



Australian Government

Department of Finance

The Treasury

## PUBLIC RELEASE OF 2019 ELECTION COMMITMENT COSTING

<b>Name of proposal costed: Farm Household Allowance – permanent increase to asset threshold</b>	
<b>Costing Identifier:</b>	COA041
<b>Summary of costing:</b>	The Farm Household Allowance (FHA) asset threshold test would be permanently increased to \$5.0 million from (\$2.6 million), from 1 July 2019.
<b>Ongoing or Terminating (including date)<sup>(a)</sup></b>	Ongoing.
<b>Person making the request:</b>	Prime Minister.
<b>Date costing request received:</b>	9 May 2019.
<b>Date of public release of policy:</b>	27 April 2019.
<b>Date costing completed:</b>	15 May 2019.
<b>Additional information requested (including date):</b>	Not applicable.
<b>Additional information received (including date):</b>	Not applicable.

(a) Ongoing policies continue indefinitely (until a decision is made to cease or alter the program). Terminating measures end on a date set out in the initial policy and a further decision is required to continue the program beyond this date.

### Financial implications (outturn prices)<sup>(b)</sup>

Impact on	2018-19	2019-20	2020-21	2021-22	2022-23
Underlying Cash Balance (\$m)	0.0	-2.5	-6.5	-10.6	-14.7
Fiscal Balance (\$m)	0.0	-2.5	-6.5	-10.6	-14.7

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

**Where relevant, state that the proposal has been costed as a defined or specified amount.**

The proposal has been costed as a demand driven program.

**Where relevant, include separate identification of revenue and expense components.**

The gross impact on the underlying cash balance and the fiscal balance of the additional FHA payments and additional income tax revenue associated with additional FHA payments are:

Impact on	2018-19	2019-20	2020-21	2021-22	2022-23
FHA Expense (\$m)	0.0	-2.5	-6.7	-11.2	-15.8
Income Tax Revenue (\$m)	0.0	0.0	0.2	0.6	1.1

**Where appropriate, include a range for the costing or sensitivity analysis.**

Not applicable.

**Qualifications to the costing (including reasons for the costing not being comprehensive).**

Not applicable.

**Where relevant, explain effects of departmental expenses.**

Consistent with the costing request, the costing assumes that the Department of Human Services would absorb any associated departmental operating or capital costs.

**Where relevant, explain the reason for any significant differences between the assumptions specified in a party costing request and those used in a Treasury or Finance costing.**

The costing includes an income tax revenue effect. The costing request did not include the income tax revenue effects of additional FHA payments.

**Other comments (including reasons for significant differences between the estimated impact on the fiscal and underlying cash balances).**

**Where relevant, include an explanation of the medium term implications of the proposal<sup>(c)</sup>.**

The cost of FHA payments in 2023-24 would be \$18.5 million, and would increase every year thereafter at the Consumer Price Index rate.

(c) Information on the medium term implications will be provided if the cost of the policy is expected to be significantly different beyond the forward estimates period.

## Background information

### Costing methodology used:

- **Costing techniques.**

The costing assumes an additional 30 new recipients per month receiving FHA payments and remaining on payment for the full four years, as currently entitled. This number of entrants is based on observed behavior by relevant FHA applicants. This means that the number of additional clients is estimated to stabilise at 1,440 in June 2023.

As per the existing estimates model for the FHA, the average rate of payment received is assumed to be \$941.65 per person per month from July 2019 (indexed). This includes all associated supplements, allowances and amounts for Reciprocal Obligations. There are further amounts for the Farm Financial Advice Supplement (\$1241 for each new recipient as at July 2019, indexed) and an average of \$41.66 per month for recipients in their third and fourth years of payment.

The ATO has provided information on the distribution of taxable incomes of FHA recipients in 2016-17. This distribution has been projected to future years using expected growth in average weekly earnings, and used to estimate an average marginal tax rate applicable for FHA recipients each year. The revenue impact was then calculated as the increase in FHA payments multiplied by the average marginal tax rates. It is assumed all additional tax will be paid on the lodgment of tax returns.

- **Statistical data used**

Not applicable.

### Behavioural assumptions used (as appropriate)

Not applicable.