

Appendix E: Research and consultancies

Papers presented at the Tax and Transfer Policy Conference

The Tax and Transfer Policy Conference was held on 18 and 19 June 2009. It was jointly hosted by the Melbourne Institute of Applied Economic and Social Research and the Review Panel. Around 150 people attended, including Australian and international experts on tax and transfer policy. The papers presented at the conference are available on the Australia's Future Tax System website (www.taxreview.treasury.gov.au).

Papers

Speakers at the conference provided papers to support their presentations.

Professor Alan Auerbach, University of California, United States
Directions in tax and transfer theory

Professor Richard Bird (and Michael Smart), University of Toronto, Canada
Assigning state taxes in a federal country: The case of Australia

Professor Sijbren Cnossen, University of Maastrich, The Netherlands
Excise taxation in Australia

Professor Richard Disney, University of Nottingham, United Kingdom
Australia: Issues in the tax treatment of pensions and housing

Professor John Freebairn, University of Melbourne
Environmental taxation and its possible application in Australia

Professor Christopher Heady, University of Kent, United Kingdom
Directions in overseas tax policy

Professor Michael Keane, University of Technology Sydney
The tax-transfer system and labour supply

Professor Joel Slemrod, University of Michigan, United States
Complexity in the Australian tax and transfer system

Professor Peter Birch Sørensen (and Shane Johnson), University of Copenhagen, Denmark
Taxing capital income – options for reform in Australia

Professor Peter Whiteford, University of New South Wales
Transfer issues and directions for reform: Australian transfer policy in comparative perspective

Discussants

Discussants reviewed the papers and provided presentations (some of these were documented in PowerPoint and are available on the Australia's Future Tax System website).

Professor Patricia Apps, University of Sydney

Professor Alan Auerbach, University of California, United States

Mr Matt Benge, Inland Revenue Department, New Zealand

Mr Don Challen, Department of Treasury and Finance, Tasmania

Professor Harry Clarke, La Trobe University

Professor Julian Disney AO, University of New South Wales

Professor Chris Evans, University of New South Wales

Professor John Freebairn, University of Melbourne

Professor Quentin Grafton, Australian National University

Mr Matthew Ryan, taxation policy consultant

Mr David Smith, Queensland Treasury

Professor Peter Birch Sørensen, University of Copenhagen, Denmark

Professor Richard J Vann, University of Sydney

Professor Neil Warren, University of New South Wales

Professor Gavin Wood, RMIT University

Professor Mark Wooden, University of Melbourne

Research papers

The Review commissioned research papers on specific areas of tax policy. These papers are available on the Australia's Future Tax System website (www.taxreview.treasury.gov.au).

Professor Harry Clarke and Dr David Prentice, La Trobe University

A conceptual framework for the reform of taxes related to roads and transport

Colmar Brunton Social Research

*Perceptions and attitudes towards the current tax and transfer system: Public meetings and
Perceptions and attitudes towards the current tax and transfer system: Focus groups*

Lindsay Hogan and Rebecca McCallum, Australian Bureau of Agricultural and Resource Economics

Non-renewable resource taxation in Australia

Professor Andrew Leigh, Australian National University

The impact of the tax-transfer system on education and skills in Australia

KPMG Econtech

CGE analysis of the current Australian tax system

PriceWaterhouseCoopers

Small Medium Enterprises Total Tax Contribution Report

Andrew Reeson and Simon Dunstall, CSIRO

Behavioural economics and complex decision making: Implications for the Australian tax and transfer system

Professor Michael Sherris and Associate Professor John Evans, University of New South Wales

Longevity management issues for Australia's Future Tax System

Dr George Kudrna and Professor Alan Woodland, University of New South Wales

Simulating policy change using a dynamic overlapping generations model of the Australian economy'

Professor Gavin Wood, Australian Housing and Urban Research Institute (AHURI),

Associate Professor Miranda Stewart, University of Melbourne and Dr Rachel Ong, Curtin University of Technology

Housing taxation and transfers: Research study for the Australian Treasury

Seminar speakers

The AFTS Secretariat hosted a series of seminars for Treasury staff on issues relevant to the Review. The external presenters were:

