CHAPTER 3: REVENUE GAIN ESTIMATES OF TAX EXPENDITURES

3.1 Introduction

The revenue gain approach is often considered an alternative to the revenue forgone approach used to produce the tax expenditure estimates in Chapter 2. This is because the revenue gain estimates for individual tax expenditure items are thought to be comparable to estimates of the revenue impact of budget measures.

This statement presents Treasury estimates of the revenue gain from ten of the largest tax expenditure items. Estimates for the revenue gain from the CGT concessions for housing and the CGT discount for individuals and trusts have not been quantified because those estimates are either very small and uncertain (housing) or because of the significant uncertainty regarding the magnitude of response effects to a change (CGT discount).

There are considerable practical difficulties in producing estimates of the value of tax expenditures on a revenue gain approach for all 355 tax expenditures identified in this statement.

- As there are no Government decisions to remove tax concessions, estimating the revenue gain from doing so requires the making of ad hoc policy assumptions. While the revenue gain estimates use a standard policy specification as far as possible, the estimates presented only represent one of a range of possible policy outcomes.

- Estimating revenue gain requires information about existing taxpayer behaviour and the behavioural responses of taxpayers to policy changes for each estimate. In most cases this information is not available and assumptions need to be made to arrive at an estimate.

- Calculating comprehensive revenue gain estimates that provide a reliable estimate of aggregate tax expenditures would require the specification of assumptions regarding the order in which tax expenditures are removed and how activity would flow to alternative concessions.

In this statement, revenue gain estimates are being provided for ten of the largest tax expenditures.[1] These tax expenditures have been chosen because they best illustrate

1 Ranked according to their revenue forgone estimates.

the considerable differences that can arise between estimates calculated on the revenue forgone basis and those prepared on the revenue gain basis, and how those differences can vary between tax expenditure items.

3.2 Standard assumptions for the revenue gain estimates

The tax expenditures listed below have been estimated using both the revenue gain and revenue forgone approaches. The revenue gain estimates all assume that the tax expenditures:

- are removed with effect from 1 July 2013;
- apply prospectively to transactions entered into after that date; and
- include other specific assumptions concerning likely policy specifications for the removal of each concession as set out in the description.

The revenue gain estimates also incorporate the impact of direct behavioural responses from the change where these are expected to have a significant impact on the estimates. The revenue gain estimates do not include any allowance for second round effects (that is, those arising from the flow-on of a change, beyond those directly affected, into the wider economy) because of the considerable uncertainty regarding the magnitude and timing of such impacts.

3.3 Guide to revenue gain estimate descriptions

The descriptions of the revenue gain estimates in this chapter present the revenue forgone and revenue gain estimates for a four year period for comparison. A brief outline of the reasons for any difference in the estimates is then provided.

Reference code

A	Personal income
B	Business income
C	Retirement income
D	Fringe benefits tax
E	Capital gains tax
F	Commodity tax
G	Natural resource tax
H	Goods and services tax
I	Carbon pricing mechanism

Tax expenditure title

Tax expenditure estimates
- nil
.. not zero, but rounded to zero
* estimate is not available

A1: Title of the tax expenditure

Estimates	Revenue forgone estimate ($m)				Revenue gain estimate ($m)			
	2013-14	**2014-15**	**2015-16**	**2016-17**	**2013-14**	**2014-15**	**2015-16**	**2016-17**
Reason for difference	Brief reasons including assumptions							

3.4 Tax expenditures based on revenue gain approach

C6: Superannuation — concessional taxation of superannuation entity earnings

Estimates	Revenue forgone estimate ($m)				Revenue gain estimate ($m)			
	2013-14	**2014-15**	**2015-16**	**2016-17**	**2013-14**	**2014-15**	**2015-16**	**2016-17**
	16,100	18,450	21,700	24,100	14,100	15,250	17,250	18,150

Reason for difference: It is assumed current preservation rules remain. In the accumulation phase voluntary concessional contributions are assumed to cease (as in C5) and most non-concessional contributions are also not invested in superannuation after the start date. Over time this reduces the superannuation asset base and thus the revenue gain on withdrawing the earnings tax concession. Additionally, a significant proportion of funds in the retirement phase (not preserved) are withdrawn. Because of other tax concessions for older Australians (particularly the Senior Australians Pensioner and Tax Offset), the funds withdrawn attract minimal tax in the new investments chosen.

C5: Superannuation — concessional taxation of employer contributions

Estimates	Revenue forgone estimate ($m)				Revenue gain estimate ($m)			
	2013-14	**2014-15**	**2015-16**	**2016-17**	**2013-14**	**2014-15**	**2015-16**	**2016-17**
	16,000	17,800	19,150	20,700	13,550	14,900	16,000	17,350

Reason for difference: It is assumed that the Superannuation Guarantee remains and therefore compulsory contributions continue. Voluntary contributions are assumed to be directed to alternative tax preferred investments. Because more voluntary contributions come from those with higher marginal tax rates, the average tax rate for residual compulsory contributions is lower.

