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COSTING – ELECTION CARETAKER PERIOD

Name of proposal:	**Fix the mining tax (previously *Improved mining tax*)**
Summary of proposal:	The proposal would expand the Minerals Resources Rent Tax (MRRT) to include: (i) a 40 per cent tax rate (including abolition of the 25 per cent extraction allowance, so that the effective tax rate is 40 per cent) (ii) royalties credited at rates in place at 1 July 2011 (iii) all minerals in the MRRT (iv) reducing the uplift rate to be the bond rate plus 2 percentage points, and (v) restricting the starting base for existing projects to the depreciated book value of what companies have actually spent on mining infrastructure. The intention of the proposal is for the MRRT to be more like that proposed by the Henry Tax Review and the first Rudd Government's proposed resource super profits tax (RSPT) and to increase the amount of tax paid by mining companies. The proposal would have effect from 1 July 2014.
Person/party requesting costing:	Senator Milne, Australian Greens
Date costing request received:	14 August 2013
Date costing completed:	19 August 2013
Date of public release of policy:	14 July 2013
Agencies from which information was obtained:	Not applicable

Costing overview

This proposal is estimated to increase both the underlying cash and fiscal balances by around $20.8 billion over the period from 2013-14 to 2016-17. This impact is entirely due to increased revenue.

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Table 1: Financial implications for improved mining tax (outturn prices)[(a)]

Impact on:	2013-14	2014-15	2015-16	2016-17
Underlying cash balance ($m)	-	5,000	7,000	8,800
Fiscal balance ($m)	-	5,000	7,000	8,800

(a) A positive number for the fiscal balance indicates an increase in revenue in accrual terms. A positive number for the underlying cash balance indicates an increase in revenue in cash terms.

A detailed breakdown of the elements of this costing is included at Attachment A.

The proposal would have an ongoing impact that extends beyond the forward estimates period.

Departmental expenses are not expected to be significant and have not been included in this costing.

This costing is considered to be of very low reliability.

- There is no direct tax information on which to base the estimates, which rely heavily on assumptions and there is no reliable information on likely taxpayer responses to the policy. The model relies on Australian Bureau of Statistics (ABS) data for much of the analysis.
- The model uses a 'tops down' approach which treats each commodity as a single entity, so variations in company circumstances are not taken into account.
- The estimates are extremely sensitive to factors such as changes in commodity prices and the exchange rate. These can result in very large variations in the expected revenue relative to the change in the Australian dollar value of commodities.

Key assumptions

Assumptions detailed in the costing request:

- This proposal would have effect from 1 July 2014.

The PBO has made the following assumptions regarding this advice.

General assumptions

- Over the projection period in the model, production costs are assumed to be proportional to the level of mining output, with the 'price' of non-labour production costs further increasing in line with the implicit price deflator of Gross Domestic Product (GDP) and unit labour costs further increasing in line with total average weekly earnings.
- Estimates have been rounded to the nearest $100 million.

Impact on company tax

- As the MRRT paid by a company is deductible for company tax purposes, changes to MRRT liabilities will change company tax collections. The magnitude of the change in company tax is 30 per cent of the change in the MRRT.

Timing assumptions

- The PBO has assumed that the MRRT is collected via a quarterly instalment system.

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Methodology

The costing uses a 'tops down' commodity model, covering iron ore, metallurgical coal, thermal coal, gold, copper, nickel, alumina, refined copper and refined nickel. Each mineral is modelled as if it were a single entity under the MRRT, effectively assuming full transferability of unused project expenses within that commodity sector.

Crude oil and Liquefied Natural Gas (LNG) are assumed to remain subject to the Petroleum Resources Rent Tax (PRRT) and have not been included in the MRRT modelling.

The focus of the model is on export sales and volumes. The model excludes coal used in domestic electricity generation on the basis that the majority of such coal is sourced as part of vertically integrated production processes which overall do not generate the 'super profits' that are subject to the MRRT. For similar reasons, brown coal is not covered by the model.

The model starts from commodity prices and volumes to estimate the Australian dollar value of sales income for each commodity at the port. Following that:

- Operating costs are deducted (however, certain costs such as depreciation and interest expenses are not deductible).
  - Operating costs include an allowance for the profits on downstream capital in order to 'net back' the returns on capital to the run of mine (ROM) stockpile, which is the taxing point for the MRRT.
- Capital expenditure is immediately expensed (that is fully deductible in the year the capital concerned is installed ready for use).
- Royalties are grossed up by dividing by the MRRT effective tax rate and the grossed up amount is treated as a deductible expense.
- Starting base allowances are deducted by either:
  - a deduction equal to the assumed market value of starting assets, written off over the effective life of the relevant assets (assumed average of 17 years), or
  - a deduction equal to the book value of assets, written off over five years, with 36 per cent deducted in year one, 24 per cent in year two, 15 per cent in year three, 15 per cent in year four, and 10 per cent in year five with unused deductions uplifted at the 10 year bond rate.

  This depends on which provides the more favourable outcome to miners given that they can elect which method to apply. Base MRRT revenue is calculated assuming that miners will elect to deduct the market value of starting assets as this is more favourable.
- MRRT assessable income is calculated by deducting operating costs, capital expenditure, royalty deductions and starting base allowances from sales revenue.
- Where there is an MRRT loss, the loss is only attributed to starting base allowances, after deducting 'other' expenses. Losses attributable to 'other' expenses are uplifted at the 10 year bond rate plus an uplift factor. Note that no MRRT losses are expected under the current model parameters.
- Where there is positive MRRT assessable income, MRRT is assessed at the MRRT tax rate, discounted by the extraction allowance.

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Policy parameters

The **base case** in the model assumes the following key policy parameters hold.

- The MRRT rate is 30 per cent, discounted by the 25 per cent extraction allowance to give an effective MRRT rate of 22.5 per cent.
- State royalties are levied at actual rates estimated to be applicable in each projection year:
  - the royalty rate used for iron ore is the Western Australian average ad valorem royalty rate, with the rate estimated from WA State Budget papers, and
  - the royalty rate used for metallurgical coal is the average of the ad valorem rates applicable in Queensland and New South Wales. The Queensland rates take account of the graduated value based royalty rates announced in the 2012-13 Queensland Budget. The New South Wales rates take account of the different rates that apply to open cut, shallow underground and deep underground mines but do not include the royalty increases foreshadowed in the 2011-12 NSW Budget (and reiterated in the 2012-13 Budget), for which a revenue target has been announced but no specific rates put forward.
- Undeducted MRRT operating costs, unused capital expense deduction and royalty deductions are carried forward at the 10 year bond rate plus 7 per cent 'uplift'.
- Starting base deductions are claimed under the market value method and deducted over the average effective life of the starting base assets (as opposed to the alternative option of using book values written off over five years).

Element (i) increases the MRRT effective rate to 40 per cent, by setting the headline rate to 40 per cent and the extraction allowance discount to zero.

Element (ii) sets the weighted average State royalty rate for each commodity to the average rate for the 2010-11 year (as a proxy for the rates applicable at 1 July 2011).

Element (iii) extends the MRRT to all minerals by adding LNG, gold, copper, nickel, crude oil, alumina, refined copper and refined nickel to those minerals modelled previously.

Element (iv) reduces the uplift factor for undeducted MRRT expenses from the 10 year bond rate plus 7 per cent to the 10 year bond rate plus 2 per cent.

Element (v) switches the basis for starting base allowance deductions from the market value deducted on a straight line basis over the lesser of 25 years or the market value of the assets, with no uplift, to the alternative deductions for book value of assets over five years (according to the 36/24/15/15/10 schedule) with uplift of unused deductions at the 10 year bond rate.

Data sources

- 2012-13 Mid-Year Economic and Fiscal Outlook
- ABS Cat. No. 8415.0, *Mining Operations Australia*, 2006-07
- ABS Cat. No. 8155.0, *Australian Industry*, 2010-11
- Reserve Bank of Australia, Index of commodity prices, exchange rates, bond rates

- Bureau of Resource and Energy Economics, Commodity Statistics, March 2013
- Coal Services Pty Limited, *Australian Black Coal Mining Summary* 2009-10
- New South Wales Treasury, State Budget papers (various)
- Queensland Treasury, State Budget papers (various)
- Western Australia, State Budget papers (various)
- Index Mundi, monthly commodity price indices http://www.indexmundi.com/commodities/?commodity=iron-ore&months=12

ATTACHMENT A: BASE REVENUE AND DETAILED RESULTS

This attachment includes the estimated revenue impact for each element of this costing using 2013 Pre-Election Economic and Fiscal Outlook report parameters. Base MRRT revenue, including PBO estimates of the different mineral compositions, is also provided.

Base MRRT revenue published in the 2013 Pre-Election Economic and Fiscal Outlook

Estimated MRRT as at the 2013 Pre-Election Economic and Fiscal Outlook

	2013-14	2014-15	2015-16	2016-17
Iron ore(a)	600	600	900	1,400
Metallurgical coal(a)	100	200	200	400
Thermal coal(a)	0	0	0	0
Total	**700**	**800**	**1,100**	**1,800**

(a) PBO estimates of the composition of MRRT revenue.

Detailed estimates for elements (i) to (v)

The impact of each of the costing elements is shown separately in the following sections. There are some interactions between these elements that means that they do not necessarily sum to the total of the policy costing.

Element (i) Impose an MRRT tax rate of 40 per cent (including abolition of the 25 per cent extraction allowance, so that the effective tax rate is 40 per cent)

This element is estimated to increase both the underlying cash and fiscal balances by around $11.6 billion over the period from 2013-14 to 2016-17. This impact is entirely due to increased revenue.

Element (i) - Increase MRRT rate to 40% (in isolation)

Revenue impact ($ million) [(a)]

	2013-14	2014-15	2015-16	2016-17
Iron ore	0	2,300	3,400	4,200
Metallurgical coal	0	400	600	700
Thermal coal	0	0	0	0
Total	**0**	**2,700**	**4,000**	**4,900**

MRRT revenue including the impact of Element (i) [(b)]

	2013-14	2014-15	2015-16	2016-17
Iron ore	600	2,900	4,300	5,600
Metallurgical coal	100	600	800	1,100
Thermal coal	0	0	0	0
Total	**700**	**3,500**	**5,100**	**6,700**

Footnotes:

(a) Impact relative to 2013 PEFO estimates.

(b) Revenue impact of MRRT net of company tax deduction and credits for State royalties.

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Element (ii) Royalties credited at the royalty rates in place at 1 July 2011

This element is estimated to increase both the underlying cash and fiscal balances by around $1.7 billion over the period from 2013-14 to 2016-17. This impact is entirely due to increased revenue.

Element (ii) Royalties credited at rates in place as at 1 July 2011 (in isolation)

Revenue impact ($ million) [(a)]

	2013-14	2014-15	2015-16	2016-17
Iron ore	0	400	600	700
Metallurgical coal	0	0	0	0
Thermal coal	0	0	0	0
Total	**0**	**400**	**600**	**700**

MRRT revenue including the impact of Element (ii) [(b)]

	2013-14	2014-15	2015-16	2016-17
Iron ore	600	1,000	1,500	2,100
Metallurgical coal	100	200	200	400
Thermal coal	0	0	0	0
Total	**700**	**1,200**	**1,700**	**2,500**

Footnotes:

(a) Impact relative to 2013 PEFO estimates.

(b) Revenue impact of MRRT net of company tax deduction and credits for State royalties.

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Element (iii) Include all minerals in the MRRT

This element is estimated to increase both the underlying cash and fiscal balances by around $1.7 billion over the period from 2013-14 to 2016-17. This impact is entirely due to increased revenue.

