APPENDIX B: CHANGES TO TAX EXPENDITURES IN 2011

This Appendix provides an outline of the changes to the list of tax expenditures since the 2010 Tax Expenditures Statement. Since the 2010 TES, 27 new tax expenditures have been added, 32 tax expenditures have been modified and 12 tax expenditures have been deleted.

B.1 NEW TAX EXPENDITURES

Table B.1 reports new tax expenditure items arising from measures that have been announced since the 2010 TES up to the date of the *Mid-Year Economic and Fiscal Outlook 2011-12*. The table also reports existing measures that were not previously reported as tax expenditures, but which have been recently identified as tax expenditures.

Table B.1: New tax expenditures

TES code	Tax expenditure description	Reason for new tax expenditure
INCOME TAX		
Personal income		
A30	A temporary flood and cyclone reconstruction levy will apply from 1 July 2011 to contribute towards the cost of rebuilding flood and cyclone affected regions.	New policy measure reported in the 2011-12 Budget.
A38	For the 2011-12 income year the lowest marginal tax rate will be reduced from 29 per cent to 15 per cent for non-resident workers employed under the Government's Pacific Seasonal Worker Pilot Scheme. The new rate will apply from the first dollar of income up to $37,000.	New policy measure reported in the 2011-12 Budget.
Business income		
B7	Certain portfolio investment income of foreign managed funds is exempt from Australian tax in specified circumstances.	New policy measure reported in the 2011-12 Budget.
B27	Income tax losses of a designated infrastructure project will be uplifted at the government bond rate and exempt from the loss utilisation tests — the continuity of ownership test and the same business test.	New policy measure reported in the 2011-12 Budget.

Table B.1: New tax expenditures (continued)

TES code	Tax expenditure description	Reason for new tax expenditure
B50	An income tax exemption, royalty withholding tax exemption, accelerated depreciation and roll-over relief will be available to qualifying Australian ship owners.	New policy measure reported in the 2011-12 Mid-Year Economic and Fiscal Outlook.
B51	A refundable tax offset will be available to qualifying companies that employ qualifying Australian seafarers on overseas voyages for at least 91 days in the income year.	New policy measure reported in the 2011-12 Mid-Year Economic and Fiscal Outlook.
B83	From 1 April 2010, payments received under eligible Sustainable Rural Water Use and Infrastructure Program agreements will be treated as non-assessable non-exempt income.	New policy measure reported in the 2011-12 Budget.
Capital Gains Tax		
E3	A capital gains tax (CGT) exemption is available for assets transferred into a special disability trust (SDT) for no consideration. In addition, an SDT can access the CGT main residence exemption.	New policy measure reported in the 2011-12 Budget, and a reporting modification.
E8	Taxpayers participating in an Australian government agency program that provides replacement assets to those affected by a natural disaster may access a CGT exemption on their original assets that are replaced, and obtain a market value cost base for their new asset.	New policy measure reported in the 2011-12 Mid-Year Economic and Fiscal Outlook.
E12	Capital gains and losses arising from a right to a financial incentive granted to taxpayers under an Australian government (Commonwealth, State or Territory) scheme that encourages the acquisition of renewable resource assets or the preservation of Australia's environmental amenity are exempt from capital gains tax.	New policy measure reported in the 2011-12 Budget.
INDIRECT TAXES		
Commodity and other indirect taxes		
F4	Those who relocate as part of the new arrangements for the 400 MHz band are eligible for a 50 per cent reduction in the apparatus licence tax component of the annual licence fee. Licensees will also be eligible to hold two assignments for a period of up to six months but charged the equivalent of one licence.	Existing measure not previously recognised as a tax expenditure.

