Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Budget Estimates

1 – 3 June 2010

Question: BET 4

Topic: Modelling of the Resource Super Profits Tax

Hansard Page: E13 & 14 (27/05/10)

Senator XENOPHON asked:

Senator XENOPHON—Dr Henry, I want to ask you about the issue of modelling. I think Senator Abetz raised some issues in terms of the robustness and sensitivity of the modelling. Did the KPMG Econtech model of the RSPT that the government is proposing was that in the form that the government has actually proposed? In other words, was the modelling done on the proposal that has actually come from the government?

Dr Henry—I believe so but I do not wish to mislead the committee obviously. I will check that but I believe so. I am quite confident about the RSPT part of it because, in the modelling that was done for the panel, we had a resources taxation arrangement which is, in economic terms, equivalent to the RSPT. The model could not have treated the two things differently. What I am not absolutely sure of is whether the modelling of the company tax rate cut was the same or not. That is the thing I would need to check.

Senator XENOPHON—Could you take that on notice.

…

Senator XENOPHON—Again, you may wish to take this on notice: insofar as there has been any modelling on the regional and sectoral effects, it would be reasonable for that to be published or disclosed.

Dr Henry—We will certainly take that on notice. I understand the question. I agree with you that the sectoral impacts are of interest, so I will take the question on notice and see what there is in the model results that can be provided to the committee.

…

Senator XENOPHON—…In terms of the KPMG Econtech modelling, is it fair to say that it appears only to look at the economic effects in the long run—is that a fair assumption?

Dr Henry—I am not sure about this either; I would need to check. I think that when we are talking about the long run we are talking about more or less a decade, as far as the model is concerned. I do not think we are talking about 50 years; I think we are talking about more or less a decade.

Senator XENOPHON—Not what Keynes says about the long run. So is your understanding that the long run would be 10 years or so, in the modelling?

Dr Henry—That is my understanding but I will check that.

Senator XENOPHON—Would it be fair to say, then, that it does not appear to have modelled the shorter term transition—the first two, three or four years of the tax?

Dr Henry—Again, that is my understanding but, if you do not mind, I would like to check that.

Senator XENOPHON—That is fine.

Answer:

There are five parts to the question, and these are answered separately below.

(a) Did the KPMG Econtech model of the RSPT that the government is proposing was that in the form that the government has actually proposed? In other words, was the modelling done on the proposal that has actually come from the government?

Answer: Yes, with regard to both the RSPT and the company tax cut.

(b) (Has) there has been any modelling on the regional and sectoral effects, (and, if so) would (it) be reasonable for that to be published or disclosed?

Answer: The KPMG Econtech modelling was undertaken using the MM900 model. MM900 is not a regional model, and there was no modelling undertaken of regional effects. The MM900 model does, however, include sectoral detail and modelling of the sectoral effects was undertaken. Results from this sectoral modelling have been published by KPMG Econtech in the 4 May 2010 report *CGE Analysis of Part of the Government's AFTSR Response*, including:

- GDP, employment and capital stock results for the 'mining' and 'non-mining' sectors; and
- production and production price effects for the 6 industries in the mining sector.

(c) In terms of the KPMG Econtech modelling, is it fair to say that it appears only to look at the economic effects in the long run—is that a fair assumption?

Answer: Yes.

(d) So is your understanding that the long run would be 10 years or so, in the modelling?

Answer: The 'long-run' in the KPMG Econtech modelling has a technical definition. It is the time it takes after a policy shock for the economy to return to a steady state. Translating this into actual years is a matter for judgement based on the experience of how quickly these type of shocks work their way through the economy. KPMG Econtech has suggested 'five to ten years':

> '… for some tax changes, especially changes affecting the taxation of capital, these impacts would take five to ten years to fully develop. Further, this long run focus also means that the modelling results do not cover the phasing arrangements included in the Government's response. Hence, the modelling shows the economic impacts after the new tax regime is phased in and the economy has fully adjusted.' (KPMG Econtech *CGE Analysis of Part of the Government's AFTSR Response*, p1-2)

(e) Would it be fair to say, then, that it does not appear to have modelled the shorter term transition—the first two, three or four years of the tax?

Answer: Yes