

## Senate Standing Committee on Economics

### ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Budget Estimates

31 May – 2 June 2011

Question No: BET 79

Topic: Fringe Benefit Tax changes to cars, anticipated revenue from changes in the Budget

Hansard Page: Written

Senator Bushby asked:

- Could the Treasury/ATO please provide:
  - The total number of individuals, and businesses that will be affected by this change, and a further breakdown by state/electorate.

The policy costing document which was released by the Greens in November last year suggests that Treasury has previously had difficulties in estimating the revenue this change will provide the Government.

Revenue estimates are dependent upon behavioural estimates and, when looking at the Greens policy costing document, many of these assumptions have changed dramatically in the past -refer to page 3 & 4 of Greens policy costing document.

Budget in May 2011:

Revenue (\$m)	2010-11	2011-12	2012-13	2013-14	2014-15
Australian Taxation Office	5.0	30.0	140.0	335.0	460.0

The Greens policy document also states the following:

As a result, this estimate is of low to medium reliability. It is highly sensitive to a number of the assumptions, in particular:

- The distribution of kilometres travelled and hence the number of cars under each statutory rate.
- The extent to which individuals using the Employee Contribution Method change their post-tax contribution amounts in response to an increase (or decrease) in the statutory rate.
- The cash-out rates of employees, where contracts are not renewed and cash salary is taken instead of salary packaging a car.
- Given the significant amount of revenue this measure is expected to bring the government over the forward estimates, how reliable are the revenue forecasts in light of the sensitivities previously identified?
- Has Treasury taken into consideration, when costing this Budget policy, that there are in fact 2 methods for calculating FBT for cars (statutory and operating cost method), and that surely most individuals and businesses will look to minimise this expense through switching the method used to calculate their liability?
- Given the above, what impact will this have on the expected revenue to be raised over the forward estimates?

Answer:

The reform applies to new contracts entered into after 7:30pm (AEST) on 10 May 2011 and is phased in over four years. Therefore none of the individuals and businesses who are on contracts in place at that time are affected.

There is no data on how many individuals and businesses have entered into contracts since 7:30pm (AEST) on 10 May 2011 or are yet to enter into new contracts. However they will be better off as a result of this reform if they drive less than 15,000 kilometres per year, and will not be affected if they drive between 15,000 and 25,000 kilometres per year.

Please refer to page 85 of the Senate Economics Committee estimates Hansard from Wednesday 1 June for discussion about the number of cars under existing contracts (and therefore not affected by the policy) using the statutory formula method and information on distances travelled.

It is not possible to provide a breakdown of cars relating to existing contracts (which are unaffected by the policy) by electorate or state. An employer's FBT return records the total number of fringe benefits provided in regard to cars using the statutory formula method, however does not provide any geographic indicators of where the cars are located. Further, the location of the employer does not provide a reliable indicator of where the car is located. While the personal income tax returns of individuals record reportable fringe benefits, these are reported in aggregate so it is not possible to identify which individuals receive car fringe benefits and therefore the location of the cars, in addition some individuals will use employee contributions to reduce their reportable fringe benefits to zero so would not be captured in this data anyway.

This costing has a number of uncertainties associated with it, but reflects Treasury's best judgement about the revenue impact of the measure.

The ability to switch from the statutory formula method to the operating cost method was considered in the process of developing the costing.