Parliament of Australia
Parliamentary Budget Office

Phil Bowen PSM FCPA
Parliamentary Budget Officer

Senator Richard Di Natale
Leader of the Australian Greens
Parliament House
CANBERRA ACT 2600

Dear Senator Di Natale

Please find attached a response to your costing request, *Standing Up for Small Business: Loss Carry-back and GST Threshold* (letter of 28 June 2016).

The response to this request will be released on the PBO website (www.pbo.gov.au).

If you have any queries about this costing, please contact Colin Brown on (02) 6277 9530.

Yours sincerely

Phil Bowen

29 June 2016

Policy costing—during the caretaker period for the 2016 general election

Name of proposal:	**Standing Up for Small Business: Loss Carry-back and GST Threshold**
Summary of proposal:	The proposal has two components. Component 1: Reinstate loss carry-back • This component would reinstate loss carry-back to allow small businesses to claim up to $1 million of current financial year losses against profits made in previous financial years. • Small businesses are those with aggregate annual turnover below $2 million. • Losses used in this manner would no longer be eligible to be carried forward into the next financial year. • This component would have effect from 1 September 2016 and would cease after 30 June 2020. Component 2: Increase Goods and Services Tax (GST) registration threshold • This component would increase the registration threshold for the GST from $75,000 to $150,000 or more for businesses, and from $150,000 to $300,000 or more for not-for-profit organisations, with these thresholds to be indexed annually by the Consumer Price Index (CPI). • This component would have effect from 1 July 2017 and would be ongoing.
Person/party requesting costing:	Senator Richard Di Natale, Australian Greens
Date of public release of policy:	24 June 2016 http://greens.org.au/small-business
Date costing request received:	28 June 2016
Date costing completed:	29 June 2016

Additional information received (including date)	On 28 June 2016, the office of Senator Di Natale advised that in relation to component 1: • a small business would have aggregate annual turnover below $2 million • losses eligible for carry back would no longer be able to be carried forward to the next year • the loss carry back component would expire on 30 June 2020.
Expiry date for the costing:	Release of the next economic and fiscal outlook report

Costing overview

The proposal would be expected to decrease the fiscal balance by $614 million and decrease the underlying cash balance by $314 million over the 2016-17 Budget forward estimates period. This reflects a decrease in revenue of $6,750 million and a net decrease in expenses of $6,136 million on a fiscal balance basis.

The reintroduction of loss carry back would result in a reduction in tax revenue from 2017-18 (as 2016-17 tax returns are assessed). This impact would be offset in subsequent years to the extent that companies would be able to utilise these losses against future taxable income.

As the proposed reintroduction of loss carry-back would be temporary, the impact of the proposal over the 2016-17 Budget forward estimates period is not representative of its ongoing impact. While loss carry back would cease in 2019-20, claims relating to the final year of the proposal would not be made until the following year. In subsequent years the proposal would result in an increase in tax revenue, reflecting the fact that losses eligible for carry back would no longer be able to be carried forward.

The increase in the registration threshold for the GST would not be expected to have a net financial impact on the underlying cash balance of the Commonwealth Government, as GST is paid directly to the states and territories (net of administrative costs) under the *Intergovernmental Agreement on Federal Financial Relations*. Lifting the GST registration threshold would have an ongoing impact that extends beyond the 2016-17 Budget forward estimates period.

The difference between the underlying cash and fiscal balance impact in the first year of the proposal reflects a delay between when GST revenue is recognised as being owed to the Commonwealth and the receipt of the payment through lodgement of a Business Activity Statement (BAS).

A detailed breakdown of the financial implications of the components of the proposal to 2026-27 is included at Attachment A.

The proposal to reintroduce loss carry back would be expected to increase departmental expenses and these estimates are based on the amounts allocated in the original 2012-13 Budget measure. The proposal to increase the GST registration threshold would be expected to decrease departmental expenses by $10 million per year, reflecting the reduction in the number of entities registered for the GST.

This costing is considered to be of medium reliability. The loss carry-back estimates for the proposal are based on detailed company tax data, however assumptions are required regarding the extent to which losses would be able to be utilised over time. The estimates for the GST registration threshold component are based on unit record data, however assumptions are required to estimate the number of entities within the proposed new thresholds and the behavioural response of those entities.

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

Impact on ($m)	2016–17	2017–18	2018–19	2019–20	**Total**
Fiscal balance	-6.9	-355.3	-101.3	-150.8	**-614.3**
Underlying cash balance	-6.9	-55.3	-101.3	-150.8	**-314.3**

(a) A positive number represents an increase in the relevant budget balance, a negative number a decrease.

(b) Figures may not sum to totals due to rounding.

