Parliamentary Budget Office

Policy costing

Big corporations tax (Excessive profits)		
Person/party requesting the costing:	Mr Adam Bandt MP, Australian Greens	
Date costing completed:	16 August 2024	
Expiry date of the costing:	Release of the next economic and fiscal outlook report	
Status at time of request:	Submitted outside the caretaker period	
	☒ ~~Confidential~~ Authorised for public release on 2 September 2024	☐ Not confidential

Summary of proposal:

The proposal would introduce a new excessive profits tax at a rate of 40% that would apply to company profits that exceed an allowance for a corporate equity threshold with effect from 1 July 2025.

Only post-company tax Australian-sourced profits would be subject to the excessive profits tax and the allowance for corporate equity threshold would equal shareholder equity multiplied by 5% plus the long-term bond rate.

- Companies would be entitled to a tax offset that would refund the equivalent of the excessive profits tax paid on the first $100 million of turnover.
- The allowance for corporate equity means that if a company's return on equity is below 5% plus the long-term bond rate, no excessive profits tax would be payable.
  - A company in this situation would accrue non-refundable excessive profits tax credits which could be carried forward to later years and used to offset future excessive profits.
- Companies would be able to look back over the 10 years prior to the introduction of the tax and accumulate a balance of excessive profits credits that could be utilised from the start of the proposal.
- Excessive profits tax would not be deductible for company tax purposes.
- The payment of the excessive profits tax would generate franking credits (excessive profits based) that can be distributed to shareholders.

Resources and fossil fuel companies subject to sector specific excessive profits taxes would be exempt from this proposal.

Overview

The proposal would be expected to increase the fiscal and underlying balances by around $65 billion over the 2024-25 Budget forward estimates period (see Table 1). This impact reflects an increase in tax revenue, comprised of the excessive profits tax less a decrease in income taxes, then slightly offset by an increase in departmental expenses over the period.

The proposal would be expected to have an impact beyond the 2024-25 Budget forward estimates period. A breakdown of the financial implications (including separate public debt interest (PDI) tables) over the period to 2034-35 is provided at Attachment A.

Uncertainty

There is a high degree of uncertainty associated with this costing and caution should be taken when interpreting the results.

The main component for the excessive profits tax is very sensitive to international and domestic economic conditions. Company after tax profit represents the net of two relatively large revenue and cost amounts which themselves can be quite volatile. The value of shareholder equity can also fluctuate over time. Any short-term fluctuations at the time of the equity valuation (the last day of the company's tax year, which is not always 30 June) will impact the allowance calculations, and thus the tax payable. Any of these sources of volatility could have significant implications on the amount of tax payable from year to year.

There are also inherent uncertainties associated with the methodology used to undertake the costing because it is based on historic levels of economic activity and company profits.

This response draws on 14 years of company tax data up to and including 2021-22. There is some uncertainty associated with projecting the super-profits tax revenue into future years, given the uncertainty about growth in different industries post COVID and fluctuations in key economic indicators.

In addition, there is inherent uncertainty regarding the behaviour response of companies to this proposal, by changing their level of equity or debt, and altering business structures. The PBO has factored in behavioural impacts but notes that they could be greater or smaller than estimated which would substantially change the financial impact of the proposal.

Some companies may take the one-time opportunity to engage in tax planning arbitrage in the year before the start of the excess profit tax, by seeking to bring forward revenue into 2024-25 from 2025-26 or delay expenditure from 2024-25 until 2025-26. This would lead to an increase in company tax initially for 2024-25, and then a corresponding decrease the next year.

Table 1: Big corporations tax (Excessive profits) – Financial implications ($m)[(a)(b)]

	2024-25	2025-26	2026-27	2027-28	Total to 2027-28
Fiscal balance	-75.0	14,175.0	23,845.0	27,035.0	**64,980.0**
Underlying cash balance	-75.0	14,175.0	23,845.0	27,035.0	**64,980.0**

(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.
- Indicates nil.

Key assumptions

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

- The excessive profits tax would be calculated and paid on a quarterly basis.
- The following dividend imputation assumptions were made:
  - Companies would pay out 75% of their after-tax profits as dividends.
  - Domestic shareholders would receive 40% of total dividends paid out and would have an average marginal tax rate of 28.8%.
- The methodological approach outlined below factors in a company behavioural response to the introduction of the excess profits tax. This accounts for changes to equity vs debt financing, further adjustments to Australian based profits, or other business structuring.

Methodology

Excessive Profits tax

The financial implications of this proposal were estimated using the outputs of a microsimulation model developed by the PBO that uses historical longitudinal data over the period from 2008-09 to 2021-22. The historical financial implications were then grown over the actual period that the tax would apply (from 2025-26 onwards).

