Tax Expenditures Statement

2017

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Manager
Communications
The Treasury
Langton Crescent Parkes ACT 2600
Email: medialiaison@treasury.gov.au

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CHAPTER 1: INTRODUCTION

The Tax Expenditures Statement (TES) supplements other Government publications by providing information on Australian Government tax expenditures. The publication of information on the Australian Government's tax expenditures is a requirement under the *Charter of Budget Honesty Act 1998*.

Revenue estimates published in budget papers and the taxation statistics made available by the Australian Taxation Office focus on incomes that are subject to tax and the revenue the Government collects.

The Tax Expenditures Statement (TES) complements this information by primarily focusing on revenue the Government *doesn't* collect: it lists provisions in the tax system that provide a concessional (or punitive) treatment of particular taxpayers or forms of economic activity and, where possible, estimates the loss (or gain) in revenue as a result. It is intended to facilitate scrutiny of tax expenditures by Parliament and parliamentary committees, the media and the general public. Transparent reporting of tax expenditures also helps inform debate on the efficiency and equity of the tax system.

This TES reflects Australian Government policy up to and including the *2017-18 Mid-Year Economic and Fiscal Outlook*.

1.1. What is a tax expenditure?

A tax expenditure arises where the tax treatment of an activity or class of taxpayer differs from the standard tax treatment that applies to similar taxpayers or types of activity.

Tax expenditures typically involve tax exemptions, deductions or offsets, concessional tax rates and deferrals of tax liability.

In order to determine whether a tax expenditure exists and to estimate the value of the tax expenditure it is first necessary to determine what the standard tax treatment or 'benchmark' is.

This choice is inherently subjective, and is therefore judgment based. The benchmark in the TES has been chosen in a way that attempts to apply a consistent tax treatment to similar taxpayers and similar activities. These judgments are informed by long standing features of the tax system, practice in tax expenditure publications in other jurisdictions and consultation with stakeholders. The choice of benchmark should not be interpreted as an indication of the way activities or taxpayers ought to be taxed.

Detailed information on the benchmarks used in the 2017 Tax Expenditures Statement (TES) are outlined in section A.3 of Appendix A: Technical Notes.

1.2. How are tax expenditures estimated?

The majority of estimates included in the Tax Expenditures Statement are provided on what is known as a 'revenue forgone' basis. This is consistent with the approach taken by most OECD countries in their tax expenditure publications.

Revenue forgone estimates reflect the existing utilisation of a tax expenditure and do not incorporate behavioural response to the reduction or removal of the tax expenditure. They measure the difference in revenue between the existing and benchmark tax treatments, assuming taxpayer behaviour is the same. A positive tax expenditure reduces tax payable relative to the benchmark. A negative tax expenditure increases tax payable relative to the benchmark.

The revenue forgone tax expenditure estimates can be found in Chapter 4: Tax expenditures. This chapter also includes a summary of the large measured tax expenditures for 2017-18 as well as an outline of the changes to the list of tax expenditures since the 2016 Tax Expenditures Statement.

Please note:

- these are not estimates of the revenue increase if a tax expenditure is removed;
- estimates should not be added together as reducing one concession would often affect the utilisation of others;
- estimates of the same tax expenditure should not be compared to previous publications because they can be affected by changes in policy, benchmarks, modelling methodology, data or assumptions;
- readers should exercise care when comparing tax expenditure estimates with direct expenditure estimates;
- the reliability of the estimates varies, many estimates are only an indication of the magnitude of the concession;
- some estimates are unquantifiable due to insufficient data to produce a reliable estimate for a tax expenditure item;
- estimates are in nominal dollars – for example, 2017-18 estimates are in 2017-18 dollars and 2018-19 estimates are in 2018-19 dollars; and
- tax expenditure estimates are prepared on an accruals basis.

An alternative approach involves estimating the impact of abolishing a tax expenditure taking account of the potential changes in taxpayer behaviour. This is known as the 'revenue gain' approach. The revenue gain tax expenditure estimates, which are provided for 10 large tax expenditures, can be found in Chapter 5: Revenue gain estimates of tax expenditures.

These estimates take into account behavioural responses and are usually lower than revenue forgone estimates.

Introducing a tax expenditure may create incentives for taxpayers to change their behaviour to utilise (or avoid) the new tax provision. Removing the tax expenditure (so that the benchmark tax treatment prevailed) would remove this incentive and may cause a corresponding change in taxpayer behaviour.

In particular, taxpayers may make greater use of other tax expenditures if a particular tax expenditure were to be (hypothetically) abolished.

For example, a revenue gain estimate for the concessional treatment of employer superannuation contributions would take account of the potential for voluntary employer contributions to be redirected to other tax-preferred investments.

Please note:

- revenue gain estimates should be treated with particular caution;
- revenue gain estimates do not take into account any potential changes in direct expenditure flowing from the removal of a tax expenditure;
- the revenue gain can be difficult to estimate given highly limited information on how taxpayers might react to the removal of a tax expenditure;
- revenue gain estimates assume that a tax expenditure is abolished completely and with immediate effect – transitional arrangements or reduction of the tax expenditure may be more plausible; and
- judgments also need to be made about likely policy settings — for example, whether it is realistic to assess the abolition of a single tax expenditure (for example, a particular GST exemption) while keeping other tax expenditures unchanged (for example, other GST exemptions).

1.3. What else is in the Tax Expenditures Statement?

This year, Treasury ran a consultation process to seek stakeholder views on the presentation and contents of the Tax Expenditures Statement to ensure that the contents of the publication provide a strong and relevant contribution to the public debate on tax policy.

Further information on the consultation process and the changes that Treasury will be making in response to the submissions received can be found in Chapter 2: Consultation on the presentation and contents of the Tax Expenditures Statement.

As part of Treasury's response to this consultation, this year's publication includes a feature chapter on superannuation tax expenditures. This chapter, Chapter 3: Superannuation Tax expenditures, provides information on the data and methodology used to estimate key superannuation tax expenditures and investigates a number of issues that are commonly raised including the choice of benchmark and the implications for the age pension.

Appendix A: Technical Notes provides further technical information regarding the reliability of estimates, how unquantifiable tax expenditures are reported, detailed information about the benchmark tax treatment used in the TES and an overview of the various modelling techniques used to quantify tax expenditure estimates. The descriptions of the tax expenditures assume some familiarity with the benchmark tax treatment outlined in this appendix.

CHAPTER 2: CONSULTATION ON THE PRESENTATION AND CONTENTS OF THE TAX EXPENDITURES STATEMENT

On 3 December 2015, the House of Representatives Committee on Tax and Revenue tabled a report reviewing the Tax Expenditures Statement, which made a number of recommendations focused on improving the statement's contribution to public debate. These recommendations covered topics including the devotion of resources to producing the document, the definition of the benchmark tax system, the data and methods used for quantifying tax expenditures, and the presentation of estimates within the document.

On 29 November 2016, the Government tabled its response to the House Inquiry which supported Treasury and the ATO consulting stakeholders on the recommendations accepted from the report.[1]

This year, Treasury ran a consultation process to seek stakeholder views on the presentation and contents of the TES to ensure that the contents of the TES publication provide a strong and relevant contribution to the public debate on tax policy. The consultation paper, released 18 September 2017, included focus questions on:

- what changes could be made to the process for estimating smaller, technical tax expenditures including reviewing them less frequently and reporting them as a range;
- the choice of benchmark tax system, with a focus on the benchmark for tax expenditures for income from savings and for owner-occupied housing, and principles or standards that could be used to determine the benchmark;
- how Treasury can improve the visibility and accessibility of caveats in the statement and mitigate misunderstanding of figures published;
- how technical information on the data and methodology used for large estimates or estimates that have been substantially revised can best be communicated;

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1 The report is available at: https://www.aph.gov.au/Parliamentary_Business/Committees/House/Tax_and_Revenue/Tax_Expenditures/Report, and the Government response is available at: http://www.aph.gov.au/Parliamentary_Business/Committees/House/Tax_and_Revenue/Tax_Expenditures/Government_Response.

- additional data sources that could be used to improve estimates; and
- whether the Tax Expenditures Statement would be enhanced by including annually varying appendices that focus on particular topics in more detail.

The consultation paper and the submissions received can be viewed at https://treasury.gov.au/consultation/tax-expenditures/.

The majority of the 17 submissions received were supportive of the vision for the Tax Expenditures Statement set out in the consultation paper: a streamlined document that is more accessible to the broad public and dedicates its primary focus to issues that are relevant to the contemporary tax policy debate.

Submissions were universally supportive of attempts to make the Tax Expenditures Statement more accessible to a broader audience and minimise misinterpretation. A number of submissions noted that the Tax Expenditures Statement would benefit from a simple and clear explanation of the appropriate use of the estimates and highlighting any caveats in the beginning of the document.

Submissions were also supportive of more explanatory material being included in the Tax Expenditures Statement, especially regarding tax expenditures relevant to the public tax policy debate. However, there were mixed opinions on the publication of a separate technical manual proposed in the consultation paper with some concern that separating this information from the estimates would increase the scope for misunderstanding.

Most of the submissions supported devoting fewer resources to the production of estimates for small tax expenditures in order to provide greater focus on the tax expenditures of most relevance to public debate and free up resources to undertake other improvements required.

There was broad support for Treasury, in consultation with the ATO and other relevant experts, remaining responsible for choosing the benchmark tax treatment. However, several submissions emphasized the importance of clearly explaining the chosen benchmark and the underlying rationale. A number of submissions also raised specific concerns with the current benchmark.

In response to the consultation Treasury is taking the following actions:

- The publication will be reviewed and restructured as outlined below.
  - The introductory chapter for the 2017 Tax Expenditures Statement has been redrafted, with a focus on providing a plain English explanation of tax expenditure estimates and their limitations. Technical information has been moved to the technical notes at the back of the document.

  - Options for publishing the Tax Expenditures Statement in an interactive format online, in addition to the paper format, will be investigated for the 2018 publication.

  - In addition to the paper document, tax expenditure estimates have been made available in spreadsheet format to facilitate greater use.

  - From the 2018 Tax Expenditures Statement we will consider options to give revenue gain estimates greater prominence.

- Starting from this year, Tax Expenditures Statement publications will include feature articles examining specific large tax expenditures in additional depth. The coverage of these articles may include: information on data and methodology used to quantify the tax expenditure, examining alternative benchmark tax treatments, estimating the distributional impact of tax expenditures or interactions between tax expenditures and direct expenditures.

  - This year's feature article focuses on the methodology and alternative benchmarks for superannuation tax expenditures.

  - The 2018 publication will focus on methodology and alternative benchmarks for owner-occupied housing.

- Tax expenditures with a value of less than $200 million in the Budget year and those that cannot be quantified will be reviewed on a three year cycle, with roughly an equal number of these smaller tax expenditures examined each year.

  - All larger tax expenditures, or any tax expenditures where there has been a significant policy change or there is expected to be significant growth or volatility over the forward estimates period will be reviewed annually.

  - All tax expenditures have been updated in this year's publication. The three year cycle will begin in the 2018 publication. From the 2018 publication, each tax expenditure item will include a note as to when it was last updated and when it is next scheduled for update.

  - The Tax Expenditures Statement will continue to present point estimates, as opposed to ranges.

- Detail on the benchmark chosen, and the rationale for choosing it, will continue to be included in the technical notes appendix to the document. Treasury will review the text in this section and attempt to ensure any ambiguity is minimised.

  - When considering new benchmarks, or changes to the existing benchmark, Treasury will consult stakeholders as appropriate.

- Treasury and the ATO will continue to monitor data collected by the ATO, managed by other Government agencies (such as the ABS), and data made commercially available for opportunities to improve estimates in the Tax Expenditures Statement and quantify additional tax expenditures if possible.

- A separate technical manual will not be published and comprehensive descriptions of expenditures and the benchmark will be maintained in the annual Tax Expenditures Statement publication.

  – Incorporating additional information on data sources and methodological approaches in tax expenditure descriptions is likely to increase the length and technicality of the document, reducing accessibility. However, in the 2018 publication Treasury will consider including an appendix which provides a summary of the different approaches to tax expenditure models and a list of items that are modelled using this approach.

  – Periodically, Treasury will seek to publish information on data and methodology used to estimate large expenditures, either in Tax Expenditures Statement feature articles or as Treasury Research Institute papers.

CHAPTER 3: SUPERANNUATION TAX EXPENDITURES

Some of the largest tax expenditures in the Tax Expenditure Statement are in relation to the concessional tax treatment of superannuation. In 2017-18 the tax expenditures for the concessional taxation of superannuation entity earnings (C4) and employer superannuation contributions (C2) are estimated to be the third and fourth largest tax expenditures respectively.

As a result, the estimates of superannuation tax expenditures often receive considerable attention from the media, the superannuation industry and other interested stakeholders. This chapter provides details on a number of the issues frequently raised by stakeholders, including the methodology used to estimate the superannuation tax expenditures; the choice of benchmark, including estimates of the superannuation tax expenditures under an expenditure tax benchmark; accounting for the effect of superannuation on the Age Pension; and assumptions regarding the choice of investments.

3.1. What are the superannuation tax expenditures?

There are three key points in Australia's superannuation system where taxes could be applied: when contributions are made into a superannuation fund; when investments in superannuation funds earn income; and when superannuation benefits are paid.

While the tax treatment of Australia's superannuation system is complex and depends on individual circumstances, it generally provides for concessional tax treatment of contributions to superannuation (this includes compulsory Superannuation Guarantee contributions, superannuation contributions that are salary sacrificed and other voluntary concessional contributions that can be made via personal deductible superannuation contributions); concessional tax treatment of earnings superannuation balances; and a tax exemption for superannuation benefits paid to members (when aged 60 or over).

In contrast, the treatment of superannuation under the comprehensive income tax benchmark (outlined in Appendix A.3) utilised in the Tax Expenditure Statement is for: superannuation contributions to be funded from after-tax income; earnings to be taxed at personal income tax rates; and benefits to be untaxed. The differences between the actual and benchmark treatment of superannuation drives the superannuation tax expenditures.

Accordingly, most of the superannuation tax expenditures can be grouped into three key categories, as outlined in Table 3.1.

Table 3.1 – Taxation of superannuation relative to a comprehensive income tax benchmark[a]

Potential taxing point	Superannuation treatment	Benchmark treatment	Relevant tax expenditures
Contributions	Concessionally taxed	Taxed	C2 - Concessional taxation of employer superannuation contr butions C3 - Concessional taxation of personal superannuation contr butions
Earnings	Concessionally taxed	Taxed	C1 – Concessional taxation of capital gains for superannuation funds C4 - Concessional taxation of superannuation entity earnings
Withdrawals	*Untaxed* when aged 60 or over *Taxed* when aged under 60	Untaxed	C10 - Tax on funded superannuation income streams C11 - Tax on funded superannuation lump sums

(a) The table does not include the taxation of unfunded superannuation schemes.

Some superannuation tax expenditures have not been included in Table 3.1, as they do not fit into any one category. These include:

- *C8 – Superannuation measures for low-income earners*, which includes concessions on both contributions and earnings;
- *C5 – Concessional taxation of unfunded superannuation*, where there are no contributions made until the benefit is provided on the member's retirement; and
- *C6 – Deductibility of life and total permanent disability insurance premiums provided inside of superannuation*, which reduces the funds' taxable income from contributions and earnings.

C6 – Deductibility of life and total permanent disability insurance premiums provided inside of superannuation is a new item in the 2017 Tax Expenditures Statement. This item was not previously identified as a tax expenditure. In light of the recent focus on insurance by industry through the Insurance in Superannuation Working Group, and the Productivity Commission's review into the Competitiveness and Efficiency of superannuation, estimating this item will help to facilitate discussion and improve the transparency of the superannuation tax expenditures.

3.2. Estimating superannuation tax expenditures

Tax expenditures are estimated as the expected difference in revenue between the existing tax treatment and the benchmark tax treatment. In the context of superannuation, this effectively means estimating the difference between the tax paid on superannuation contributions and earnings, and the tax that would have been paid if contributions and earnings were taxed as personal income.

While there are technical differences in the methodologies used to estimate each of the individual superannuation tax expenditures, the overarching approach is broadly consistent. This section provides details on the methodology used to estimate the largest superannuation tax expenditure: the concessional taxation of superannuation entity earnings (C4).

CONCESSIONAL TAXATION OF SUPERANNUATION ENTITY EARNINGS

The tax expenditure estimates for superannuation entity earnings are estimated in three key steps:

1. determining the amount of taxable superannuation earnings in each year;
2. calculating the tax paid by superannuation funds on those earnings; and
3. estimating the tax that would have been paid had the earnings been taxed as personal income in the hands of the individual members.