Key assumptions

Reinstate loss carry-back

- Eligible taxpayers are assumed to claim the full amount of the loss carry-back as soon as it is available.
- The proportion of prior year loss deductions able to be utilised in the absence of tax loss carry-back was assumed to be equal to its historical average.
- The reintroduction of loss carry-back would apply from the 2016-17 income year.

Increase GST registration threshold

- The proportion of GST attributable to entities that that are under the new thresholds does not change due to the CPI indexation of the thresholds.
- The change in threshold does not change the projected growth of an entity's revenue.
- The proportion of entities that are non-profit entities is based on information from a Productivity Commission report on the number of organisations with an active tax status classified as not-for-profit by the Australian Taxation Office (ATO).

- Some entities that have turnover below the threshold will choose to remain registered for GST.
  - It is assumed that all businesses that receive net refunds of GST would choose to remain registered.
  - It is also assumed that 50 per cent of entities who have a net GST liability would choose to remain registered for GST.

Methodology

The impact of the reintroduction of loss carry-back is the sum of the refund of previous taxes claimed under the loss carry back rules and the increase in taxes that would result from the reduction in the level of losses able to be utilised in subsequent years.

Estimates of the net amount of GST paid by entities which currently have to register for GST but that would no longer have to register as a result of this proposal were calculated using unit record file data from 2012-13 BAS unit record file data. This estimate was projected forward using forecast growth in GST revenue from the 2016 Pre-election Economic and Fiscal Outlook.

Revenue and administered expenditure estimates in this costing have been rounded to the nearest $50 million. Departmental expenditure and capital estimates have been rounded to the nearest $100,000.

Data sources

- 2012-13 Budget
- 2013 Pre-election Economic and Fiscal Outlook
- 2013-14 Budget
- 2016 Pre-election Economic and Fiscal Outlook
- ATO, BAS Unit Record Data
- Productivity Commission (2010), Contribution of the Not-for-Profit Sector

Attachment A: Standing Up for Small Business: Loss Carry-back and GST Threshold—financial implications

Table A1: Combined impact of all components—Fiscal balance[(a)(b)]

($m)	2016–17	2017–18	2018–19	2019–20	Total to 2019–20	2020–21	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27	Total to 2026–27
Revenue	**-**	**-2,100.0**	**-2,250.0**	**-2,400.0**	**-6,750.0**	**-2,500.0**	**-2,350.0**	**-2,600.0**	**-2,750.0**	**-2,900.0**	**-3,050.0**	**-3,200.0**	**-26,100.0**
Expenses	**-6.9**	**1,744.7**	**2,148.7**	**2,249.2**	**6,135.7**	**2,350.0**	**2,450.0**	**2,600.0**	**2,750.0**	**2,900.0**	**3,050.0**	**3,200.0**	**25,435.7**
Administered	-	*1,740.0*	*2,140.0*	*2,240.0*	***6,120.0***	*2,340.0*	*2,440.0*	*2,590.0*	*2,740.0*	*2,890.0*	*3,040.0*	*3,190.0*	***25,350.0***
Departmental	*-6.9*	*4.7*	*8.7*	*9.2*	***15.7***	*10.0*	*10.0*	*10.0*	*10.0*	*10.0*	*10.0*	*10.0*	***85.7***
Total	**-6.9**	**-355.3**	**-101.3**	**-150.8**	**-614.3**	**-150.0**	**100.0**	**-**	**-**	**-**	**-**	**-**	**-664.3**

(a) A positive number for the fiscal balance indicates an increase in revenue or 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.

(b) Figures may not sum to totals due to rounding.

\- Indicates nil.

Table A2: Combined impact of all components—Underlying cash balance[(a)(b)]

($m)	2016–17	2017–18	2018–19	2019–20	**Total to 2019–20**	2020–21	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27	**Total to 2026–27**
Receipts	**-**	**-1,800.0**	**-2,250.0**	**-2,400.0**	**-6,450.0**	**-2,500.0**	**-2,350.0**	**-2,600.0**	**-2,750.0**	**-2,900.0**	**-3,050.0**	**-3,200.0**	**-25,800.0**
Outlays	**-6.9**	**1,744.7**	**2,148.7**	**2,249.2**	**6,135.7**	**2,350.0**	**2,450.0**	**2,600.0**	**2,750.0**	**2,900.0**	**3,050.0**	**3,200.0**	**25,435.7**
Administered	-	*1,740.0*	*2,140.0*	*2,240.0*	***6,120.0***	*2,340.0*	*2,440.0*	*2,590.0*	*2,740.0*	*2,890.0*	*3,040.0*	*3,190.0*	***25,350.0***
Departmental	*-6.9*	*4.7*	*8.7*	*9.2*	***15.7***	*10.0*	*10.0*	*10.0*	*10.0*	*10.0*	*10.0*	*10.0*	***85.7***
Total	**-6.9**	**-55.3**	**-101.3**	**-150.8**	**-314.3**	**-150.0**	**100.0**	**-**	**-**	**-**	**-**	**-**	**-364.3**

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

(b) Figures may not sum to totals due to rounding.