Element (iii) Expand MRRT coverage to include all minerals (in isolation)

Revenue impact ($ million) [(a)]

	2013-14	2014-15	2015-16	2016-17
Iron ore	0	0	0	0
Metallurgical coal	0	0	0	0
Thermal coal	0	0	0	0
Gold	0	600	600	500
Copper	0	0	0	0
Nickel	0	0	0	0
Alumina	0	0	0	0
Refined Copper	0	0	0	0
Refined Nickel	0	0	0	0
Total	**0**	**600**	**600**	**500**

MRRT revenue including the impact of Element (iii) [(b)]

	2013-14	2014-15	2015-16	2016-17
Iron ore	600	600	900	1,400
Metallurgical coal	100	200	200	400
Thermal coal	0	0	0	0
Gold	0	600	600	500
Copper	0	0	0	0
Nickel	0	0	0	0
Alumina	0	0	0	0
Refined Copper	0	0	0	0
Refined Nickel	0	0	0	0
Total	**700**	**1,400**	**1,700**	**2,300**

Footnotes:

(a) Impact relative to 2013 PEFO estimates.

(b) Revenue impact of MRRT net of company tax deduction and credits for State royalties.

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Element (iv) Reduce the uplift rate from the bond rate plus 7 percentage points to the bond rate plus 2 percentage points.

This element is not estimated to have an impact on either the underlying cash or fiscal balances over the period from 2013-14 to 2016-17.

Element (iv) Uplift rate at 10 year bond rate plus 2%

Revenue impact ($ million) [(a)]

	2013-14	2014-15	2015-16	2016-17
Iron ore	0	0	0	0
Metallurgical coal	0	0	0	0
Thermal coal	0	0	0	0
Total	**0**	**0**	**0**	**0**

MRRT revenue including the impact of Element (iv) [(b)]

	2013-14	2014-15	2015-16	2016-17
Iron ore	600	600	900	1,400
Metallurgical coal	100	200	200	400
Thermal coal	0	0	0	0
Total	**700**	**800**	**1,100**	**1,800**

Footnotes:

(a) Impact relative to 2013 PEFO estimates.

(b) Revenue impact of MRRT net of company tax deduction and credits for State royalties.

Element (v) Restrict the starting base for existing projects to the depreciated book value of what companies have actually spent on mining infrastructure.

This element is estimated to increase both the underlying cash and fiscal balances by around $4.0 billion over the period from 2013-14 to 2016-17. This impact is entirely due to increased revenue.

Element (v) Starting base deduction set to book value - depreciated over 5 years

Revenue impact ($ million) [(a)]

	2013-14	2014-15	2015-16	2016-17
Iron ore	0	900	1,300	1,500
Metallurgical coal	0	0	100	200
Thermal coal	0	0	0	0
Total	**0**	**900**	**1,400**	**1,700**

MRRT revenue including the impact of Element (v) [(b)]

	2013-14	2014-15	2015-16	2016-17
Iron ore	600	1,500	2,200	2,900
Metallurgical coal	100	200	300	600
Thermal coal	0	0	0	0
Total	**700**	**1,700**	**2,500**	**3,500**

Footnotes:

(a) Impact relative to 2013 PEFO estimates.

(b) Revenue impact of MRRT net of company tax deduction and credits for State royalties.

Reference No. *GRN002*

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COSTING – ELECTION CARETAKER PERIOD

Name of proposal:	**Abolishing fossil fuel subsidies**
Summary of proposal:	The proposal would abolish: • fuel tax credits (FTCs) for the mining industry (FTCs replaced the diesel fuel rebate from 1 July 2006), • accelerated depreciation tax concessions for aircraft, the oil and gas industry and vehicles (except those used for agricultural purposes), and • immediate deductions in the mining industry relating to exploration and prospecting. The intention of the proposal is to remove a distortion in the tax system favouring some industries over others and raise revenue to be invested in the industries of the future. The proposal would have effect from 1 January 2014.
Person/party requesting costing:	Senator Christine Milne, Australian Greens
Date costing request received:	14 August 2013
Date costing completed:	21 August 2013
Date of public release of policy:	14 July 2013
Agencies from which information was obtained:	Not applicable

Costing overview

This proposal is expected to increase the underlying cash balance by $10.50 billion and increase the fiscal balance by $10.85 billion over the 2013-14 forward estimates period. This impact reflects: an increase in revenue from abolishing accelerated depreciation and exploration tax concessions for the mining industry, a reduction in expenditure from abolishing fuel tax credits (FTCs) for mining companies and an offsetting decrease in company tax and minerals resource rent tax (MRRT) arising from increased fuel costs associated with abolishing FTCs.

This costing includes a number of components. A detailed breakdown of the components of this costing is included at Attachment A.

The underlying cash balance impact of this proposal differs from the fiscal balance impact because of the difference between the timing of accrual and cash expenses related to the FTC component of the costing.

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This proposal will have an ongoing impact that extends beyond the forward estimates period.

Departmental expenses are not expected to be significant and have not been included in this costing.

This costing is considered to be of low reliability as it is based on a number of assumptions and projected aggregate data.

Table 1: Financial implications (outturn prices)[(a)]

Impact on:	2013-14	2014-15	2015-16	2016-17
Underlying cash balance ($m)	1,000	2,850	3,250	3,400
Fiscal balance ($m)	1,350	2,850	3,250	3,400

(a) A positive number for the fiscal balance indicates a decrease in expense and an increase in revenue in accrual terms. A positive number for the underlying cash balance indicates a decrease in expenditure and an increase in revenue receipts in cash terms.

Key assumptions

General assumptions

- The proposal would have effect from 1 January 2014.
- Estimates have been rounded to the nearest $50 million.

Assumptions relating to the abolition of fuel tax credits for the mining industry

- Currently entities in the mining industry are able to claim FTCs for fuel they use, as follows:
  - an FTC equal to the full excise paid on eligible fuel is available for fuel used in off road applications, and
  - a part FTC, equal to the excise paid less a road user charge (RUC) is payable in respect of fuel used on road in transport vehicles with greater than 4.5 tonnes gross vehicle mass (GVM).
- From 1 July 2012, FTCs for off road use of fuel used (inter alia) in the mining industry have been reduced by an amount equal to the charge imposed by the carbon pricing mechanism (CPM) on the fuel concerned. Companies are able to elect to receive a full fuel tax credit and to pay their CPM liabilities relating to eligible fuel use through the CPM. Similar arrangements will apply to the heavy on road transport sector from 1 July 2014, including heavy on road transport used in the mining sector.
  - The costing assumes that, if eligibility for FTCs is removed from the mining industry, mining companies will lose FTCs equal to the full excise of 38.143 cents per litre (cpl) (or 38.143cpl less the RUC for fuel used on road after 1 July 2014).
- FTCs currently reduce the expenses entities are able to claim for their fuel for both company tax and the minerals resource rent tax (MRRT). Abolishing FTCs for mining entities would increase the deductions claimed by mining companies for both these taxes. As the MRRT is a deductible expense for company tax purposes, this impact compounds over both taxes.
  - This costing uses the current company tax rate of 30 per cent and the current effective MRRT rate of 22.5 per cent.
  - The modelling takes account of the FTCs being deductible for both MRRT and company tax purposes.

- The costing assumes that there would be no behavioural change in response to the proposal, with the result that the level of mining activity and fuel consumption remains unchanged as a result of the proposal.

Assumptions relating to the abolition of accelerated asset depreciation and abolition of immediate deductions for exploration and prospecting

The costing assumes that there is no behavioural response to removing the accelerated depreciation provisions, for instance through reducing expenditure on the assets concerned.

The PBO has made the following assumptions in calculating the estimated impact of removing the accelerated depreciation tax concessions:

- Where there are varying safe harbour effective lives for the same category of asset, an average was taken to arrive at the safe harbour asset life.
- The average marginal tax rate for individual taxpayers is 33 per cent.
- Assets are assumed to be purchased throughout the year.
- Taxpayers are assumed to utilise deductions associated with aircraft, the oil and gas industry and vehicles according to the following profile:
  - 75 per cent are taxable in the year they purchase the depreciable assets
  - 15 per cent become taxable in the year after they purchased the asset, and
  - 5 per cent become taxable two years after they purchased the asset.
- Some of the increase in tax from companies arising from the proposal is clawed back through increased imputation credits being available in relation to dividends paid to shareholders.
- Estimates have been rounded to the nearest $50 million.
- Approximately 10 per cent of vehicles were considered to be used for agricultural purposes and were not included in the costing.
- Taxpayers are assumed to utilise deductions associated with exploration and prospecting according to their taxable/non-taxable status. In aggregate, 50 per cent of affected taxpayers are taxable each year.
- Exploration and prospecting assets are assumed to have a 15 year effective life under the proposal.

Methodology

Methodology for costing the abolition of fuel tax credits for the mining industry

The costing has been performed using an aggregate analysis, based on total FTCs paid to the mining industry. This is a "tops down" approach, using actual payment data and will include the effect of factors such as the take up rates for FTCs that were applicable in the period from which the data are drawn. The impact of the proposal was calculated as follows:

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- Total FTCs payable in 2011-12 to the mining industry were obtained from the Australian Taxation Office (ATO) taxation statistics and projected out over the forward estimates using the growth rate in the budget data for diesel fuel excise.
- The FTC data was decomposed into 'on road' and 'off road' components using historical data from the Energy Grants Credit Scheme.
- The impact of FTCs on the MRRT and company tax payable by mining companies was estimated by calculating the combined change in the value of deductions for fuel for that part of the mining industry estimated to be subject to MRRT, and the change in the value of company tax deductions for the remainder of the mining industry.
- Timing assumptions on the frequency of FTC payments through the Business Activity Statement (BAS) system were made to determine the impact of the proposal on an underlying cash balance basis.

Growth rates in the model are based on the growth rates for diesel fuel excise reported in *2013 Pre-Election Economic and Fiscal Outlook* report. The road user charge (RUC) used to calculate 'on road' FTCs was grown in the projection period at the average of annual growth rates for the period 2008-09 to 2013-14.

Timing assumptions on the frequency of FTC payments through the BAS system were made to determine the impact of the proposal on an underlying cash balance basis.

Methodology for modelling the abolition of accelerated asset depreciation and the abolition of immediate deductions for exploration and prospecting

The abolition of immediate deductibility of exploration and prospecting has been modelled in the same manner as the removal of accelerated asset depreciation.

The impact of this proposal was estimated by calculating the impact of total depreciation deductions expected under the proposal over the forward estimates period less the impact of total depreciation deductions currently expected over the forward estimates period.

Company tax timing assumptions which allow for the impact of companies with substituted accounting periods were used in this costing.

Data sources

- ATO Taxation Statistics 2011-12, detailed tables from the ATO website www.ato.gov.au.
- Fuel excise data from the *2013 Pre-Election Economic and Fiscal Outlook* report.
- FTC estimates from the 2013-14 Budget Paper No. 1.
- ATO data on business depreciating asset expenditure was obtained from the Treasury.

ATTACHMENT A: DETAILED BREAKDOWN OF THE COSTING

This attachment provides a breakdown of the financial implications of the proposal.

Table A1: Financial implications – Fiscal balance ($ million)

	2013-14	2014-15	2015-16	2016-17
Revenue impact				
Remove accelerated depreciation for mining companies[a]	..	250	700	800
Remove immediate deduction for exploration and prospecting[a]	100	650	1050	900
Company tax and MRRT impact from abolishing FTCs for mining companies[a]	-	-550	-1050	-950
Total	***100***	***350***	***700***	***750***
Expense impact				
Abolish FTCs for mining companies[a]	1,250	2,500	2,550	2,650
Total	**1,350**	**2,850**	**3,250**	**3,400**

a) A positive number for the fiscal balance represents an increase in revenue or a decrease in expenses. A negative number for the fiscal balance represents a decrease in revenue or an increase in expenses.

".." means not zero but rounded to zero.