1. Determining the amount of superannuation earnings in each year

Superannuation earnings used in the tax expenditure estimates are based on fund tax return data collected by the ATO. This is calculated by summing the investment earnings of the fund (for example, interest, dividends and net capital gains), and subtracting the relevant fund deductions (for example, interest and investment expenses).

For years where data is not available, superannuation earnings are projected based on the expected growth in superannuation funds under management, and Treasury's forecasts of macroeconomic variables and revenue (including forecasts of major earnings components). Government policies that affect superannuation earnings in the projection period are also incorporated. This approach ensures consistency between the tax expenditure estimate, superannuation revenue forecasts, and Treasury's macroeconomic projections.

2. Calculating the earnings tax paid by superannuation funds

The tax paid by superannuation funds on taxable earnings is calculated by subtracting the earnings associated with assets in the pension phase (which are not taxed), and multiplying the resulting earnings by the fund tax rate (15 per cent).

3. Estimating the tax that would have been paid had the earnings been taxed as personal income

The tax paid under the benchmark tax treatment is estimated by applying an expected average marginal tax rate faced by superannuation fund members, and applying this rate to the superannuation earnings estimated in step one.

The average marginal tax rate is estimated using historical data from the ATO and BENMOD, Treasury's microsimulation model of superannuation earnings.[2] The model is based on personal income tax returns and superannuation member contributions statement data from the ATO, and is projected to future years based on expected income and population growth using Treasury's revenue and macroeconomic forecasts.

The model is used to estimate the marginal tax rate of superannuation fund members, and an average is calculated, weighted by superannuation balance to reflect the expectation that earnings would be correlated with superannuation balances.

Applying this marginal tax rate to total superannuation fund earnings provides an estimate of the tax that would be paid under a comprehensive income tax benchmark. The difference between this, and the tax currently paid by funds calculated in step two, provides the tax expenditure estimate.

RELIABILITY OF ESTIMATES

A number of the estimates rely on either forecasts of equity returns or forecasts of individual behaviour based on those equity returns (for example, the level of voluntary superannuation contributions). These elements are difficult to estimate and are typically volatile from year to year. As a consequence, estimates of the tax expenditure on superannuation earnings have historically been particularly volatile. This uncertainty is why the reliability of the estimate for this tax expenditure is clearly identified as 'low' in the Tax Expenditures Statement.

3.3. Choice of benchmark

Consistent with international practice, the Tax Expenditures Statement uses a comprehensive income tax benchmark to estimate the value of tax expenditures on savings, including superannuation. However, some stakeholders argue that an expenditure tax benchmark would be more appropriate.

As noted in section 3.1, the treatment of superannuation under a comprehensive income tax benchmark is for: superannuation contributions to be funded from after-tax income, earnings to be taxed at marginal tax rates, and benefits to be untaxed. Under an expenditure tax benchmark, on the other hand, contributions are taxed at marginal tax rates, while earnings and benefits are exempt from tax. The point of difference between the two benchmarks is the taxation of superannuation earnings. Accordingly, estimates of superannuation tax expenditures using the two benchmarks will be quite different.

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2 TAXMOD, Treasury's microsimulation model of the personal income and superannuation contributions tax systems is used to estimate average marginal tax rates for the concessional taxation of employer contributions.

To facilitate discussion and understanding of the impact of utilising different benchmarks, Table 3.2 compares estimates of the superannuation tax expenditures under both the comprehensive income tax and expenditure tax benchmarks.

Table 3.2 – Superannuation tax expenditures – comparison of income and expenditure tax benchmarks – 2017-18

TES code	Tax Expenditure Title	Benchmark	
		Income $m	Expenditure $m
C1	Concessional taxation of capital gains for superannuation funds	1,350	0
C2	Concessional taxation of employer superannuation contributions	16,900	16,900
C3	Concessional taxation of personal superannuation contributions	750	750
C4	Concessional taxation of superannuation entity earnings	19,250	-9,450
C5	Concessional taxation of unfunded superannuation	590	590
C6	Deductibility of life and total permanent disability insurance premiums provided inside of superannuation	2,370	2,370
C8	Superannuation measures for low-income earners	210	210
C9	Tax on excess non-concessional superannuation contributions	*	*
C10	Tax on funded superannuation income streams	-320	-320
C11	Tax on funded superannuation lump sums	-530	-530

The key components of superannuation tax expenditures relate to contributions and earnings. The tax expenditures for contributions are the same for both the expenditure and comprehensive income tax benchmarks. The tax expenditure on earnings in the accumulation phase is markedly different.

- For the comprehensive income tax benchmark, the tax expenditure is positive, reflecting the difference between the concessional superannuation tax rates and the generally higher personal income tax rates;

- For the expenditure tax benchmark, the tax expenditure is negative, reflecting the difference between the tax charged on superannuation earnings and the zero rate in the benchmark.

Further, the estimate for item C1 regarding the capital gains tax discount is zero, as this item captures the tax expenditure on the discounted component of capital gains. Under current tax treatment, this discounted component is not taxed (it is 'discounted' from income), which is consistent with the expenditure tax benchmark. Taxable capital gains are included in item C4.

Consequently, the change in benchmark has a significant impact on the estimated tax expenditures for superannuation earnings.

Table 3.3 provides the revenue forgone estimates under the expenditure benchmark out to 2020-21 for the two items that are different under an expenditure tax benchmark: C1 (Concessional taxation of capital gains for superannuation funds) and C4 (Concessional taxation of superannuation entity earnings).

Table 3.3 – Superannuation tax concessions – expenditure tax benchmark

TES Code	Tax Expenditure Title	2017-18 $m	2018-19 $m	2019-20 $m	2020-21 $m
C1	Concessional taxation of capital gains for superannuation funds	0	0	0	0
C4	Concessional taxation of superannuation entity earnings	-9,450	-10,800	-12,200	-13,450

The determination of a benchmark tax system for superannuation requires judgment; there are reasonable arguments for both the comprehensive income tax benchmark and the expenditure tax benchmark. Given the considerable differences in tax expenditure estimates between the benchmarks, caution should be exercised when drawing conclusions on the size of the superannuation tax expenditures.

3.4. Accounting for effects on the Age Pension

Superannuation is expected to increase the savings of people in retirement, resulting in reduced outlays on the Age Pension. Some commentary argues that these expenditure savings should be recognised in the estimates of superannuation tax expenditures.

Tax expenditures seek to measure the deviation in the actual tax treatment from the benchmark tax treatment. They are therefore a more limited construct than a budget costing and, by their nature, do not seek to measure the full budgetary impact on related current or future government expenditure since these are not taxes.

Estimating the impact of Australia's compulsory superannuation system on Age Pension outlays would be a difficult task. In particular, estimating the historic and future savings behaviour of individuals in the absence of compulsory superannuation is highly uncertain. Other forms of analysis from time to time attempt to estimate the impact of *changes* in superannuation on Age Pension outlays. For example, a 2013 analysis estimated the fiscal impact of a phased increase in the Superannuation Guarantee rate from 9 per cent to 12 per cent, including the balance between tax losses and Age Pension savings (see Charter Group, *A Super Charter: Fewer Changes, Better Outcomes: A report to the Treasurer and Minister Assisting for Financial Services and Superannuation*, 2013, page 11).

3.5. Assumptions regarding alternate investments

The use of the comprehensive income tax benchmark and the need to measure the income tax that would otherwise have been paid on investment income requires some assumption of where people would otherwise have invested their savings. Questions are sometimes raised as to the treatment of investment income under this counterfactual scenario, particularly with regard to people's ability to minimise their marginal tax by investing in alternative tax-effective investments.

The revenue forgone estimates are based on the assumption that the rate of earnings on assets is the same whether taxed in superannuation or under the benchmark tax treatment (personal income tax rates). Accordingly, these estimates show the tax expenditure based solely on the difference in tax treatment between superannuation earnings and the benchmark treatment, without the allowance for any behavioural responses.

The revenue gain estimates (see Chapter 5), which allow for a behavioural response, make allowances for the fact that people can minimise their tax by making use of trusts or company tax structures or by investing in negatively-geared assets, lower-taxed foreign jurisdictions or owner-occupied housing.

Note that the revenue gain estimates for C2 (Concessional taxation of employer superannuation contributions) are based on the assumption that the Superannuation Guarantee remains and therefore compulsory superannuation contributions continue. Only voluntary contributions are assumed to be directed to alternative tax-preferred investments.

CHAPTER 4: TAX EXPENDITURES

This chapter provides information of all Australian Government tax expenditures estimated, where possible, on a revenue forgone basis. It also includes a summary of the largest measured tax expenditures for 2017-18, an outline of the changes to the list of tax expenditures since the 2016 Tax Expenditures Statement and a guide to the tax expenditure descriptions.

4.1. Large tax expenditures

Table 4.1 lists the largest measured tax expenditures for 2017-18.

The table includes revenue gain estimates for several of the largest tax expenditure items. These estimates illustrate the points that:

- significant differences can arise between revenue forgone and revenue gain estimates, particularly because the latter attempts to take account of behavioural change by taxpayers; and
- conversely, in some cases, revenue gain and revenue forgone estimates are identical or very similar as taxpayer behaviour is assumed to be relatively insensitive to a tax expenditure.

Unquantified tax expenditures have been assigned an order of magnitude rather than an estimate of their value. The largest such tax expenditures include:

- exemption for foreign branch profits from income tax (B9);
- off-market share buy-backs (B24);
- income tax exemption for prescribed entities (B47);
- refund of franking credits for certain income tax exempt philanthropic entities (B52);
- statutory effective life caps (B69); and
- quarantining of capital losses (E20).

When considering the estimates in Table 4.1 please note:

- these are not estimates of the revenue increase if a tax expenditure is removed;
- estimates should not be added together as reducing one concession would often affect the utilisation of others;
- estimates of the same tax expenditure should not be compared to previous publications because they can be affected by changes in policy, benchmarks, modelling methodology, data or assumptions;
- readers should exercise care when comparing tax expenditure estimates with direct expenditure estimates;
- the reliability of the estimates varies, many estimates are only an indication of the magnitude of the concession;
- some estimates are unquantifiable due to insufficient data to produce a reliable estimate for a tax expenditure item;
- estimates are in nominal dollars – for example, 2017-18 estimates are in 2017-18 dollars and 2018-19 estimates are in 2018-19 dollars;
- tax expenditure estimates are prepared on an accruals basis;
- revenue gain estimates should be treated with particular caution;
- revenue gain estimates do not take into account any potential changes in direct expenditure flowing from the removal of a tax expenditure;
- the revenue gain can be difficult to estimate given highly limited information on how taxpayers might react to the removal of a tax expenditure;
- revenue gain estimates assume that a tax expenditure is abolished completely and with immediate effect – transitional arrangements or reduction of the tax expenditure may be more plausible;
- judgments also need to be made about likely policy settings — for example, whether it is realistic to assess the abolition of a single tax expenditure (for example, a particular GST exemption) while keeping other tax expenditures unchanged (for example, other GST exemptions).

Table 4.1: Large measured tax expenditures in 2017-18

Tax expenditure		Estimate $m Revenue forgone	Revenue gain
Large positive tax expenditures			
E6	Main residence exemption - discount component	40,500	n/a
E5	Main residence exemption	33,500	n/a
C4	Concessional taxation of superannuation entity earnings	19,250	18,300
C2	Concessional taxation of employer superannuation contributions	16,900	16,300
E13	Discount for individuals and trusts	10,270	n/a
H27	Food	7,100	6,900
H15	Education	4,550	4,100
H18	Health - medical and health services	4,100	4,050
H2	Financial supplies - input taxed treatment	3,400	3,400
A24	Concessional taxation of non-superannuation termination benefits	2,400	2,400
C6	Deductibility of life and total permanent disability insurance premiums provided inside of superannuation	2,370	n/a
B2	Local government bodies income tax exemption	2,210	n/a
A41	Exemption of Family Tax Benefit payments	2,070	2,070
B12	Exemption from interest withholding tax on certain securities	2,010	1,430
A19	Medicare levy exemption for residents with taxable income below the low-income thresholds	1,940	n/a
D14	Exemption for public benevolent institutions (excluding hospitals)	1,650	n/a
D10	Exemption for public and not-for-profit hospitals and public ambulance services	1,650	n/a
A17	Exemption of the Private Health Insurance Rebate	1,520	n/a
A27	Exemption of Child Care Assistance payments	1,520	n/a
H5	Child care services	1,420	n/a
C1	Concessional taxation of capital gains for superannuation funds	1,350	n/a
A57	Philanthropy - deduction for gifts to deduct ble gift recipients	1,300	n/a
B49	Lower company tax rate	1,300	n/a
F6	Concessional rate of excise levied on aviation gasoline and aviation turbine fuel	1,280	n/a
B77	Small business simplified depreciation rules	1,200	n/a
H19	Health - residential care, community care and other care services	1,130	n/a
B71	Capital works expenditure deduction	1,040	n/a
A33	Seniors and pensioners tax offset	1,000	n/a
Large negative tax expenditures			
F10	Higher rate of excise levied on cigarettes not exceeding 0.8 grams of tobacco	-2,360	n/a
F21	Customs duty	-1,260	-1,260

Please note the caveats on the estimates outlined on page 18.

4.2. Changes to tax expenditures in 2017

This section provides an outline of the changes to the list of tax expenditures since the 2016 Tax Expenditures Statement. Since the 2016 TES, five new tax expenditures have been added, several tax expenditures have been modified and five tax expenditures have been deleted.

Major changes to the benchmark include:

- an alteration to the personal income tax benchmark to factor in the 2017-18 Budget measure to increase the Medicare levy from 2 per cent to 2.5 per cent from 1 July 2019; and
- the introduction of a benchmark for the major bank levy.

For further detail on the benchmark please see Appendix A: Technical Notes.

4.2.1 New tax expenditures

Table 4.2 reports new tax expenditure items arising from measures that have been announced since the 2016 TES up to the date of the *2017-18 Mid-Year Economic and Fiscal Outlook* as well new tax expenditures that have been identified.

Table 4.2: New tax expenditures

TES code	Tax expenditure title	Reason for new tax expenditure
A34	Additional 10 per cent Capital Gains Tax discount for affordable housing	New policy measure announced in the 2017-18 Budget.
A43	Denial of deduction of travel expenses for residential rental property	New policy measure announced in the 2017-18 Budget.
A55	Limit plant and equipment depreciation deductions to outlays actually incurred by investors	New policy measure announced in the 2017-18 Budget.
C6	Deductibility of life and total permanent disability insurance premiums provided inside of superannuation	Existing tax expenditure not previously identified.
G1	Junior Minerals Exploration Incentive	New policy measure announced in the 2017-18 MYEFO. This measure builds on the Exploration Development Incentive introduced in the 2014-15 Budget.

4.2.2 Modified tax expenditures

Table 4.3 reports tax expenditures that have been modified since the 2016 TES. Tax expenditures can be modified by, for example, a change to a benchmark or a revenue measure announced since the 2016 TES.

Table 4.3: Modified tax expenditures

TES code	Tax expenditure title	Modification to the tax expenditure
A19	Medicare levy exemption for residents with taxable income below the low-income thresholds	The Medicare levy low-income thresholds for singles, families and seniors and pensioners have been increased from the 2016-17 income year.
A42	Exemptions of certain veterans' pensions, allowances or benefits, compensation, and particular World War II-related payments for persecution	Australian participants in the British nuclear tests of the 1950s and Australian veterans of the British Commonwealth Occupation Force that receive medical treatment using the Department of Veterans' Affairs Gold Card are exempt from the Medicare levy and Medicare levy surcharge. The pharmaceutical supplement, which is paid to these recipients, is exempt from income tax from 2017-18.
B40	Shipping – refundable tax offset for employers of qualifying Australian seafarers	Not proceeding with the removal of the seafarer tax offset consistent with the 2014-15 Budget Measure.
B49	Lower company tax rate	The eligibility criteria for the lower tax rate have been modified. Pending legislation, the requirement to carry on a business has been replaced by a bright line passive income test.
B77	Small business simplified depreciation rules	The removal of the immediate deductibility threshold amount of $20,000 has been deferred to 1 July 2018 (from 1 July 2017).
C11	Tax on funded superannuation lump sums	Lump sums released under the First Home Super Saver Scheme from 1 July 2018 will generally be taxed at the individual's marginal tax rate less a 30 per cent offset.
E5	Main residence exemption	From 9 May 2017, the main residence exemption is not available to foreign tax residents when they sell property in Australia (subject to grandfathering arrangements for property already held on 9 May 2017). The methodology for this item has been improved to better reflect housing price growth.
E23	Roll-over for complying superannuation funds in certain circumstances	The tax relief for merging superannuation funds, which provides an asset rollover and transfer of losses, was due to lapse on 1 July 2017, and will be extended to 1 July 2020.
F10	Higher rate of excise levied on cigarettes not exceeding 0.8 grams of tobacco	Aligning the tax treatment of roll your own tobacco and cigarettes in accordance with the 2017-18 Budget measure.
F19	Certain exemptions for diplomatic missions and foreign diplomats	The indirect tax concession scheme has been extended to Belarus, Cuba, Zambia, Ethiopia, Vanuatu and the United Arab Emirates.
H7	Diplomats, diplomatic missions and approved international organisations	The indirect tax concession scheme has been extended to Belarus, Cuba, Zambia, Ethiopia, Vanuatu and the United Arab Emirates.
H11	Importation threshold	The start date for removing the GST exemption for imports of low value goods has been deferred to 1 July 2018 (from 1 July 2017).
H25	Precious metal	From 1 April 2017, businesses buying valuable metals (e.g. gold, silver and platinum) are required to apply a reverse charge, meaning they remit GST to the ATO instead of the seller. The measure also clarifies that valuable metals are not second-hand goods for the purpose of claiming GST credits.

