Parliamentary Budget Office

Increasing penalty units	
Party:	Australian Labor Party
Summary of proposal: This proposal would increase the value of the penalty unit from its current amount of $222 to $275. Penalty unit values would continue to be indexed by inflation on the current three-year indexation cycle, with the next indexation year being 2023-24. The policy proposal has a start date of 1 July 2022.	

Costing overview

The proposal would be expected to increase the fiscal balance by around $88.1 million and the underlying cash balances by around $30.7 million over the 2022-23 Budget forward estimates period. This represents a similar increase in both tax and non-tax revenue.

The proposal would have an ongoing impact beyond the 2022-23 Budget forward estimates period. A breakdown of the financial implications (including separate public debt interest (PDI) table) over the period to 2032-33 is provided at Attachment A.

The fiscal balance and underlying cash balance differ for this proposal because of the timing of collections and the write-off of penalties that are issued against an individual or entity but are ultimately assessed as being unlikely to be paid (bad debt write-offs).

The revenue estimates for this proposal are subject to a high degree of uncertainty as they are based on the 2018-19 penalty unit liability. The Australian Taxation Office (ATO) has advised that 2018-19 is likely to be representative of future years, however historical data suggests that liabilities exhibit a high degree of volatility.

The estimated cost of this proposal is highly sensitive to the level of penalty unit liabilities incurred across the medium term. In addition, the estimates of the underlying cash balance are sensitive to the proportion of liabilities that are collected.

Table 1: Financial implications ($m)[(a)(b)]

	2022-23	2023-24	2024-25	2025-26	**Total to 2025-26**
Fiscal balance	25.8	24.4	20.0	17.9	**88.1**
Underlying cash balance	5.7	7.7	8.6	8.7	**30.7**

(a) A positive number represents an increase in the relevant budget balance; a negative number represents a decrease.
(b) PDI impacts are not included in the totals.

Key assumptions

The Parliamentary Budget Office (PBO) has made the following assumptions in costing this proposal.

- The total volume of penalty units for each year would be based on 2018-19 total unremitted penalty unit liabilities.
  - The ATO has advised that the number of penalties issued in 2018-19 is likely to be representative of the number of penalties issued over the medium term.
  - 50% of Commonwealth penalties would be issued by agencies other than the ATO.
- Two-thirds of penalties issued would be eventually written-off as bad debts.
  - 40% of penalty receivables are expected to be remitted in the first year, followed by further write-offs of 10% in the second year, 9% in the third year, 4% in the fourth year and 4% in the fifth year from when the penalties were first issued.

Methodology

The financial implications of this proposal were estimated by multiplying the difference between the current and proposed value of the penalty unit by the assumed volume of penalty units in that year.

The volume of ATO penalties were increased to account for other types of fines and penalties issued by the other departments based on analysis of past penalty unit charges. The estimates were then adjusted for the timing of bad debt write-offs and cash collections. The timing of bad debts leads to a sharp drop in revenue two years after the proposal is implemented.

Financial implications were rounded consistent with the PBO's rounding rules as outlined on the PBO Costings and budget information webpage.[1]

Data sources

The ATO provided historical information on total penalty unit liabilities, their timing and collection profiles as at 19 January 2022.

The Department of Finance and the Treasury provided the economic parameters as at the Pre-election Economic and Fiscal Outlook 2022.

[1] https://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Budget_Office/Costings_and_budget_information

Attachment A – Increasing penalty units – financial implications

Table A1: Increasing penalty units – Fiscal balance ($m)[a]

	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	Total to 2025-26	Total to 2032-33
Revenue													
Tax revenue													
Increase penalty unit value to $275 - ATO penalty units	*12.9*	*12.2*	*10.0*	*9.0*	*9.2*	*8.9*	*8.7*	*9.9*	*9.6*	*9.4*	*10.6*	***44.1***	***110.4***
Non – tax revenue													
Increase penalty unit value to $275 - Other agencies penalty units	*12.9*	*12.2*	*10.0*	*8.9*	*9.2*	*8.9*	*8.7*	*9.8*	*9.5*	*9.4*	*10.5*	***44.0***	***110.0***
Total – revenue	**25.8**	**24.4**	**20.0**	**17.9**	**18.4**	**17.8**	**17.4**	**19.7**	**19.1**	**18.8**	**21.1**	**88.1**	**220.4**
Total (excluding PDI)	**25.8**	**24.4**	**20.0**	**17.9**	**18.4**	**17.8**	**17.4**	**19.7**	**19.1**	**18.8**	**21.1**	**88.1**	**220.4**

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

Table A2: Increasing penalty units – Underlying cash balance ($m)[(a)]

	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	**Total to 2025-26**	**Total to 2032-33**
Receipts													
Tax receipts													
Increase penalty unit value to $275 - ATO penalty units	*2.9*	*3.9*	*4.3*	*4.4*	*4.6*	*4.7*	*4.7*	*5.0*	*5.1*	*5.1*	*4.4*	***15.5***	***49.1***
Non-tax receipts													
Increase penalty unit value to $275 - Other agencies penalty units	*2.8*	*3.8*	*4.3*	*4.3*	*4.6*	*4.6*	*4.7*	*5.0*	*5.0*	*5.1*	*4.4*	***15.2***	***48.6***
Total – receipts	**5.7**	**7.7**	**8.6**	**8.7**	**9.2**	**9.3**	**9.4**	**10.0**	**10.1**	**10.2**	**8.8**	**30.7**	**97.7**
Total (excluding PDI)	**5.7**	**7.7**	**8.6**	**8.7**	**9.2**	**9.3**	**9.4**	**10.0**	**10.1**	**10.2**	**8.8**	**30.7**	**97.7**

(a) A positive number for the underlying cash balance indicates an increase in receipts or a decrease in payments or net capital investment in cash terms. A negative number for the underlying cash balance indicates a decrease in receipts or an increase in payments or net capital investment in cash terms.

Table A3: Increasing penalty units – Memorandum item: Public Debt Interest (PDI) impacts – Fiscal and underlying cash balances ($m)[(a)(b)]

	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	**Total to 2025-26**	**Total to 2032-33**
Fiscal balance	*0.1*	*0.2*	*0.4*	*0.6*	*0.8*	*1.1*	*1.4*	*1.7*	*2.1*	*2.5*	*3.0*	***1.3***	***13.9***
Underlying cash balance	*0.1*	*0.2*	*0.4*	*0.6*	*0.8*	*1.1*	*1.4*	*1.7*	*2.0*	*2.5*	*2.9*	***1.3***	***13.7***

(a) As this table is presented as a memorandum item, these figures are not reflected in the totals in the table above. This is consistent with the approach taken in the budget where the budget impact of most measures is presented excluding the impact on PDI. If the reader would like a complete picture of the total aggregate, then these figures would need to be added to the figures above. For further information on government borrowing and financing please refer to the PBO's online budget glossary[2].

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

[2] Online budget glossary – Parliament of Australia (aph.gov.au)