Parliament of Australia
Parliamentary Budget Office

Policy costing—outside the caretaker period

Name of proposal:	**GST-Free Electricity**
Summary of proposal:	The proposal would make electricity supplied Goods and Services Tax (GST) free unless it is supplied in a battery. Equipment for self-generation of electricity, like generators and solar panels, would remain subject to GST. States and territories would not be compensated for the reduction in GST revenue collections. The start date of this proposal is 1 January 2018.
Person/party requesting the costing:	Senator David Leyonhjelm, Liberal Democratic Party
Did the applicant request the costing be confidential:	☒ Yes ☐ No
Date costing request received:	17 July 2017
Date costing completed:	4 August 2017
Expiry date of the costing:	Release of the next economic and fiscal outlook report.

Costing overview

This proposal would be expected to increase the fiscal balance by an immaterial amount and increase the underlying cash balance by $600 million over the 2017-18 Budget forward estimates period. The fiscal balance impact reflects a decrease in net GST revenue (ie GST revenue less GST expenses paid to the states and territories) of $600 million and a net increase in the budget balance from a reduction in Consumer Price index (CPI) indexation of government transfers and excise of $600 million over this period.

The proposal would be expected to decrease GST revenue and receipts, however this would not be expected to have a net financial impact on the Commonwealth Government on an underlying cash balance basis, as it would result in a corresponding decrease in the GST paid directly to the states and territories (net of administrative costs) under the Intergovernmental Agreement on Federal Financial Relations (the Intergovernmental Agreement).

On a fiscal balance basis, there would be expected to be a small decrease in net GST revenue to the Commonwealth Government because of a delay between when GST revenue is recognised by the Commonwealth and when the associated receipts are received, and when the GST expense to the states and territories is accrued.

Making electricity GST free would be expected to reduce the price of electricity to households by 9.1 per cent, which would contribute a one off change in the level of the CPI of -0.18 per cent. The proposal would have no impact on the cost of electricity for most business users, because GST taxable businesses are able to claim input tax credits for the GST included in the price of electricity they consume.

The net financial impact of this proposal on the Commonwealth primarily reflects the impact of the one-off decrease in the level of the CPI on a number of government transfers to households and excise revenues that are indexed to the CPI.

This proposal would be expected to have an ongoing impact that extends beyond the 2017-18 Budget forward estimates period.

The financial impact of the proposal would generally continue to grow over time in line with growth in the underlying parameters. However, there is a large decrease in the financial impact on government transfers to households from 2022-23.

- This is because, for some government payments to households, the financial impact of the one-off decrease in the CPI would be temporary, as some base rates are indexed to the higher of the CPI and the Pensioner and Beneficiary Cost of Living Index (PBLCI) as well as being benchmarked against a percentage of Male Total Average Weekly Earnings (MTAWE). In 2022-23 the MTAWE benchmark exceeds the rate given by indexation by the CPI or PBLCI, removing the effect of the reduction to the CPI on some government payments.

A detailed breakdown of all the components of the costing over the period to 2027-28 is included at Attachment A.

The proposal is not expected to have a material impact on departmental expenses as entities involved in supplying electricity would continue to lodge Business Activity Statements in order to claim input tax credits.

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

Impact on ($m)	2017–18	2018–19	2019–20	2020–21	**Total to 2020–21**
Fiscal balance	-200.0	-50.0	120.0	130.0	**..**
Underlying cash balance	..	160.0	220.0	230.0	**600.0**

(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.
.. Not zero but rounded to zero.

Key assumptions

GST revenue assumptions

- It is assumed that there are no changes to the Intergovernmental Agreement and all reductions in GST receipts (net of administrative expenses) result in a corresponding reduction to GST payments to the states and territories.
- All price impacts from the GST exemption of electricity are fully passed on to final consumers.
- The impact of households delaying consumption in order to purchase electricity after it becomes GST free is assumed to be immaterial.
- There are assumed to be no material fiscal implications flowing from consumers altering their behaviour in response to changes to the price of electricity they face.

