cent, because some of the mining activity might be done by companies that are actually classified primarily to construction activity. Now, I am partly guessing because I cannot see the document, but I strongly suspect that is what we are talking about there.

**Senator ABETZ**—All right. If you could be so kind as to read the *Hansard* later and take it on notice for me, I will try to digest the written word when it comes back to me...

#### **Answer:**

#### Type of Activity Unit - What does that tell us?

The ABS uses an economic statistics units model to describe the characteristics of businesses and the structural relationships between businesses.

Most businesses have simple structures, and the structure registered on the Australian Business Register (maintained by the Australian Taxation Office based on Australian Business Number registration) is used by the ABS for statistical purposes in these cases.

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The structure registered on the Australian Business Register for large, complex and diverse businesses may not be suitable for statistical purposes. Examples include where secondary activities of a business may be a significant contributor to another industry, or where the operating accounts of a business apply across different legal entities in an enterprise group. Where this applies, an alternative statistical units model (TAU) is applied by the ABS.

The Type of Activity Unit (or TAU) comprises one or more legal entities or sub-entities or branches within an enterprise group that can report production and employment data for similar economic activities. It is most likely that for larger enterprise groups with multiple TAUs that the industry classification will be different for each individual TAU. For example an enterprise group which is engaged in Mining, may have TAUs that also contribute to Manufacturing; Professional, Scientific and Technical services; and Administrative and Support Services. The industries that these TAUs are coded to will be reflected in ABS industry statistics.

Page 43 of *Australian Industry 2008-09* publication (ABS cat. no. 8155.0) What does 'contribution to sales and service income' mean in relation to the Mining industry?

Sales and services income comprises:

- sales of goods,
- income from services and
- rent leasing and hiring revenue.

(A more extensive explanation is provided on page 57 of the *Australian Industry 2008-09* publication (ABS cat. no. 8155.0). A copy of this explanation is shown as an Extract below.)

The table on page 43 of the Australian Industry publication shows that for the Mining industry:

- 89% of Sales and service income was contributed by large, complex and diverse businesses (TAUs), and
- 11 % of Sales and service income was contributed by the less complex businesses for which the Australian Business Register structure (ABN unit) was used.

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Extract from Page 57 of the *Australian Industry 2008-09* publication.

Sales and Service income includes:

*Sales of goods -*

whether or not produced by the business (including goods produced for the business on a commission basis). Includes export sales, sales or transfers to related businesses or to overseas branches of the business, progress payments relating to long term contracts if they are billed in the period, delivery charges not separately invoiced to customers, sales of goods produced by the business from crude materials purchased, and income from 'specific' rates (e.g. water, sewerage, irrigation and drainage rates). Excludes excise and duties received on behalf of the government (e.g. the petroleum production excise duty), sales of assets, natural resource royalties income, interest income, and delivery charges separately invoiced to customers. Exports are valued free on board, i.e. export freight charges are excluded.

*Income from services*

includes income from consulting services, repair, maintenance and service income and fees, contract, subcontract and commission income, management fees/charges from related and unrelated businesses, installation charges, delivery charges separately invoiced to customers and royalties from intellectual property (e.g. patents and copyrights) and natural resource royalties income. Excludes interest income, and delivery charges not separately invoiced to customers.

*Rent, leasing and hiring income*

derived from the ownership of land, dwellings, buildings and other structures, motor vehicles, plant, machinery and other equipment. Excludes royalties from mineral leases, income from finance leases and payments received under hire purchase arrangements.

These are valued net of discounts given and exclusive of goods and services tax (GST). Extraordinary items are also excluded.