4.2.3 DELETED TAX EXPENDITURES

Table 4.4 reports tax expenditures that have been deleted since the 2016 TES. Tax expenditures were deleted where the current taxation treatment is now in line with the benchmark tax treatment or legislation to abolish the tax expenditure commenced before the 2017-18 MYEFO unless, for example, the tax expenditure continued to generate significant revenue forgone estimates in future years.

Table 4.4: Deleted tax expenditures

2016 TES code	Tax expenditure title	Reason for deletion
B25	Tax assistance for victims of Australian natural disasters	The legislation that implemented the exemption for the payments lapsed in 2014.
B57	Tax incentive for Standard Business Reporting software	This incentive was reversed in the Mid-Year Economic and Fiscal Outlook 2017-18.
F4	Regional Equalisation Plan rebates	The fees to which this rebate applies were abolished from 1 July 2017. This was published as the measure "Broadcasting and Content Reform Package — replacing broadcast licence fees with broadcast spectrum pricing" in the 2017-18 Budget.
F18	Increased rate of excise levied on ready to drink alcoholic beverages	The benchmark tax rate for ready to drink beverages has been changed to the spirits excise rate. Ready to drink beverages are now subject to the same excise rate as the benchmark tax rate.
H11	Digital products and services	From 1 July 2017, these products and services will be subject to GST.

4.3. Guide to tax expenditure descriptions

Information is provided on all Australian Government tax expenditures in the following format.

Reference code

A1 Title of the tax expenditure

Tax expenditure estimates

Functional category

Health ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
1	2	3	4	5	6	7	8

Tax expenditure type:	Reference information	*2016 TES code:*
Estimate Reliability:		** Category:*
Commencement date:		*Expiry date:*
Legislative reference:		

Reference codes use the following system:

A	Personal income
B	Business income
C	Retirement savings
D	Fringe benefits tax
E	Capital gains tax
F	Commodity and other indirect taxes
G	Natural resources taxes
H	Goods and services tax

Positive estimates indicate a positive tax expenditure — that is, where a tax provision reduces tax payable relative to the benchmark. Negative estimates indicate a negative tax expenditure — that is, a tax provision that increases tax payable relative to the benchmark.

The following codes apply where tax expenditure estimates are not quantified:

-	nil
..	not zero, but rounded to zero
*	estimate is not available
nfp	not for publication

4.4. Revenue forgone tax expenditures

PERSONAL INCOME

A1 Deduction for expenses incurred by election candidates

General public services - Legislative and executive affairs ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
4	5	5	4	4	5	5	5

Tax expenditure type:	Deduction	*2016 TES code:*	A1
Estimate Reliability:	Medium		
Commencement date:	Introduced before 1985	*Expiry date:*	
Legislative reference:	Sections 25-60, 25-65 and 25-70 of the *Income Tax Assessment Act 1997*		

Certain expenses incurred by candidates contesting federal, state and territory government elections are tax deductible, irrespective of whether they are successful or not. For local government elections, candidates can deduct expenses of up to $1,000 per election.

A2 Exemption of certain income earned by Australians working overseas

General public services - Foreign affairs and economic aid ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
55	45	45	45	45	45	45	50

Tax expenditure type:	Exemption	*2016 TES code:*	A2
Estimate Reliability:	Medium		
Commencement date:	1980 and 1986	*Expiry date:*	
Legislative reference:	Sections 23AF and 23AG of the *Income Tax Assessment Act 1936*		

Income earned by Australians working overseas for a continuous period of 91 days or more may be exempt from income tax if they are employed to work on certain approved overseas projects or if their foreign employment is directly attributable to:

- the delivery of Australia's overseas aid program by the individual's employer (since 1 July 2016, Australian government employees have been ineligible for this exemption);
- the activities of the individual's employer in operating a developing country relief fund or a public disaster relief fund;
- the activities of the individual's employer being a prescribed institution that is exempt from Australian income tax;
- the individual's deployment outside Australia by an Australian government (or an authority thereof) as a member of a disciplined force; or
- an activity of a kind specified in the regulations.

This exemption may not apply where the foreign earnings are exempt from income tax in the foreign country.

A3 Exemption of income of certain visitors to Australia

General public services - Foreign affairs and economic aid ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2016 TES code:*	A3
Estimate Reliability:	Not Applicable	** Category*	1+
Commencement date:	Introduced before 1985	*Expiry date:*	
Legislative reference:	Sections 842-105 and 768-100 of the *Income Tax Assessment Act 1997*		

The Australian-sourced income of certain visitors to Australia (for example, visiting foreign government representatives and their entourages) is exempt from income tax. In addition, the official salary and foreign-sourced income of, for example, foreign government representatives visiting Australia when the Vienna Conventions on Consular or Diplomatic Relations do not apply, are exempt from income tax where their home countries provide a reciprocal exemption.

A4 Exemption of official remuneration of officials of prescribed international organisations

General public services - Foreign affairs and economic aid ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2016 TES code:*	A4
Estimate Reliability:	Not Applicable	** Category*	2+
Commencement date:	Introduced before 1985	*Expiry date:*	
Legislative reference:	*International Organisations (Privileges and Immunities) Act 1963*		

The official remuneration of officials of prescribed international organisations (such as the Organisation for Economic Cooperation and Development) may be exempt from income tax as part of the privileges and immunities required under the terms of certain international agreements.

A5 Exemption from income tax and the Medicare levy for residents of Norfolk Island

General public services - General services ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
7	7	7	..	..	..	..	..

Tax expenditure type:	Exemption	*2016 TES code:*	A5
Estimate Reliability:	Low		
Commencement date:	Introduced before 1985	*Expiry date:*	30 June 2016
Legislative reference:	Division 1A of Part III and Sections 251T and 251U of the *Income Tax Assessment Act 1936*		

Prior to 1 July 2016, income earned by residents of Norfolk Island was exempt from income tax and the Medicare levy. Assets acquired by Norfolk Island residents before 24 October 2015 generally remain exempt from capital gains tax.

A6 Australian Defence Force personnel — exemption of certain allowances

Defence ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
85	55	35	40	45	45	45	50

Tax expenditure type:	Exemption	*2016 TES code:*	A6
Estimate Reliability:	Medium		
Commencement date:	Introduced before 1985	*Expiry date:*	
Legislative reference:	Section 51-5 of the *Income Tax Assessment Act 1997* Regulation 51-5.01 of the *Income Tax Assessment Regulations 1997*		

Certain allowances payable to Australian Defence Force personnel are exempt from income tax. These include separation allowance, disturbance allowance, transfer allowance, deployment allowance and prescribed parts of rent allowance.

A7 Australian Defence Force personnel — exemption of compensation for lost deployment allowance

Defence ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
1	..	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2016 TES code:*	A7
Estimate Reliability:	Medium	** Category*	1+
Commencement date:	1996	*Expiry date:*	
Legislative reference:	Sections 51-5 and 51-32 of the *Income Tax Assessment Act 1997*		

Australian Defence Force personnel may receive compensation for the loss of deployment allowance where the deployment allowance ceases to be paid upon repatriation to Australia due to injuries sustained in a warlike situation. Such compensation payments are exempt from income tax.

A8 Australian Defence Force personnel — exemption of pay and allowances earned while on eligible overseas duty

Defence ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
65	55	70	70	*	*	*	*

Tax expenditure type:	Exemption	*2016 TES code:*	*A8*
Estimate Reliability:	Medium	** Category*	2+
Commencement date:	Introduced before 1985	*Expiry date:*	
Legislative reference:	Section 23AD of the *Income Tax Assessment Act 1936*		

Base pay and allowances made to Australian Defence Force personnel while on eligible overseas duty are exempt from income tax (provided they are not exempt from income tax under another provision of the income tax law).

A9 Australian Defence Force Reserve personnel — exemption of compensation for loss of pay and allowances

Defence ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
..	..	..	..	..	..	..	..

Tax expenditure type:	Exemption	*2016 TES code:*	A10
Estimate Reliability:	Medium		
Commencement date:	Introduced before 1985	*Expiry date:*	
Legislative reference:	Sections 51-5 and 51-33 of the *Income Tax Assessment Act 1997*		

Australian Defence Force Reserve personnel not engaged in continuous full-time service who are forced to resign due to injuries sustained while employed by the Reserves may receive compensation for the loss of pay and allowances. Such compensation payments are exempt from income tax.

A10 Australian Defence Force Reserve personnel — exemption of pay and allowances for part-time personnel

Defence ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
65	70	85	85	85	90	90	95

Tax expenditure type:	Exemption	*2016 TES code:*	A9
Estimate Reliability:	Medium		
Commencement date:	Introduced before 1985	*Expiry date:*	
Legislative reference:	Section 51-5 of the *Income Tax Assessment Act 1997*		

The pay and allowances made to part-time Australian Defence Force Reserve personnel are exempt from income tax.

A11 Exemption of some payments to Australian Federal Police and civilian personnel on service with an armed force of the United Nations

Defence ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
..	..	..	..	..	..	..	..

Tax expenditure type:	Exemption	*2016 TES code:*	A11
Estimate Reliability:	Very Low		
Commencement date:	Introduced before 1985	*Expiry date:*	
Legislative reference:	Section 23AB of the *Income Tax Assessment Act 1936*		

Australian Federal Police and civilian personnel contributed by Australia to a United Nations armed force may receive compensation for death, impairment or incapacity resulting from their service. Such compensation payments are exempt from income tax. Associated payments, including to the estate of a deceased civilian, may also receive tax relief.

A12 Medicare levy exemption for current and veteran Australian Defence Force personnel and their relatives and associates

Defence ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
55	80	85	90	90	90	120	120

Tax expenditure type:	Exemption	*2016 TES code:*	A12
Estimate Reliability:	Medium - High		
Commencement date:	Introduced before 1985	*Expiry date:*	
Legislative reference:	Sections 251T and 251U of the *Income Tax Assessment Act 1936*		

A Medicare levy exemption applies to income earned by current and veteran Australian Defence Force personnel and certain others, for example, relatives and associates of Australian Defence Force personnel who are entitled to free medical treatment.

A13 Tax offsets for Australian Defence Force personnel serving overseas and for Australian Federal Police and civilians serving with United Nations forces

Defence ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Included in A45							

Tax expenditure type:	Offset	*2016 TES code:*	A13
Estimate Reliability:			
Commencement date:	Introduced before 1985	*Expiry date:*	
Legislative reference:	Sections 79B and 23AB(7) of the *Income Tax Assessment Act 1936*		

Australian Defence Force personnel who serve overseas in a locality specified by the Minister (because of its isolation and uncongenial nature), as well as civilian and Australian Federal Police personnel contributed by Australia to an armed force of the United Nations, may be eligible for a tax offset. The offset includes additional entitlements for individuals who maintain dependants.

A14 Denial of deductibility for HECS-HELP expenses

Education ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Denial of deduction	*2016 TES code:*	A14
Estimate Reliability:	Not Applicable	** Category*	3-
Commencement date:	1997	*Expiry date:*	
Legislative reference:	Section 26-20 of the *Income Tax Assessment Act 1997*		

Course fees and repayments for a Higher Education Contribution Scheme Higher Education Loan Program (HECS-HELP) place funded by the individual and some other loan schemes are not tax deductible, even for the proportion that relates to income earning activities.

A15 Exemption of income from certain educational scholarships, payments to apprentices or similar forms of assistance

Education ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2016 TES code:*	A15
Estimate Reliability:	Not Applicable	** Category*	2+
Commencement date:	Introduced before 1985	*Expiry date:*	
Legislative reference:	Sections 51-10, 51-35, 51-40, 51-42 and 842-105 of the *Income Tax Assessment Act 1997*		

Scholarships and other education allowances paid to full-time students at a school, college or university may be exempt from income tax. Income derived as part of an Australian Government scheme to assist secondary education or the education of isolated children is exempt from income tax (excluding federal education, training or education entry payments provided under the *Social Security Act 1991*). A number of other exempt educational payments are listed in the *Income Tax Assessment Act 1997.*

A16 Threshold for the deductibility of self-education expenses

Education ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
-3	-3	-3	-3	-3	-3	-3	-3

Tax expenditure type:	Denial of deduction	*2016 TES code:*	A16
Estimate Reliability:	Low		
Commencement date:	Introduced before 1985	*Expiry date:*	
Legislative reference:	Section 82A of the *Income Tax Assessment Act 1936*		

Self-education expenses for the purpose of maintaining or improving skills or knowledge which the taxpayer uses in income earning activities are deductible. In certain circumstances taxpayers are not able to claim a deduction for the first $250 of an education expense. However, taxpayers can use certain other self-education expenses that are non-deductible, such as child care costs, to reduce the $250 no-claim threshold.

A17 Exemption of the Private Health Insurance Rebate

Health ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
1,470	1,450	1,480	1,500	1,520	1,420	1,470	1,550

Tax expenditure type:	Exemption	*2016 TES code:*	A17
Estimate Reliability:	Medium		
Commencement date:	1998	*Expiry date:*	
Legislative reference:	Subdivision 61-G of the *Income Tax Assessment Act 1997* Part 2-2 of the *Private Health Insurance Act 2007*		

The Private Health Insurance Rebate is exempt from income tax.

A18 Medicare levy exemption for blind pensioners, sickness allowance recipients, persons not entitled to Medicare benefits and foreign government representatives

Health ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
195	260	260	280	300	325	425	445

Tax expenditure type:	Exemption	*2016 TES code:*	A18
Estimate Reliability:	Medium - High		
Commencement date:	Introduced before 1985	*Expiry date:*	
Legislative reference:	Sections 251T and 251U of the *Income Tax Assessment Act 1936*		

The income of certain prescribed persons is exempt from the Medicare levy. The list of prescribed persons includes recipients of specified payments made under the *Social Security Act 1991,* certain permanent residents who qualify for an exemption due to their absence from Australia, temporary residents whose home country does not have a Reciprocal Health Care Agreement with Australia and foreign government representatives.

A19 Medicare levy exemption for residents with taxable income below the low-income thresholds

Health ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
1,290	1,740	1,840	1,880	1,940	2,000	2,460	2,630

Tax expenditure type:	Exemption	*2016 TES code:*	A19
Estimate Reliability:	Medium		
Commencement date:	1986	*Expiry date:*	
Legislative reference:	Section 7 of the *Medicare Levy Act 1986*		

Residents whose taxable income falls below prescribed thresholds are exempt from the Medicare levy, with the levy phased in once their income exceeds these thresholds. Different thresholds apply for individuals, families with children and seniors and pensioners.

A20 Medicare levy surcharge

Health ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
-270	-270	-250	-250	-260	-270	-270	-270

Tax expenditure type:	Increased rate	*2016 TES code:*	A20
Estimate Reliability:	Medium		
Commencement date:	1 July 1997	*Expiry date:*	
Legislative reference:	Sections 8B to 8D of the Medicare Levy Act 1986 *A New Tax System (Medicare Levy Surcharge - Fringe Benefits) Act 1999*		

Individuals and couples who do not have a specified level of private health insurance and whose income exceeds certain thresholds are subject to an increased Medicare levy, known as the Medicare levy surcharge.

A21 Medicare levy surcharge lump sum payment in arrears tax offset

Health ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
..	..	..	..	..	..	..	..

Tax expenditure type:	Offset	*2016 TES code:*	A21
Estimate Reliability:	High		
Commencement date:	1 July 2005	*Expiry date:*	
Legislative reference:	Subdivision 61L of the *Income Tax Assessment Act 1997*		

Eligible taxpayers who incur a Medicare levy surcharge liability, or an increased liability, as a result of certain lump sum payments in arrears, for example, a Commonwealth education payment, receive concessional treatment in respect of their surcharge liability.