GST timing

- On a fiscal balance basis, all GST revenue is recognised in the year the tax is levied on the consumer. The payment of GST to the states and territories is recognised as an expense when GST is received by the Commonwealth.
- On an underlying cash basis, GST receipts are recognised when they are collected by the Australian Taxation Office (ATO). It is assumed that a percentage of GST revenue is received in the year after it is recognised on a fiscal balance basis. This reflects the fact that GST payments are made to the ATO in arrears, and accounts for the fact that businesses can either remit their GST annually, quarterly, or monthly.
- There is assumed to be no delay between the receipt of GST by the Commonwealth and associated payments to states and territories.

Impacts on associated government transfers and fuel and alcohol revenues

- The proposal would impact the CPI release for the quarter immediately after the GST change takes effect. Government transfers and revenues would be affected from their next indexation date following this CPI release. It is assumed that transfer recipients do not alter their behaviour in response to changes in the payment rates or income thresholds for government transfers.
- Consumers do not change their consumption of fuel or alcohol in response to incrementally lower than otherwise excise rates, or changes in the GST rate.
- There is no change in the production or importation of fuel and alcohol products in response to lower than otherwise excise rates.

Methodology

Data from the Australian Bureau of Statistics (ABS) was used to estimate the GST revenue implications of the proposal. Estimates were grown over the medium term based on growth in household consumption expenditure of similar goods and services. The impact on the CPI was estimated as a percentage change based on the 16th Series Weighting Pattern of the CPI. In order to estimate the impact on revenue and payments, the estimated CPI change was used to estimate government transfers, excise and customs duties under the proposal and then compared to current estimates of revenue and transfers.

GST revenue and expenditure estimates and government transfers to households have been rounded to the nearest $100 million.

Fuel excise, Fuel Tax Credit expenses and alcohol excise have been rounded to the nearest $10 million.

Data sources

Australian Bureau of Statistics, 2011. 6471.0 - *Consumer Price Index, 16th Series Weighting Pattern*, *2011,* Canberra: Australian Bureau of Statistics.

Australian Bureau of Statistics, 2017. 5206.0 - *Australian National Accounts: National Income, Expenditure and Product, March 2017*, Canberra: Australian Bureau of Statistics.

Australian Bureau of Statistics, 2017. 5209.0.55.001 *Australian National Accounts: Input-Output Tables - 2014-15*, Canberra: Australian Bureau of Statistics.

Commonwealth of Australia, 2017. *2017-18 Budget*, Canberra: Commonwealth of Australia.

The Australian Taxation Office provided unit record data for alcohol and fuel excise.

The Department of Immigration and Border Protection provided unit record data for alcohol and fuel excise equivalent customs duty.

The Department of Social Services provided the 2017-18 Budget model for government transfers to households.

Attachment A – GST-Free Electricity—financial implications

Table A1: GST-Free Electricity—Fiscal balance[(a)(b)]

