Policy costing

<table>
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<th>New jobs tax cut</th>
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<td>Party:</td>
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Summary of proposal:
This proposal would allow companies with an annual turnover under $10 million to claim an additional tax deduction of 30 per cent for up to five new workers’ salaries for their first year of employment. Total additional deductions would be capped at $50,000 per company.

Companies would need to have been operating for a minimum of two years and register with the Australian Taxation Office (ATO) with evidence of their current full-time-equivalent payroll, and payroll for the 12 months prior to accessing the scheme. Once registered, the tax deductions would be processed as part of a company’s normal tax affairs.

To be eligible for the additional deduction, new employees need to be either:
- job seekers under the age of 25 who have been unemployed for three months or more
- people returning to work after a period of parental leave or other caring responsibilities, and have been looking for work for three months or more
- people over the age of 55 who have been unemployed for three months or more.

The proposal would have effect from 1 July 2020.

Costing overview

The proposal would be expected to decrease the fiscal and underlying cash balances by $141 million over the 2019-20 Budget forward estimates period. This impact reflects a decrease in company tax revenue of $140 million and an increase in departmental expenses for the ATO of $1 million.

A breakdown of the financial implications of the proposal over the 2019-20 Budget forward estimates period is included at Attachment A. The proposal would be expected to have an ongoing impact that extends beyond the 2019-20 Budget forward estimates period.

The proposal would be expected to increase departmental expenses in 2020-21 in order for the ATO to implement the system changes required.

This costing is subject to uncertainty, especially with respect to the assumptions on the proportion of new employees eligible under the proposal. The estimates are also sensitive to assumptions around the average salary of eligible new employees, growth in eligible new employees, and their wage growth. Changes in these assumptions could have a significant impact on the estimates.
It is also uncertain whether the proposal would affect the overall level of employment in the economy as eligible companies may preferentially select new employees eligible for the proposed additional deduction over other potential employees who are not. As a result, no further financial implications arising from any changes to total employment have been included in this costing.

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

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<tbody>
<tr>
<td>Fiscal balance</td>
<td>-</td>
<td>-1</td>
<td>-60</td>
<td>-70</td>
<td>-141</td>
</tr>
<tr>
<td>Underlying cash balance</td>
<td>-</td>
<td>-1</td>
<td>-60</td>
<td>-70</td>
<td>-141</td>
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(a) A positive number represents an increase in the relevant budget balance; a negative number represents a decrease.

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

Key assumptions

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

- New employees are those employees who have been added to an employer’s payroll over the last year.

- Around 8 per cent of new employees under the age of 25 and around 6 per cent of new employees aged over 55 would meet the eligibility criteria of having been unemployed for three months or more. In addition, around 1 per cent of new employees aged between 25 and 55 would meet the criteria of returning to work after a period of parental leave or other caring responsibilities after having been looking for work for three months or more.
  - These proportions were calculated based on data from the Household, Income and Labour Dynamics in Australia Survey and information published by the Australian Bureau of Statistics on the labour force status and other characteristics of families.

- The number of new employees meeting the eligibility criteria of the proposal would increase by 10 per cent relative to current levels in response to the proposal. Wages and salaries paid to these new employees would be deductible.
  - As the PBO has not assessed the aggregate change in employment, and given the uncertainty over the actual wages of employees, no impact on personal income tax has been included in costing this proposal.

- The number of new employees in each year for each age group would grow in line with projections of the total number of employed persons for each age group.

- The average wages and salaries of eligible new employees would be about $43,000 in 2020-21 and would grow in line with growth in average weekly earnings.
  - This is based on pay-as-you-go data for 2015-16 for new employees of companies that have turnover under $10 million and have been in existence for at least two years.

- Around 45 per cent of eligible companies would have sufficient net taxable income to use the additional deduction in the current year, based on company tax return data from the ATO.
• About a quarter of deductions not used in the year they were generated would be used as carry-forward losses over the following two years. Any remaining deductions would not be used.

Methodology

The total number of new employees hired by eligible companies and their average wages for 2015-16 was calculated by matching anonymised company tax return data, pay-as-you-go annual statements and personal income tax return data. These estimates were then multiplied by the assumed proportion of eligible new employees by age group to calculate the total number of new employees whose wages would be eligible for the proposed additional tax deductions. The calculated number of eligible employees and their average wages were then projected over the period to 2029-30 by the assumed growth rates.

The total of wages eligible for the additional deduction was calculated by multiplying the projected number of eligible employees by their projected average wage.

The total amount of additional tax deductions was calculated by multiplying the total of wages eligible for the additional deduction by the rates specified in the proposal.

The amount of utilised deduction was calculated by multiplying the amount of additional tax deductions by the assumed utilisation rates for the additional deductions in each year.

Multiplying the total utilised deduction for each year by the tax rate for small and medium companies then gave the revenue impact over the 2019-20 Budget forward estimates period.

Departmental expense estimates are based on estimates of the cost of changing similar arrangements.

Revenue estimates have been rounded to the nearest $10 million. Departmental expense estimates have been rounded to the nearest $1 million.

Data sources

The ATO provided personal income tax return data and company tax return data for the financial years of 2013-14, 2014-15 and 2015-16.

The Treasury provided projections of employed population and average weekly earnings as at the 2019-20 Budget.


This costing uses unit record data from the Household, Income and Labour Dynamics in Australia (HILDA) Survey. The HILDA Project was initiated and is funded by the Australian Government Department of Social Services (DSS), and is managed by the Melbourne Institute of Applied Economic and Social Research (Melbourne Institute). The findings and views reported in this response, however, are those of the PBO and should not be attributed to either DSS or the Melbourne Institute.
Attachment A – New jobs tax cut – financial implications

Table A1: New jobs tax cut – Fiscal and underlying cash balances ($m)(a)(b)

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<tbody>
<tr>
<td>Company tax revenue</td>
<td>-</td>
<td>-</td>
<td>-60</td>
<td>-70</td>
<td>-140</td>
</tr>
<tr>
<td>Departmental expenses – ATO</td>
<td>-</td>
<td>-1</td>
<td>-</td>
<td>-</td>
<td>-1</td>
</tr>
<tr>
<td>Total</td>
<td>-</td>
<td>-1</td>
<td>-60</td>
<td>-70</td>
<td>-141</td>
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(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.

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