

Senate Economics Legislation Committee
ANSWERS TO QUESTIONS ON NOTICE
Treasury Portfolio

Supplementary Budget Estimates, 2 - 3 November 2005

Question: SBT 23

Topic: A New Tax System (ANTS)

Hansard Page: E69/70

Senator Sherry asked:

Senator SHERRY—Does Treasury accept the concept of second-round effects flowing from personal income tax and transfer payment reforms? Do they exist, and are they acknowledged by Treasury?

Mr Ray—Senator, I do not think it is a question of whether we think they exist or not. If you look in the ANTS documentation you will see that second-round effects of a very significant tax reform were modelled—not necessarily modelled; account taken for them would be a better description.

Mr Gallagher—In terms of the department of finance guidelines for official costings, a second-round effect will not normally be incorporated in an official costing because they are normally very uncertain. So it is only in very exceptional measures where significant resources can be applied to get a handle on what the second-round effects may be. But under department of finance guidelines, although you do not include second-round effects in the normal costing, they can be mentioned in the body of a cabinet submission, so they can be raised as an issue by a department in making a submission.

Senator SHERRY—So the one exception is the ANTS—

Mr Gallagher—I think there may have been other exceptions, but I would have to take that on notice. My mind is telling me Australians Working Together, but I would have to check. We will probably take that on notice, but there have been a couple where it has been done.

Senator SHERRY—Are you familiar with any others, Mr Ray?

Mr Ray—I have a vague recollection that there is one other example, but I cannot remember exactly what it is, so we will take it on notice and check.

Answer:

Recent practice has been to include estimates of the second round effects of tax reform in official costings only in exceptional cases where the magnitude of the changes makes it practicable to estimate an economy wide impact.

- The 1998 A New Tax System included a growth dividend.
- The 1999 Review of Business Taxation in *A Tax System Redesigned* included a growth dividend.

In 2001, the Australians Working Together package included savings in income support payments as a result of increased workforce participation.