Table B.1: New tax expenditures (continued)

TES code	Tax expenditure description	Reason for new tax expenditure
Natural resources taxes		
G1	Refunds of the tax value of project losses when the project has closed down are denied under the Minerals Resource Rent Tax (MRRT).	New tax expenditure arising from a measure reported in the 2010-11 Mid-Year Economic and Fiscal Outlook.
G2	A low profit offset applies to offset the MRRT payable on mining profits up to $75 million, phasing out for profits from $75 million to $125 million.	New tax expenditure arising from a measure reported in the 2010-11 Mid-Year Economic and Fiscal Outlook.
G3	Under the MRRT losses, other than those attributable to the starting base allowance, are uplifted at the long term bond rate plus 7 per cent rather than the benchmark rate which is the long term bond rate.	New tax expenditure arising from a measure reported in the 2010-11 Mid-Year Economic and Fiscal Outlook.
G4	Unused MRRT royalty credits are uplifted at the long term bond rate plus 7 per cent.	New tax expenditure arising from a measure reported in the 2010-11 Mid-Year Economic and Fiscal Outlook.
G5	Under the MRRT, existing investments are recognised through the provision of a starting base allowance. Starting base losses are upliftable.	New tax expenditure arising from a measure reported in the 2010-11 Mid-Year Economic and Fiscal Outlook.
G6	Under the expanded Petroleum Resource Rent Tax (PRRT) regime, the North West Shelf will become subject to PRRT however crude oil excise will still be payable and will be credited against any PRRT liability.	New tax expenditure under a revised benchmark to apply from 1 July 2012.
G8	Under the PRRT regime, no refund of the tax value of losses is available when the project closes down.	New tax expenditure under a revised benchmark to apply from 1 July 2012.
G9	Under the PRRT regime, expenditure is uplifted at a number of different rates depending on the when the expenditure took place and the nature of the expenditure. Most of these rates are beyond the benchmark rate of the long term bond rate.	New tax expenditure under a revised benchmark to apply from 1 July 2012.
G12	Under the expanded PRRT regime, the North West Shelf will be able to deduct a starting base equivalent to the market value of the project at 2 May 2010.	New tax expenditure under a revised benchmark to apply from 1 July 2012.
Goods and Services Tax		
H28	Supplies of carbon units and other eligible emissions units will be GST-free, subject to the agreement of the States and Territories.	New policy measure reported in the 2011-12 Mid-Year Economic and Fiscal Outlook.

Table B.1: New tax expenditures (continued)

TES code	Tax expenditure description	Reason for new tax expenditure
Carbon Pricing Mechanism		
I1	Entities emitting greenhouse gases below a threshold (typically 25,000) tonnes per year will not be liable under the carbon pricing mechanism.	New benchmark reflecting new policy measure reported in the 2011-12 Mid-Year Economic and Fiscal Outlook.
I2	Deforestation activity is to be excluded from the carbon pricing mechanism.	New benchmark reflecting new policy measure reported in the 2011-12 Mid-Year Economic and Fiscal Outlook.
I3	Emissions from synthetic greenhouse gases imported or produced prior to 1 July 2012 are excluded from the carbon pricing mechanism.	New benchmark reflecting new policy measure reported in the 2011-12 Mid-Year Economic and Fiscal Outlook.
I4	Emissions that arise from landfill waste deposited prior to 1 July 2012 are excluded from the carbon pricing mechanism.	New benchmark reflecting new policy measure reported in the 2011-12 Mid-Year Economic and Fiscal Outlook.
I5	Agricultural entities are excluded from the carbon pricing mechanism regardless of entity emissions.	New benchmark reflecting new policy measure reported in the 2011-12 Mid-Year Economic and Fiscal Outlook.
I6	Fugitive emissions from decommissioned coal mines are excluded from the carbon pricing mechanism.	New benchmark reflecting new policy measure reported in the 2011-12 Mid-Year Economic and Fiscal Outlook.

B.2 MODIFIED TAX EXPENDITURES

Table B.2 reports tax expenditures that have been modified since they were last reported in the 2010 TES (the respective tax expenditure reference codes from this Statement and the 2010 TES are shown in the first two columns of the table).

Modified tax expenditures refer to tax expenditures that have changed materially, for example because of a change to the benchmark, a decision to remove a tax expenditure in a certain year, an amalgamation or split of tax expenditures, or the inclusion of a new element to an existing tax expenditure.

