

24 October 2017

Mr Robert Ewing  
Tax Analysis Division  
The Treasury  
Langton Crescent  
PARKES ACT 2600

Business  
Council of  
Australia



## Tax Expenditures Statement Consultation

Dear Mr Ewing

The Business Council welcomes the opportunity to provide input to the consultation on the Tax Expenditures Statement (TES).

The Business Council considers that the TES plays an important role in informing the tax policy debate. The ability to scrutinise tax, and spending, measures is an important aspect of improving transparency and accountability of policies.

That said, TES estimates reflect their methodology and assumptions and must be presented and interpreted carefully.

The TES outlines measures in the tax system where the tax treatment deviates from a selected benchmark. The choice of benchmark is critical, yet often there is room for debate about appropriate tax treatment.

Consequently, published estimates of tax expenditures do not necessarily indicate the potential revenues that could be recouped or whether their removal would deliver net economic benefits or more equitable outcomes. Policies should be carefully assessed on their merits in efficiently achieving their policy objectives, which should include analysis of effective marginal tax burdens, effects over time and likely behavioural responses to changes.

The Business Council considers each measure in the TES could be improved with a better description of the objectives and policy rationale. Where estimates significantly deviate from a previous year, this should be highlighted and the underlying driver should be explained. This may include changes to policy, parameters, method for estimation or data. Further detail on the method and data underpinning estimates would better inform debate and could be published as part of a technical manual. In addition, the warnings around the use of tax expenditure estimates could be repeated under specific policy measures to mitigate against misrepresentations of the estimates.

There is much debate about different approaches and challenges around tax expenditure estimates. Publication of a range of estimates or alternative benchmarks would help reveal the sensitivity of results. While the current estimates do not provide for an explicit behavioural response, no response in and of itself is in fact a presentation of one behavioural extreme.

The Business Council notes that some current arrangements for taxing savings have been questioned by parts of the community, such as around superannuation. In this case, using personal income tax rates as the benchmark comparator is problematic as no one is seriously suggesting this treatment of superannuation would be desirable. In other words, the revenue forgone estimates do not indicate the potential pool for budget savings (even disregarding likely behavioural responses). Rather, the appropriate comparator is the 'ideal' tax treatment of superannuation, which is generally considered to be one where contributions and earnings are tax free and benefits are taxed at marginal income tax rates (the so-called post-paid

expenditure tax treatment). Treasury has calculated experimental superannuation tax expenditures using a 'pre-paid' expenditure tax benchmark where contributions are taxed at marginal tax rates and both earnings and benefits are tax exempt. There would be merit in updating these alternative estimates periodically.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Jennifer Westacott', written in a cursive style.

**Jennifer A. Westacott**  
Chief Executive