

Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Budget Estimates

1 June – 3 June 2010

Question: BET 242

Topic: Simplified Tax Returns

Hansard Page: Written

Senator BUSHBY asked:

1. Regarding simplified tax returns, the government claims that when it increases the standard deduction to \$1000 that it will benefit 6.4 million taxpayers. How was this figure arrived at? What modelling was used?
2. Under the simplified tax returns, how many taxpayers who would be entitled to a deduction greater than the standard deduction does Treasury believe would opt for it? What would the value of deductions be otherwise?

Answer:

1. The Treasury personal income tax micro-simulation model (which is based on confidentialised sample 2007-08 personal income tax data) was used to estimate the deduction claims for work-related expenses and cost of managing tax affairs for each individual under the current deduction framework. The data was up-rated to account for income and population changes to be representative of the estimated population in 2012-13 and 2013-14.

Where individuals were projected to have claims at or below the standard deduction amount, it was assumed they would utilise the standard deduction of \$500 (in 2012-13) or \$1,000 (in 2013-14 and subsequent years). This resulted in a reduction to their income subject to tax, and in the case of net taxpayers, a reduction in their net tax liability.

The 6.4 million taxpayers expected to benefit from the standard deduction of \$1,000 in 2012-13 are those taxpayers with projected claims at or below the \$1,000 standard deduction and who will have a reduction in their net tax liability as a result.

2. For individuals projected to have existing claims above the standard deduction, Treasury has assumed that they would continue to substantiate their existing deductions, and therefore maintain the same level of taxable income and net tax liability as under the current deduction framework.