Table A2: Financial implications – Underlying cash balance ($ million)

	2013-14	2014-15	2015-16	2016-17
Revenue impact				
Remove accelerated depreciation for mining companies[a]	..	250	700	800
Remove immediate deduction for exploration and prospecting[a]	100	650	1,050	900
Company tax and MRRT impacts from abolishing FTCs for mining companies[a]	-	-550	-1050	-950
Total	***100***	***350***	***700***	***750***
Expense impact				
Abolish FTCs for mining companies[a]	900	2,500	2,550	2,650
Total	**1,000**	**2,850**	**3,250**	**3,400**

a) A positive number for the fiscal balance represents an increase in receipts or a decrease in outlays. A negative number for the underlying cash balance represents a decrease in receipts or an increase in outlays.

".." means not zero but rounded to zero.

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COSTING – ELECTION CARETAKER PERIOD

Name of proposal:	**Bank Public Support Levy (previously *Public Support Levy*)**
Summary of proposal:	The proposal would introduce a 20 basis point levy on bank assets in excess of $100 billion, as suggested in the International Monetary Fund Report "A fair and substantial contribution from the financial sector: Final Report for the G-20." This would replace the Financial Stability Fund measure announced by the Government in the August 2013 Economic Statement. The IMF estimates that banks which are perceived as "too big to fail" receive a 20 basis point advantage over small banks due to the implicit Government guarantee underwriting their activities. The proposal is intended to make major banks pay a fair charge for the public support they receive. The proposal would have effect from 1 July 2014.
Person/party requesting costing:	Senator Christine Milne, Australian Greens
Date costing request received:	14 August 2013
Date costing completed:	16 August 2013
Date of public release of policy	14 July 2013
Agencies from which information was obtained:	Not applicable

Costing overview

This proposal is expected to increase both the underlying cash and fiscal balances by $7.9 billion over the 2013-14 Budget forward estimates period. This impact reflects an increase in revenue of $11.5 billion from the levy and a decrease in company tax receipts of $3.6 billion over this period.

This proposal will have an ongoing impact that extends beyond the forward estimates period.

Departmental costs are expected to be minimal and have not been included in this costing. Administration of the policy should not be a significant cost given that the Australian Prudential Regulation Authority (APRA) already collects data on bank assets and that the levy would only apply to four taxpayers at present.

This costing is considered to be of high reliability. It is based on high quality, up to date information and current growth forecasts. No data assumptions have been made.

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Table 1: Financial implications (outturn prices)[(a)]

Impact on	2013-14	2014-15	2015-16	2016-17
Underlying cash balance ($m)	-	2,700	2,500	2,700
Fiscal balance ($m)	-	2,700	2,500	2,700

(a) A positive number for the fiscal balance indicates an increase in revenue in accrual terms. A positive number for the underlying cash balance indicates an increase in revenue in cash terms.

Key assumptions

Assumptions detailed in the costing request:

- The Public Support Levy would replace the Financial Stability Fund measure that the Government announced in the August 2013 Economic Statement.
- The levy is treated as a deductible expense for company tax purposes.
- The levy is 20 basis points (0.2 per cent) of the value of total resident assets of each bank in excess of the $100 billion threshold.
- The proposal would start from 1 July 2014.

The PBO has made the following assumptions regarding this proposal.

General assumptions

- The levy would be payable in a single instalment within the financial year based on the estimated value of assets as at 1 July each year.
- The value of bank assets is assumed to grow each year by the growth rate in GDP.

Behavioural assumptions

- The costing assumes that the cost of the proposed levy is not passed on to bank customers.
  - This assumption is reasonable given that, based on the APRA data, only the 4 major banks would be subject to the levy and competition from other approved deposit taking institutions would limit their ability to pass the impact through to customers, with the result that the levy would impact on profit and taxable income (as costed).
  - The impact of varying this assumption mainly impacts on the rate at which the levy is assumed to be deducted from assessable incomes. If banks were to pass the levy through to consumers in the form of increased fees or reduced interest, that pass through would increase the assessable income of the banks for tax purposes, offsetting the deduction they receive for the levy, but would be matched by reductions in the taxable income of (resident) bank customers. In this case, the impact of reduced income/tax deductions on tax revenue would depend upon the marginal tax rates of bank customers.
- The costing also assumes that the imposition of the levy does not change the behaviour of Australian banks or their customers, for instance by moving business offshore, restructuring banking businesses to get under the asset threshold or shifting business away from banks subject to the levy to those that are not subject to the levy.

- According to APRA data, the total profit of the four major Australian banks in the year ended December 2012 was $32.6 billion and tax paid was $10.2 billion. The levy proposed is equivalent to more than a quarter of the income tax currently paid by the banks. Such an increase in tax liability is likely to result in a behavioural response.
- The PBO cannot reliably estimate what the nature or magnitude of any behavioural change would be in response to the proposal. The actual behaviour of the major banks in response to the levy could materially affect the costing.

Methodology

Total resident assets of Australian banks were obtained from the APRA *Monthly Banking Statistics* for each licensed bank. Total resident assets are defined as "all assets on the banks' domestic books that are due from residents". The bank assets were then tested against the proposed $100 billion threshold. Only assets of banks that were in excess of the threshold were assessed for the levy.

Data sources

- APRA *Monthly Banking Statistics, June 2013*
- APRA *Quarterly Authorised Deposit-taking Institution Performance, March 2013*
- *2013 Economic Statement*
- *Pre-Election Economic and Fiscal Outlook 2013*

Reference No. *GRN004*

Parliament of Australia
Parliamentary Budget Office

COSTING – ELECTION CARETAKER PERIOD

Name of proposal to be costed:	Millionaires tax
Summary of proposal:	The proposal would introduce an additional 5 per cent tax on incomes over $1 million. Income for the purpose of the additional tax would be defined as taxable income plus reportable fringe benefits. The proposal would have effect from 1 July 2014.
Person/party requesting costing:	Senator Christine Milne, Australian Greens
Date costing request received:	14 August 2013
Date costing completed:	20 August 2013
Date of public release of policy	14 July 2013
Agencies from which information was obtained:	Australian Taxation Office (ATO)

Costing overview

This proposal is expected to increase both the underlying cash and fiscal balances by $526.9 million over the 2013-14 Budget forward estimates period. This impact reflects an increase in expenses of $3.1 million and an increase in revenue of $530 million over this period. A detailed breakdown of the components of the costing is included at Attachment A.

The costing profile matures in 2016-17 and the proposal will have an ongoing impact that extends beyond the forward estimates period.

Departmental expenses associated with this proposal have been estimated in consultation with the ATO. These estimates have been included in the costing.

This costing is considered to be of medium reliability. It was estimated using a model based on a de-identified sample of 2010-11 personal income tax and superannuation data from the ATO.

The estimates in this costing include allowances for behavioural responses. The modelling includes an allowance for high income individuals to bring forward a small amount of income in excess of $1 million from 2014-15 to 2013-14 to take advantage of lower tax rates before the new tax takes effect. In addition, the modelling assumes that individuals will reduce their taxable incomes from 2014-15 in response to the additional tax.

The estimates in this costing differ from those in the applicant's costing request due to the PBO using more recent personal income tax and superannuation data. In addition, the PBO was able to access de-identified taxpayer information from the ATO as a result of recent amendments to the *Taxation Administration Act 1953,* which allowed the PBO to refine its assumptions surrounding the timing of personal income tax receipts for very high income earners.

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POLICY COSTING – ELECTION CARETAKER PERIOD

Table 1: Financial implications (outturn prices)[a]

Impact on	2013-14	2014-15	2015-16	2016-17
Underlying cash balance ($m)	119.0	-51.4	149.6	309.7
Fiscal balance ($m)	119.0	-51.4	149.6	309.7

(a) A positive number for the fiscal balance indicates an increase in revenue or a decrease in expenses or capital in accrual terms. A positive number for the underlying cash balance indicates an increase in receipts or a decrease in payments or capital in cash terms. A negative number for the fiscal balance indicates a decrease in revenue or an increase in expenses or capital in accrual terms. A negative number for the underlying cash balance indicates a decrease in receipts or an increase in payments or capital in cash terms.

Key assumptions

- The costing assumes that high income individuals have a taxable income elasticity of 0.35, in line with estimates used in the United Kingdom.
- Affected individuals bring forward a small amount of income from the 2014-15 income year to the 2013-14 income year to avoid the additional tax.
- The additional tax revenue is collected via a levy in quarterly instalments.

Methodology

The costing was estimated using a microsimulation model based on a de-identified 16 per cent sample of 2010-11 personal income tax and superannuation data from the ATO.

A small proportion of taxable income in excess of $1 million in 2014-15 is assumed to be brought forward to 2013-14 to account for individuals rearranging their income in the short-term to avoid the levy. This results in an increase in tax collections in 2013-14 as the income brought forward is subject to income tax withholding and the Pay As You Go instalment system, with a reduction in taxable income, mainly in 2014-15.

A taxable income elasticity of 0.35 was applied to individuals with incomes in excess of $1 million from 2014-15 to account for longer-term responses by individuals to the introduction of the levy. This resulted in decreased personal income tax and Medicare Levy revenue.

The levy revenue was calculated by multiplying the sum of taxable income and reportable fringe benefits in excess of $1 million, after incorporating behavioural impacts, by the rate of the levy.

Data sources

- *The Exchequer effect of the 50 per cent additional rate of income tax*, HM Revenue and Customs.
- 16 per cent samples of de-identified personal income tax and superannuation records from 2006-07 to 2010-11, ATO.
- Taxation Statistics – 2005-06 to 2010-11, ATO.

ATTACHMENT A: DETAILED FINANCIAL IMPLICATIONS

The detailed financial implications over the 2013-14 Budget forward estimates are summarised in the table below.

Table A1: Impact on underlying cash and fiscal balances[(a)]

	2013-14 ($m)	2014-15 ($m)	2015-16 ($m)	2016-17 ($m)	**Total ($m)**
Levy revenue impact (b)	-	300	680	840	**1,820**
Individual tax revenue impact (c)	120	-350	-530	-530	**-1,290**
Departmental expense impact (d)	1.0	1.4	0.4	0.3	**3.1**
Net impact (e)	**119.0**	**-51.4**	**149.6**	**309.7**	**526.9**

Notes

(a) Revenue estimates are rounded to the nearest $10 million. Expense and capital estimates are rounded to the nearest $100,000.

(b) The levy revenue impact refers to the impact of the additional 5 per cent tax on incomes over $1 million.

(c) The individual tax revenue impact refers to the change in ordinary income tax collections as a result of behavioural responses altering incomes.

(d) A minus sign before the estimate indicates a reduction in expenses, no sign before an estimate indicates increased expenses.

(e) The net impact is equal to the levy revenue impact, plus the individual tax revenue impact, minus the departmental expense impact, minus the departmental capital impact.

Parliament of Australia
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COSTING – ELECTION CARETAKER PERIOD

Name of proposal to be costed:	**Abolish income quarantining (previously *Abolition of income management*)**
Summary of proposal:	The proposal would abolish income management programs across Australia. The proposal would have effect from 1 January 2014.
Person/party requesting costing:	Senator Christine Milne, Australian Greens Party
Date costing request received:	14 August 2013
Date costing completed:	20 August 2013
Date of public release of policy:	29 July 2013
Agencies from which information was obtained:	• Department of Families, Housing, Community Services and Indigenous Affairs (FaHCSIA) • Department of Human Services (DHS)

Costing overview

This proposal is expected to increase the underlying cash balance by $91.0 million and increase the fiscal balance by $92.2 million over the 2013-14 Budget forward estimates period. This impact is entirely due to a reduction in expenses.

The underlying cash balance impact of this proposal differs slightly from the fiscal balance impact because of minor differences in the timing of when departmental expenses are incurred and paid.

Current funding for income management in the Northern Territory ceases in 2014-15, whilst funding for income management in other jurisdictions continues until 2015-16. DHS has advised that there will be costs of around $11 million associated with winding up the scheme which will reduce the savings that can be recovered relative to the amount in the 2013-14 Budget forward estimates. These wind up costs are taken into account in the costing.

The costing is considered to be of medium reliability. While the gross savings are based on Pre-election Economic and Fiscal Outlook (PEFO) estimates currently allocated to FaHCSIA and DHS, DHS has noted some uncertainty regarding the estimated costs for winding up income management.