A22 Net medical expenses tax offset

Health ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
410	245	175	75	41	12	1	-

Tax expenditure type:	Offset	*2016 TES code:*	A22
Estimate Reliability:	Medium		
Commencement date:	Introduced before 1985	*Expiry date:*	1 July 2019
Legislative reference:	Section 159P of the *Income Tax Assessment Act 1936*		

The net medical expenses tax offset is available to a taxpayer whose eligible out-of-pocket medical expenses exceed certain thresholds. If eligible, the percentage of net medical expenses a taxpayer can claim is determined by their adjusted taxable income and family status. This offset is currently being phased out, with transitional arrangements for certain medical expenses.

A23 Concessional taxation of lump sum payments for unused recreation and long service leave

Social security and welfare ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
220	260	270	240	240	240	240	240

Tax expenditure type:	Concessional rate	*2016 TES code:*	A23
Estimate Reliability:	Medium - Low		
Commencement date:	Introduced before 1985	*Expiry date:*	
Legislative reference:	Subdivisions 83-A and 83-B of the *Income Tax Assessment Act 1997*		

A maximum tax rate of 30 per cent plus the Medicare levy applies to lump sum payments in lieu of unused long service or annual leave which accrued before 18 August 1993, or which are made in circumstances of bona fide redundancy, invalidity or under an early retirement scheme.

A24 Concessional taxation of non-superannuation termination benefits

Social security and welfare ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
2,550	2,800	2,700	2,500	2,400	2,300	2,200	2,100

Tax expenditure type:	Concessional rate	*2016 TES code:*	A24
Estimate Reliability:	Low		
Commencement date:	Introduced before 1985	*Expiry date:*	
Legislative reference:	Division 82 of the *Income Tax Assessment Act 1997* Division 82 of the *Income Tax (Transitional Provisions) Act 1997* Subdivision 83-C of the *Income Tax Assessment Act 1997*		

Non-superannuation termination payments, known as employment termination payments (ETPs), are taxed differently to lump sums paid from untaxed superannuation funds. Genuine redundancy and early retirement scheme payments made to people under 65 years of age are also tax free up to a limit, and amounts in excess of this limit are taxed as an ETP.

A25 Concessional taxation of unused long service leave accumulated prior to 16 August 1978

Social security and welfare ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
55	60	40	40	40	40	40	40

Tax expenditure type:	Concessional rate	*2016 TES code:*	A25
Estimate Reliability:	Medium - High		
Commencement date:	Introduced before 1985	*Expiry date:*	
Legislative reference:	Subsection 83-80(1) of the *Income Tax Assessment Act 1997*		

A reduced tax rate applies to lump sum payments for unused long service leave which accrued prior to 16 August 1978. Five per cent of such payments is included in the taxpayer's assessable income and is subject to tax at marginal rates.

A26 Exemption for National Disability Insurance Scheme amounts

Social security and welfare ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
-	20	50	270	750	1,520	2,750	3,380

Tax expenditure type:	Exemption	*2016 TES code:*	A26
Estimate Reliability:	Very Low		
Commencement date:	1 July 2013	*Expiry date:*	
Legislative reference:	Sections 26-97, 40-235, and 52-180 of the *Income Tax Assessment Act 1997*		

Payments and benefits provided under the National Disability Insurance Scheme (NDIS), whether directly or otherwise, to NDIS participants for approved reasonable and necessary supports are exempt from income tax.

A27 Exemption of Child Care Assistance payments

Social security and welfare ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
1,010	1,245	1,365	1,445	1,520	1,965	1,985	2,100

Tax expenditure type:	Exemption	*2016 TES code:*	A27
Estimate Reliability:	Medium		
Commencement date:	1 July 2007	*Expiry date:*	
Legislative reference:	Section 52-150 of the *Income Tax Assessment Act 1997*		

The Child Care Rebate and Child Care Benefit are exempt from income tax.

From 2 July 2018, a new single Child Care subsidy will be introduced. The Child Care Subsidy will replace the current child care fee assistance provided by Child Care Benefit and Child Care Rebate payments which will cease on 1 July 2018. The Child Care Subsidy will be exempt from income tax.

A28 Exemption of disaster relief payments

Social security and welfare ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
5	15	10	25	*	*	*	*

Tax expenditure type:	Exemption	*2016 TES code:*	A28
Estimate Reliability:	Medium	** Category*	2+
Commencement date:	1 July 2008	*Expiry date:*	
Legislative reference:	Sections 11-15, 51-30 and 52-40 of the *Income Tax Assessment Act 1997*		

Certain payments made to victims of disasters, such as Australian Government disaster recovery payments, are exempt from income tax.

A29 Exemption of the Schoolkids Bonus

Social security and welfare ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
170	320	290	280	140	10	-	-

Tax expenditure type:	Exemption	*2016 TES code:*	A29
Estimate Reliability:	Medium		
Commencement date:	2012	*Expiry date:*	31 Dec 2016
Legislative reference:	Section 52-150 of the *Income Tax Assessment Act 1997*		

The Schoolkids Bonus is exempt from income tax. It has been abolished with the last instalment paid in July 2016.

A30 Beneficiary Tax Offset

Social security and welfare ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
40	55	75	80	80	75	80	85

Tax expenditure type:	Offset	*2016 TES code:*	A30
Estimate Reliability:	Medium		
Commencement date:	Introduced before 1985	*Expiry date:*	
Legislative reference:	Section 160AAA of the *Income Tax Assessment Act 1936*		

Taxpayers who receive certain social security benefits and allowances may be eligible for the Beneficiary Tax Offset, which ensures that people whose only income during the year is from the benefit or allowance will not pay any tax.

A31 Dependency tax offsets

Social security and welfare ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
140	120	7	6	6	6	6	6

Tax expenditure type:	Offset	*2016 TES code:*	A31
Estimate Reliability:	Low		
Commencement date:	Introduced before 1985	*Expiry date:*	
Legislative reference:	Subdivision 61-A of the *Income Tax Assessment Act 1997*		

Taxpayers who maintain a dependant unable to work due to carer obligations or disability may receive a tax offset to reduce their income tax liability.

A range of dependency tax offsets, including the invalid relative, parent, parent-in-law, housekeeper, housekeeper (with child), child-housekeeper and child-housekeeper (with child) tax offsets, were consolidated into a single dependent (invalid and carer) tax offset from 1 July 2012. The dependent spouse tax offset was abolished from 1 July 2014.

A32 Release from particular tax liabilities in cases of serious hardship

Social security and welfare ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
53	40	41	69	*	*	*	*

Tax expenditure type:	Exemption	*2016 TES code:*	A32
Estimate Reliability:	High	** Category*	2+
Commencement date:	Introduced before 1985	*Expiry date:*	
Legislative reference:	Division 340 in Schedule 1 to the *Tax Administration Act 1953*		

An individual taxpayer can be released from a tax liability where payment of the liability would cause serious hardship. This release from tax liability acts like a tax exemption.

A33 Seniors and pensioners tax offset

Social security and welfare ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
900	890	1,000	1,000	1,000	1,000	1,000	1,000

Tax expenditure type:	Offset	*2016 TES code:*	A33
Estimate Reliability:	Medium		
Commencement date:	1996	*Expiry date:*	
Legislative reference:	Sections 160AAAA and 160AAAB of the *Income Tax Assessment Act 1936*		

The seniors and pensioners tax offset is available to taxpayers who receive certain taxable pensions and payments, for example, the Age Pension and the Defence Force Income Support Allowance. It is also available to taxpayers who are of Age Pension age but who do not receive the Age Pension because of the income or assets tests.

A34 Additional 10 per cent Capital Gains Tax discount for affordable housing

Housing and community amenities ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
-	-	-	-	-	-	-	-

Tax expenditure type:	Reduction in taxable value	*2016 TES code:*	New
Estimate Reliability:	High		
Commencement date:	1 January 2018	*Expiry date:*	
Legislative reference:	Legislation has not yet been introduced		

From 1 January 2018, resident individuals who elect to invest in qualifying affordable housing will receive an additional capital gains tax discount of up to ten percentage points, increasing the discount from 50 per cent to 60 per cent.

The tax expenditure occurs beyond 2020-21 due to the qualifying condition that a property is rented as affordable housing for at least three years.

See tax expenditure E13 for detail on the 50 per cent discount applying to assets held by individuals or trusts where the asset has been owned for at least 12 months.

A35 Seasonal Labour Mobility Program

Other economic affairs - Total labour and employment affairs ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
2	3	4	4	4	4	4	4

Tax expenditure type:	Concessional rate	*2016 TES code:*	A34
Estimate Reliability:	Medium - Low		
Commencement date:	2012	*Expiry date:*	
Legislative reference:	*Income Tax (Seasonal Labour Mobility Program Withholding Tax) Act 2012*		

Workers employed under the Seasonal Labour Mobility Program are subject to a final withholding tax of 15 per cent.

A36 Working holiday makers

Other economic affairs - Total labour and employment affairs ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
-	-	-	*	*	*	*	*

Tax expenditure type:	Concessional rate	*2016 TES code:*	A35
Estimate Reliability:	Not Applicable	** Category*	NA
Commencement date:	1 January 2017	*Expiry date:*	
Legislative reference:	*Income Tax Rates Amendment (Working Holiday Maker Reform) Act 2016*		

From 1 January 2017, a 15 per cent income tax rate applies to the Australian taxable income of working holiday makers up to $37,000, with ordinary tax rates applying to taxable income above this threshold.

Whether a working holiday maker is a resident for tax purposes depends on their individual circumstances.

For non-residents the 15 per cent rate is concessional relative to the benchmark, under which they would be taxed at 32.5 per cent from their first dollar of income. This results in a positive tax expenditure.

In contrast, the legislated treatment constitutes a negative tax expenditure for resident working holiday makers. Under the benchmark, this group would have access to a tax free threshold of $18,200.

A37 Exemption of foreign termination payments

Other economic affairs - Other economic affairs, nec ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2016 TES code:*	A36
Estimate Reliability:	Not Applicable	** Category*	1+
Commencement date:	2007	*Expiry date:*	
Legislative reference:	Subdivision 83-D of the *Income Tax Assessment Act 1997*		

Termination payments from foreign employment are non-assessable and non-exempt income where the taxpayer is a foreign resident. Where the taxpayer is an Australian resident for some of the period to which the termination payment relates, the payment will be non-assessable and non-exempt if it was received in consequence of the termination of a period of foreign employment or engagement for the purposes of section 23AF or section 23AG, the payment relates only to that period of employment or engagement and the payment is not exempt from income tax under the law of the foreign country. This does not apply if the payment is a superannuation benefit or a pension or annuity.

A38 Foreign income exemption for temporary residents

Other economic affairs - Other economic affairs, nec ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
55	75	85	90	90	90	90	90

Tax expenditure type:	Exemption	*2016 TES code:*	A37
Estimate Reliability:	Low		
Commencement date:	2006	*Expiry date:*	
Legislative reference:	Subdivision 768-R of the *Income Tax Assessment Act 1997*		

The majority of foreign source income of temporary residents is exempt from income tax, and capital gains on only some Australian assets of temporary residents are taxed. Interest paid to foreign lenders by temporary residents is exempt from withholding tax.

A39 Income tax exemption for Australian staff of the Asian Development Bank

Other economic affairs - Other economic affairs, nec ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
3	3	3	3	3	3	3	3

Tax expenditure type:	Exemption	*2016 TES code:*	A38
Estimate Reliability:	Medium - Low		
Commencement date:	2005	*Expiry date:*	
Legislative reference:	Regulation 6 of the *Asian Development Bank (Privileges and Immunities) Regulations 1967*		

The income of Australian resident officers of the Asian Development Bank (ADB) is exempt from tax. This exemption is part of the broader arrangement with the ADB that facilitates the day-to-day running of the Australian office which services the needs of the Pacific Island countries.

A40 Exemption of certain income support benefits, pensions or allowances

Social security and welfare ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
650	750	770	790	820	840	870	900

Tax expenditure type:	Exemption	*2016 TES code:*	A39
Estimate Reliability:	Low		
Commencement date:	Introduced before 1985	*Expiry date:*	
Legislative reference:	Subdivisions 52-A, 52-E and 52-F of the *Income Tax Assessment Act 1997*		

Certain social security payments are partly or fully exempt from income tax. These include: certain pensions; benefits; allowances; repatriation pensions paid under the *Social Security Act 1991* and the *National Health Act 1953*, for example, Disability Support Pension and Carer Payment; certain amounts of Commonwealth education or training payment; and certain parts of payments under the ABSTUDY scheme.

A41 Exemption of Family Tax Benefit payments

Social security and welfare ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
2,090	2,150	2,240	1,970	2,070	2,020	2,070	2,060

Tax expenditure type:	Exemption	*2016 TES code:*	A40
Estimate Reliability:	Medium		
Commencement date:	2000	*Expiry date:*	
Legislative reference:	Section 52-150 of the *Income Tax Assessment Act 1997*		

Family Tax Benefit payments are exempt from income tax.

A42 Exemptions of certain veterans' pensions, allowances or benefits, compensation, and particular World War II-related payments for persecution

Social security and welfare ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
550	610	600	580	560	550	550	560

Tax expenditure type:	Exemption	*2016 TES code:*	A41
Estimate Reliability:	Medium		
Commencement date:	Introduced before 1985	*Expiry date:*	
Legislative reference:	Subdivisions 52-B and 52-C and Section 768-105 of the *Income Tax Assessment Act 1997*		

Repatriation pensions, certain payments under the *Veterans Entitlements Act 1985* and *Military Rehabilitation and Compensation Act 2004*, payments under the *Australian Participants in British Nuclear Tests and British Commonwealth Occupation Force (Treatment) Act 2006*, certain foreign source World War II payments and compensation provided for legal advice to beneficiaries under the *Military Rehabilitation and Compensation Act 2004* are wholly or partly exempt from income tax.

Australian participants in the British nuclear tests of the 1950s and Australian veterans of the British Commonwealth Occupation Force that receive medical treatment using the Department of Veterans' Affairs Gold Card are exempt from the Medicare levy and Medicare levy surcharge.

A43 Denial of deduction of travel expenses for residential rental property

Housing and community amenities ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
-	-	-	-	..	-160	-180	-200

Tax expenditure type:	Denial of deduction	*2016 TES code:*	New
Estimate Reliability:	Medium		
Commencement date:	1 July 2017	*Expiry date:*	
Legislative reference:	*Treasury laws amendment (Housing Tax Integrity) Bill 2017*		

From 1 July 2017, travel expenses related to inspecting, maintaining or collecting rent for a residential rental property are disallowed. Expenses incurred in engaging third parties such as real estate agents for property management services will remain deductible.

This results in a negative tax expenditure as under the benchmark these expenses would be deductible.

A44 Exemption of payments made under the First Home Owners Grant Scheme

Housing and community amenities ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
275	185	190	180	190	185	185	190

Tax expenditure type:	Exemption	*2016 TES code:*	A42
Estimate Reliability:	Medium - Low		
Commencement date:	1 January 2000	*Expiry date:*	
Legislative reference:	*A New Tax System (Commonwealth State Financial Arrangements) Act 1999* Appendix A, *Intergovernmental Agreement on Federal Financial Relations Appropriation (Economic Security Strategy) Act (No. 2) 2008-09* and relevant state legislation.		

Payments made under the First Home Owners Grant Scheme are exempt from income tax.

A45 Zone tax offsets

Housing and community amenities ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
295	295	235	145	150	155	160	160

Tax expenditure type:	Offset	*2016 TES code:*	A43
Estimate Reliability:	Medium		
Commencement date:	Introduced before 1985	*Expiry date:*	
Legislative reference:	Section 79A of the *Income Tax Assessment Act 1936*		

Note: estimates include tax expenditures A45 and A13

Taxpayers who live in prescribed remote areas of Australia are eligible for a tax offset. Eligibility and the amount of the tax offset varies depending on the taxpayer's location.

From 1 July 2015, 'fly-in fly-out' workers whose normal residence is not in a zone are excluded from the offset. If their normal residence is in a different zone to the one in which they work, they receive the offset applicable to the zone in which they normally reside.

A46 Income averaging for authors, inventors, performing artists, production associates and sportspersons

Recreation and culture ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
25	30	35	40	40	45	50	60

Tax expenditure type:	Concessional rate	*2016 TES code:*	A44
Estimate Reliability:	Medium - High		
Commencement date:	1998	*Expiry date:*	
Legislative reference:	Division 405 of the *Income Tax Assessment Act 1997*		

Authors, composers, artists, inventors, performing artists, production associates and sportspersons, whose income can fluctuate significantly between income years, may be eligible for an income averaging scheme that reduces their overall tax liability.

