

Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Supplementary Budget Estimates

19 – 20 October 2011

Question No: SBT 697 - 698

Topic: Taxation Revenue

Hansard Page: Written

Senator Bob Brown asked:

697. Will the Government be producing a response to the Tax Forum? If so, when?
698. What is the economic rationale for not allowing taxation revenue (and hence average expenditure) to exceed the proportion of GDP it represented in 2007-08?
- a) In particular, what is the rationale for limiting tax increases designed to ensure those imposing costs on the community bear those costs (such as carbon taxes, tobacco taxes and congestion charges)?
- b) How is the limit consistent with the *Tax Forum Discussion Paper's* observation of the 'longer term structural pressures on the budget such as future community demands for spending on health'?

Answer:

697. The Deputy Prime Minister responded to the discussions at the Tax Forum in his closing remarks at the forum, where he announced that the Government would draw on the priorities identified by participants as the building blocks for the next stage of ongoing tax reform. Those priorities included issues in relation to business tax, small business, state tax, personal tax, superannuation, the not-for-profit sector, tax system governance, and tax and transfer system research. For further information, please refer to the Deputy Prime Minister's closing remarks at <http://www.treasurer.gov.au/DisplayDocs.aspx?doc=speeches/2011/031.htm&pageID=005&min=wms&Year=2011&DocType=1>.
698. The Government has committed to a medium-term fiscal strategy to provide the necessary flexibility for the budget position to vary in line with economic conditions, while providing for long-term fiscal sustainability. The strategy, which has remained unchanged since the Government's first budget in 2008-09, is to:
- achieve budget surpluses, on average, over the medium term;
 - keep taxation as a share of GDP below the level for 2007-08, on average; and

- improve the Government's net financial worth over the medium term.

The Government's commitment to keep taxation as a share of GDP below the level for 2007-08, on average, ensures that budget surpluses will be delivered through disciplined spending, not higher taxation, and that expenditure is directed to priority areas.

- a). The commitment to keep taxation as a share of GDP below the level for 2007-08, on average, applies at an aggregate level and has not prevented important tax reforms. For example, the *Clean Energy Future* package introduced a price on carbon to create incentives to reduce carbon pollution while delivering compensation through tax cuts and payment increases to 9 in 10 households.

In addition, the Government raised tobacco taxes by 25 per cent in April 2010, the first increase in tobacco excise (above inflation) in more than a decade. This brought Australia in line with other countries and furthered attempts to reduce smoking prevalence, improving the health of those who quit and lessening the burden of smoking on the Australian health system.

- b). Consistent with the *2010 Intergenerational Report*, the *Tax Forum Discussion Paper* made the observation that without action to curtail spending growth the overall level of government spending under existing programs would, over the medium to long term, become unsustainable.

With an ageing population, productivity-enhancing reforms and measures to increase participation are key to boosting economic growth and reducing future fiscal pressures. Measures to slow growth in spending will also be important, and the constraint on taxation as a share of GDP in the medium term fiscal strategy will ensure this is a focus.