POLICY COSTING – ELECTION CARETAKER PERIOD

Table 1: Financial implications (outturn prices)[(a)]

Impact on	2013-14	2014-15	2015-16	2016-17
Underlying cash balance ($m)	43.3	25.6	22.1	-
Fiscal balance ($m)	43.8	26.0	22.4	-

(a) A positive number for the fiscal balance indicates a decrease in expenses in accrual terms. A positive number for the underlying cash balance indicates a decrease in expenses in cash terms

Methodology

The estimates in this costing are based on reversing funding currently allocated to FaHCSIA and DHS for income management net of the estimated costs associated with winding up the scheme. The estimate for 2013-14 includes a half-year impact for the income management savings as the costing assumes a 1 January 2014 commencement date as per costing request.

Data sources

The estimates for income management programs across Australia were obtained from FaHCSIA and DHS. DHS also provided estimates for costs associated with ceasing income management.

Reference No. *GRN006*

Parliament of Australia
Parliamentary Budget Office

COSTING – ELECTION CARETAKER PERIOD

Name of proposal to be costed:	**Cancel the Joint Strike Fighter Program**
Summary of proposal:	The intention of the proposal is to cancel the purchase of Joint Strike Fighters. The proposal will have effect from October 2013.
Person/party requesting costing:	Senator Christine Milne, Australian Greens
Date costing request received:	14 August 2013
Date costing completed:	20 August 2013
Date of public release of policy:	28 February 2013
Agencies from which information was obtained:	Department of Defence (Defence)

Costing overview

This proposal is expected to increase both the underlying cash balance and fiscal balance by $805 million over the 2013-14 Budget forward estimates period. This is entirely due to a decrease to expenses.

This proposal will have an impact that extends beyond the forward estimates period. Total savings are estimated to be approximately USD $13 billion, based on the ANAO audit report (see Data section) estimate of the full cost of the Joint Strike Fighter project.

This costing reflects the Pre-Election Economic and Fiscal Outlook 2013 (PEFO) and a start date of October 2013. The costing has been undertaken consistent with exchange rates used in PEFO 2013.

This costing is considered to be of high reliability as it is based on updated expense amounts for the Joint Strike Fighter program over the 2013-14 Budget forward estimates period.

The estimates in this costing differ from those presented in the applicant's costing request because of changes to the estimated costs over the 2013-14 Budget forward estimates period, principally the change between the 2013-14 Budget and PEFO in the AUD to USD exchange rate assumption.

Table 1: Financial implications (outturn prices)[(a)]

Impact on	2013-14	2014-15	2015-16	2016-17
Underlying cash balance ($m)	7.8	140.9	205.5	451.2
Fiscal balance ($m)	7.8	140.9	205.5	451.2

(a) A positive number for the fiscal balance indicates a decrease in expenses in accrual terms. A positive number for the underlying cash balance indicates a decrease in expenses in cash terms.

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POLICY COSTING – ELECTION CARETAKER PERIOD

Key assumptions

The expense profile is as specified in the information provided by Defence for the 2013-14 Budget forward estimates period, which also includes commitments requiring repayment in the event of contract terminations.

Methodology

The estimates are those provided by Defence for the 2013-14 Budget forward estimates period.

Data sources

ANAO audit report, No. 6, 2012-13, Management of Australia's Air Combat Capacity – F-35A Joint Strike Fighter Acquisition, available:
http://www.anao.gov.au/~/media/Files/Audit%20Reports/2012%202013/Audit%20Report%206/201213%20Audit%20Report%20No%206%20OCRed.pdf

Parliament of Australia
Parliamentary Budget Office

COSTING – ELECTION CARETAKER PERIOD

Name of proposal to be costed:	**Clean Energy Roadmap**
Summary of proposal:	The proposal would increase the Renewable Energy Target (RET) to 90 per cent by 2030 and increase appropriations to the Clean Energy Finance Corporation (CEFC) to $3 billion a year for ten years. The intention of the proposal is to increase investment in renewable energy. The increased RET would apply from 2020 to 2030. The increased appropriations to the CEFC would apply from the 2013-14 financial year.
Person/party requesting costing:	Senator Christine Milne, Australian Greens
Date costing request received:	14 August 2013
Date costing completed:	21 August 2013
Date of public release of policy:	1 July 2013
Additional information requested:	On 15 August 2013, clarification was sought on whether the existing 20 per cent RET by 2020 would be retained under this proposal.
Additional information received:	On 15 August 2013, the Office of Senator Milne confirmed that the current RET would be maintained.
Agencies from which information was obtained:	Clean Energy Finance Corporation

Costing overview

The proposal is expected to increase the underlying cash balance by $98.5 million and decrease the fiscal balance by $293.0 million over the 2013-14 Budget forward estimates period.

This costing has two elements:

1) Increased RET

The proposal to increase the RET to 90 per cent by 2030 would not have a material impact on the underlying cash and fiscal balances over the 2013-14 Budget forward estimates period as the current 20 per cent target for 2020 would be retained.

Increasing the RET would have financial impacts beyond the 2013-14 Budget forward estimates period that would occur upon transition from the 20 per cent target to the 90 per cent target.

2) Expanded CEFC

The impact of expanding the CEFC on the underlying cash balance reflects an increase in the receipt of interest and dividends of $142.5 million, partially offset by an increase in payments of $44.0 million, comprising cash payments of operating and capital expenditure.

The impact on the fiscal balance reflects an increase in expenses of $579.5 million, comprising operating and capital expenses and a concessional loan charge. The CEFC provides loans with interest rates that are lower than commercial lending rates and the concessional loan charge reflects this difference in interest rates. The decrease in the fiscal balance is partially offset by an increase in revenue of $286.5 million consisting of interest and dividends received, including capitalised interest.

The proposal would reduce the headline cash balance by $2.9 billion over the 2013-14 Budget forward estimates period. The impact on the headline cash balance reflects cash outflows from Government loans and equity investments to project proponents (this does not impact on the underlying cash balance) as well as the operating costs of the CEFC. These cash outflows are partially offset by the interest, dividends and principal repayments from project proponents.

The proposal would provide an additional $3 billion per year to the CEFC for five years from 2018-19. Expanding the CEFC would have financial impacts beyond the 2013-14 Budget forward estimates period that would continue until its loans have been discharged and its investments are wound up. Due to the variable nature of interest rates and investment returns, the proposal's fiscal and underlying cash balance impacts beyond the forward estimates would be difficult to estimate.

A detailed breakdown of the financial impacts of expanding the CEFC is included at <u>Attachment A</u>.

This element of the costing is considered to be of medium reliability and is based on information provided by the CEFC on the assumptions underlying its estimates as reflected in the 2013 Pre-election Economic and Fiscal Outlook (PEFO), including assumptions on the amount of interest and dividends received and the market rates used to calculate the concessional loan charge.

The PBO has not undertaken any analysis on the availability and quality of the additional loans and investments that would be made by the CEFC as a result of the proposal.

The figures in this costing differ from those referred to in the costing request due to CEFC estimates being updated at the 2013 PEFO.

Table 1: Financial implications (outturn prices)[(a)]

Impact on	2013-14	2014-15	2015-16	2016-17
Underlying cash balance ($m)	4.8	17.9	30.2	45.6
Fiscal balance ($m)	-82.3	-121.1	-77.2	-12.5
Headline cash balance ($m)	-553.7	-572.4	-841.5	-963.3

(a) A positive number for the underlying cash balance indicates an increase to the budget bottom line in cash terms. A negative number for the fiscal balance indicates a decrease to the budget bottom line in accrual terms. A negative number for the headline cash balance indicates a net cash outflow associated with Government investments in financial assets for policy purposes. Amounts may not sum due to rounding.

POLICY COSTING – ELECTION CARETAKER PERIOD

Key assumptions

Based on the costing request, the current RET of 20 per cent by 2020 is retained with the proposed changes to the RET applying from 2020 onwards.

The PBO has made the following assumptions in costing this proposal:

1) Increased RET

- The only change to the RET under this proposal is to set a new 90 per cent target by 2030. The existing elements of the RET including the split into the large and small scale components, the shortfall charge and the certificate fees would be retained.

2) Expanded CEFC

- The CEFC's expenditure, concessional loan charge, interest and dividends would increase in proportion with the increased appropriations provided to the CEFC
- The CEFC's additional outlays would be made in line with the current estimated ratio between loans and equity investments
- There are sufficient clean energy technology projects currently in the pipeline for an additional $1.0 billion of loans and investments to be made by the CEFC before 30 June 2014, and
- The CEFC Investment Mandate's $300 million limit on concessionality would be increased in line with the increased appropriations provided to the CEFC and the qualitative requirements of the Investment Mandate would be unchanged.

Consistent with the treatment reflected in CEFC's current estimates, the provision for doubtful debts (estimated to be around an additional $12 million per year over the forward estimates period) is excluded from fiscal and underlying cash balance impacts as per the Australian Accounting Standards Board's accounting standard 1049. The doubtful debt provision would decrease the Government's net worth.

Methodology

The estimated financial impacts of expanding the CEFC are based on information obtained from the CEFC on the assumptions underlying its estimates as reflected in the 2013 PEFO. The additional $1.0 billion per year to be provided to the CEFC over the 2013-14 Budget forward estimates period would represent a 50 per cent increase to the $2.0 billion per year it currently receives over this period.

Data sources

Information on the underlying cash and fiscal balance impacts of the CEFC and relevant underlying assumptions were obtained from the CEFC.

ATTACHMENT A: EXPANDING THE CEFC
DETAILED BREAKDOWN OF FINANCIAL IMPACTS

Table A1: Breakdown of Underlying Cash Balance (UCB) Impacts[(a)]

UCB impacts ($m)	2013-14	2014-15	2015-16	2016-17
Interest and Dividends[(b)]	14.3	28.7	41.7	57.8
Operating and Capital	-9.5	-10.7	-11.5	-12.2
Net UCB impact	**4.8**	**17.9**	**30.2**	**45.6**

(a) A positive number for the underlying cash balance indicates a net increase in revenue in cash terms. A negative number for the underlying cash balance indicates a net increase in expenses or net capital investment in cash terms.
(b) These figures include a reduction to interest received associated with the net effect of capitalised interest.

Note: Amounts may not sum due to rounding.

Table A2: Breakdown of Fiscal Balance (FB) Impacts[(a)]

FB impacts ($m)	2013-14	2014-15	2015-16	2016-17
Interest and Dividends[(b)]	13.2	39.5	84.2	149.6
Concessional Loan Charge[(c)]	-85.2	-149.5	-149.5	-149.5
Operating and Capital	-10.3	-11.1	-11.9	-12.6
Net FB impact	**-82.3**	**-121.1**	**-77.2**	**-12.5**

(a) A positive number for the fiscal balance indicates an increase in revenue in accrual terms. A negative number for the fiscal balance indicates an increase in expenses or net capital investment in accrual terms.
(b) The presentation of this component is as per CEFC's published financial statements, which includes the positive impact of unwinding of the concessional loan charge (i.e. reversing the loan discount component).
(c) The concessional loan charges would be entirely reversed over the term of the underlying loans. Amounts associated with unwinding the concessional loan charges are included in the Interest and Dividends line (see note above).

Note: Amounts may not sum due to rounding.

Table A3: Breakdown of Headline Cash Impacts[(a)]

Headline cash impacts ($m)	2013-14	2014-15	2015-16	2016-17
Loans and equity investments[(b)]	-560.1	-618.2	-935.2	-1,116.2
Repayments of loan principal	1.7	27.9	63.5	107.3
Interest and Dividends[(c)]	14.3	28.7	41.7	57.8
Operating and Capital[(c)]	-9.5	-10.7	-11.5	-12.2
Net headline cash impact	**-553.7**	**-572.4**	**-841.5**	**-963.3**

(a) A positive number for the headline cash balance indicates a cash inflow. A negative number for the headline cash balance indicates a cash outflow.
(b) The annual cash outflows associated with providing loans differ from the amount of loans committed each year due to the loans being advanced to project proponents over a period of up to 36 months following the loan commitment.
(c) These figures are the same as those reflected in the underlying cash balance impacts (Table A1).