A47 Income tax exemption of certain Prime Minister's prizes

Recreation and culture ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
..	..	..	..	..	..	..	..

Tax expenditure type:	Exemption	*2016 TES code:*	A45
Estimate Reliability:	High		
Commencement date:	1 July 2006	*Expiry date:*	
Legislative reference:	Section 51-60 of the *Income Tax Assessment Act 1997*		

The Prime Minister's Prize for Australian History, the Prime Minister's Prize for Science and the Prime Minister's Literary Award are exempt from income tax.

A48 Non-commercial losses deductions allowed for certain taxpayers with an adjusted taxable income under $250,000

Other economic affairs - Total labour and employment affairs ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Deduction	*2016 TES code:*	A46
Estimate Reliability:	Not Applicable	** Category*	3+
Commencement date:	1 July 2000	*Expiry date:*	
Legislative reference:	Division 35 of the *Income Tax Assessment Act 1997*		

Individuals carrying on a business and who have an adjusted taxable income of less than $250,000 may apply losses from a business activity against their other assessable income in that year if they satisfy one of four statutory tests in that year.

This treatment results in some business activities that are non-commercial in nature being treated as commercial. Allowing losses from these activities to be offset against other assessable income in these circumstances gives rise to a tax expenditure.

A49 Non-commercial losses exception rules for primary producers and artists

Other economic affairs - Total labour and employment affairs ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
20	15	15	20	20	20	20	20

Tax expenditure type:	Exemption	*2016 TES code:*	A47
Estimate Reliability:	Medium		
Commencement date:	1 January 2000	*Expiry date:*	
Legislative reference:	Subsection 35-10(4) of the *Income Tax Assessment Act 1997*		

The non-commercial losses rules prevent individuals carrying on unprofitable business activities claiming deductions for losses arising from such activities against their other income. Where a business activity is objectively determined to be commercial in nature, the Commissioner of Taxation allows the taxpayer to apply those losses against their other income.

Individuals that carry on a primary production or professional arts business, who have income from other sources of less than $40,000 (except net capital gains), are exempt from the non-commercial losses provisions.

A proportion of individuals carrying on primary production or professional arts businesses that access this exemption and apply losses from their business activity against their other income will nonetheless be carrying on an uncommercial business activity.

A50 Tax concessions for employee share schemes income

Other economic affairs - Total labour and employment affairs ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption, Deferral	*2016 TES code:*	A48
Estimate Reliability:	Not Applicable	** Category*	3+
Commencement date:	1 January 1995	*Expiry date:*	
Legislative reference:	Division 83A of the *Income Tax Assessment Act 1997*		

Discounts on shares and rights acquired under an employee share scheme are generally included in a taxpayer's assessable income in the year the shares or rights are acquired. However, there are a range of concessions available. An upfront tax exemption of $1,000 for eligible schemes is available to taxpayers earning less than $180,000 and a deferral of tax is available where there is a "real risk of forfeiture".

On 1 July 2015, additional tax concessions for employee share schemes took effect. The taxing point for rights now generally occurs when the rights are exercised (converted to shares). There is also a tax deferral (for rights) or exemption (for shares) on the discount component of employee share schemes provided at a small discount to employees of eligible start-up companies.

A51 Tax deferral advantage arising from personal after-tax contributions to a pension or annuity

Other economic affairs - Total labour and employment affairs ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Deferral	*2016 TES code:*	A49
Estimate Reliability:	Not Applicable	** Category*	2+
Commencement date:	Introduced before 1985	*Expiry date:*	
Legislative reference:	Section 27H of the *Income Tax Assessment Act 1936*		

The value of a pension or annuity may consist in part of contributions made from the recipient's after-tax income. This part of the income stream is not taxed again when it is returned in the form of pension or annuity payments. A tax expenditure arises because this part of the pension or annuity is apportioned evenly over the term of the income stream, providing a tax deferral advantage.

A52 Union dues and subscriptions to business associations deduction

Other economic affairs - Total labour and employment affairs ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Deduction	*2016 TES code:*	A50
Estimate Reliability:	Not Applicable	** Category*	1+
Commencement date:	Introduced before 1985	*Expiry date:*	
Legislative reference:	Section 25-55 of the *Income Tax Assessment Act 1997*		

Union dues and subscriptions to trade, business or professional associations are specifically tax deductible up to a maximum amount of $42. This deduction is available in addition to any work related expense deduction.

A53 Denial of deductions for illegal activities

Other economic affairs - Other economic affairs, nec ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Denial of deduction	*2016 TES code:*	A51
Estimate Reliability:	Not Applicable	** Category*	1-
Commencement date:	1 July 1999 (bribery), 30 April 2005 (illegal activities)	*Expiry date:*	
Legislative reference:	Sections 26-52, 26-53 and 26-54 of the *Income Tax Assessment Act 1997*		

Deductibility is denied for a loss or outgoing that is a bribe to a public official, including a foreign public official.

Deductions are also denied for expenditure to the extent it is incurred in the furtherance of, or directly in relation to, activities in respect of which the taxpayer has been convicted of an indictable offence. Indictable offences are those punishable by imprisonment for at least one year.

A54 Increased tax rates for certain minors

Other economic affairs - Other economic affairs, nec ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
-5	-6	-1	-4	-4	-4	-4	-4

Tax expenditure type:	Increased rate	*2016 TES code:*	A52
Estimate Reliability:	Medium - High		
Commencement date:	Introduced before 1985	*Expiry date:*	
Legislative reference:	Part III Division 6AA of the *Income Tax Assessment Act 1936*		

Higher rates of taxation apply to the unearned income of certain minors (for example, those classed as not being in a full-time occupation). Unearned income includes dividend, interest, rent, royalties and other income from property. Further, minors are unable to use the low income tax offset to reduce the tax payable on unearned income.

A55 Limit plant and equipment depreciation deductions to outlays actually incurred by investors

Other economic affairs - Other economic affairs, nec ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
-	-	-	-	-	-40	-100	-120

Tax expenditure type:	Denial of deduction	*2016 TES code:*	New
Estimate Reliability:	Very Low		
Commencement date:	1 July 2017	*Expiry date:*	
Legislative reference:	*Treasury laws amendment (Housing Tax Integrity) Bill 2017*		

From 1 July 2017, plant and equipment depreciation deductions are limited to outlays actually incurred by investors in residential real estate properties. Plant and equipment items are usually mechanical fixtures or those which can be 'easily' removed from a property such as dishwashers and ceiling fans. Acquisitions of existing plant and equipment items will be reflected in the cost base for capital gains tax purposes for subsequent investors. Plant and equipment forming part of residential investment properties as of 9 May 2017 (including contracts already entered into at 7:30PM (AEST) on 9 May 2017) will continue to give rise to deductions for depreciation until either the investor no longer owns the asset, or the asset reaches the end of its effective life.

This results in a negative tax expenditure as under the benchmark these expenses would be deductible.

A56 Part-year tax free threshold

Other economic affairs - Other economic affairs, nec ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
-25	-20	-20	-20	-20	-20	-15	-15

Tax expenditure type:	Increased rate	*2016 TES code:*	A53
Estimate Reliability:	Medium - High		
Commencement date:	1 January 1986	*Expiry date:*	
Legislative reference:	Sections 16 to 20 of the *Income Tax Rates Act 1986*		

Taxpayers who become an Australian resident for the first time, or cease to be an Australian resident, do not receive the full value of the statutory tax-free threshold. From 1 July 2012, they are able to access a tax-free threshold of at least $13,464, plus a pro-rated share of $4,736 corresponding to the number of months in the year that they are a resident for tax purposes.

A57 Philanthropy - deduction for gifts to deductible gift recipients

Other economic affairs - Other economic affairs, nec ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
1,080	1,180	1,240	1,200	1,300	1,390	1,500	1,640

Tax expenditure type:	Deduction	*2016 TES code:*	A54
Estimate Reliability:	Medium		
Commencement date:	Introduced before 1985	*Expiry date:*	
Legislative reference:	Division 30 of the *Income Tax Assessment Act 1997*		

Gifts of cash and property (subject to certain conditions) of a value of $2 or more to deductible gift recipients can be claimed as a deduction by donors.

A58 Philanthropy - deduction for gifts to private ancillary funds

Other economic affairs - Other economic affairs, nec ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
130	225	705	330	630	315	315	315

Tax expenditure type:	Deduction	*2016 TES code:*	A55
Estimate Reliability:	Low		
Commencement date:	1 October 2009	*Expiry date:*	
Legislative reference:	Item 2 of the table in Section 30-15 of the *Income Tax Assessment Act 1997*		

Private ancillary funds are funds established by businesses, families and individuals solely for the purpose of disbursing funds to charitable or philanthropic trusts (or for establishing such trusts). Donations of cash and property (subject to certain conditions) of a value of $2 or more to private ancillary funds which have deductible gift recipient status are tax deductible.

A59 Car expenses - alternatives to the logbook method

Other economic affairs - Total labour and employment affairs ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Deduction	*2016 TES code:*	A56
Estimate Reliability:	Not Applicable	** Category*	3+
Commencement date:	1 January 1987	*Expiry date:*	
Legislative reference:	Division 28 and Subdivision 900-C of the *Income Tax Assessment Act 1997*		

An alternative method to the logbook method (which is based on actual expenditure) is available to value car expense deductions. The ‘cents per kilometre’ method is available up to a maximum of 5,000 business kilometres. Prior to 1 July 2015, the ‘one third of actual expenses’ method and ‘12 per cent of original value’ method were available where business use exceeded 5,000 kilometres.

A60 Tax offset on certain payments of income received in arrears

Other economic affairs - Total labour and employment affairs ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
5	6	6	7	8	8	9	9

Tax expenditure type:	Offset	*2016 TES code:*	A57
Estimate Reliability:	Medium - Low		
Commencement date:	1 January 1986	*Expiry date:*	
Legislative reference:	Sections 159ZR to 159ZRD of the *Income Tax Assessment Act 1936*		

Individual taxpayers who receive lump sum payments of certain income, for example, salary and wages, which accrued in earlier income years may be entitled to a tax offset.

A61 Exemption for personal injury annuities

Other economic affairs - Other economic affairs, nec ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
..	..	..	..	..	..	..	..

Tax expenditure type:	Exemption	*2016 TES code:*	A58
Estimate Reliability:	Low		
Commencement date:	1 June 2002	*Expiry date:*	
Legislative reference:	Division 54 of the *Income Tax Assessment Act 1997*		

Certain annuities provided to personal injury victims under structured settlements and orders are exempt from income tax. This allows personal injury victims who would be eligible to receive large tax-free lump sum compensation payments to receive all or part of their compensation in the form of a tax-free annuity or annuities.

A62 Exemption of post-judgment interest awards in personal injury compensation cases

Other economic affairs - Other economic affairs, nec ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
4	4	4	4	4	4	4	4

Tax expenditure type:	Exemption	*2016 TES code:*	A59
Estimate Reliability:	Low		
Commencement date:	1997	*Expiry date:*	
Legislative reference:	Section 51-57 of the *Income Tax Assessment Act 1997*		

Interest accruing on a judgment debt arising in personal injury compensation cases, which relates to the period between the original judgment and when the judgment is finalised, is exempt from income tax.

A63 Low-value depreciating assets - immediate deduction

Other economic affairs - Other economic affairs, nec ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Deduction	*2016 TES code:*	A60
Estimate Reliability:	Not Applicable	** Category*	2+
Commencement date:	2001	*Expiry date:*	
Legislative reference:	Subsections 40-25(1) and 40-80(2) of the *Income Tax Assessment Act 1997*		

An immediate deduction is available for depreciating assets costing $300 or less where those assets are used mostly to earn non-business income.

Business income

B1 Denial of deductions by businesses for political donations

General public services - Legislative and executive affairs ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Denial of deduction	*2016 TES code:*	B1
Estimate Reliability:	Not Applicable	** Category*	1-
Commencement date:	1 July 2008	*Expiry date:*	
Legislative reference:	Sections 26-22 and 30-242 (3A) of the *Income Tax Assessment Act 1997*		

Business taxpayers are prevented from claiming deductions for gifts or contributions to political parties, independent members and independent candidates.

B2 Local government bodies income tax exemption

Other purposes - General purpose inter-governmental transactions ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
1,150	1,480	1,620	1,890	2,210	2,580	3,020	3,530

Tax expenditure type:	Exemption	*2016 TES code:*	B2
Estimate Reliability:	Medium		
Commencement date:	Introduced before 1985	*Expiry date:*	
Legislative reference:	Item 5.1 in the table in Section 50-25 of the *Income Tax Assessment Act 1997*		

Local government bodies and municipal corporations are exempt from income tax. This exemption includes the local governing bodies in Norfolk, Cocos (Keeling) and Christmas Islands.

B3 Exemptions for prescribed international organisations

General public services - Foreign affairs and economic aid ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2016 TES code:*	B3
Estimate Reliability:	Not Applicable	** Category*	2+
Commencement date:	1963	*Expiry date:*	
Legislative reference:	Section 6 of the International Organisations (Privileges and Immunities) Act 1963		

The income of certain prescribed international organisations is exempt from income tax. Interest and dividends received by such organisations are also exempt from withholding tax. Prescribed international organisations include the United Nations, the World Trade Organisation, the Organisation for Economic Cooperation and Development and various United Nations specialised agencies.

B4 Interest withholding tax and dividend withholding tax exemptions for overseas charitable institutions

General public services - Foreign affairs and economic aid ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2016 TES code:*	B4
Estimate Reliability:	Not Applicable	** Category*	2+
Commencement date:	1971	*Expiry date:*	
Legislative reference:	Paragraph 128B(3)(aa) of the *Income Tax Assessment Act 1936*		

Interest and dividends received by certain overseas charitable institutions are exempt from the interest and dividend withholding tax, respectively. This exemption only applies where the institutions are exempt from tax in their home country.

B5 Investment Manager Regime

General public services - Foreign affairs and economic aid ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2016 TES code:*	B5
Estimate Reliability:	Not Applicable	** Category*	2+
Commencement date:	1 July 2011	*Expiry date:*	
Legislative reference:	Subdivision 842-I of the *Income Tax Assessment Act 1997*		

The Investment Manager Regime (IMR) provides that, subject to meeting the appropriate tests, foreign funds that invest via an Australian fund manager are eligible to access IMR concessions in relation to gains and losses on the disposal of assets, and can disregard certain Australian income tax consequences. The effect of the IMR is that when a foreign investor invests in Australia through a foreign fund or an independent Australian fund manager it will generally be in the same tax position as if it had invested directly. The IMR does not apply to Australian residents.

B6 Reduced withholding tax under international tax treaties

General public services - Foreign affairs and economic aid ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
390	500	610	640	670	700	740	770

Tax expenditure type:	Exemption, Concessional rate	*2016 TES code:*	B6
Estimate Reliability:	Low		
Commencement date:	2008	*Expiry date:*	
Legislative reference:	*International Tax Agreements Act 1953*		

Tax treaties reduce or eliminate double taxation caused by the exercise of source and residence country taxing rights on cross border income flows. Under Australia's tax treaties, certain dividends, interest and royalties attract reduced withholding tax rates. These include interest withholding tax exemptions for financial institutions and governments and reduced dividend withholding tax rates where dividends are paid to companies with controlling interests in the companies paying the dividends, provided that certain integrity measures are satisfied.

B7 Income tax exemption for persons connected with certain US Government projects in Australia

Defence ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2016 TES code:*	B7
Estimate Reliability:	Not Applicable	** Category*	1+
Commencement date:	Introduced before 1985	*Expiry date:*	
Legislative reference:	Section 23AA of the *Income Tax Assessment Act 1936*		

The profit and remuneration of United States contractors, armed forces members and their associated employees, or others connected with certain approved United States Government projects in Australia are exempt from Australian income tax, where the income is subject to tax in the United States. Projects to which the exemption applies include the North West Cape Naval Communication Station and the Joint Defence Space Research Facility.

B8 Concessional tax treatment of offshore banking units

Other economic affairs - Other economic affairs, nec ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
200	250	295	325	325	325	325	325

Tax expenditure type:	Concessional rate	*2016 TES code:*	B8
Estimate Reliability:	Medium		
Commencement date:	1992	*Expiry date:*	
Legislative reference:	Part III, Division 9A, and Section 128GB of the *Income Tax Assessment Act 1936*		

Income (other than capital gains) derived by an offshore banking unit from eligible offshore banking activities is taxed at a concessional rate of 10 per cent. Interest paid by an offshore banking unit on qualifying offshore borrowings, and gold fees paid by an offshore banking unit on certain offshore gold borrowings, are exempt from withholding tax. From 1 July 2015, the list of eligible offshore banking activities has been updated to better target the regime and address integrity concerns.