Professor Patricia Apps,
University of Sydney

Professor Valerie Braithwaite,
Australian National University

Mr Robert Carling,
Centre for Independent Studies

Professor Deborah Cobb-Clark,
Australian National University

Adjunct Professor David Collins,
Macquarie University

Professor Sinclair Davidson,
RMIT University

Professor Bob Deutsch, Atax,
University of New South Wales

Dr Brett Freudenberg,
Griffith University

Dr Matthew Gray,
Australian Institute of Family Studies

Dr Steve Hatfield-Dodds,
Department of Climate Change

Professor Chris Heady,
University of Kent

Mr Richard Highfield,
Centre for Tax Policy and
Administration, OECD

Adjunct Professor Steve Holloway,
University of Canberra

Dr David Ingles,
Australia Institute

Dr Simon Kelly, NATSEM,
University of Canberra

Professor Rick Krever,
Monash University

Professor Helen Lapsley,
University of New South Wales

Professor Andrew Leigh,
Australian National University

Mr Gordon Mackenzie, Atax,
University of New South Wales

Mr Vince Mangioni,
University of Technology, Sydney

Professor Myles McGregor-Lowndes,
Australian Centre for Philanthropy and
Nonprofit Studies

Mr David Mitchell,
Bureau of Infrastructure, Transport and
Regional Economics

Mr Peter Mullins,
Australian Taxation Office

Mr Ken Oliver,
Department of Education, Employment
and Workplace Relations

Ms Jocelyn Pech PSM,
Australian Fair Pay Commission
Secretariat

Ms Julia Perry,
Social policy analyst

Associate Professor Jeff Pope,
Curtin University

Professor John Quiggin,
University of Queensland

Mr Matthew Ryan,
Taxation policy consultant

Dr Julie P Smith,
Australian National University

Associate Professor Michael Walpole,
Atax, University of New South Wales

Professor Peter Whiteford,
University of New South Wales

Honorary Associate Professor Judy Yates,
University of Sydney

Consultants

The Review commissioned a range of consultancies to provide advice, including the review of the content of this report and communications advice.

Colmar Brunton Social Research — for the facilitation and conduct of public meetings and focus groups

Mark Dando, Jeff Fitzgibbon, Wendy Hamilton — for communication advice and editing services

Professor John Freebairn (University of Melbourne) — for review and advice on draft content of the final report

David Glynne Jones — for advice on service delivery trends and input to the Client Experience Reference Group

Melbourne Institute of Applied Economic and Social Research — for hosting the Tax and Transfer Policy Conference

Andrew Robertson — for advice on longevity risks

Ken Spence of Greenwoods and Freehills — for review and advice on draft content of the final report

Other contributors and commentators

The following contributors reviewed draft content or provided information or advice during the Review.

John Austen, Infrastructure Australia

Donna Ah Chee, Central Australian Aboriginal Congress

Professor John Braithwaite, Australian National University

Dave Elsmore, Queensland Philatelic Federation

Dr Mark Harvey, Bureau of Infrastructure, Transport and Regional Economics

Professor Christopher Heady, OECD

Professor Flavio Menezes, University of Queensland

Sean O'Shannassy, NSW Road Traffic Authority

Professor John Quiggin, University of Queensland

Tony Richards, Reserve Bank of Australia

Paul Roe, Infrastructure Australia

Ben Smith, Australian National University

Appendix F: Secretariat and support

A secretariat was established in the Treasury to assist the Review Panel. It consisted of approximately 35 staff, drawn from within the Treasury, the Department of Education, Employment and Workplace Relations, the Department of Families, Housing, Community Services and Indigenous Affairs, the Australian Taxation Office and Centrelink.

The Secretariat was assisted by other areas in the Treasury, a Taskforce set up in the Department of Families, Housing, Community Services and Indigenous Affairs, the Australian Taxation Office and a range of other Commonwealth departments and agencies. It also received assistance from State treasuries.