Table B.2: Modified tax expenditures

TES code			
2011	2010	Modification to the tax expenditure	Nature of modification
INCOME TAX			
Personal income			
A3	A3, A4	Exemption of income earned by Australians working in a foreign country (A4 in the 2010 TES) has been merged with Exemption of income earned by Australians from working on approved overseas projects (A3 in the 2010 TES).	Reporting modification.
A32	A33	From 2012-13, the Senior Australian Tax Offset will be combined with the Pensioners' Tax Offset into the new Senior Australians' and Pensioners' Tax Offset.	Modification to an existing tax expenditure as a result of a policy measure reported in the 2011-12 Mid-Year Economic and Fiscal Outlook.
A34	A35	From 2012-13, the Pensioners' Tax Offset will be combined with the Senior Australian Tax Offset into the new Senior Australians' and Pensioners' Tax Offset.	Modification to an existing tax expenditure as a result of a policy measure reported in the 2011-12 Mid-Year Economic and Fiscal Outlook.
A35	A36	The dependent spouse tax offset is being phased out.	Modification to an existing tax expenditure as a result of policy measures reported in the 2011-12 Budget and Mid-Year Economic and Fiscal Outlook.
A47	A42, A43, A10	Exemption of certain pensions, annuities or allowances paid for persecution (A42) and Exemption of certain rehabilitation and compensation payments (A10) have been merged with Exemption of certain war-related payments and pensions (A43).	Reporting modification.
A60	A61	The discount on interest income will now commence on 1 July 2013 rather than 1 July 2012.	Modification to an existing tax expenditure as a result of a policy measure reported in the 2011-12 Mid-Year Economic and Fiscal Outlook.

Table B.2: Modified tax expenditures (continued)

TES code 2011	TES code 2010	Modification to the tax expenditure	Nature of modification
A63	A64	Minors can no longer access the low income tax offset to reduce tax payable on their 'unearned income'. This increases the effective impact of the higher tax rates on the 'unearned income' of minors.	Modification to an existing tax expenditure as a result of a policy measure reported in the 2011-12 Budget.
A65	A67, A66	Philanthropy — Deduction for gifts to deductible gift recipients where the donor receives a minor benefit (A67 in the 2010 TES) has been merged with Philanthropy — Deduction for gifts to deductible gift recipients (A66 in the 2010 TES).	Reporting modification.
A67	A69	The standard deduction will now commence on 1 July 2013 rather than 1 July 2012.	Modification to an existing tax expenditure as a result of a policy measure reported in the 2011-12 Mid-Year Economic and Fiscal Outlook.
Business income			
B18	B18	Phasing down the interest withholding tax on financial institutions will now commence in 2014-15 rather than 2013-14.	Modification to an existing tax expenditure as a result of a policy measure reported in the 2011-12 Mid-Year Economic and Fiscal Outlook.
B34	B32	The rate of the Location Offset has been increased to 16.5 per cent, and the Post, Digital and Visual Effects Offset has been increased to 30 per cent.	Modification to an existing tax expenditure as a result of a policy measure reported in the 2011-12 Budget.
B54	B55	The Entrepreneurs' Tax Offset will be abolished from the 2012-13 income year.	Modification to an existing tax expenditure as a result of a policy measure reported in the 2011-12 Budget.
B66	B68	There will be no income tax consequences arising from a resettlement where a managed investment trust (MIT) changes its trust deed to meet the clearly defined rights requirement under the new MIT tax system (which is deferred to 1 July 2013).	Modification to an existing tax expenditure as a result of policy measures reported in the 2011-12 Budget and Mid-Year Economic and Fiscal Outlook.
B72	B20, B60, B65	Exemption for superannuation funds that invest through Pooled Development Funds in venture capital (B65 in the 2010 TES) has been merged with Concessional tax treatment for Pooled Development Funds (B60 in the 2010 TES).	Reporting modification.
B90	B91, B92	Deduction for expenditure on environmental impact studies (B92 in the 2010 TES) has been merged with Deduction for environmental protection activities (B91 in the 2010 TES).	Reporting modification.
B101	B102	The new Research and Development (R&D) Tax Incentive now commences on 1 July 2011 rather than 1 July 2010. The old R&D Tax Concession will continue to apply to income years commencing prior to 1 July 2011.	Modification to an existing tax expenditure as a result of a policy measure reported in the 2011-12 Mid-Year Economic and Fiscal Outlook.