B9 Exemption for foreign branch profits from income tax

Other economic affairs - Other economic affairs, nec ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2016 TES code:*	B9
Estimate Reliability:	Not Applicable	** Category*	4+
Commencement date:	1991	*Expiry date:*	
Legislative reference:	Section 23AH of the *Income Tax Assessment Act 1936*		

In general, income from a business carried on by an Australian company through a permanent establishment (branch) in a foreign country is exempt from income tax. The exempt income broadly comprises operating profits and capital gains but does not include passive or other tainted income where the branch fails an active income test.

B10 Exemption from accruals taxation system for certain transferor trusts

Other economic affairs - Other economic affairs, nec ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2016 TES code:*	B10
Estimate Reliability:	Not Applicable	** Category*	2+
Commencement date:	1991	*Expiry date:*	
Legislative reference:	Section 102AAT of the *Income Tax Assessment Act 1936*		

Under the transferor trust rules, the transferor would normally be subject to the accruals taxation system. However, the rules do not apply in relation to certain transfers to family, discretionary or non-discretionary trusts, or to certain transfers made before the transferor commenced being a resident. Transferor trust rules apply to Australian residents who have transferred property or services to a non-resident trust estate.

B11 Exemption from accruals taxation system for controlled foreign companies

Other economic affairs - Other economic affairs, nec ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2016 TES code:*	B11
Estimate Reliability:	Not Applicable	** Category*	2+
Commencement date:	1991	*Expiry date:*	
Legislative reference:	Sections 385 and 432 of the *Income Tax Assessment Act 1936*		

The accruals taxation system normally applies to income derived by controlled foreign companies (CFCs). However, most tainted income derived by CFCs in listed countries is exempt from the accruals taxation system (applied to the attributable taxpayer) as it is generally comparably taxed. An exemption also applies to CFCs that derive 95 per cent or more of their income from genuine business activities.

B12 Exemption from interest withholding tax on certain securities

Other economic affairs - Other economic affairs, nec ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
1,760	2,250	2,040	2,010	2,010	2,010	2,010	2,010

Tax expenditure type:	Exemption	*2016 TES code:*	B12
Estimate Reliability:	Medium		
Commencement date:	Introduced before 1985	*Expiry date:*	
Legislative reference:	Section 128F and 128FA of the *Income Tax Assessment Act 1936*		

Certain publicly offered debentures and debt interests are eligible for exemption from interest withholding tax, where those debentures and debt interests are issued in Australia by a State or Territory, the Commonwealth, a resident Australian company, a non-resident company operating through a permanent establishment, or certain public unit trusts. The exemption is not available where it involves certain dealings between associated entities.

B13 Exemption of inbound non-portfolio dividends from income tax

Other economic affairs - Other economic affairs, nec ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
630	680	690	550	500	500	500	500

Tax expenditure type:	Exemption	*2016 TES code:*	B13
Estimate Reliability:	Medium - Low		
Commencement date:	1991	*Expiry date:*	
Legislative reference:	Section 768-5 of the *Income Tax Assessment Act 1997*		

Non-portfolio dividends are dividends paid to a company where that company has a 10 per cent or greater voting interest in the company paying the dividend. These dividends are exempt from income tax where they are paid to an Australian resident company by a company resident in a foreign country.

B14 Interest withholding tax concession on interest payments by financial institutions

Other economic affairs - Other economic affairs, nec ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Concessional rate	*2016 TES code:*	B14
Estimate Reliability:	Not Applicable	** Category*	2+
Commencement date:	1994	*Expiry date:*	
Legislative reference:	Section 160ZZZJ of the *Income Tax Assessment Act 1936*		

The notional interest paid by an Australian branch of a foreign bank on borrowings from the foreign bank attracts a reduced effective rate of withholding tax of 5 per cent relative to the benchmark rate of 10 per cent.

B15 International tax – concessional rate of final withholding tax on certain distributions by clean building managed investment trusts to foreign residents

Other economic affairs - Other economic affairs, nec ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Included in B79							

Tax expenditure type:	Concessional rate	*2016 TES code:*	B15
Estimate Reliability:			
Commencement date:	2012	*Expiry date:*	
Legislative reference:	Section 12-385 of Schedule 1 to the *Taxation Administration Act 1953* Regulation 34 of the *Taxation Administration Regulations 2017*		

Distributions of Australian source net income (other than dividends, interest and royalties) paid to foreign residents by Australian managed investment trusts (MIT) that only hold energy efficient buildings that commenced construction on or after 1 July 2012 are subject to a final withholding tax of 10 per cent for residents of countries with which Australia has an information exchange arrangement. The concessional withholding tax rate on other income earned by a MIT, such as rent, to eligible foreign residents is generally 15 per cent.

B16 Threshold exemption for thin capitalisation

Other economic affairs - Other economic affairs, nec ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2016 TES code:*	B16
Estimate Reliability:	Not Applicable	** Category*	2+
Commencement date:	2001	*Expiry date:*	
Legislative reference:	Sections 820-35 and 820-37 of the *Income Tax Assessment Act 1997*		

The thin capitalisation regime is an integrity measure designed to ensure Australian and foreign owned multinational entities do not allocate an excessive amount of debt to their Australian operations.

Taxpayers will not be subject to the thin capitalisation regime if their debt deductions and those of their associates do not exceed the threshold amount of $250,000 for income years commencing prior to 1 July 2014 and $2 million for later income years. Outward investing entities are also excluded from the thin capitalisation regime if at least 90 per cent of their assets are Australian assets.

B17 Security agency transaction exemption

Defence ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2016 TES code:*	B17
Estimate Reliability:	Not Applicable	** Category*	1+
Commencement date:	1 July 2005	*Expiry date:*	
Legislative reference:	Division 850 of Schedule 1 to the *Taxation Administration Act 1953*		

The heads of the Australian Security Intelligence Organisation and the Australian Secret Intelligence Service have the power to declare that Commonwealth tax laws do not apply to a specified entity in relation to a specified transaction. This ensures that tax authorities do not need to obtain information that should remain secret in the interests of national security.

B18 Not-for-profit private health insurers income tax exemption

Health ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
135	105	110	100	100	100	100	100

Tax expenditure type:	Exemption	*2016 TES code:*	B18
Estimate Reliability:	Medium - Low		
Commencement date:	Introduced before 1985	*Expiry date:*	
Legislative reference:	Item 6.3 of the table in Section 50-30 of the *Income Tax Assessment Act 1997*		

The income of private health insurers covered by the *Private Health Insurance Act 2007* is exempt from income tax if the insurer is not operated for the gain or profit of its individual members.

B19 Deductibility for entertainment provided without charge to those in need

Social security and welfare ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Deduction	*2016 TES code:*	B19
Estimate Reliability:	Not Applicable	** Category*	1+
Commencement date:	16 December 1985	*Expiry date:*	
Legislative reference:	Section 32-50 of the *Income Tax Assessment Act 1997*		

The cost of entertainment, such as food and drink, provided in the course of carrying on a business is usually denied as a deduction. This rule does not apply where the entertainment is provided without charge to members of the public who are in need.

B20 Exemption for payments for mining on Aboriginal land

Social security and welfare ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2016 TES code:*	B20
Estimate Reliability:	Not Applicable	** Category*	1+
Commencement date:	8 July 1997	*Expiry date:*	
Legislative reference:	Section 59-15 of the *Income Tax Assessment Act 1997*		

Under the benchmark, payments in respect of mining rights are generally assessable to taxpayers. However, certain mining payments to Aboriginal and Torres Strait Islander persons or certain distributing bodies are exempt from income tax.

B21 Life insurance investment income taxation concession

Social security and welfare ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption, Offset, Concessional rate	*2016 TES code:*	B21
Estimate Reliability:	Not Applicable	** Category*	1+
Commencement date:	2000	*Expiry date:*	
Legislative reference:	Sections 26AH and 160AAB of the *Income Tax Assessment Act 1936*		

Some life insurance investment policyholders receive a concessional rate of tax because the policyholders' undistributed income is taxed at the company rate. This ensures that a reversionary bonus (the income distributed from a life insurance policy) on which the life insurance company has paid tax is not subject to double taxation in the hands of policyholders.

B22 Exemption of foreign currency gains and losses from certain low balance accounts

Other economic affairs - Other economic affairs, nec ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2016 TES code:*	B22
Estimate Reliability:	Not Applicable	** Category*	2+/-
Commencement date:	1 July 2003	*Expiry date:*	
Legislative reference:	Subdivision 775-D of the *Income Tax Assessment Act 1997*		

Taxpayers with low balance bank accounts or credit card accounts denominated in a foreign currency may elect to disregard gains and losses attributable to changes in exchange rates (made in respect of withdrawals and payments on these accounts) for tax purposes. Under the benchmark, taxpayers would have included the change of value of their accounts denominated in foreign currency (as an equivalent Australian dollar amount) when they make a withdrawal from or payment to the account in their assessable income or as an allowable tax deduction.

This option is available to all taxpayers other than financial institutions. Accounts with a combined credit or debit balance that does not exceed the foreign currency equivalent of A$250,000 will generally be eligible.

B23 Infrastructure – enhanced loss utilisation for designated projects

Other economic affairs - Other economic affairs, nec ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Deduction	*2016 TES code:*	B23
Estimate Reliability:	Not Applicable	** Category*	2+
Commencement date:	2013	*Expiry date:*	30 June 2017
Legislative reference:	Section 272-100 of the *Income Tax Assessment Act 1936* Section 165-35 and Division 415 of the *Income Tax Assessment Act 1997*		

Income tax losses of a designated infrastructure project are uplifted at the government bond rate and exempt from the loss recoupment tests.

Designated infrastructure project status is conferred by the Chief Executive Officer of Infrastructure Australia on privately financed infrastructure of national significance based on a range of criteria, including a global capital expenditure cap of $25 billion over the period from Royal Assent of the enabling legislation to 30 June 2017.

As at 1 July 2017, this concession was discontinued.

B24 Off-market share buy-backs

Other economic affairs - Other economic affairs, nec ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Offset	*2016 TES code:*	B24
Estimate Reliability:	Not Applicable	** Category*	4+
Commencement date:	1990	*Expiry date:*	
Legislative reference:	Division 16K of Part III and 177EA of the *Income Tax Assessment Act 1936*		

The proceeds paid to shareholders who participate in an off-market share buy-back are split into a dividend component and a capital component. The dividend component of the buy-back proceeds may be fully franked. This allows companies that undertake off-market share buy-backs to distribute franking credits to participating shareholders beyond the level that would normally be available. Treating part of the proceeds as a dividend makes off-market share buy-backs more attractive to low marginal tax rate taxpayers. This facilitates streaming of franking credits to those shareholders that can obtain the most benefit. The tax expenditure is equal to the difference in tax payable, had those franking credits been distributed uniformly to all shareholders.

B25 Tax exemption for National Rental Affordability Scheme incentives

Housing and community amenities ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
5	15	32	45	62	82	84	86

Tax expenditure type:	Exemption	*2016 TES code:*	B26
Estimate Reliability:	Very Low		
Commencement date:	1 July 2008	*Expiry date:*	
Legislative reference:	Division 380 of the *Income Tax Assessment Act 1997*		

The National Rental Affordability Scheme offers tax and cash incentives to providers of new dwellings on the condition that they are rented to low and moderate income households at a rate that is at least 20 per cent below market rates. The tax expenditure arises as the incentives are exempt from income tax.

The scheme is no longer open to new providers.

B26 Film industry concessions

Recreation and culture ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
61	69	50	62	58	76	57	51

Tax expenditure type:	Exemption	*2016 TES code:*	B27
Estimate Reliability:	Medium		
Commencement date:	2001	*Expiry date:*	
Legislative reference:	Division 376 of the *Income Tax Assessment Act 1997*		

Film production companies incurring expenditure on certain productions in Australia may be eligible for refundable tax offsets. The tax offsets are the location offset, the producer offset and the post, digital and visual effects offset.

As the refundable tax offset is an expense item, it does not appear as a tax expenditure in its own right. However, a tax expenditure arises because payments made under this arrangement are exempt from tax.

B27 Exemption from the tax shelter prepayments measure for certain passive investments

Other economic affairs - Other economic affairs, nec ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Accelerated write-off	*2016 TES code:*	B28
Estimate Reliability:	Not Applicable	** Category*	2+
Commencement date:	1988	*Expiry date:*	
Legislative reference:	Section 82KZME of the *Income Tax Assessment Act 1936*		

The benchmark treatment of tax shelter prepayments is that they are deductible over the period in which the services are provided. However, a prepayment in relation to investments in infrastructure bonds, shares, units, rental property and arrangements entered into before 11 November 1999 to which product rulings apply, is immediately deductible.

B28 Prepayment rule for small business taxpayers and non-business expenditure by individuals

Other economic affairs - Other economic affairs, nec ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Accelerated write-off	*2016 TES code:*	B29
Estimate Reliability:	Not Applicable	** Category*	2+
Commencement date:	2001	*Expiry date:*	
Legislative reference:	Section 82KZM of the *Income Tax Assessment Act 1936*		

The benchmark tax treatment of prepayments is that they are generally deductible over the period in which services are provided. However, prepayments for qualifying services by eligible small businesses and non-business prepayments by individual taxpayers are immediately deductible.

B29 The 10-year rule for prepayments

Other economic affairs - Other economic affairs, nec ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Accelerated write-off	*2016 TES code:*	B30
Estimate Reliability:	Not Applicable	** Category*	1+
Commencement date:	1988	*Expiry date:*	
Legislative reference:	Subsection 82KZL(1) of the *Income Tax Assessment Act 1936*		

A prepayment for services to be provided over a period of 10 years or more (for example, life membership) is evenly deducted over the first 10 years of that period. The benchmark treatment of prepayments is that they are deductible over the period of the expenditure. The tax expenditure allows deductions to be spread over a shorter period and consequently it allows greater deductions in the first 10 years than the benchmark treatment.

B30 Accelerated write-off for forestry managed investment schemes

Agriculture, forestry and fishing ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Accelerated write-off	*2016 TES code:*	B31
Estimate Reliability:	Not Applicable	** Category*	1+/-
Commencement date:	1 July 2007	*Expiry date:*	
Legislative reference:	Division 394 of the *Income Tax Assessment Act 1997*		

Under the benchmark, expenditure on forestry managed investment schemes is generally deductible over the period where benefits are provided. However, investors in forestry managed investment schemes are able to claim immediate upfront deductions for their expenditure on such schemes, provided that, amongst other requirements, at least 70 per cent of the expenditure is directly related to developing forestry.

B31 Deferral of profit from early sale of double wool clips

Agriculture, forestry and fishing ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Deferral	*2016 TES code:*	B32
Estimate Reliability:	Not Applicable	** Category*	1+
Commencement date:	1966	*Expiry date:*	
Legislative reference:	Section 385-135 of the *Income Tax Assessment Act 1997*		

The benchmark tax treatment of profits from business is they are assessable in the year in which they are derived. However, as a consequence of drought, fire or flood, primary producers carrying on a sheep grazing business in Australia may conduct shearing in advance. In these circumstances, a woolgrower may elect to have the assessment of the profit from the advanced shearing deferred to the following income year.

B32 Deferral or spreading of profit from the forced disposal or death of livestock

Agriculture, forestry and fishing ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Deferral	*2016 TES code:*	B33
Estimate Reliability:	Not Applicable	** Category*	2+/-
Commencement date:	1961	*Expiry date:*	
Legislative reference:	Subdivision 385-E of the *Income Tax Assessment Act 1997*		

The benchmark tax treatment of proceeds from the disposal of stock by a primary producer is that such amounts would be assessable income in the year in which they are derived. However, primary producers who receive income from the forced disposal or death of livestock can elect to defer this income and use it to reduce the cost of replacement livestock within the disposal year and:

- the next five income years; or
- the next 10 income years if the forced disposal was in relation to the control of bovine tuberculosis.

Alternatively, primary producers can elect to spread such amounts over the disposal year and the next four income years.

B33 Farm Management Deposit scheme

Agriculture, forestry and fishing ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
145	170	245	245	560	*	*	*

Tax expenditure type:	Deferral	*2016 TES code:*	B34
Estimate Reliability:	Medium	** Category*	3+
Commencement date:	1999	*Expiry date:*	
Legislative reference:	Division 393 of the *Income Tax Assessment Act 1997*		

Under the benchmark, income from primary production is generally assessable in the year in which it is derived. However, the Farm Management Deposit (FMD) scheme allows primary producers (with no more than $100,000 of non-primary production income) to defer the recognition of assessable income where a deposit is made into an FMD account. Primary producers are able to claim deductions for deposits made into their FMD account in the income year of deposit, with subsequent withdrawals being assessed in the income year of withdrawal. The FMD scheme has a maximum limit on deposits made prior to 1 July 2016 of $400,000 and $800,000 on deposits from 1 July 2016.