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Glossary

Term	Definition
Adjusted taxable income	For the purposes of certain means-tested assistance programs, taxable income is adjusted to include other income items, such as fringe benefits, certain tax-exempt foreign income amounts and net investment losses.
Ad valorem tax	A tax that is levied as a percentage of the value of a particular good or service; for example, a 3 per cent royalty on the value of gold production or an 8 per cent tax on the value of an insurance premium.
Allowance for corporate equity (ACE)	A form of business expenditure tax that provides a deduction (allowance) for corporate equity at the corporate level, equivalent to that provided for interest on debt.
Allowance for shareholder equity (ASE)	A form of expenditure tax similar to the allowance for corporate equity that provides a deduction (allowance) for shareholder equity at the shareholder's level.
Allowee	A person who receives an income support allowance (for example, Newstart Allowance or Youth Allowance), rather than a pension, such as the Age Pension or the Disability Support Pension.
Average weekly earnings	Average weekly earnings statistics represent average gross (before tax) earnings of employees. Estimates of average weekly earnings are derived by dividing estimates of weekly total earnings by estimates of number of employees.
Average weekly ordinary time earnings (AWOTE)	Weekly ordinary time earnings refers to one week's earnings of employees for the reference period attributable to award, standard or agreed hours of work. It is calculated before taxation and any other deductions (for example, superannuation, board and lodging), have been made.
Capital income	Earnings from investments and savings, including interest, net rental and business income, capital gains and dividends.
Cash flow tax	A system that taxes the difference between cash receipts and cash outgoings.
Categorical income support	Income support that is paid on the basis of eligibility conditions that divide people into groups. For example, age, disability, caring responsibilities, and those undertaking education or training.
Compliance cost	Expenses incurred in meeting the requirements of legislation or regulations. Compliance costs include a wide range of monetary and non-monetary costs.

Term	Definition
Concessional superannuation contribution	A contribution that has not been taxable as income in the hands of an individual, or for which the person has received a deduction. These contributions are currently taxable within a superannuation fund.
Corrective tax	A tax designed to make markets more efficient by exposing producers and consumers to prices that reflect the costs that they impose on others (such as pollution).
Cut-out point	The level of income or assets that results in a person no longer being eligible for a transfer payment.
Deduction	Losses or outgoings incurred in producing income or running a business that can be used to reduce assessable income.
Deeming	Assuming a rate of return on an asset regardless of its actual rate of return. Used in determining eligibility for some transfer payments.
Depreciation (economic)	The decline in the market value of an asset over its life.
Depreciation (tax)	The decline in value of an asset for taxation purposes, which may differ from economic depreciation.
Distortion	Any action or thing that reduces economic efficiency. Distortions generally arise when private action (such as price-fixing by a cartel), or public action (such as a tax imposed by government), changes an individual's or firm's behaviour.
Dividend imputation	A system that integrates the taxation of companies and shareholders by allowing companies to pass imputation credits (representing tax paid at the company level) to shareholders upon payment of a dividend. This allows the shareholder to take into account any company tax paid in respect of a dividend they receive when calculating their tax liability. For example, if a shareholder has a marginal tax rate of 30 per cent and receives a fully franked dividend (one paid out of earnings that have already been subject to the 30 per cent company income tax), they would not be required to pay any additional personal income tax.
Dividend streaming	A strategy that aims to direct ('stream') dividends with imputation credits attached to those shareholders for whom imputation credits are of most value. For example, as resident shareholders are able to use imputation credits to lower their tax liability while non-resident shareholders cannot, dividend streaming would see profits that have imputation credits attached to them paid to resident shareholders, while profits without imputation credits attached to them would be paid to non-resident shareholders.
Dual income tax	A dual income tax system imposes differential rates of tax on capital and labour income.