Note: Amounts may not sum due to rounding.

Reference No. *GRN010*

Parliament of Australia
Parliamentary Budget Office

COSTING – ELECTION CARETAKER PERIOD

Name of proposal to be costed:	**Reverse university cuts and lift base funding (previously *Investing in universities*)**
Summary of proposal:	The proposal would reverse the $2.3 billion in higher education budget cuts made in the 2013-14 Budget and provide a 10 per cent increase in base funding for universities, phased in from 1 January 2014 to 1 January 2017. The aim of the proposal is to boost higher education funding.
Person/party requesting costing:	Senator Christine Milne, Australian Greens Party
Date costing request received:	14 August 2013
Date costing completed:	15 August 2013
Date of public release of policy	9 July 2013
Additional information requested (including date):	15 August 2013 – The PBO sought clarification as to what base the 10 per cent increase should be applied.
Additional information received (including date):	15 August 2013 – Senator Milne's Office advised that the 10 per cent increase should be applied to the pre-2013-14 Budget cut funding base.
Agencies from which information was obtained:	Department of Industry, Innovation, Climate Change, Science, Research and Tertiary Education (DIICCSRTE) Department of Finance and Deregulation (Finance)

Costing overview

This proposal is expected to decrease both the underlying cash balance and fiscal balance by $3.8 billion over the 2013-14 Budget forward estimates period. This is entirely due to an increase to expenses. This proposal will have an ongoing impact that extends beyond the forward estimates period.

The costing includes departmental and administered estimates.

This costing is considered to be of high reliability because it is based on 2013-14 Budget estimates provided by DIICCSRTE, 2013-14 Budget estimates data provided by Finance and a limited number of assumptions.

POLICY COSTING – ELECTION CARETAKER PERIOD

Table 1: Financial implications (outturn prices)[(a)]

Impact on	2013-14	2014-15	2015-16	2016-17
Underlying cash balance ($m)	-231.8	-792.4	-1,256.9	-1,546.4
Fiscal balance ($m)	-230.4	-788.7	-1,258.3	-1,563.4

(a) A negative number for the fiscal balance indicates an increase in expenses in accrual terms. A negative number for the underlying cash balance indicates an increase in expenses in cash terms.

Key assumptions

In costing this proposal the PBO has assumed that:

- as per the additional information received, the 10 per cent increase is applied to pre-2013-14 Budget cut funding levels, and
- no additional departmental funding is required to manage the 10 per cent increase in funding to existing programs.

Methodology

The costs were derived by adding the following costs:

- reversing the three 2013-14 Budget measures related to higher education budget cuts (see Attachment A Tables 1 to 3 for costs by measure), and
- applying a 10 per cent increase to the base funding estimates prior to cuts to higher education funding in the 2013-14 Budget. The 10 per cent increase was applied to the estimates in a phased approach at a rate of 2.5 per cent per calendar year from 1 January 2014 increasing to 10 per cent by 1 January 2017 (see Attachment 1 Tables 4 for costs).

Data sources

The measures used for base funding are consistent with the measures used in the *Review of Australian Higher Education – Final report*, December 2008, and include:

- Commonwealth Grant Scheme
- Indigenous Support Program
- Higher Education Disability Support Program, and
- National Institutes program.

Program estimates prior to cuts to higher education funding in the 2013-14 Budget obtained from DIICCSRTE.

Estimates for the 2013-14 Budget cuts obtained from Finance.

ATTACHMENT A:

Higher Education Support Act 2003 – efficiency dividend: 2013-14 Budget Paper 2 (page 217)

Table 1: Financial implications (outturn prices)[(a)]

Impact on	2013-14	2014-15	2015-16	2016-17
Underlying cash balance ($m)	-84.9	-227.6	-290.4	-299.8
Fiscal balance ($m)	-84.9	-227.6	-290.4	-299.8

(a) A negative number for the fiscal balance indicates an increase in expenses in accrual terms. A negative number for the underlying cash balance indicates an increase in expenses in cash terms.

Student Start-up Scholarships – conversion to Income Contingent Loans: 2013-14 Budget Paper 2 (page 220)

Table 2: Financial implications (outturn prices)[(a)]

Impact on	2013-14	2014-15	2015-16	2016-17
Underlying cash balance ($m)	-35.2	-242.1	-442.5	-502.4
Fiscal balance ($m)	-33.2	-233.2	-428.4	-492.5

(a) A negative number for the fiscal balance indicates an increase in expenses in accrual terms. A negative number for the underlying cash balance indicates an increase in expenses in cash terms.

HECS-HELP Discount and Voluntary HELP Repayment Bonus – ending discounting: 2013-14 Budget Paper 2 (page 216)

Table 3: Financial implications (outturn prices)[(a)]

Impact on	2013-14	2014-15	2015-16	2016-17
Underlying cash balance ($m)	-29.6	-62.3	-65.8	-70.6
Fiscal balance ($m)	-30.2	-67.5	-81.3	-97.6

(a) A negative number for the fiscal balance indicates an increase in expenses in accrual terms. A negative number for the underlying cash balance indicates an increase in expenses in cash terms.

POLICY COSTING – ELECTION CARETAKER PERIOD

Application of 10 per cent increase to base funding prior to the 2013-14 Budget cuts

Table 4: Financial implications (outturn prices)[a]

Impact on	2013-14	2014-15	2015-16	2016-17
Underlying cash balance ($m)	-82.0	-260.4	-458.1	-673.5
Fiscal balance ($m)	-82.0	-260.4	-458.1	-673.5

(a) A negative number for the fiscal balance indicates an increase in expenses in accrual terms. A negative number for the underlying cash balance indicates an increase in expenses in cash terms.

(b) Due to the calendar year application of the 10 per cent increase, the additional cost for this component would plateau in 2017-18, at an estimated additional expense of $811 million.

Reference No. GRN012

Parliament of Australia
Parliamentary Budget Office

COSTING – ELECTION CARETAKER PERIOD

Name of proposal to be costed:	**Medicare funding boost (previously *Securing Medicare*)**
Summary of proposal:	The proposal would move indexation of Medicare Benefits Schedule (MBS) fees from 1 July each year to 1 November each year, effectively reversing the 2013-14 Budget measure *Medicare Benefit Schedule – realigning indexation with the financial year* decision to move indexation from 1 November each year to 1 July. The proposal will have effect from 1 November 2013.
Person/party requesting costing:	Senator Christine Milne, Australian Greens Party
Date costing request received:	14 August 2013
Date costing completed:	16 August 2013
Date of public release of policy	27 July 2013
Additional information requested (including date):	Clarification was sought from Senator Christine Milne's office 15 August 2013 as to whether the policy would be capped or demand driven.
Additional information received	On 15 August Senator Christine Milne's office advised that the policy would not be capped.
Agencies from which information was obtained:	Department of Health and Ageing (DHA)

Costing overview

This proposal is expected to decrease the underlying cash balance by $662.2 million and decrease the fiscal balance by $663.6 million over the 2013-14 Budget forward estimates period. This impact is entirely due to an increase in expenses over this period.

The proposal will have an ongoing impact that extends beyond the forward estimates period. This ongoing impact would be in the order of $163.0 million per annum plus the effect of any underlying trends (service growth, average rebate growth, new or revised listings) in Medicare expenditure

The underlying cash impact of this proposal differs from the fiscal balance impact because of the time lag between the treatment sessions occurring (at which time the payment from the Government is owing) and the actual payment of the fee to the provider once the claim through Medicare has been processed.

A detailed breakdown of the costs by Agency is included at <u>Attachment A</u>.

POLICY COSTING – ELECTION CARETAKER PERIOD

This costing is considered to be of high reliability, given the net impact of utilisation rates and indexation parameters since the measure was announced in the 2013-14 Budget has been minimal.

Table 1: Financial implications (outturn prices)[(a)]

Impact on	2013-14	2014-15	2015-16	2016-17
Underlying cash balance ($m)	-159.6	-152.8	-172.9	-176.8
Fiscal balance ($m)	-159.9	-153.1	-173.4	-177.3

(a) A negative number for the fiscal balance indicates an increase in expenses in accrual terms. A negative number for the underlying cash balance indicates an increase in expenses in cash terms.

Key assumptions

This costing utilises information provided by DHA.

The PBO has assumed that departmental funding associated with the original 2013-14 Budget measure would no longer be required.

Methodology

The savings announced in the original 2013-14 Budget measure have been reduced in line with the reduction in estimated overall Medicare expenditure between the 2013-14 Budget and the 2013 Pre-Election Economic and Fiscal Outlook.

Savings associated with Departmental funding for the original measure are then taken into account.

Data sources

- 2013-14 Budget Paper no.2 page 177.
- Program level forward estimates.

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ATTACHMENT A: AGENCY BREAKDOWN OF COSTS

The following table provides an agency breakdown of administered and departmental costs.

Table A1: Agency breakdown – financial implications (outturn prices)[b][c]

Agency	2013-14	2014-15	2015-16	2016-17
Department of Health and Ageing - Administered ($m)	-152.2	-146.2	-162.6	-163.0
Department of Health and Ageing - Departmental ($m)	0.06	-	-	-
Department of Human Services ($m)	0.05	0.05	-	-
Department of Veterans' Affairs ($m)	-7.7	-6.9	-10.8	-14.3
TOTAL ($m)	-159.9	-153.1	-173.4	-177.3

(b) Figures represent fiscal balance.
(c) A positive number for the fiscal balance indicates a decrease in expenses in accrual terms. A negative number for the fiscal balance indicates an increase in expenses in cash terms.

Reference No. GRN020

Parliament of Australia
Parliamentary Budget Office

COSTING – ELECTION CARETAKER PERIOD

Name of proposal to be costed:	**Extreme weather/Coal levy (previously *Preparing for extreme weather*)**
Summary of proposal:	The proposal would help prepare for extreme weather by raising funds for natural disaster mitigation from a $2 per tonne levy on thermal coal exports that would be deductible for company tax purposes. Funds raised would be used to expand the existing National Disaster Resilience Program and maintain the National Climate Change Adaptation Facility. The proposal would have effect from 1 July 2014.
Person/party requesting costing:	Senator Christine Milne, Australian Greens Party
Date costing request received:	14 August 2013
Date costing completed:	20 August 2013
Date of public release of policy:	25 July 2013

Costing overview

The proposal will not impact on either the underlying cash or fiscal balance since the funding is capped at the level of funding raised by the thermal coal exports levy.

The levy is estimated to raise net revenue of $301.2 million in 2014-15, $306.7 million in 2015-16 and $321.4 million in 2016-17. $416.3 million of net revenue is estimated to be raised in 2017-18.

This costing is considered to be high reliability as it is assumed any revenue raised will be spent on disaster mitigation.

Table 1: Financial implications of the coal levy and natural disaster mitigation expenditure (outturn prices)

Impact on	2013-14	2014-15	2015-16	2016-17
Underlying cash balance ($m)	-	-	-	-
Fiscal balance ($m)	-	-	-	-

POLICY COSTING – ELECTION CARETAKER PERIOD

Key assumptions

As per costing request:

- Funding for natural disaster mitigation is capped at the amount of net revenue raised by the levy and expenditure will occur in line with net revenue raised.
- Any departmental costs associated with the proposal are covered by the revenue generated by the levy.

The PBO has made the following assumptions:

- The levy is paid via quarterly instalments paid following the completion of a quarter such that in the first financial year of the proposal only three quarters of payment is received.
- The levy does not impact the level of coal exports over the forward estimates period as any behavioural response is assumed negligible over this timeframe.
- All companies subject to the levy have taxable incomes greater than or equal to their levy liabilities, resulting in 100 per cent utilisation of company tax deductions related to the levy.
- Companies do not vary their company tax instalments from the tax commissioner's determined rate and the impact of the change in tax deduction each year is subject to the normal variation in instalments.