Table B.2: Modified tax expenditures (continued)

TES code			
2011	2010	Modification to the tax expenditure	Nature of modification
B105	B106	The new R&D Tax Incentive now commences on 1 July 2011 rather than 1 July 2010. The old R&D Tax Concession will continue to apply to income years commencing prior to 1 July 2011.	Modification to an existing tax expenditure as a result of a policy measure reported in the 2011-12 Mid-Year Economic and Fiscal Outlook.
B106	B108	From the 2012-13 income year, small business will be able to immediately write-off all assets costing less than $6,500. They will also be able to write-off up to $5,000 of motor vehicles purchased from the 2012-13 income year.	Modifications to an existing tax expenditure as a result of policy measures reported in the 2011-12 Budget and Mid-Year Economic and Fiscal Outlook.
B109	B111	The bonus tax deduction under the Tax Breaks for Green Buildings will now commence on 1 July 2012 rather than 1 July 2011.	Modification to an existing tax expenditure as a result of a policy measure reported in the 2011-12 Budget.
Retirement savings			
C5	C5	From 1 July 2012, individuals aged 50 and over with total superannuation balances below $500,000 will be able to receive concessional taxation treatment on up to $50,000 of concessional contributions per annum. This is $25,000 above the general cap of $25,000 that is scheduled to apply from 1 July 2012.	Modification to an existing tax expenditure as a result of a policy measure reported in the 2011-12 Mid-Year Economic and Fiscal Outlook.
C11	C11	Eligible individuals may opt to have excess concessional contributions taken out of their super fund and assessed as income at their marginal rate of tax, rather than incurring excess contributions tax.	Modification to an existing tax expenditure as a result of a policy measure reported in the 2011-12 Budget.
Fringe Benefits Tax			
D18	D18	The statutory rates for determining the taxable value of car fringe benefits have been replaced with a single rate of 20 per cent that applies regardless of the distance travelled.	Modification to an existing tax expenditure as a result of a policy measure reported in the 2011-12 Budget.
D45	D45	Only expenses incurred on food, beyond a statutory amount, and accommodation by temporary resident employees who are required to live away from their usual place of residence in Australia to perform their duties of employment are exempt from fringe benefits tax.	Modification to an existing tax expenditure as a result of a policy measure reported in the 2011-12 Mid-Year Economic and Fiscal Outlook.
Capital Gains Tax			
E14	E12, E25	Capital gains tax roll-overs for superannuation entities (E25 in the 2010 TES) has been merged with Capital gains tax — optional roll-over of capital losses for complying superannuation funds (E12 in the 2010 TES).	Reporting modification.
E15	E11, E26	Capital gains tax roll-overs not otherwise recognised (E26 in the 2010 TES) has been merged with Capital gains tax — limited roll-overs for fixed trusts (E11 in the 2010 TES).	Reporting modification.

Table B.2: Modified tax expenditures (continued)

TES code 2011	TES code 2010	Modification to the tax expenditure	Nature of modification
INDIRECT TAXES			
Commodity and other indirect taxes			
F2	B49	Moved from the business income benchmark to the indirect taxes benchmark.	Reporting modification.
F5	B50	Moved from the business income benchmark to the indirect taxes benchmark.	Reporting modification.
F6	B52	Moved from the business income benchmark to the indirect taxes benchmark.	Reporting modification.
F7	F3	An effective carbon price on aviation fuel will be applied from 2012-13 by increasing the excise and excise-equivalent customs duties on aviation gasoline and aviation turbine fuel, determined by the emission factor of each fuel, relative to the carbon emission intensity of each fuel.	Modification to an existing tax expenditure as a result of policy measures reported in the 2011-12 Mid-Year Economic and Fiscal Outlook.
F8	F6	Liquefied petroleum gas, liquefied natural gas and compressed natural gas receive a 50 per cent tax discount on their respective fuel tax rates when they enter the fuel tax system on 1 December 2011. This gives rise to a positive tax expenditure for these fuels, as they will be taxed at a lower rate than their respective benchmark rates.	Modification to an existing tax expenditure as a result of a policy measure reported in the 2011-12 Budget. In addition, minor amendments to the fuel tax benchmark for liquefied natural gas and compressed natural gas were made.
F21	F17	Endorsed public museums and art galleries are eligible to import cars free from the luxury car tax.	Modification to an existing tax expenditure as a result of a policy measure reported in the 2011-12 Budget.
Natural resources taxes			
G13	G3	The revised benchmark applying from 1 July 2012 allows for full loss offset, including by way transferring tax losses among commonly owned projects that are subject to the same tax rate. Consequently, there is no tax expenditure arising from this date.	Modification to an existing tax expenditure as a result of a revised benchmark to apply from 1 July 2012.