Term	Definition
Economic incidence	The individual or entity which bears the final burden of a tax (or receives the benefit of a transfer), after response effects, such as price and wage changes, are taken into account. This is distinct from the legal incidence of the tax or transfer. For example, the legal incidence of a consumption tax is often the supplier of goods and services who is legally required to pay the tax. However, the supplier may be able to factor in the tax they pay into the price of their products or services that they charge to consumers. This results in the consumer paying a higher price for the good or service. In such cases, the consumer bears the economic incidence of the tax through paying higher prices even though it is the supplier that is legally liable to pay all of the tax.
Economic rents	An economic rent is the excess of the return to a factor of production above the amount that is required to sustain the current use of the factor (or to entice the use of the factor). For example, if a worker is paid \$100,000 but would still be willing to work at the same job if they were paid \$75,000, their economic rent would be \$25,000.
Effective life	The period over which a depreciating asset can be used for income-producing purposes.
Effective tax rates (labour taxes)	<p>Effective Marginal Tax Rates (EMTRs) for labour measure the proportion of gross pay lost in taxes and reduced transfer payments due to a small change in gross income (for example, a change of \$1.00).</p> <p>Effective Average Tax Rates (EATRs) for labour are a measure of the proportion of gross pay that is lost to tax or reduced transfer payments due to that gross income.</p>
Effective tax rates (savings and investment)	<p>Effective Marginal Tax Rates (EMTRs) on savings and investment measure the effect of taxation on the return to an investment in a marginal project, which is one that earns no super normal profits.</p> <p>Effective Average Tax Rates (EATRs) for investment measure the effective tax burden on an additional unit of investment. EATRs can be used to examine the tax burden on investments with super normal profits.</p>
Efficiency	<p>Efficiency means making the best use of resources.</p> <p>‘Technical’ or ‘productive’ efficiency means producing as many goods or services as possible from a given set of inputs.</p> <p>‘Allocative’ or ‘economic’ efficiency means putting productive resources (like labour, land or capital), to their highest value use and distributing goods and services to consumers in a way that best satisfies consumer needs and wants.</p>

Term	Definition
Elasticity	A measure of the responsiveness of one variable to changes in another. For example, the 'price elasticity of demand' refers to the percentage change in the amount of a good purchased ('demand') following a percentage change in its price. If the percentage change in demand is more than the percentage change in price, demand is said to be price 'elastic'; if it is less, demand is said to be price 'inelastic'.
Entity	A unit for taxation purposes. Entities include a company, trust, partnership, any unincorporated body or association, and an individual.
Excise	A commodity-based tax levied on the manufacture or production of selected goods in Australia (including liquid fuel, tobacco and some alcoholic beverages). Imported equivalents are subject to an excise-equivalent customs duty.
Excise-equivalent customs duty	An import tariff applied as the equivalent to an internal tax to ensure that goods that would otherwise be subject to excise if manufactured or produced in Australia are subject to the same rate of duty when imported.
Expenditure tax benchmark	A theoretical tax structure that involves levying tax on a person's consumption (or expenditure). Expenditure can be measured in a variety of ways, including as income less net new savings. This benchmark differs from <i>income tax benchmark</i> , by proposing that income from savings not be taxed.
Factor (of production)	An input into the production process. The four broad factors are labour, capital (including plant and equipment, buildings, skills or 'human capital' and know-how, or 'intellectual property'), land (including natural resources), and enterprise (which brings the other factors together in a productive endeavour).
Family payments	Australian Government transfer payments made to parents with dependent children. For example, Family Tax Benefit.
Flow through	A form of integration between an entity (such as a company), and its underlying owners (the shareholders). It can apply to the entire operations of the entity, such that individual shareholders are taken to have earned their relevant share of assessable income of the entity and incurred the relevant share of losses and outgoings.
Foreign direct investment	Foreign investment that conveys a significant degree of influence in the management or control of the entity in which the investment is made. In Australia, an equity interest of 10 per cent or more by a non-resident investor is defined as foreign direct investment.
Free area	The level of income or assets a person can have before a person starts to lose part of their transfer payments.

Term	Definition
Fringe benefits	Benefits received by employees from their employer in respect of employment that are in a different form to salary and wages, such as the use of a car for private purposes.
Gift deductibility	Personal donations to some organisations may be tax deductible where they are: made to a deductible gift recipient; money or a certain type of property; made voluntarily and without material benefit to the donor; and comply with other relevant gift conditions.
Grandfathered	The preservation of the benefits of previous arrangements for those who qualify, while phasing in new arrangements for the future.
Horizontal equity	Horizontal equity refers to people in similar circumstances being treated in a similar way. For instance, by paying a similar amount of tax in the context of the tax system, or receiving a similar level of benefit in the transfer system.
Horizontal fiscal equalisation	The process by which the capacities of sub-national governments to provide services to their citizens are made more equal. In Australia, State governments receive funding from the Commonwealth through the horizontal fiscal equalisation process such that, if each made the same effort to raise revenue from its own sources and operated at the same level of efficiency, each would have the capacity to provide services at the same standards.
Imputed rent	The estimated rent that an owner-occupied dwelling would attract if it was rented at market rates.
Income effect	If the price of a commodity (of any type) rises, there are two effects. Firstly, the real income of people who use it falls. This generally, but not always, causes them to use less of it and/or other goods. This is called the income effect. Secondly, the price of that commodity rises relative to other commodities, causing people to use less of it and more of the other commodities. This is called the substitution effect.
Income support	Transfer payments from government to low-income individuals and families to assist with the cost of living. There are two types of income support payment in the existing Australian transfer system: pensions (for example, the Age Pension or the Disability Support Pension), and allowances, like Newstart Allowance and Youth Allowance. In most cases, pensioners are not expected to work while allowees are expected to work, either immediately or (at least) soon. Pensions are paid at a higher rate than allowances.