Methodology

The PBO estimated the amount of the levy revenue by applying a $2 per tonne levy on the latest Bureau of Resources and Energy Economics (BREE) thermal coal export forecasts.

The impact of company tax deductions on levy revenue was estimated by multiplying the levy revenue by the statutory company tax rate (30 per cent) and then adjusting the result for the timing of company tax receipts.

Details are at Attachment A.

Data sources

- Bureau of Resources and Energy Economics, *Resources and Energy Quarterly*, March 2013
- Online: http://www.bree.gov.au/publications/req.html

ATTACHMENT A: COSTING DETAIL

Table A1: Thermal coal exports (volume)

Million tonnes (Mt) per annum	2013-14	2014-15	2015-16	2016-17
Australian thermal coal exports subject to the levy	-	213.6	237.2	268

Table A2: Estimated thermal coal export levy ($2 per tonne)

$ millions per annum	2013-14	2014-15	2015-16	2016-17
Levy revenue	-	320.4	462.6	520.6
Company tax	-	-19.2	-155.9	-199.2
Net levy revenue	-	301.2	306.7	321.4

Reference No. *GRN022*

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COSTING – ELECTION CARETAKER PERIOD

Name of proposal to be costed:	**Dollar bets**
Summary of proposal:	The proposal will require all poker machines in Australia to have the following limitations: • a maximum bet limit of $1 per spin • a load up limit of $20, and • jackpots of no more than $500. The proposal will require all new poker machines to support bet and jackpot limits by 2015, with the limits to be enforced on all machines from 1 July 2017.
Person/party requesting costing:	Senator Christine Milne, Australian Greens
Date costing request received:	14 August 2013
Date costing completed:	15 August 2013
Date of public release of policy:	26 July 2013
Additional information requested (including date):	On 15 August 2013, additional information was sought from the applicant on the commencement date of the enforcement of the limitations on all poker machines.
Additional information received (including date):	On 15 August 2013, Director of Policy, Office of Senator Christine Milne advised that the enforcement of the proposed limitations on all machines would commence on 1 July 2017.
Agencies from which information was obtained:	Not applicable

Costing overview

The proposal will require all new poker machines to support the outlined bet and jackpot limits by 2015, with enforcement of these limitations on all poker machines to begin on 1 July 2017. The cost in the lead up to commencement of the enforcement is likely to be limited. As a result the cost across the budget and forward years is expected to be negligible.

There may be an increase in the costs to the Department of Families, Housing, Community Services and Indigenous Affairs in the lead up to enforcement of the proposal, including those involved in the setup of the regulatory body and dissemination of information. However, these are likely to be limited and are not quantifiable with the information available.

POLICY COSTING – ELECTION CARETAKER PERIOD

There are anticipated costs beyond the forward estimates due to regulation, however, these costs will depend on the approach adopted to monitor and enforce compliance with the proposed policy. As a result, these costs have not been quantified.

The impact on State government revenues has not been quantified.

This costing is considered to be of high reliability based on the information available.

Table 1: Financial implications (outturn prices)

Impact on	2013-14	2014-15	2015-16	2016-17
Underlying cash balance ($m)	-	-	-	-
Fiscal balance ($m)	-	-	-	-

Key assumptions

The proposal assumes the main impact on the Commonwealth Government would be the cost of regulation. It also assumes a transition period whereby the limits would be enforceable from 1 July 2017. Hence in this costing, it is assumed that there would be no enforcement costs and very limited other costs to the Commonwealth Government during the 2013-14 Budget forward estimates period.

Beyond the forward estimates period, the costs will depend on whether the regulator is established within an existing Commonwealth agency or as an independent public statutory authority, as well as the approach and scope of the regulatory requirements. In many cases, regulators operate on a cost-neutral basis with costs offset by imposing a levy on the regulated entities.

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COSTING – ELECTION CARETAKER PERIOD

Name of proposal to be costed:	**Housing Supply Bonds (previously *Safe as Houses*)**
Summary of proposal:	The proposal would raise finance for non-profit housing organisations to construct a maximum of 7,200 new homes a year. The required funds will be raised through three kinds of bonds: • 10 per cent from 'zero interest social housing growth bonds' issued to and held by the Government • 20 per cent from 'tax smart housing supply bonds', which are long-term fixed interest bonds offering tax-free interest issued to retail investors, and • 70 per cent from 'AAA housing supply bonds' guaranteed by the Government and issued to wholesale investors. An independent financial intermediary, the Australian Affordable Housing Finance Corporation (AAHFC), would have responsibility for issuing the bonds and loans as part of the scheme. The proposal will have effect from 1 July 2014.
Person/party requesting costing:	Senator Christine Milne, Australian Greens
Date costing request received:	14 August 2013
Date costing completed:	22 August 2013
Date of public release of policy:	27 July 2013
Additional information requested (including date):	On 16 August 2013, additional information was sought from the applicant on whether the funding for the AAHFC is capped. On 22 August 2013, additional information was sought on the intended recipient of the finance provided by the zero interest social housing growth bonds.
Additional information received (including date):	On 17 August 2013, Director of Policy, Office of Senator Christine Milne advised that the funding for the AAHFC is capped. On 22 August 2013, Director of Policy, Office of Senator Christine Milne advised that it was intended that the zero interest finance would be provided to non-profit housing organisations.
Agencies from which information was obtained:	Not applicable

POLICY COSTING – ELECTION CARETAKER PERIOD

Costing overview

This proposal is expected to decrease the underlying cash balance by $59 million and decrease the fiscal balance by $330 million over the 2013-14 Budget forward estimates period. The impact on the underlying cash balance reflects an increase in payments of $30 million and a decrease in receipts of $29 million over this period. The impact on the fiscal balance reflects an increase in expenses of $300 million and a decrease in revenue of $30 million over this period.

This proposal will have an ongoing impact that extends beyond the forward estimates period. The decrease to revenue in the forward estimates period continues to grow beyond the forward estimates by an additional $10 million a year on the previous year's impact due to the tax concessions that continue to apply to the tax smart housing supply bonds issued in previous years.

The proposal would reduce the headline cash balance by $1.3 billion in total over the 2013-14 Budget forward estimates period. The reduction in the headline cash balance reflects the $204 million worth of zero interest social housing growth bonds acquired by the Government each year.

The underlying cash balance impact of this proposal differs from the fiscal balance impact because of the loan discount component of the concessional (zero interest) social housing growth bonds, which is an accrual expense but does not impact on the underlying cash balance.

The departmental expenses of the AAHFC of $10 million a year are capped as specified by the requestor.

A detailed breakdown of the components of the costing's financial impact is included at Attachment A.

The costing is considered to be of medium reliability because the housing supply bonds are costed using data mainly from sources other than actual tax or expenditure data.

The impact on the underlying cash balance is $115 million lower over the forward estimates period than those presented in the costing request. The impact on a fiscal balance basis is $155 million higher over the forward estimates period than those presented in the costing request. These differences arise because of a revision in the costing methodology used by the PBO.

Table 1: Financial implications (outturn prices)[(a)]

Impact on	2013-14	2014-15	2015-16	2016-17
Underlying cash balance ($m)	-	-10	-20	-30
Fiscal balance ($m)	-	-100	-110	-120
Headline cash balance ($m)	-	-214	-428	-642

(a) A negative number for the fiscal balance indicates a decrease to the budget bottom line in accrual terms. A negative number for the underlying cash balance indicates a decrease to the budget bottom line in cash terms. Amounts may not sum due to rounding.

Key assumptions

The PBO has made the following assumptions regarding the raising of funds through three kinds of bonds:

- A total of $2.04 billion of housing supply bonds would be required to finance the construction of 7,200 homes per annum. This is based on a third of the homes being built from prefabricated material, at $150,000 each and two thirds being standard housing, at $350,000 each.
- The AAHFC is assumed to be part of the general government sector.
- The discount rate used to calculate the loan discount for the zero interest social housing growth bonds is 6 per cent. This is an estimate of the market rate for loans to housing associations and is 100 basis points above the rates charged to large businesses as reported in Lawson et al. (2012).
  - The loan discount of the zero interest bonds is based on a maturity of 10 years.
- For the tax smart housing supply bonds, investors in these bonds are assumed to have an average marginal tax rate of 40 per cent. These bonds are assumed to earn 6 per cent per annum on a pre-tax basis, based on the assumptions in Lawson et al. (2012).
- The interest rate on the AAA housing supply bonds is assumed to be equal to the government long term bond rate of 3.75 per cent (RBA, 2013).
- It is assumed that the AAHFC does not charge a margin on the finance provided to community housing organisations.
- The costing assumes that funds are raised by the AAHFC are on-lent during the same periods that the funds are raised.

Methodology

The costing sums the revenue and expenditure impacts associated with each of the initiatives under the proposal.

For the zero interest social housing growth bonds, the expense cost is calculated as the fair value of the interest forgone in providing the bond at a zero interest rate (or the 'loan discount'). This loan discount is calculated as the present value of the forgone interest and is recognised in the fiscal balance at the time of the loan.

In relation to the relation to the AAA housing supply bonds, expenses and revenue are calculated on the basis of the AAHFC issuing bonds and on-lending to non-profit housing organisations. The provision of a government guarantee is a contingent liability that does not impact on the underlying cash or fiscal balances.

For the tax smart housing supply bonds, the cost is the revenue forgone due to the tax exemption in the hands of the investor. The timing of each year's tax revenue implications will occur when income tax returns are lodged, that is, in the next financial year.

The departmental expenses of the AAHFC are capped.

Data sources

- Estimates are mostly based on the information and assumptions provided in Australian Greens, *'Safe as houses' introducing housing supply bonds*, released on 27 July 2013.

POLICY COSTING – ELECTION CARETAKER PERIOD

- Assumptions for the housing supply bonds were based on those contained in Lawson, J. et al. (2012) *Housing Supply Bonds—a suitable instrument to channel investment towards affordable housing in Australia?* AHURI Final Report No. 188. Melbourne: Australian Housing and Urban Research Institute.

- Long term bond rate based on 10 year Australian Government bond rate in Reserve Bank of Australia (2013) 'Statistical Tables: Capital Market Yields – Government Bonds – Monthly', August 2013.

ATTACHMENT A: COMPONENTS OF COSTING

Table A1: Breakdown of underlying cash balance impacts ($m)[(a)]

Component	Cost type	2013-14	2014-15	2015-16	2016-17
Zero interest social housing bonds	Payments	-	-	-	-
	Receipts	-	-	-	-
Tax smart housing supply bonds	Payments	-	-12	-37	-61
	Receipts	-	12	27	41
AAA housing supply bond	Payments	-	-27	-80	-134
	Receipts	-	27	80	134
Departmental	Payments	-	-10	-10	-10
	Receipts	-	-	-	-
Total		-	**-10**	**-20**	**-30**

Table A2: Breakdown of fiscal balance impacts ($m)[(a)]

Component	Cost type	2013-14	2014-15	2015-16	2016-17
Zero interest social housing bonds	Expense	-	-90	-90	-90
	Revenue	-	-	-	-
Tax smart housing supply bonds	Expense	-	-12	-37	-61
	Revenue	-	12	27	41
AAA housing supply bond	Expense	-	-27	-80	-134
	Revenue	-	27	80	134
Departmental	Expense	-	-10	-10	-10
	Revenue	-	-	-	-
Total		-	**-100**	**-110**	**-120**

(a) A positive number for the fiscal balance indicates a net increase in revenue in cash terms. A negative number for the underlying cash balance indicates a net increase in expenses or net capital investment in cash terms.

Note: Amounts may not sum due to rounding. Rounding is to the nearest million.