B34 Income tax averaging for primary producers

Agriculture, forestry and fishing ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
175	195	200	*	*	*	*	*

Tax expenditure type:	Concessional rate	*2016 TES code:*	B35
Estimate Reliability:	High	** Category*	3+
Commencement date:	1938	*Expiry date:*	
Legislative reference:	Division 392 of the *Income Tax Assessment Act 1997*		

The benchmark tax treatment is that income tax is paid on the taxable income of a taxpayer for an income year at their applicable rate of tax. However, primary producers can elect to pay tax at a tax rate based on their average income earned over the previous five income years to smooth out their income tax liability. Primary producers that choose to opt out of income tax averaging are able to re-enter the system after 10 income years.

B35 Spreading of insurance income for loss of timber or livestock

Agriculture, forestry and fishing ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Deferral	*2016 TES code:*	B36
Estimate Reliability:	Not Applicable	** Category*	2+
Commencement date:	1956	*Expiry date:*	
Legislative reference:	Section 385-130 of the *Income Tax Assessment Act 1997*		

The benchmark tax treatment is that insurance proceeds are consideration for the item that was lost or destroyed and may be assessable to the taxpayer. However, primary producers who receive insurance payouts in respect of trees lost because of fire, or livestock lost due to natural disasters, can elect to spread the income equally over five income years, resulting in a deferral of income tax.

B36 Sustainable Rural Water Use and Infrastructure Program

Agriculture, forestry and fishing ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
15	-5	-	-5	10	10	-15	-25

Tax expenditure type:	Exemption	*2016 TES code:*	B37
Estimate Reliability:	Medium - Low		
Commencement date:	1 April 2010	*Expiry date:*	
Legislative reference:	Section 59-65 of the *Income Tax Assessment Act 1997*		

Under the benchmark treatment, payments under the Sustainable Rural Water Use and Infrastructure Program would be assessable income, and the associated expenditure deductible or included in the cost base for calculating a capital gain. Taxpayers can instead choose to make payments received under eligible Sustainable Rural Water Use and Infrastructure Program agreements free of income tax (including capital gains tax), with expenditures funded by such payments not being deductible.

B37 Valuation of livestock from natural increase

Agriculture, forestry and fishing ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Discounted valuation	*2016 TES code:*	B38
Estimate Reliability:	Not Applicable	** Category*	2+
Commencement date:	1951	*Expiry date:*	
Legislative reference:	Subdivision 70-C of the *Income Tax Assessment Act 1997*		

For the purpose of working out the value of trading stock, several different methods are available for determining the value of animals acquired by natural increase. These methods may produce a value different to the actual cost of production, creating a tax expenditure.

B38 Denial of depreciation deduction for car value above the car limit

Transport and communication ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
-130	-130	-140	-150	-160	-170	-180	-180

Tax expenditure type:	Denial of deduction	*2016 TES code:*	B39
Estimate Reliability:	Low		
Commencement date:	1 July 2001	*Expiry date:*	
Legislative reference:	Section 40-230 of the *Income Tax Assessment Act 1997*		

If the value of a car used for income-producing purposes exceeds a certain amount ('car limit'), the amount of depreciation deductions that can be claimed is capped at the 'car limit'. This represents a negative tax expenditure as the full value of the car should be depreciated under the benchmark.

B39 Shipping – investment incentives

Transport and communication ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
30	30	30	30	30	30	30	30

Tax expenditure type:	Exemption, Accelerated write-off, Deferral	*2016 TES code:*	B40
Estimate Reliability:	Very Low		
Commencement date:	1 July 2012	*Expiry date:*	
Legislative reference:	Division 51-100 of the *Income Tax Assessment Act 1997* Subsection 128B(3) of the *Income Tax Assessment Act 1936* Item 10 of the table to Subsection 40-102(4) of the *Income Tax Assessment Act 1997* Subsection 40-285(5) of the *Income Tax Assessment Act 1997*		

Tax incentives are provided to encourage investment in the Australian shipping industry and to facilitate Australian competition on international routes. The investment incentives that may be available include accelerated depreciation of eligible vessels via a cap of 10 years on the effective life of those vessels, an income tax exemption for ship operators on qualifying shipping income, roll-over relief from income tax on the sale of an eligible vessel, and an exemption from royalty withholding tax for payments made for the lease of eligible vessels.

B40 Shipping – refundable tax offset for employers of qualifying Australian seafarers

Transport and communication ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
-	2	-	4	3	2	2	2

Tax expenditure type:	Exemption	*2016 TES code:*	B41
Estimate Reliability:	Medium		
Commencement date:	1 July 2012	*Expiry date:*	
Legislative reference:	Subdivision 61-N of the *Income Tax Assessment Act 1997*		

A refundable tax offset is available to qualifying companies that employ qualifying Australian seafarers. As the refundable tax offset is an expense item, it does not appear as a tax expenditure in its own right. However, a tax expenditure arises because payments made under this arrangement are exempt from tax.

B41 Deductions for boat expenditure

Other economic affairs - Tourism and area promotion ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Deduction	*2016 TES code:*	B42
Estimate Reliability:	Not Applicable	** Category*	1+
Commencement date:	2007	*Expiry date:*	
Legislative reference:	Section 26-47 of the *Income Tax Assessment Act 1997*		

The benchmark tax treatment for expenses not connected to a business, or to deriving assessable income is that such expenditure is generally not deductible. However, taxpayers who cannot demonstrate that they are carrying on a business using a boat can claim deductions for expenses incurred in boating activities up to the level of income generated in that year from their boating activity, and carry forward any excess deductions and deduct them against income from that boating activity in future years.

B42 Capital gains tax concession for carried interests paid to venture capital partners

Other economic affairs - Other economic affairs, nec ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Concessional rate, Deferral	*2016 TES code:*	B43
Estimate Reliability:	Not Applicable	** Category*	2+
Commencement date:	2002	*Expiry date:*	
Legislative reference:	Sections 104-255 and 118-21 of the *Income Tax Assessment Act 1997* *Venture Capital Act 2002*		

Venture capital fund managers may be paid a performance-based share of partnership profits by investors. Such performance payments are 'carried interests'. Under the benchmark, these entitlements are generally taxable income of the partner as they accrue. However, under the law, an entitlement to receive a carried interest is a capital gains tax event in the hands of venture capital fund partners and is not treated as income. Consequently, taxation of carried interests is deferred until a capital gain is realised. Individual partners may also be eligible for the 50 per cent discount on their carried interest.

B43 Clarification of the debt or equity treatment of perpetual subordinated debt

Other economic affairs - Other economic affairs, nec ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Deduction	*2016 TES code:*	B44
Estimate Reliability:	Not Applicable	** Category*	2+
Commencement date:	1 July 2001	*Expiry date:*	
Legislative reference:	Division 974 of the *Income Tax Assessment Act 1997* Division 974 of the *Income Tax Assessment Regulations 1997*		

Issuers can defer payments on Upper Tier 2 perpetual cumulative subordinated notes because of clauses on 'profitability, insolvency or negative earnings conditions'. In these circumstances, these notes can be classified as debt interests for tax purposes. As such, distributions on the notes may be tax deductible. Under the benchmark debt-equity rules, the notes would be equity interests and distributions will not be tax deductible.

B44 Deduction for borrowing expenses

Other economic affairs - Other economic affairs, nec ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Deduction	*2016 TES code:*	B45
Estimate Reliability:	Not Applicable	** Category*	2+
Commencement date:	1 July 1997	*Expiry date:*	
Legislative reference:	Section 25-25 of the *Income Tax Assessment Act 1997*		

A taxpayer is able to claim a deduction (spread over the shorter of the term of the loan or five years) for borrowing expenses incurred for borrowing money that is used for the purpose of producing assessable income. Borrowing expenses incurred in these circumstances would otherwise be capital in nature and included in the cost base of the asset.

B45 Deduction for certain co-operatives repaying government loans

Other economic affairs - Other economic affairs, nec ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Deduction	*2016 TES code:*	B46
Estimate Reliability:	Not Applicable	** Category*	2+
Commencement date:	1973	*Expiry date:*	
Legislative reference:	Sections 117 and 120 of the *Income Tax Assessment Act 1936*		

Under the benchmark, a repayment of the principal on a loan is generally not deductible. However, co-operative companies whose primary object is the acquisition from their shareholders of commodities or animals for disposal or distribution can claim a deduction for repayments of certain Australian and state government loans.

The deduction is allowed only if 90 per cent or more of the value of the company is held by shareholders who supply the company with the commodities or animals.

B46 Family trust loss rules

Other economic affairs - Other economic affairs, nec ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Deduction	*2016 TES code:*	B47
Estimate Reliability:	Not Applicable	** Category*	3+
Commencement date:	9 May 1995	*Expiry date:*	
Legislative reference:	Subdivision 272-D of Schedule 2F to the *Income Tax Assessment Act 1936*		

The benchmark treatment is that trust losses and debt deductions are prevented from being transferred to persons who did not bear the economic burden.

However, the family trust rules provide a concession to the individual specified in a family trust election (the test individual) of a family trust, and their family group, by allowing the transfer of the benefit of losses and debt deductions to members of the family trust.

B47 Income tax exemption for prescribed entities

Other economic affairs - Other economic affairs, nec ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2016 TES code:*	B48
Estimate Reliability:	Not Applicable	** Category*	4+
Commencement date:	Introduced before 1985	*Expiry date:*	
Legislative reference:	Division 50 of the *Income Tax Assessment Act 1997*		

The income of various prescribed entities is exempt from income tax. Prescribed entities include, amongst other things:

- Commonwealth, state and territory public authorities;
- public and not-for-profit hospitals;
- trade unions and employer associations;
- industry-specific not-for-profit associations predominantly devoted to promoting the development of aviation, tourism, agriculture, manufacturing or industry;
- registered charities, public educational, scientific, and community service entities; and
- associations and clubs established for the encouragement of sports, music, art or literature.

B48 Income tax exemptions for foreign superannuation funds

Other economic affairs - Other economic affairs, nec ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2016 TES code:*	B49
Estimate Reliability:	Not Applicable	** Category*	1+
Commencement date:	1981	*Expiry date:*	
Legislative reference:	Section 128D and paragraph 128B(3)(jb) of the *Income Tax Assessment Act 1936*		

Interest income and dividends received by foreign superannuation funds are exempt from income tax. This income is also exempt from interest and dividend withholding taxes if it is exempt from income tax in the country in which the foreign superannuation fund resides.

B49 Lower company tax rate

Other economic affairs - Other economic affairs, nec ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
-	-	250	1,100	1,300	1,600	1,800	2,200

Tax expenditure type:	Concessional rate	*2016 TES code:*	B50
Estimate Reliability:	Medium		
Commencement date:	1 July 2015	*Expiry date:*	30 June 2023
Legislative reference:	Subsection 23(2) of the *Income Tax Rates Act 1986*		

Companies that meet eligibility criteria and have aggregated turnover below annually defined thresholds face a company tax rate below the headline company rate. The lower tax rate was 28.5 per cent in 2015-16 and under the Government's Enterprise Tax Plan is 27.5 per cent in 2016-17 and subsequent years. The threshold is being progressively raised under the Plan. Pending the passage of legislation, this tax expenditure will terminate when the company tax rate is unified in 2023-24.

B50 Managed investment trusts — election to allow capital gains tax to be the primary code for disposals of certain assets

Other economic affairs - Other economic affairs, nec ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Concessional rate	*2016 TES code:*	B51
Estimate Reliability:	Not Applicable	** Category*	3+
Commencement date:	1 July 2008	*Expiry date:*	
Legislative reference:	Division 275 of the *Income Tax Assessment Act 1997*		

From the 2008-09 income year, eligible managed investment trusts (MITs) can make an irrevocable election to treat gains and losses on disposals of certain assets (primarily shares, units and real property) on capital account, that is, subject to the capital gains tax regime. If an eligible MIT does not make an irrevocable election to have capital account treatment, then gains and losses on disposals of shares and units will be treated as ordinary income on revenue account.

B51 Philanthropy - income tax exemption for small not-for-profit companies

Other economic affairs - Other economic affairs, nec ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
..	..	..	..	..	..	..	..

Tax expenditure type:	Exemption	*2016 TES code:*	B52
Estimate Reliability:	Low		
Commencement date:	Introduced before 1985	*Expiry date:*	
Legislative reference:	Subsection 23(6) of the *Income Tax Rates Act 1986*		

The rate of income tax payable by a not-for-profit company that has a taxable income not exceeding $416 in a given income year is nil. Income tax is payable at a rate of 55 per cent on income between $416 and $915 or between $416 and $832 if the company is a small business entity. When a not-for-profit company has an income over $915 or $832, if a small business entity, the applicable company tax rate is applied from the first dollar.

This arrangement has the effect of providing an exemption from income tax for not-for-profit companies for the first $416 of income, and then phasing in the ordinary corporate income tax rate of 30 per cent on all income, including the first $416, when the company has income between $416 and $915. Alternatively, if the company is a small business entity, this arrangement has the effect of providing an exemption from income tax for the first $416 of income then phasing in the small business corporate income tax rate of 27.5 per cent on all income, including the first $416, when the company has income between $416 and $832. When a not-for-profit company has an income over $915 or $832 if a small business entity, the applicable company tax rate is applied from the first dollar.

B52 Philanthropy - refund of franking credits for certain income tax exempt philanthropic entities

Other economic affairs - Other economic affairs, nec ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
560	740	1,160	*	*	*	*	*

Tax expenditure type:	Rebate	*2016 TES code:*	B53
Estimate Reliability:	High	** Category*	4+
Commencement date:	1 July 2000	*Expiry date:*	
Legislative reference:	Subdivision 207-E of the *Income Tax Assessment Act 1997*		

Generally, entities that are not subject to Australian tax cannot benefit from franking credits on distributions from Australian companies. However, entities that are endorsed as income tax exempt charities or income tax exempt deductible gift recipients are able to claim a refund of franking credits on distributions from Australian companies.

B53 Small business immediate deduction for professional expenses

Other economic affairs - Other economic affairs, nec ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
-	-	-	10	10	10	10	10

Tax expenditure type:	Accelerated write-off	*2016 TES code:*	B54
Estimate Reliability:	Low		
Commencement date:	1 July 2015	*Expiry date:*	
Legislative reference:	Section 40-880 of the *Income Tax Assessment Act 1997*		

From 1 July 2016, small business entities with an aggregated annual turnover of less than $10 million ($2 million before 1 July 2016) can immediately deduct a range of professional expenses associated with starting a new business, such as professional, legal and accounting advice. These professional costs would otherwise be deductible over a five year period, which is the benchmark treatment.

B54 Tax exemption for small and medium credit unions

Other economic affairs - Other economic affairs, nec ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
..	..	..	..	..	..	..	..

Tax expenditure type:	Exemption	*2016 TES code:*	B55
Estimate Reliability:	Medium		
Commencement date:	Introduced before 1985	*Expiry date:*	
Legislative reference:	Sections 6H and 23G of the *Income Tax Assessment Act 1936* Subsection 23(7) of the *Income Tax Rates Act 1986*		

The benchmark tax treatment is that interest derived from loans is assessable and taxed at the applicable tax rate for the entity. However, recognised small credit unions are exempt from tax on interest derived from loans to members.

Recognised medium credit unions are subject to an effective tax rate based on a sliding scale according to their level of taxable income.

B55 Tax incentives for early stage investors

Other economic affairs - Other economic affairs, nec ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
-	-	-	-	65	65	65	65

Tax expenditure type:	Exemption, Offset	*2016 TES code:*	B58
Estimate Reliability:	Low		
Commencement date:	2016	*Expiry date:*	
Legislative reference:	Division 360 of the *Income Tax Assessment Act 1997*		

Under the benchmark a tax expenditure arises because the tax offset reduces the amount of tax that would otherwise be paid.

Eligible investors in qualifying early-stage innovation companies receive a 20 per cent non-refundable carry forward tax offset based on their investment, capped at a total offset amount of $200,000 per investor in each income year. Non sophisticated investors are also subject to an annual $50,000 investment cap. Eligible investors also receive a ten year exemption from capital gains tax on their investment provided a minimum twelve month holding period has been met.