Term	Definition
Income tax benchmark	A theoretical tax structure that involves levying tax on all additions to an individual's ability to purchase goods and services in a given period. It taxes both the return from labour and the return from savings. A nominal income tax taxes the entire return from saving. A real income tax taxes only the return from saving in excess of inflation; that is, it taxes additions to the real quantity of goods and services the individual can purchase in a given period.
Intangible assets	Assets that cannot be seen or touched, such as goodwill, patents, software, trademarks and copyright.
Interest withholding tax	A tax levied on interest paid to a non-resident lender. The tax is withheld by the Australian payer on payment of the interest.
Legal incidence	The individual or entity legally liable to pay a tax or receive a transfer bears the legal incidence of the tax or transfer. The legal incidence often differs from the economic incidence (<i>see</i> economic incidence).
Longevity insurance	A product that a person can purchase that will pay them an income until they die.
Market failure	<p>Markets fail when they do not allocate resources efficiently. There are four main causes of market failure:</p> <p>Market power, which arises when a single buyer or seller can exert significant influence over prices or output;</p> <p>Spillovers (sometimes referred to as 'externalities'), which arise when the market does not take into account the effect of economic activity on people not directly involved. For example, a firm may ignore the costs it imposes on others by polluting the environment;</p> <p>Public goods, such as national security, where enjoyment of the good by one person does not reduce the consumption possibilities available to others; and</p> <p>Incomplete or asymmetric information; for example, where an applicant for insurance knows more about the risk that they will make a claim than the insurance company.</p>
Mutual receipts	The receipts that not-for-profit, member-based organisations (such as licensed clubs), collect from trading with their members. These receipts are generally treated as non-assessable, non-exempt income.
Negative gearing	An asset is negatively geared when its interest payments on borrowings used to finance the asset exceed the income it generates, net of other expenses. Negative gearing commonly refers to the ability to deduct such a loss against another source of income, such as wages.

Term	Definition
Not-for-profit organisation (NFP)	An organisation that is not operated for the profit or gain of its individual members, both while the organisation is being carried on, and on its winding up.
Offshore banking unit (OBU)	An offshore banking unit provides financial intermediation services between non-residents. OBUs are concessionally taxed on such income, (currently subject to an effective tax rate of 10 per cent), and are entitled to withholding tax concessions.
Offset	Tax offsets directly reduce the amount of tax paid. They are different from deductions, which reduce total assessable income. Tax offsets were previously known as rebates. They can be non-refundable (that is, they can reduce a taxpayer's liability to zero, but cannot result in a refund), or refundable.
Operating costs	The administration and compliance costs associated with a tax.
Ordinary income	<p>In the tax system, ordinary income is an income measure that describes earnings such as income from labour or the return on investment, such as interest, dividends or rent.</p> <p>In the transfer system, ordinary income is an income measure used to determine eligibility for pensions and allowances. This is broader than the tax definition as, generally, it does not allow for deductions, salary sacrificed amounts and fringe benefits.</p>
Participation	Labour force participation is people in work or looking for work. The labour force participation rate is the labour force as a percentage of the civilian population aged 15 years and over.
Participation tax rate (PTR)	The proportion of gross pay lost in taxes and reduced transfer payments when a person takes up paid employment.
Personal use asset	An asset other than a collectable that is used or kept mainly for personal use or enjoyment.
Petroleum Resource Rent Tax (PRRT)	The petroleum resource rent tax applies to all petroleum projects in offshore areas, other than certain production licences subject to the excise and royalty regime. It is applied to super normal profits derived from the recovery of petroleum in a project.
Portfolio investment	Investment (including loans), that does not convey a significant degree of influence in the management or control of the entity in which the investment is made. In Australia, a foreign portfolio equity investment is defined as one where the non-resident investor has an equity interest of less than 10 per cent.
Post-tax contribution	A superannuation contribution made by a person from income on which they have already paid tax.
Productivity	The amount of goods or services that can be produced from a given set of inputs. Productivity rises when more outputs can be produced from a given number of inputs.