POLICY COSTING – ELECTION CARETAKER PERIOD

Table A3: Breakdown of headline cash balance impact ($m)[b]

Component	Cost type	2013-14	2014-15	2015-16	2016-17
Zero interest social housing bonds	Payments	-	-204	-408	-612
	Receipts	-	-	-	-
Tax smart housing supply bonds	Payments	-	-12	-37	-61
	Receipts	-	12	27	41
AAA housing supply bond	Payments	-	-27	-80	-134
	Receipts	-	27	80	134
Departmental	Payments	-	-10	-10	-10
	Receipts	-	-	-	-
Total		-	**-214**	**-428**	**-642**

(b) A positive number for the headline cash balance indicates a net increase in receipts. A negative number for the headline cash balance indicates a net increase in payments including investment in financial assets for policy purposes.

Note: Amounts may not sum due to rounding. Rounding is to the nearest million.

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Reference No.   GRN032

COSTING – ELECTION CARETAKER PERIOD

Name of proposal to be costed:	**High Speed Rail (previously *Fast-tracking High Speed Rail*)**
Summary of proposal:	The proposal would implement the preliminary requirement section of the High Speed Rail Study Phase 2 Report ('the report') (outlined in Figure 12.1 on page 500), within the 2013-14 Budget forward estimates period. The proposal will have effect from 1 October 2013
Person/party requesting costing:	Senator Christine Milne, The Australian Greens
Date costing request received:	14 August 2013
Date costing completed:	15 August 2013
Date of public release of policy:	5 August 2013
Agencies from which information was obtained:	Not applicable

Costing overview

This proposal is expected to decrease both the underlying cash balance and fiscal balance by $664 million over the 2013-14 Budget forward estimates period. This is entirely due to an increase in expenses.

This costing only addresses the costs associated with implementing the preliminary requirements of High Speed Rail as outlined in Figure 12.1 of the report up until 2021-22 (items 3 - 25).

This costing does not address subsequent phases of the project.

This costing is considered to be of low reliability because of the uncertainty surrounding Commonwealth/State funding arrangements for the project and the final implementation plan. Any changes to implementation timeframes, policy design or funding arrangements have the potential to significantly alter overall costs.

The costing provides for the High Speed Rail Development Authority (HSRDA) to be established within the 2013-14 Budget forward estimates as set out in the accelerated timetable in the report. The PBO has not made any assessment on the feasibility of accelerating certain items in the preliminary requirements of High Speed Rail, including the establishment of the HSRDA within the forward estimates period.

The PBO estimates the Environmental Impact Statement would cost approximately $570 million and would be conducted in 2018-19 and 2019-20, as outlined in Figure 12.1 on page 500 of the report. This equates to 0.5 per cent of the total capital costs of the High Speed Rail project. While this percentage is on the higher end of international averages, the PBO considers this to be a reasonable estimate due to the size and scope of this project.

POLICY COSTING – ELECTION CARETAKER PERIOD

Table 1: Financial implications (outturn prices)[(a) (b)]

Impact on	2013-14	2014-15	2015-16	2016-17
Underlying cash balance ($m)	-135.0	-149.0	-157.0	-223.0
Fiscal balance ($m)	-135.0	-149.0	-157.0	-223.0

(a) A negative number for the fiscal balance indicates an increase in expenses in accrual terms. A negative number for the underlying cash balance indicates an increase in expenses in cash terms.

(b) High Speed Rail Development Authority established in the 2016-17 financial year.

Key assumptions

The PBO has made the following assumptions:

- 100 per cent of these costs would be funded by the Commonwealth Government, without any assistance or cost-sharing with State-Governments or private enterprise.

Methodology

This costing draws heavily on the High Speed Rail Study Phase 2 Report. It is the most comprehensive study into the technical, timing and costs aspects of High Speed Rail in Australia, drawing on a wide range of expertise and experience.

Section 4.2 of Appendix 4B of the report outlines the non-construction development costs associated with the development of the high speed rail network proposed in the report. These non-construction development costs have been benchmarked against a selection of European High Speed Rail lines.

The cost of implementing the Preliminary Requirements was derived by multiplying the assumed non-capital development cost (based on a percentage of indicative capital expenditure) for the pre-phase and preliminaries[1] in Table 29 of Appendix 4B of the report (1.7 per cent) by the total capital costs for the entire project ($114 billion).

This figure ($1.9 billion) was profiled across 9 years until 2021-22, when the report indicates these preliminary requirements would finish (Attachment A refers), with the profile across these years reflecting the expected level of activity each year informed by the details in the report and as reflected in Figure 12.1 of the report.

Data sources

- High Speed Rail Study Phase 2 Report.

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[1] The pre-phase and preliminaries development costs comprise those costs that are incurred before the detailed planning and design of the HSR network, including the establishment of the HSRDA. Components include legal and political aspects, feasibility studies, environmental impact assessment and other studies, urban development studies, acquisition of property and utilisation rights for property (exclusive of land acquisition costs), land development, consultation, and Insurances and warranties.

ATTACHMENT A: BREAKDOWN OF COSTS

Table A1: Breakdown of costs (outturn prices)[(a) (b) (c)]

	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
Pre-phase and Preliminaries	-135.0	-149.0	-157.0	-223.0	-234.0	-286.0	-286.0	-234.0	-234.0

(a) A negative number for the fiscal balance indicates an increase in expenses in accrual terms. A negative number for the underlying cash balance indicates an increase in expenses in cash terms.

(b) High Speed Rail Development Authority established in the 2016-17 financial year

(c) Environmental Impact Statement activity in 2018-19 and 2019-20.

Reference No. GRN033

Parliament of Australia
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COSTING – ELECTION CARETAKER PERIOD

Name of proposal:	Small business (previously *Caring for small business*)
Summary of proposal:	The proposal would: Part 1: reduce the company tax rate to 28 per cent for small companies with turnover less than $2 million, Part 2: increase the instant asset write-off threshold for small business from $6,500 to $10,000, and Part 3: establish a stronger and better resourced Small Business Commissioner. The intention of the proposal is to provide better support for Australia's small business owners. The proposal would have effect from 1 July 2014.
Person/party requesting costing:	Senator Christine Milne, Australian Greens Party
Date costing request received:	14 August 2013
Date costing completed:	19 August 2013
Date of public release of policy:	8 August 2013
Additional information requested (including date):	On 19 August 2013 the PBO sought clarification of what franking rate would apply to small businesses under this proposal.
Additional information received (including date):	On 19 August 2013 the Director of Policy indicated that the company tax cut for small business is not intended to alter the rate that small businesses frank their dividends.
Agencies from which information was obtained:	Not applicable

Costing overview

This proposal is estimated to decrease both the underlying cash and fiscal balances by $2.49 billion over the 2013-14 Budget forward estimates period. This impact is largely due to decreased revenue. The impact includes some relatively small departmental and administrative expenses. Detailed financial implications for this proposal are at Table 1 of Attachment A.

This proposal would have an ongoing impact that extends beyond the forward estimates period. Part 1 of the proposal is estimated to cost around $750 million per annum just beyond the forward estimates period and grow in line with general company tax growth rates from this time. Part 2 of

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the proposal would have an ongoing cost of approximately $50 million per annum beyond the forward estimates period. Part 3 would also have an ongoing cost of $10 million per annum beyond the forward estimates period.

The PBO has estimated departmental expenses associated with part 1 of this proposal to be around $2.5 million per annum, with total expenditure being $10 million over 4 years. This estimate is based on the costings of similar proposals that have recently been estimated by the Australian Taxation Office (ATO), such as the *early start to the company tax rate cut for small business companies* measure on page 39 of the *2010-11 Budget Paper No. 2*. Part 3 of this costing includes around $4.3 million in departmental funding over the 2013-14 forward estimates period. Departmental cost estimates are included at Table 2 of Attachment A.

Part 1 of this costing is considered to be of medium reliability as modelling is based on historical tax data and several assumptions. Possible behavioural responses to the proposal are uncertain. Part 2 of this costing is considered to be of low reliability as it is heavily reliant on assumptions regarding growth in investment by small businesses and the proportion of assets valued between the current threshold and the proposed threshold. Part 3 of this costing is considered to be of high reliability as funding for this part is a capped amount.

The estimated impact for part 1 of this costing differs from those presented in the applicant's costing request because of the use of a more detailed approach to costing the impact of the company rate cut since the previous estimates were provided. For all parts of this costing, base data has been updated to reflect the *2013 Pre-Election Economic and Fiscal Outlook* report parameters.

Table 1: Financial implications of parts 1 to 3 of this proposal (outturn prices)[(a)]

Impact on	2013-14	2014-15	2015-16	2016-17
Underlying cash balance ($m)	-52.5	-162.5	-1062.5	-1212.5
Fiscal balance ($m)	-52.5	-162.5	-1062.5	-1212.5

(a) A negative number for the fiscal balance indicates a decrease in revenue and an increase in expenses in accrual terms. A negative number for the underlying cash balance indicates a decrease in receipts and an increase in payments in cash terms.

Key assumptions

Assumptions detailed in the costing request:

- All parts of this proposal would apply from 1 July 2014.

The PBO has made the following assumptions regarding part 1 of this costing:

General assumptions

- Superannuation funds and the superannuation business of life insurance companies continue to be taxed at the 15 per cent rate.
- Growth rates are based on company gross operating surplus (GOS), adjusted to take into account the effects of many companies having substituted accounting periods.
- Estimates have been rounded to the nearest $50 million.

POLICY COSTING – ELECTION CARETAKER PERIOD

Behavioural 'bring forward' assumption

- Given the start date of 1 July 2014 and announcement of this proposal during the 2013 election campaign, the PBO considers that there is sufficient time for companies to take steps to change the timing of their deductions and income in the financial year prior to the start date in order to benefit from the changes in the company rate. Having a long lead time increases the likelihood of a behavioural response that would increase the cost of transition to the proposal and decrease revenue.

Impact of the imputation system

- As the cut in the company tax rate under this proposal reduces the company tax rate applicable to small companies, there would be an ongoing impact on the rate at which dividends paid to shareholders of these companies are franked. As requested by the applicant, the following assumption has been adopted in this costing.
  - The rate at which dividends paid to shareholders of small companies are franked remains at 30 per cent in order to simplify the system. Under this assumption, franking credits continue to attach at a rate of 3/7ths of the fully franked cash dividend paid regardless of the change in the company tax rate for small companies.

Timing assumptions

- This costing assumes that the ATO will not vary company instalment calculations in response to the change in company tax rates. Company tax instalment rates are calculated by the ATO based on the amount of tax paid by a company in the previous year and are not based on the statutory company rate. The assumption in relation to instalments mainly impacts on the profile of company tax collections as instalments adjust to the new company rate and does not affect the cost of the proposal once instalments assimilate the new company rate. If the ATO were to vary instalments to take account of the impact of the new company rate, the cost of the proposal would be larger in the first year following the date of effect than in this costing, with this difference expected to be unwound over the next three years.

The PBO has made the following assumptions regarding part 2 of this costing:

- Assets valued between $6,500 and $10,000 are currently depreciated using the diminishing value method and are assumed to have an effective life of five years.
- All eligible businesses will opt-in to using the instant asset write-off.
- Companies do not vary their instalment amounts from those specified by the ATO in response to this part of the proposal.

Methodology

Part 1 of this proposal was estimated by calculating company and shareholder tax revenue using the proposed tax structure and various assumptions over the 2013-14 Budget forward estimates period and subtracting the amount of base company and shareholder tax revenue that is expected to be collected over the same period.

For part 2 of this proposal, the PBO estimated the value of small business investment in assets valued between $6,500 and $10,000 over the forward estimates period using data from the ATO and the Australian Bureau of Statistics (ABS). The cost of the proposal was estimated by calculating the aggregate value of depreciation for assets valued between $6,500 and $10,000 under the immediate write-off and subtracting the depreciation value under the base case (using the diminishing value method of depreciation). The resulting cost estimates were then adjusted to reflect the estimated timing of company tax collections.

