

Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Budget Estimates

1 June – 3 June 2010

Question: BET 20

Topic: Resource Super Profits Tax & Personal Income Tax Analysis

Hansard Page: E109-110 (01/06/2010)

Senator JOYCE asked:

Senator JOYCE—What are the estimates for RSPT beyond 2013-14?

Mr Parker—I think the Treasurer has mentioned a number of, on average, between \$10 billion and \$12 billion.

Senator JOYCE—You said previously that Treasury had prepared the costings for all the recommendations in the tax review. What is the estimated cost of raising the personal income tax-free threshold to \$25,000?

Mr Parker—We would have to take that on notice, Senator.

Senator JOYCE—Would you be prepared to also, in taking that on notice, provide the committee with the costings of these recommendations?

Mr Parker—Of all 138 recommendations?

Senator JOYCE—Yes.

Mr Parker—We can take that on notice, Senator.

Senator JOYCE—The budget shows the company tax reduction costs of \$2 billion in 2013-14. What is the effect on personal income tax payments of the proposed reduction in company tax because of the dividend imputation?

Ms Mrakovic—We will have to take that on notice.

Mr Parker—Let me just pick into the conceptual issue. If the company has the same payout ratio as previously and it did not have an excess franking credit account, it can do two things compared with the previous situation. Firstly, it will have more after tax income than before because its tax rate is lower. It will be able to frank that higher dividend at a lower rate. To the extent that its dividend payout ratio of profits was unaltered by that, you would end up with exactly the same result at the personal tax level because it would all get netted out. That is, the person would report a higher dividend but franked at a lower level.

Senator JOYCE—How much has the personal income tax received risen in 2013-14 because of the reduction in company tax?

Mr Parker—We would have to take that on notice.

Answer:

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1) What is the estimated cost of raising the personal income tax-free threshold to \$25,000?

A \$25,000 income tax-free threshold was not costed as a standalone change, but was costed as part of a broader set of proposals in respect of personal tax. Page 76 and 77 of the *Australia's future tax system - Report to the Treasurer - Part One Overview* indicates an estimated cost in respect of all personal tax changes (excluding around \$5 billion of revenue cost associated with superannuation changes) of around \$2 billion per annum. This cost was based on a mature system and was estimated in 2010-11 dollars.

2) Would you be prepared to also, in taking that on notice, provide the committee with the costings of these recommendations? (All 138 AFTS recommendations).

Budget estimates have not been prepared for each individual recommendation. Further, preparing such estimates would require greater policy specification than is included in the AFTS recommendations, including around rates, timing and transition. The AFTS report included indicative assessments of the magnitude of the various categories of recommendations on page 76 of the overview.

3) The budget shows the company tax reduction costs of \$2 billion in 2013-14. What is the effect on personal income tax payments of the proposed reduction in company tax because of the dividend imputation?

Dividend imputation will tend to offset the budgetary impact of a reduction in company tax due to the reduction in the rate at which dividends can be franked resulting in less tax at the company level and an increase in tax payable by shareholders. However, this effect will only offset some of the cost of changes to company tax rate because of considerations such as after tax profits that are reinvested in companies rather than being distributed as dividends and foreign corporate ownership. At the individual company level, the cost of cutting company tax would only be covered by a change to imputation credits in the case of a company where all profits were fully distributed to resident individuals, trusts or superannuation funds.

4) How much has the personal income tax received risen in 2013-14 because of the reduction in company tax?

Personal income tax was forecast to increase by around \$500 million in 2013-14 because of the reduction in company tax.