($m)	2017–18	2018–19	2019–20	2020–21	**Total to 2020-21**	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27	2027–28	**Total to 2027-28**
GST impacts													
GST revenue	*-1,000.0*	*-2,100.0*	*-2,300.0*	*-2,500.0*	***-7,900.0***	*-2,700.0*	*-2,900.0*	*-3,100.0*	*-3,400.0*	*-3,700.0*	*-4,000.0*	*-4,300.0*	***-32,000.0***
GST expenses to the states and territories	*800.0*	*1,900.0*	*2,200.0*	*2,400.0*	***7,300.0***	*2,600.0*	*2,900.0*	*3,100.0*	*3,400.0*	*3,600.0*	*4,000.0*	*4,300.0*	***31,200.0***
Net impact on GST	-200.0	-200.0	-100.0	-100.0	**-600.0**	-100.0	..	..	..	-100.0	..	..	**-800.0**
Flow on effects from a change in CPI													
Government transfers to households	..	*180.0*	*250.0*	*260.0*	***690.0***	*230.0*	*110.0*	*110.0*	*120.0*	*130.0*	*130.0*	*150.0*	***1,670.0***
Alcohol excise and customs duty revenue	-	*-10.0*	*-10.0*	*-10.0*	***-30.0***	*-10.0*	*-10.0*	*-10.0*	*-10.0*	*-10.0*	*-10.0*	*-10.0*	***-100.0***
Fuel excise and customs duty revenue	-	*-40.0*	*-40.0*	*-40.0*	***-120.0***	*-40.0*	*-40.0*	*-50.0*	*-50.0*	*-50.0*	*-50.0*	*-50.0*	***-450.0***
Fuel tax credit expenses	-	*20.0*	*20.0*	*20.0*	***60.0***	*20.0*	*30.0*	*30.0*	*30.0*	*30.0*	*30.0*	*30.0*	***260.0***
Net impact from the change to CPI	..	150.0	220.0	230.0	**600.0**	200.0	90.0	80.0	90.0	100.0	100.0	120.0	**1,380.0**
Total	**-200.0**	**-50.0**	**120.0**	**130.0**	**..**	**100.0**	**90.0**	**80.0**	**90.0**	**..**	**100.0**	**120.0**	**580.0**

(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.
(b) Figures may not sum to totals due to rounding.
.. Not zero but rounded to zero.
\- Indicates nil.

Table A2: GST-Free Electricity—Underlying cash balance[(a)(b)]

($m)	2017–18	2018–19	2019–20	2020–21	**Total to 2020-21**	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27	2027–28	**Total to 2027-28**
GST impacts													
GST receipts	*-800.0*	*-1,900.0*	*-2,200.0*	*-2,400.0*	***-7,300.0***	*-2,600.0*	*-2,900.0*	*-3,100.0*	*-3,400.0*	*-3,600.0*	*-4,000.0*	*-4,300.0*	***-31,200.0***
GST payments to the states and territories	*800.0*	*1,900.0*	*2,200.0*	*2,400.0*	***7,300.0***	*2,600.0*	*2,900.0*	*3,100.0*	*3,400.0*	*3,600.0*	*4,000.0*	*4,300.0*	***31,200.0***
Net impact on GST	-	-	-	-	**-**	-	-	-	-	-	-	-	**-**
Flow on effects from a change in CPI													
Government transfers to households	..	*180.0*	*250.0*	*260.0*	***690.0***	*230.0*	*110.0*	*110.0*	*120.0*	*130.0*	*130.0*	*150.0*	***1,670.0***
Alcohol excise and customs duty receipts	-	*-10.0*	*-10.0*	*-10.0*	***-30.0***	*-10.0*	*-10.0*	*-10.0*	*-10.0*	*-10.0*	*-10.0*	*-10.0*	***-100.0***
Fuel excise and customs duty receipts	-	*-30.0*	*-40.0*	*-40.0*	***-120.0***	*-40.0*	*-40.0*	*-50.0*	*-50.0*	*-50.0*	*-50.0*	*-50.0*	***-450.0***
Fuel tax credit receipts	-	*20.0*	*20.0*	*20.0*	***60.0***	*20.0*	*30.0*	*30.0*	*30.0*	*30.0*	*30.0*	*30.0*	***260.0***
Net impact from the change to CPI	..	160.0	220.0	230.0	**600.0**	200.0	90.0	80.0	90.0	100.0	100.0	120.0	**1,380.0**
Total	**..**	**160.0**	**220.0**	**230.0**	**600.0**	**200.0**	**90.0**	**80.0**	**90.0**	**100.0**	**100.0**	**120.0**	**1,380.0**

(a) A positive number for the underlying cash balance indicates an increase in receipts or a 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.

.. Not zero but rounded to zero.

\- Indicates nil.