For part 3, the cost is capped at $10 million per annum from 2014-15 to establish a stronger and better Small Business Commissioner.

Data sources

- Data sources include ATO tax return data for companies, individuals and the superannuation business of life insurance companies up to the 2009-10 financial year. The data includes entities that are taxed as companies.
- ATO, *Taxation Statistics 2009-10*
- ABS, *5204.0 Australian System of National Accounts*

ATTACHMENT A: DETAILED FINANCIAL IMPLICATIONS

This attachment includes detailed financial impacts for each part of the costing.

Costing Part	Revenue	2013-14	2014-15	2015-16	2016-17	Total
1 Reduce the company rate from 30.0 per cent to 28.0 per cent (for companies with turnover less than $2 million)	*Companies*	-50	-100	-750	-950	-1,850
	Individuals	-	-	-	-	-
	Total	**-50**	**-100**	**-750**	**-950**	**-1,850**
2 Increase the instant asset write-off threshold from $6,500 to $10,000.	*Companies*	-	-50	-300	-250	-600
	Total	**-**	**-50**	**-300**	**-250**	**-600**

Note: A negative number for the fiscal balance indicates a decrease in revenue in accrual terms. A negative number for the underlying cash balance indicates a decrease in revenue receipts in cash terms.

Table 2: Expense impacts - fiscal balance and underlying cash basis ($m)

Costing Part	Expense	2013-14	2014-15	2015-16	2016-17	Total
1 Reduce the company rate from 30.0 per cent to 28.0 per cent (for companies with turnover less than $2 million) - Departmental expense	*Departmental*	-2.5	-2.5	-2.5	-2.5	-10.0
	Total	**-2.5**	**-2.5**	**-2.5**	**-2.5**	**-10.0**
3 Small Business Commissioner	*Expense*	-	-10.0	-10.0	-10.0	-30.0
	Total	**-**	**-10.0**	**-10.0**	**-10.0**	**-30.0**

Note: A negative number for the fiscal balance indicates an increase in expenses in accrual terms. A negative number for the underlying cash balance indicates an increase in expenditure in cash terms. Totals may not add due to rounding.

Reference No. *GRN034*

Parliament of Australia
Parliamentary Budget Office

COSTING – ELECTION CARETAKER PERIOD

Name of proposal to be costed:	**Junk food advertising and Safer advertising to children (previously *Protecting kids from junk food advertising*)**
Summary of proposal:	The proposal would restrict advertising of junk food to children by: • setting enforceable national standard times that would ban junk food ads on commercial television (TV) between 6am and 9am, and 4pm and 9pm on weekdays; between 6am and 12pm and 4pm and 9pm on weekends; and during school holidays, • banning junk food advertising at any time on pay television channels dedicated to children's programming, and • preventing companies sending material promoting unhealthy foods to underage consumers using smartphones and emails. The intent of this policy is to improve the health of children by stopping them being bombarded with advertising for unhealthy food when they watch television. The proposal will have effect from 1 July 2014.
Person/party requesting costing:	Senator Christine Milne, Australian Greens Party
Date costing request received:	14 August 2013
Date costing completed:	15 August 2013
Date of public release of policy	8 August 2013
Additional information requested (including date):	15 August 2013 – Clarification sought as to whether the costs of regulatory development should be included.
Additional information received (including date):	15 August 2013 – Senator Milne's office advised that these costs should be included.
Agencies from which information was obtained:	Not applicable

Costing overview

This proposal is expected to decrease the underlying cash and fiscal balances by $1.8 million over the 2013-14 Budget forward estimates period. This impact is entirely due to an increase in expenses. Funding for this proposal would be ongoing.

POLICY COSTING – ELECTION CARETAKER PERIOD

Departmental costs of $1.3 million have been included in this costing for the Australian Communications Media Authority (ACMA) for the additional work that would be involved in receiving, responding to, and investigating complaints regarding licence conditions, program standards and industry codes.

A breakdown of the components of this costing are included at Attachment A.

This costing is considered to be of medium reliability as the estimates are based on a previous measure published in the 2008-09 Budget and staffing costs were costed in line with workforce data from the ACMA 2011-12 Annual Report.

Table 1: Financial implications (outturn prices)[(a)]

Impact on	2013-14	2014-15	2015-16	2016-17
Underlying cash balance ($m)	-	-1.1	-0.4	-0.3
Fiscal balance ($m)	-	-1.1	-0.4	-0.3

(a) A negative number for the fiscal balance indicates an increase in expenses in accrual terms. A negative number for the underlying cash balance indicates an increase in expenses in cash terms

Key assumptions

The PBO assumes the additional workload for the ACMA would be at its peak in the first year (2014-15) of the policy. Staffing costs for four additional full time equivalent (FTE) positions have been included in that year. This would be reduced by one FTE position per year to reflect both the development of corporate knowledge and best practice, and a gradual reduction in complaints. One FTE position per year would be ongoing from 2017-18 onwards.

In line with additional information provided on 15 August 2013, funding for the Australian National Preventative Health Agency (ANPHA) has been included to develop the definition of 'junk food' for regulatory purposes.

Methodology

The estimate of departmental costs was calculated by distributing the number of FTEs in each year across relevant public service remuneration bands based on the profile of current staff at the ACMA.

The funding for ANPHA has been based on the measure *Health and Hospitals Reform – Preventative Health – National Preventative Health Strategy* from the 2008-09 Budget.

Data sources

- ACMA Annual Report 2011-12.
- Budget Paper No. 2, 2008-09 Budget.

ATTACHMENT A: BREAKDOWN OF COSTS

Table 1: Financial implications (outturn prices)[(a) (b)]

Impact on	2013-14	2014-15	2015-16	2016-17
ACMA	-	-0.6	-0.4	-0.3
ANPHA	-	-0.5	-	-
Total	-	-1.1	-0.4	-0.3

(a) A negative number for the fiscal balance indicates an increase in expenses in accrual terms. A negative number for the underlying cash balance indicates an increase in expenses in cash terms

(b) There is no difference between underlying cash and fiscal balance.

Parliament of Australia
Parliamentary Budget Office

COSTING – ELECTION CARETAKER PERIOD

Name of proposal to be costed:	Research and development (R&D) in agriculture (previously *Increasing R&D in agriculture*)
Summary of proposal:	The proposal would: • increase Commonwealth funding for agricultural research and development by 7 per cent per year • create a new Centre for Sustainable Agriculture, and • fund a national network of 180 agricultural extension officers. This proposal would have effect from 1 July 2014.
Person/party requesting costing:	Senator Christine Milne, Australian Greens
Date costing request received:	14 August 2013
Date costing completed:	21 August 2013
Date of public release of policy:	8 August 2013
Agencies from which information was obtained:	Not applicable

Costing overview

This proposal is expected to decrease both the underlying cash balance and fiscal balance by \$360.5 million over the 2013-14 Budget forward estimates period. This impact is entirely due to increased expenses. This proposal would have an ongoing impact that extends beyond the forward estimates period.

The estimates in the costing differ from those presented in the costing request because parameters and data have been updated for the *Pre-Election Economic and Fiscal Outlook* report.

This costing includes the following components:

- increase overall Commonwealth funding by 7 per cent per year, and
- fund an additional 180 agricultural R&D agricultural extension officers.

In addition, the costing includes the estimated cost of an uncapped contribution of 20 cents for each dollar committed by an RDC, consistent with the policy statement Agricultural R&D Initiative released on 8 August 2013, and referred to in the costing request.

The financial implications of these components are included at Attachment A.

POLICY COSTING – ELECTION CARETAKER PERIOD

The PBO does not expect departmental expenses associated with this proposal to be significant. The costing assumes departmental expenses are to be accommodated within existing departmental resources except for an amount of administrative expenses associated with providing the extension officer network component of this costing request as detailed at Attachment A.

This costing is considered to be of medium reliability as it is based on several assumptions and aggregate data.

Table 1: Financial implications (outturn prices)[(a)]

Impact on	2013-14	2014-15	2015-16	2016-17
Underlying cash balance ($m)	-	-116.0	-122.0	-122.5
Fiscal balance ($m)	-	-116.0	-122.0	-122.5

(a) A negative number for the fiscal balance indicates an increase in expenses in accrual terms. A negative number for the underlying cash balance indicates an increase in expenditure in cash terms.

Key assumptions

The PBO has made the following assumptions in calculating the estimated impact of this proposal:

- Commonwealth agricultural R&D spending is assumed to grow over the 2013-14 Budget forward estimates period in line with the average historical growth rate observed over the period 2000-01 to 2008-09. This includes the most up to date information from ABS catalogue no. 8112, *Research and Experimental Development,* as the last outcome published is for 2008-09.
- It is assumed that around 55 per cent of RDC contributions would be from private sector agricultural levies, based on a *2009 Evaluation Report* published on the Rural R&D corporation's website (http://www.ruralrdc.com.au/Page/Home.aspx).
- Total annual spending by RDCs is assumed to grow in line with the economy over the 2013-14 Budget forward estimates period.

Methodology

The increased funding for Commonwealth agricultural R&D was calculated by estimating the level of agricultural R&D over the 2013-14 forward estimates period including the 7 per cent per annum increased funding and subtracting the amounts that are currently expected to be spent over this period.

The provision of an uncapped contribution of 20 cents for each dollar committed by an RDC that was raised from agricultural levies was costed by multiplying the estimated amount of RDC contributions from levies each year by 20 per cent.

Data sources

- ABS catalogue no. 8112 - Gross expenditure on R&D, by sector–by field of research
- http://www.daff.gov.au/agriculture-food/innovation/research_and_development_corporations_and_companies
- http://www.ruralrdc.com.au/Page/Home.aspx

POLICY COSTING – ELECTION CARETAKER PERIOD

ATTACHMENT A: DETAILED BREAKDOWN OF THE COSTING

Increasing overall Commonwealth funding for agricultural R&D by 7 per cent per year

This proposal is estimated to have the following financial implications.

Impact on (outturn prices)[(a)]	2013-14	2014-15	2015-16	2016-17
Underlying cash balance ($m)	-	-30.0	-30.0	-30.0
Fiscal balance ($m)	-	-30.0	-30.0	-30.0

(a) A negative number for the fiscal balance indicates an increase in expenses in accrual terms. A negative number for the underlying cash balance indicates an increase in expenditure in cash terms. Estimates have been rounded to $5 million.

Create a new Centre for Sustainable Agriculture as part of the new funding

This proposal is estimated to be revenue neutral over the Budget 2013-14 forward estimates period because the current Commonwealth contribution to RDCs would be redirected to a new Centre for Sustainable Agriculture as outlined in the policy statement Agriculture R&D Initiative released on 8 August 2013.

Providing an uncapped contribution of 20 cents for each dollar committed by a RDC

This proposal is estimated to have the following financial implications.

Impact on (outturn prices)[(a)]	2013-14	2014-15	2015-16	2016-17
Underlying cash balance ($m)	-	-60.0	-65.0	-65.0
Fiscal balance ($m)	-	-60.0	-65.0	-65.0

(a) A negative number for the fiscal balance indicates an increase in expenses in accrual terms. A negative number for the underlying cash balance indicates an increase in expenditure in cash terms. Estimates have been rounded to $5 million.

Funding an additional 180 agricultural extension officers

The PBO assumes that the 180 practitioners would be full-time equivalent employees which would cost around $24.0 million in 2014-15, $25.0 million in 2015-16 and $25.5 million in 2016-17. Administrative costs of $2 million per annum were included from 2014-15 to provide for the cost of the extension officer network.

Impact on (outturn prices)[(a)]	2013-14	2014-15	2015-16	2016-17
Underlying cash balance ($m)	-	-26.0	-27.0	-27.5
Fiscal balance ($m)	-	-26.0	-27.0	-27.5

(a) A negative number for the fiscal balance indicates an increase in expenses in accrual terms. A negative number for the underlying cash balance indicates an increase in expenditure in cash terms. Estimates have been rounded to $0.5 million.