B.3 DELETED TAX EXPENDITURES

Table B.3 reports tax expenditures that have been deleted since the 2010 TES. Deleted tax expenditures generally arise because the relevant tax provisions have been abolished or cease to have effect within the reported time horizon of a particular TES. Deleted tax expenditures do not include tax expenditures that have been abolished but are still relevant to some years within the reported time horizon.

Table B.3: Deleted tax expenditures

TES code	Tax expenditure description	Reason for deletion
2010		
INCOME TAX		
Personal income		
A4	Foreign earnings derived by Australians engaged in certain continuous foreign service for 91 days or more is exempt from income tax.	Reporting modification. This exemption has been merged with A3 from the 2010 TES.
A10	Certain payments made under the *Military Rehabilitation and Compensation Act 2004* and the *Australian Participants in British Nuclear Tests (Treatment) Act 2006* are wholly or partly exempt from income tax.	Reporting modification. This exemption has been merged with tax expenditure A43 from the 2010 TES.
A42	From 2001-02, certain foreign source World War II payments are exempt from income tax.	Reporting modification. This exemption has been merged with tax expenditure A43 from the 2010 TES.
A67	Subject to certain conditions, individual taxpayers may claim an income tax deduction for the net amount of contributions made to a deductible gift recipient even though the taxpayer receives an associated minor benefit and the contribution is therefore not a 'gift'.	Reporting modification. This deduction has been merged with A66 from the 2010 TES.
Business income		
B9	Foreign banks could transfer a tax loss of a net capital loss from locally incorporated subsidiaries to their Australian branches. A similar regime applied to non-bank financial entities. Foreign banks were also able to transfer assets and liabilities from their subsidiaries to their branches without creating a tax liability. The concession expired in 2006.	This no longer has an impact over the reported time horizon.
B20	The unfranked portion of a dividend paid by a Pooled Development Fund to a shareholder is exempt from dividend withholding tax and income tax.	Reporting modification. This exemption has been merged with B60 from the 2010 TES.
B65	Superannuation funds and related entities that invest in venture capital through Pooled Development Funds are eligible for certain tax concessions on dividends and capital gains.	Reporting modification. This exemption has been merged with B60 from the 2010 TES.

Table B.3: Deleted tax expenditures (continued)

TES code	Tax expenditure description	Reason for deletion
2010		
B92	Expenditure incurred on an eligible environmental impact study before 1 July 2001 can be deducted over the lesser of 10 years or the life of the project to which it relates.	Reporting modification. This deduction has been merged with B91 from the 2010 TES.
B112	Eligible small businesses were able to access a range of tax concessions including simplified depreciation and trading stock rules.	This no longer has an impact over the reported time horizon.
Retirement savings		
C14	Before 1 July 2007, the part of a superannuation lump sum benefit relating to service before July 1983 was taxed at a lower rate. Only 5 per cent of this part of the benefit was included in the recipient's assessable income and subject to tax at marginal rates.	This no longer has an impact over the reported time horizon.
Capital Gains Tax		
E25	Superannuation entities that merge to meet the requirements of the new superannuation safety requirements (commencing 1 July 2004) will not incur a capital gains tax liability as a result of the merger.	Reporting modification. This roll-over has been merged with E12 from the 2010 TES.
E26	A capital gains tax roll-over is available where a taxpayer transfers an asset (or assets) to a company the taxpayer wholly owns. A capital gains tax roll-over is also available where all the partners in a partnership dispose of their interests in partnership property to a company they wholly own.	Reporting modification. This roll-over has been merged with E11 from the 2010 TES.