H29: GST — Food; uncooked, not prepared, not for consumption on premises of sale and some beverages

Estimates	Revenue forgone estimate ($m)				Revenue gain estimate ($m)			
	2013-14	**2014-15**	**2015-16**	**2016-17**	**2013-14**	**2014-15**	**2015-16**	**2016-17**
	6,200	6,500	6,800	7,100	6,100	6,300	6,600	6,900

Reason for difference: Removing the GST exemption applicable to certain types of food would be expected to decrease demand for those items. However, the impact of this behavioural response is expected to be small as demand for GST-free food is likely to be relatively unresponsive to changes in price.

H16: GST — Education

Estimates	Revenue forgone estimate ($m)				Revenue gain estimate ($m)			
	2013-14	**2014-15**	**2015-16**	**2016-17**	**2013-14**	**2014-15**	**2015-16**	**2016-17**
	3,700	4,050	4,400	4,850	3,300	3,650	4,000	4,350

Reason for difference: Removing the GST exemption for education would be expected to decrease demand for education services. This is primarily due to an expected fall in demand for private education and ‘discretionary courses’.

H19: GST — Health; medical and health services

Estimates	Revenue forgone estimate ($m)				Revenue gain estimate ($m)			
	2013-14	**2014-15**	**2015-16**	**2016-17**	**2013-14**	**2014-15**	**2015-16**	**2016-17**
	3,400	3,600	3,900	4,150	3,350	3,550	3,850	4,100

Reason for difference: Removing the GST exemption for medical and health services would be expected to decrease demand for those services. However, the impact of this behavioural response is expected to be small as demand for medical and health services is likely to be relatively unresponsive to changes in price.

H2: GST — Financial supplies; input taxed treatment

Estimates	Revenue forgone estimate ($m)				Revenue gain estimate ($m)			
	2013-14	**2014-15**	**2015-16**	**2016-17**	**2013-14**	**2014-15**	**2015-16**	**2016-17**
	3,300	3,450	3,650	3,850	3,300	3,450	3,650	3,850

Reason for difference: Removing the input taxed treatment of financial services is not expected to materially impact the demand for these services. This is because of the relatively small increase in the price of financial services that would result from applying the normal GST rules and the lack of substitutable services that are available.

F25: Customs duty

Estimates	Revenue forgone estimate ($m)				Revenue gain estimate ($m)			
	2013-14	**2014-15**	**2015-16**	**2016-17**	**2013-14**	**2014-15**	**2015-16**	**2016-17**
	-3,000	-2,870	-2,750	-2,900	-3,000	-2,870	-2,750	-2,900

Reason for difference: Under the customs duty benchmark, goods imported into Australia are free from customs duty except to the extent that the duty is equivalent to taxes imposed on domestically produced goods. Bringing the customs duty tax expenditure in line with the benchmark would remove the revenue currently collected from tariffs on imports (which is reported as a negative tax expenditure). While the change may increase demand for imported goods, this would have no impact on customs duty revenue once the tax rate has been reduced to zero.

C3: Concessional taxation of non-superannuation termination benefits

Estimates	Revenue forgone estimate ($m)				Revenue gain estimate ($m)			
	2013-14	**2014-15**	**2015-16**	**2016-17**	**2013-14**	**2014-15**	**2015-16**	**2016-17**
	2,450	1,800	1,750	1,750	2,450	1,800	1,750	1,750

Reason for difference: As this tax expenditure relates to termination of employment (including cases such as redundancy), it is expected that employees would have limited capacity to alter their employment status if the tax treatment changed. As a result there is expected to be no material difference between the revenue forgone and revenue gain estimates.

A42: Exemption of Family Tax Benefit, Parts A and B

Estimates	Revenue forgone estimate ($m)				Revenue gain estimate ($m)			
	2013-14	**2014-15**	**2015-16**	**2016-17**	**2013-14**	**2014-15**	**2015-16**	**2016-17**
	2,080	2,180	2,240	2,290	2,080	2,180	2,240	2,290

Reason for difference: Removing the exemption of Family Tax Benefit, Parts A and B could be expected to result in a change in labour force participation; however, the size of the effect is uncertain and has not been quantified. As a result there is no difference between the revenue forgone and revenue gain estimates.

B16: Exemption from interest withholding tax on certain securities								
Estimates	Revenue forgone estimate ($m)				Revenue gain estimate ($m)			
	2013-14	2014-15	2015-16	2016-17	2013-14	2014-15	2015-16	2016-17
	1,800	1,820	1,820	1,820	1,270	1,330	1,250	1,250
Reason for difference	Removing the exemption from interest withholding tax on certain securities would be expected to result in some borrowers switching to other forms of exempt borrowings, resulting in no revenue gain. In addition, some interest payments may be increased to cover the tax, leading to increased income tax deductions.							