Term	Definition
Profit-based royalty	A royalty levied on the net cash flow or some other measure of the profit of a project.
Profit shifting	Shifting the location of profit between entities, which are typically in different countries, without corresponding changes in real activity.
Progressive taxation	Where the average rate of tax increases as income increases.
Property rights	Rights that an individual or a legal entity like a company enjoy in relation to any 'thing'; for example, the right to use (but not to sell) a particular piece of land or the right to use (and to sell) a chair.
Public good	A good where the enjoyment of that good by one person does not reduce the consumption possibilities available to others. For example, one person receiving a benefit from national defence does not reduce the ability of others to enjoy such benefits. Public goods have the characteristics of being 'non-rivalrous' – consumption of the good by one individual does not reduce availability of the good for consumption by others – and 'non-excludable' – no-one can be effectively excluded from using the good.
Rebateable employer	A non-government, non-profit organisation that is currently eligible for a rebate of 48 per cent of the amount of fringe benefits tax that would otherwise be payable.
Regressive taxation	Where the average rate of tax decreases as income increases.
Resource rent tax	A tax that applies to the super normal profits, or economic rent of a resource project.
Rulings	The Commissioner of Taxation's statements about how the tax law applies in particular cases. They include public rulings which apply to taxpayers generally, or to a class of taxpayers, and private rulings which apply to a particular taxpayer. Tax law rulings are usually legally binding on the Commissioner.
Social costs	The total costs of an activity. This includes the private cost as well as the spillover or external cost imposed on people who are not directly involved in the activity.
Specific royalty	An output-based royalty that is levied as a set charge per physical unit of production; for example, \$1.00 per tonne of marble.
Spillover	A spillover (sometimes referred to as an 'externality'), occurs when the actions of an individual or firm impose involuntary costs (or benefits) on others. That is, in addition to the private costs and benefits that accrue to the decision-maker, some costs and benefits can 'spill over' on to others.
Substitution effect	<i>See</i> Income effect.
Tangible assets	Assets that can be seen or touched, such as an oven or a building.

Term	Definition
Tax base	The tax base is the assessed value upon which a tax is levied; for example, taxable income.
Tax expenditure	A tax concession that provides a benefit to a specified activity or class of taxpayer.
Tax wedge	An economic distortion caused by a particular tax measure. For example, a tax on labour results in a wedge between the gross amount that the employer pays and the take-home pay the employee actually receives.
Thin capitalisation	An entity is thinly capitalised where it uses a high level of debt, relative to equity, to finance assets.
Transfer	A transfer is a direct government payment, grant, or in-kind benefit made to an individual or a family based on certain eligibility criteria, rather than being made in return for goods or services. State governments also provide transfers, including through concessions.
Transfer payment	A transfer payment provides direct financial assistance to individuals or families who are unable, or are not expected, to fully support themselves.
Transfer pricing	The practice of pricing related party transactions in a way that artificially shifts profits between the parties.
Trust	A trust exists when a person (the trustee) holds property on behalf of others (the beneficiaries) who are intended to benefit from the property or income of that property.
Untaxed fund	A superannuation fund that does not pay tax on some, or all, of its contributions and earnings.
Vertical equity	Vertical equity is the principle that people with low means should receive greater assistance than those with higher means, and that those with greater economic capacity should have a higher tax burden.
Vertical fiscal imbalance	The situation in a federation where the capacity of different levels of government to raise revenues does not match their expenditure responsibilities.
Volumetric taxation	A tax based on the volume of a product (for example, litres of alcohol), rather than its price.
Wealth tax	Wealth taxes can be either recurrent or levied on transfers between one party and another (for example, bequest and gift taxes). A recurrent wealth tax is levied on the entire wealth of a household or business. A tax on a specific asset class, like a land tax, is a property tax but not a wealth tax.
Withdrawal rate	The rate (also known as a 'taper rate'), at which government assistance is reduced as private income or assets increase.

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