

5.1 Introduction

Tax expenditure estimates and projections are reported in Table 5.1. All estimates refer to the annual benefits derived by the recipients of each tax expenditure, reported in millions of dollars. Further detail of each tax expenditure is provided at Appendix A, including legislative references and, in some cases, an expanded description and discussion of the estimates.

Only tax expenditures that relate to Commonwealth taxes are reported in Table 5.1. As the GST is imposed and collected by the Commonwealth on behalf of the States and Territories this Statement does not cover GST.

Estimates reflect the year the concession impacts on revenue, rather than the year in which the concession is accessed. Furthermore, the timing of the impact is based on the tax payment arrangements that apply under *The New Tax System* and *The New Business Tax System* (including for years prior to the commencement of the new payment arrangements). This approach allows more meaningful comparisons to be made of movements in the tax expenditure estimates since only variations in tax rates, and the extent to which the tax expenditures are being accessed, are reflected in the estimates.

In many cases, it is difficult to estimate the value of certain tax expenditures because of a lack of data. These tax expenditures are identified either by 'na' or a broad indication of the order of magnitude (for example: <5, which indicates that the magnitude of the tax expenditure is likely to be less than \$5 million).

5.2 Accrual estimates

The Commonwealth Government has completed a phased transition from cash to accrual budgeting. Historically, cash accounting has underpinned the production of public accounts. This TES is the third to be prepared on an accrual basis¹ using the tax liability method (TLM) of revenue recognition.

The fundamental distinction between cash and accrual accounting centres on timing—cash accounting records the transaction when the cash is exchanged, whereas accrual indicators record a financial flow at the time economic value is created, transformed, exchanged, transferred or extinguished, whether or not cash is exchanged at the time.

Under the TLM method of revenue recognition, the Commonwealth is deemed to have accrued revenue at the time a taxpayer makes a self-assessment or when an assessment of tax liability is raised by the Australian Taxation Office or the Australian Customs Service. In many instances,

1 Government Finance Statistics (GFS) basis.

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this method retains elements of cash revenue recognition, for example where assessment and payment occur at the same time.

- An alternative method of revenue recognition is the economic transaction method (ETM), under which the Commonwealth is deemed to have accrued revenue at the time the relevant economic or financial transaction occurs. For example, company tax would be accrued in the year a company earned the income rather than when the tax assessment is issued and payment is required (which can be up to eighteen months later).
- In principle, ETM is generally more consistent with accrual accounting principles. However, with respect to tax revenue, the Commonwealth, at this stage, considers that the TLM provides a more robust and reliable basis for forecasting revenue than ETM.

The introduction of accrual budgeting required a minor modification to the terminology used to describe government expenditure, referred to as *outlays* under cash budgeting. The term *outlays* is generally applied to cash payments. Under accrual accounting, the equivalent concept is *expenses*. Expenditure is a neutral term that does not necessarily apply to one accounting basis or the other.

Abbreviations and notation for Table 5.1

The following notations are used:

-	nil
..	not zero, but rounded to zero
na	estimate is not available
nec	not elsewhere classified
\$m	\$ million
<X	estimate is less than X million dollars

The column titles of Table 5.1 are described below.

- The **Index** column reports tax expenditure reference codes, which provide a unique identifier for each tax expenditure to facilitate cross-referencing with the additional information provided in Appendix A. Reference codes include a letter that denotes the part of the benchmark that corresponds to each tax expenditure and a number that denotes the order of each tax expenditure in Table 5.1. Letters that denote parts of the benchmark are as follows:

A	Personal income tax benchmark
B	Retirement benefits benchmark
C	Fringe benefits tax benchmark
D	Business tax benchmark
E	Excise duty benchmark

- The **Functional Group** column allocates each tax expenditure to a functional group. Aggregates for each group are reported in Table 2.2.
 - A capital letter in parentheses (following a function name) denotes the relevant sub-function listed in Table 2.2. For example 'General public services (A)' refers to the Table 2.2 reference 'General public services', sub-function 'A. Legislative and executive affairs'.
- The **Description** column provides a brief outline of the nature of the exemption. A list of abbreviations used in these descriptions is provided at the front of this Statement.
- Tax expenditure costings are separated into estimates (for historical years) and projections (for future years). The 2001-02 figures are preliminary only and are subject to revision on receipt of further tax data for this year.

