



EXPLAINING BUDGET DEVIATION

A BUDGET CREDIBILITY SNAPSHOT

April 2019

The study of budget credibility examines the extent, nature, causes and consequences of deviations from approved budgets. In this series, part of the International Budget Partnership's Assessing Budget Credibility Project, 24 civil society partners in 23 countries probed a specific area in which execution of the national budget repeatedly diverged from the approved plan to learn whether adequate reasons were provided for the deviation. The broader synthesis report on these findings can be found [here](#).

AUSTRALIA: COMPANY TAX RECEIPTS

Company tax receipts are a major source of revenue in Australia, accounting for roughly 20 percent of central government tax revenue annually. The fact that mining companies are major contributors to this tax revenue points to the country's economic reliance on commodity markets.

BUDGET CREDIBILITY CHALLENGE

In the decade since the 2008 global financial crisis, company tax receipts were over-estimated for nine consecutive years until their higher-than-expected growth in 2017-18. The forecast errors in most years exceeded 5 percent. Moreover, these errors represented a substantial share of the total tax forecasting errors. For example, in 2015-16, the company tax forecast error comprised nearly 65% of the total tax forecast error.

Although in recent years the Treasury has commissioned reviews of its forecasting process and implemented modifications, forecast errors still exist. In fact, when the 2017-18 budget was tabled, there were calls for Treasury to be stripped of its forecasting function. One reason this issue has received attention is because biased budget forecasts can make it easier for politicians to avoid making tough fiscal decisions, such as raising taxes or cutting social security.

COMPANY TAX RECEIPTS – EXTENT OF FORECAST ERRORS, 2007-08 TO 2017-18 (MILLIONS OF AUD)

Financial Year	Forecast estimate Company tax (\$m)	Final outcome Company tax (\$m)	Forecast error Company tax (%)	Company tax error as share of Total tax error (%)
2017-18	77,800	84,591	9%	49%
2016-17	69,000	68,390	-1%	17%
2015-16	68,200	62,897	-8%	65%
2014-15	71,600	66,174	-8%	62%
2013-14	71,650	67,273	-6%	27%
2012-13	73,480	66,911	-9%	39%
2011-12	72,800	66,584	-9%	56%
2010-11	64,160	56,262	-12%	59%
2009-10	53,040	52,209	-2%	-54%
2008-09	71,720	60,391	-16%	57%
2007-08	62,964	61,700	-2%	-2%

Source: Budget Paper no. 1 and Final Budget Outcome for years 2007-08 to 2017-18, the Treasury

WERE EXPLANATIONS FOR THE DEVIATIONS FOUND IN GOVERNMENT REPORTS?

Yes, explanations were found in the following three annual reports between 2013-14 to 2017-18:

- Mid-Year Economic and Fiscal Outlook (MYEFO): discusses forecast errors that occur during the first half of the fiscal year.
- Budget Paper no. 1: discusses forecast errors that occur up until the tenth month of the fiscal year.
- Final Budget Outcome: discusses forecast errors that occur in the final two months of the fiscal year, except in 2017-18, when the report accounted for the full-year deviation.

During 2013-14 to 2017-18, economic factors, especially fluctuations in global commodity prices, were the most cited reason in budget documents for deviations in company tax receipts. The budget documents refer to additional reasons for deviations between forecasts and outcomes and point to compliance activity (in 2017-18) and specific policy decisions (in 2016-17 and 2014-15).

DID THE GOVERNMENT AGREE TO BE INTERVIEWED TO EXPLAIN FURTHER?

No. The Treasury's Revenue Group, the Australian National Audit Office and the Parliamentary Committee on Tax and Revenue were provided a draft of the full report for comment. No comments were received from any of these agencies.

WERE THE REASONS PROVIDED BY GOVERNMENT ADEQUATE?

It is commendable that the government makes a consistent effort to explain the errors in company tax receipt forecast in published documents. However, the reasons tend to be brief and each year are scattered in different sections of budget reports. Further, the reasons provided do not account for forecast errors in past years or in the components of company tax receipts (i.e. company income tax on profits and capital gains tax). For example, the change in commodity prices is commonly cited as a factor, but it is not always clear to what extent this contributed to the deviation in a given year, especially since the price effect varies each year. The reasons also don't explain forecast error in the components of company tax receipts, namely on company income tax on profits and capital gains tax.