- The excessive profits tax liability for each affected company was determined based on their reported net profit, net company tax, turnover and shareholder equity for each historical financial year, sourced from company tax return data.
- Excessive profits tax credits were then accumulated over the 10 years until to 30 June 2018 (the simulated 10-year loss look back period) for each company. The accumulated excessive profits credit balance was used to offset any excessive profits that were made in the years from 1 July 2018. Additional excessive profits credits that accrue after 1 July 2018 were also added to the rolling balance.
- If no prior year excessive profits credits were accumulated to 30 June 2018 the company would become liable for excessive profits tax from the simulated start date if its calculated excess profit was large enough.
- The first 3 years revenue impact of the proposal modelled using the profile of the simulated historical excessive profits tax estimate for the years between 2018-19 and 2021-22. This allows for the effect of the stock of losses from the look back period. This impact was then grown over the period up to 1 July 2025 (start year of proposal) and then through to 2034-35 by the 2024-25 Budget corporate gross operating surplus (GOS) growth parameter.
- As specified in the proposal, the estimates take into account the imputation system flow through effect on personal income tax.
  - Excessive Profits tax would lower company profits and in turn the distribution of dividends.
  - Excessive Profits tax paid would also generate franking credits.

Departmental expenses

Ongoing departmental expenses to administer the proposal were based on the departmental expenses for previous measures with similar levels of administrative complexity. The additional cost in 2024-25 represents the costs of preparing to implement the new tax (new and updated IT systems, modification of activity statements and income tax returns, preparing guidance for companies and educating the sector).

Financial implications were rounded consistent with the PBO's rounding rules[1].

Data sources

The ATO provided company tax return data for the 2003-04 to 2021-22 financial years.

The Treasury provided economic parameters as at the 2024-25 Budget.

[1] https://www.pbo.gov.au/for-parliamentarians/how-we-analyse/pbo-rounding-rules

Attachment A – Big corporations tax (Excessive profits) – Financial implications

Table A1: Big corporations tax (Excessive profits) – Fiscal and underlying cash balances ($m)[(a)]

	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	2034-35	**Total to 2027-28**	**Total to 2034-35**
Revenue													
Tax revenue													
Excessive Profit tax	-	*14,200.0*	*26,900.0*	*32,800.0*	*35,300.0*	*37,300.0*	*39,200.0*	*41,300.0*	*43,400.0*	*45,600.0*	*47,900.0*	***73,900.0***	***363,900.0***
Income Tax	-	-	*-3,030.0*	*-5,740.0*	*-7,000.0*	*-7,540.0*	*-7,950.0*	*-8,370.0*	*-8,810.0*	*-9,260.0*	*-9,740.0*	***-8,770.0***	***-67,440.0***
Total – revenue	**-**	**14,200.0**	**23,870.0**	**27,060.0**	**28,300.0**	**29,760.0**	**31,250.0**	**32,930.0**	**34,590.0**	**36,340.0**	**38,160.0**	**65,130.0**	**296,460.0**
Expenses													
Departmental													
Australian Taxation Office	*-75.0*	*-25.0*	*-25.0*	*-25.0*	*-25.0*	*-25.0*	*-25.0*	*-25.0*	*-25.0*	*-25.0*	*-25.0*	***-150.0***	***-325.0***
Total – expenses	**-75.0**	**-25.0**	**-25.0**	**-25.0**	**-25.0**	**-25.0**	**-25.0**	**-25.0**	**-25.0**	**-25.0**	**-25.0**	**-150.0**	**-325.0**
Total (excluding PDI)	**-75.0**	**14,175.0**	**23,845.0**	**27,035.0**	**28,275.0**	**29,735.0**	**31,225.0**	**32,905.0**	**34,565.0**	**36,315.0**	**38,135.0**	**64,980.0**	**296,135.0**

(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. 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.

\- Indicates nil.

Table A2: Big corporations tax (Excessive profits) – Memorandum item: Public Debt Interest (PDI) impacts – Fiscal and underlying cash balances ($m)[(a)(b)]

	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	2034-35	**Total to 2027-28**	**Total to 2034-35**
Fiscal balance	*0.0*	*300.0*	*1,100.0*	*2,200.0*	*3,500.0*	*4,900.0*	*6,400.0*	*8,100.0*	*10,000.0*	*12,000.0*	*14,200.0*	***3,600.0***	***62,700.0***
Underlying cash balance	*0.0*	*200.0*	*900.0*	*2,000.0*	*3,200.0*	*4,600.0*	*6,100.0*	*7,700.0*	*9,500.0*	*11,500.0*	*13,700.0*	***3,100.0***	***59,400.0***

(a) As this table is presented as a memorandum item, these figures are not reflected in the totals in the tables 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.

\- Indicates nil.