\- Indicates nil.

Table A3: Component 1: Reinstate loss carry back–Financial implications[(a)(b)]

($m)	2016–17	2017–18	2018–19	2019–20	**Total to 2019–20**	2020–21	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27	**Total to 2026–27**
Impact on fiscal and underlying cash balances													
Revenue – Company tax	**-**	**-50.0**	**-100.0**	**-150.0**	**-300.0**	**-150.0**	**100.0**	**..**	**..**	**-**	**-**	**-**	**-350.0**
Expenses	**-6.9**	**-5.3**	**-1.3**	**-0.8**	**-14.3**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-14.3**
Departmental – ATO	*-4.1*	*-3.4*	*-1.3*	*-0.8*	***-9.6***	*-*	*-*	*-*	*-*	*-*	*-*	*-*	***-9.6***
Departmental – capital - ATO	*-2.8*	*-1.9*	*-*	*-*	***-4.7***	*-*	*-*	*-*	*-*	*-*	*-*	*-*	***-4.7***
Total	**-6.9**	**-55.3**	**-101.3**	**-150.8**	**-314.3**	**-150.0**	**100.0**	**-**	**-**	**-**	**-**	**-**	**-364.3**

(a) A positive number indicates an increase in revenue or decrease in expenses or net capital investment in accrual and cash terms. A negative number indicates a decrease in revenue or an increase in expenses or net capital investment in accrual and cash terms.

(b) Figures may not sum to totals due to rounding.

.. Not zero but rounded to zero.

\- Indicates nil.

Table A4: Component 2: Increase GST registration threshold–Fiscal balance[a][b]

($m)	2016–17	2017–18	2018–19	2019–20	**Total to 2019–20**	2020–21	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27	**Total to 2026–27**
Revenue – GST	**-**	**-2,050.0**	**-2,150.0**	**-2,250.0**	**-6,450.0**	**-2,350.0**	**-2,450.0**	**-2,600.0**	**-2,750.0**	**-2,900.0**	**-3,050.0**	**-3,200.0**	**-25,750.0**
Expenses	**-**	**1,750.0**	**2,150.0**	**2,250.0**	**6,150.0**	**2,350.0**	**2,450.0**	**2,600.0**	**2,750.0**	**2,900.0**	**3,050.0**	**3,200.0**	**25,450.0**
Administered – GST	*-*	*1,740.0*	*2,140.0*	*2,240.0*	***6,120.0***	*2,340.0*	*2,440.0*	*2,590.0*	*2,740.0*	*2,890.0*	*3,040.0*	*3,190.0*	***25,350.0***
Departmental – ATO	*-*	*10.0*	*10.0*	*10.0*	***30.0***	*10.0*	*10.0*	*10.0*	*10.0*	*10.0*	*10.0*	*10.0*	***100.0***
Total	**-**	**-300.0**	**-**	**-**	**-300.0**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-300.0**

(a) A positive number for the fiscal balance indicates an increase in revenue or 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.

(b) Figures may not sum to totals due to rounding.

\- Indicates nil.

Table A5: Component 2: Increase GST registration threshold–Underlying cash balance[(a)(b)]

($m)	2016–17	2017–18	2018–19	2019–20	Total to 2019–20	2020–21	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27	Total to 2026–27
Receipts – GST	**-**	**-1,750.0**	**-2,150.0**	**-2,250.0**	**-6,150.0**	**-2,350.0**	**-2,450.0**	**-2,600.0**	**-2,750.0**	**-2,900.0**	**-3,050.0**	**-3,200.0**	**-25,450.0**
Outlays	**-**	**1,750.0**	**2,150.0**	**2,250.0**	**6,150.0**	**2,350.0**	**2,450.0**	**2,600.0**	**2,750.0**	**2,900.0**	**3,050.0**	**3,200.0**	**25,450.0**
Administered – GST	*-*	*1,740.0*	*2,140.0*	*2,240.0*	***6,120.0***	*2,340.0*	*2,440.0*	*2,590.0*	*2,740.0*	*2,890.0*	*3,040.0*	*3,190.0*	***25,350.0***
Departmental – ATO	*-*	*10.0*	*10.0*	*10.0*	***30.0***	*10.0*	*10.0*	*10.0*	*10.0*	*10.0*	*10.0*	*10.0*	***100.0***
Total	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

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

(b) Figures may not sum to totals due to rounding.

\- Indicates nil.