B56 Tax incentives for Venture Capital Limited Partnerships and Early Stage Venture Capital Limited Partnerships

Other economic affairs - Other economic affairs, nec ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption, Offset	*2016 TES code:*	B56
Estimate Reliability:	Not Applicable	** Category*	NA
Commencement date:	2002 and 2006	*Expiry date:*	
Legislative reference:	*Venture Capital Act 2002* Sections 26-68 (ESVCLPs), 51-52 and 51-54 and Subdivisions 118-F and 118-G (ESVCLPs and VCLPs) of the *Income Tax Assessment Act 1997*		

The benchmark tax treatment is that gains and income from investments are generally assessable. However, foreign investors are generally exempt from tax on capital gains derived in respect of their investments in Venture Capital Limited Partnerships. Similarly, eligible Australian and foreign investors in Early Stage Venture Capital Limited Partnerships (ESVCLPs) are generally exempt from tax on income, revenue and capital gains derived by the ESVCLP.

From 1 July 2016, additional tax incentives are available to ESVCLPs and their investors including a non-refundable carry-forward tax offset of up to 10 per cent for capital invested in new ESVCLPs.

B57 Treatment of distributions on certain term subordinated notes

Other economic affairs - Other economic affairs, nec ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Deduction	*2016 TES code:*	B59
Estimate Reliability:	Not Applicable	** Category*	1+
Commencement date:	1 July 2001	*Expiry date:*	
Legislative reference:	Division 974 of the *Income Tax Assessment Act 1997* Division 974 of the *Income Tax Assessment Regulations 1997*		

Issuers can defer payment on certain Tier 2 regulatory capital (subordinated notes) because of ‘insolvency or capital adequacy conditions’. In these circumstances, the notes can be classified as debt interests for tax purposes. As such, distributions on the notes may be tax deductible. Under the benchmark debt-equity rules, the notes would be equity interests and distributions will not be tax deductible.

B58 Treatment of finance leases

Other economic affairs - Other economic affairs, nec ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Deduction	*2016 TES code:*	B60
Estimate Reliability:	Not Applicable	** Category*	2+
Commencement date:	1936	*Expiry date:*	
Legislative reference:	Divisions 240-242 and 250 of the *Income Tax Assessment Act 1997*		

A finance lease is, in substance, equivalent to a loan from the lessor to the lessee to finance the purchase of the leased asset. The lessor (financier) acquires the leased asset at the request of the lessee (borrower) and leases the asset to the lessee. On expiry of the lease, legal ownership of the asset is transferred to the lessee at minimal or no cost. During the term of the lease, while the lessor is the legal owner of the leased asset, the lessee has effective economic ownership through having control, use and enjoyment of the asset.

Except where specific provisions apply, for example, Divisions 240 and 250 of the *Income Tax Assessment Act 1997*, finance leases are taxed as leases rather than as loans. Given their economic substance, finance leases should be taxed as a loan from the lessor to the lessee to acquire the leased asset under the benchmark. That is, the interest payments should be deductible to the lessee and assessable to the lessor, and the lessee be able to claim depreciation deductions for the user cost of the leased asset.

B59 Unincorporated small business tax discount

Other economic affairs - Other economic affairs, nec ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
-	-	-	550	750	800	800	800

Tax expenditure type:	Offset	*2016 TES code:*	B61
Estimate Reliability:	Medium - Low		
Commencement date:	1 July 2015	*Expiry date:*	
Legislative reference:	Subdivision 328-F of the *Income Tax Assessment Act 1997*		

Under the benchmark, business income is generally fully assessable to the taxpayer. However, individual taxpayers with business income from an unincorporated small business that has aggregated annual turnover less than $5 million are eligible for an 8 per cent tax discount on the income tax payable on that business income in the 2016-17 income year. This discount rate will be increased over time until it reaches 16 per cent in 2026-27. The discount is capped at $1,000 per individual for each income year and is delivered as a non-refundable tax offset.

Previously in the 2015-16 income year the aggregated annual turnover threshold was less than $2 million and the tax discount rate was 5 per cent.

B60 Accelerated depreciation of fencing and fodder storage assets for primary producers

Agriculture, forestry and fishing ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
-	-	5	35	60	85	80	80

Tax expenditure type:	Accelerated write-off	*2016 TES code:*	B62
Estimate Reliability:	Low		
Commencement date:	12 May 2015	*Expiry date:*	
Legislative reference:	Section 40-10 and Subdivision 40-F of the *Income Tax Assessment Act 1997*		

Under the benchmark, the effective life for fences is up to 30 years and fodder storage assets is up to 50 years. However, primary producers can immediately deduct capital expenditure on fencing assets and depreciate over three income years capital expenditure on fodder storage assets such as silos and tanks used to store grain and other animal feed.

B61 Accelerated write-off for expenditure on water facilities for primary producers

Agriculture, forestry and fishing ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
70	5	10	25	40	35	30	30

Tax expenditure type:	Accelerated write-off	*2016 TES code:*	B63
Estimate Reliability:	Medium - Low		
Commencement date:	23 May 1980	*Expiry date:*	
Legislative reference:	Subdivision 40-F of the *Income Tax Assessment Act 1997*		

Note: estimates include tax expenditures B61, B63 and B64

Under the benchmark, expenditure on water facilities is generally deductible over the effective life of the asset. However, primary producers can immediately deduct capital expenditure on water facilities, such as dams, tanks and pumps, from 12 May 2015. Previously this expenditure was deductible over three years. The expenditure must be incurred primarily for conserving or conveying water for use in primary production.

B62 Accelerated write-off for horticultural plants

Agriculture, forestry and fishing ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Accelerated write-off	*2016 TES code:*	B65
Estimate Reliability:	Not Applicable	** Category*	1+
Commencement date:	1995	*Expiry date:*	
Legislative reference:	Subdivision 40-F of the *Income Tax Assessment Act 1997*		

Capital expenditure incurred in establishing horticultural plants can be written off using an accelerated depreciation regime, with deductions available from the first commercial season. The cost of establishing plants with an effective life of less than three years can be written off in the first commercial year. Plants with an effective life of more than three years can be depreciated over a shorter period than their effective life using the maximum write-off periods set out in the legislation.

B63 Accelerated write-off for irrigation water providers

Agriculture, forestry and fishing ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Included in B61							

Tax expenditure type:	Accelerated write-off	*2016 TES code:*	B66
Estimate Reliability:			
Commencement date:	1 July 2004	*Expiry date:*	
Legislative reference:	Subdivision 40-F of the *Income Tax Assessment Act 1997*		

Under the benchmark, expenditure on landcare and water facilities is generally deductible over the effective life of the asset. However, certain irrigation water providers can claim an immediate deduction for capital expenditure on landcare activities and water facilities.

B64 Accelerated write-off for landcare operations

Agriculture, forestry and fishing ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Included in B61							

Tax expenditure type:	Accelerated write-off	*2016 TES code:*	B67
Estimate Reliability:			
Commencement date:	11 December 1973	*Expiry date:*	
Legislative reference:	Subdivision 40-G of the *Income Tax Assessment Act 1997*		

Primary producers and business users of rural land can claim an immediate deduction for capital expenditure on landcare operations, such as constructing a levee or prevention of land degradation.

B65 Accelerated write-off for telephone lines and electricity connections

Agriculture, forestry and fishing ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Accelerated write-off	*2016 TES code:*	B68
Estimate Reliability:	Not Applicable	** Category*	1+
Commencement date:	24 June 1981	*Expiry date:*	
Legislative reference:	Subdivision 40-G of the *Income Tax Assessment Act 1997*		

Capital expenditure incurred in connecting a telephone line to a primary production property and capital expenditure incurred in connecting or upgrading mains electricity to a property on which a business is conducted can be deducted in equal instalments over 10 years, rather than over the effective life of the asset.

B66 Closing stock valuation options for horse breeding stock

Agriculture, forestry and fishing ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Deduction, Discounted valuation	*2016 TES code:*	B64
Estimate Reliability:	Not Applicable	** Category*	2+
Commencement date:	1992	*Expiry date:*	
Legislative reference:	Sections 70-60 and 70-65 of the *Income Tax Assessment Act 1997*		

Under the benchmark, horse breeding trading stock would be allocated a closing stock value of either cost, market value or replacement value. However, taxpayers can elect to write down the closing value of horse breeding stock that is at least 3 years old, at up to 25 per cent of the cost of sires per annum and up to 33⅓ per cent of the cost of mares per annum, on a prime cost basis.

B67 Absence of depreciation recapture for certain assets

Mining, manufacturing and construction ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Deduction	*2016 TES code:*	B69
Estimate Reliability:	Not Applicable	** Category*	2+
Commencement date:	1982	*Expiry date:*	
Legislative reference:	Division 43 and Section 110-45 of the *Income Tax Assessment Act 1997*		

Certain buildings and structures receive deductions that are not recaptured by balancing adjustment on disposal of the asset. This tax expenditure is offset by reductions in the capital gains tax cost base of the assets concerned.

B68 Exploration and prospecting deduction

Mining, manufacturing and construction ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
-450	-450	-450	-400	-400	-400	-400	-350

Tax expenditure type:	Deduction	*2016 TES code:*	B70
Estimate Reliability:	Medium		
Commencement date:	1968	*Expiry date:*	
Legislative reference:	Sections 40-25 and 40-730, and Subsections 40-80(1) and 40-95(12) of the *Income Tax Assessment Act 1997*		

Expenditure on exploration or prospecting for the purpose of mining (including for petroleum) and quarrying is immediately deductible. In addition, the cost of a depreciating asset is immediately deductible if the taxpayer first uses the asset for exploration or prospecting for minerals (including petroleum) or quarry materials obtainable by mining operations, subject to certain conditions.

From 14 May 2013, the cost of a mining, quarrying or prospecting right or information first used for exploration is generally deductible over its effective life or 15 years, whichever is shorter. However, realignment and farm-in, farm-out arrangements remain immediately deductible.

B69 Statutory effective life caps

Transport and communication ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Accelerated write-off	*2016 TES code:*	B71
Estimate Reliability:	Low	** Category*	4+
Commencement date:	2002	*Expiry date:*	
Legislative reference:	Section 40-102 of the *Income Tax Assessment Act 1997*		

Statutory effective life caps provide a shorter write-off period for some assets, where the cap is below the effective life determined by the Commissioner of Taxation. Statutory caps exist for assets such as aircraft, trucks, truck trailers, buses, tractors and harvesters.

B70 Accelerated depreciation for in-house software

Other economic affairs - Other economic affairs, nec ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
-5	15	-	-50	-115	-195	-180	-75

Tax expenditure type:	Accelerated write-off	*2016 TES code:*	B72
Estimate Reliability:	Low		
Commencement date:	1998	*Expiry date:*	
Legislative reference:	Subdivisions 40-B and 40-E of the *Income Tax Assessment Act 1997*		

Expenditure on acquiring in-house software is depreciated over a statutory effective life of four years, rather than an effective life that is self-assessed by the taxpayer or that is determined by the Commissioner of Taxation. Expenditure incurred on developing software may be allocated to a software development pool and deducted over four years, enabling a deduction to be claimed during development and before completion.

From 1 July 2015, the statutory effective life was increased to five years, which is consistent with the benchmark treatment.

From 1 July 2016, businesses will have the option to self-assess the effective life of acquired in-house software.

B71 Capital works expenditure deduction

Other economic affairs - Other economic affairs, nec ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
720	775	915	965	1,040	1,125	1,225	1,340

Tax expenditure type:	Accelerated write-off	*2016 TES code:*	B73
Estimate Reliability:	Low		
Commencement date:	21 August 1979	*Expiry date:*	
Legislative reference:	Division 43 of the *Income Tax Assessment Act 1997*		

A taxpayer can claim a deduction for capital works expenditure over a period that is generally shorter than the effective life of the asset. Capital works can be deducted at either 2.5 per cent (over 40 years) or 4 per cent (over 25 years) of the construction expenditure, depending on when construction started and how the capital works are used.

B72 Depreciation balancing adjustment roll-over relief

Other economic affairs - Other economic affairs, nec ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Deferral	*2016 TES code:*	B74
Estimate Reliability:	Not Applicable	** Category*	1+
Commencement date:	1952	*Expiry date:*	
Legislative reference:	Section 40-340 of the *Income Tax Assessment Act 1997*		

'Balancing adjustments' arise when the disposal value of a depreciating asset exceeds its depreciated value. The tax liability for such balancing adjustments can be deferred where the balancing adjustment arises from certain changes in ownership, such as disposal as a result of a marriage breakdown. The transferee is taken to acquire the asset at the written down value and must depreciate the asset in the same way as the transferor.

B73 Depreciation pooling for low value assets

Other economic affairs - Other economic affairs, nec ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
5	5	5	..	..	5	10	15

Tax expenditure type:	Accelerated write-off	*2016 TES code:*	B75
Estimate Reliability:	Medium		
Commencement date:	2000	*Expiry date:*	
Legislative reference:	Subdivision 40-E of the *Income Tax Assessment Act 1997*		

Assets costing less than $1,000 can be written off at the declining balance rate of 37.5 per cent through a low value asset pool. Once a taxpayer elects to create a low value pool, all assets that cost less than $1,000 are subject to the declining balance rate treatment.

B74 Depreciation to nil value rather than estimated scrap value

Other economic affairs - Other economic affairs, nec ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Deferral	*2016 TES code:*	B76
Estimate Reliability:	Not Applicable	** Category*	1+
Commencement date:	1936	*Expiry date:*	
Legislative reference:	Division 40 of the *Income Tax Assessment Act 1997*		

Taxpayers are entitled to write-off the cost of depreciating assets to zero value, rather than to the estimated disposal value of the asset. Any gain on disposal of the asset is assessed as income at the time of disposal through a balancing adjustment. This results in a tax deferral.

B75 Research and development — exemption of refundable tax offset

Other economic affairs - Other economic affairs, nec ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
-290	-350	-400	-455	-505	-525	-555	-590

Tax expenditure type:	Exemption, Denial of deduction	*2016 TES code:*	B77
Estimate Reliability:	Medium - Low		
Commencement date:	1 July 2011	*Expiry date:*	
Legislative reference:	Division 355 of the *Income Tax Assessment Act 1997*		

As a refundable tax offset is an expense item, it generally does not appear as a tax expenditure. However, under the benchmark a tax expenditure arises because payments made under this arrangement are exempt from tax. Additionally, companies that claim the research and development (R&D) refundable tax offset are unable to claim ordinary tax deductions for the R&D expenditure. The absence of these deductions constitutes a negative tax expenditure.

The R&D refundable tax offset is available to companies with a turnover of less than $20 million at a rate of 43.5 per cent for the first $100 million of expenditure on eligible R&D activities for income years beginning from 1 July 2016. A refundable tax offset at the prevailing company tax rate applies to the amount of the expenditure that exceeds $100 million. For previous income years, the refundable tax offset rate is 45 per cent for all eligible expenditure.

If a taxpayer's income tax liability is reduced to zero, any unused refundable tax offset amount can be applied to reduce other tax liabilities. Any residual unused amounts can be refunded as cash to the company.

B76 Research and development — non-refundable tax offset

Other economic affairs - Other economic affairs, nec ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
1,160	1,030	900	840	780	720	720	720

Tax expenditure type:	Offset	*2016 TES code:*	B78
Estimate Reliability:	Low		
Commencement date:	1 July 2011	*Expiry date:*	
Legislative reference:	Division 355 of the *Income Tax Assessment Act 1997*		

Under the benchmark a tax expenditure arises because the tax offset reduces the amount of tax that would otherwise be paid.

The R&D non-refundable tax offset is available to companies at a rate of 38.5 per cent for the first $100 million of expenditure on eligible R&D activities for income years beginning from 1 July 2016. A non-refundable tax offset at the prevailing company tax rate applies to the amount of the expenditure that exceeds $100 million. For previous income years, the non-refundable tax offset rate is 40 per cent for all eligible expenditure.

The non-refundable tax offset can be carried forward to be applied against future income tax liabilities. If a company's income tax liability is zero, unused offset amounts cannot be applied to reduce other tax liabilities.

B77 Small business simplified depreciation rules

Other economic affairs - Other economic affairs, nec ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
200	-100	-200	1,100	1,200	900	-800	-1,000

Tax expenditure type:	Accelerated write-off	*2016 TES code:*	B79
Estimate Reliability:	Medium - Low		
Commencement date:	2007	*Expiry date:*	
Legislative reference:	Subdivision 328-D of the *Income Tax Assessment Act 1997*		

Under the benchmark, depreciating assets are generally written off over their effective life. However, small business entities with an aggregated annual turnover of less than $10 million ($2 million before 1 July 2016) are able to access concessional depreciation arrangements for business assets. Under the concessions, small business entities can immediately deduct assets that cost less than a threshold amount. From 1 July 2012 to before 1 January 2014 the threshold was $6,500. From 1 January 2014 to 7.30pm (AEST) on 12 May 2015 the threshold was $1,000. Between 7.30pm (AEST) on 12 May 2015 and 30 June 2018 the threshold is $20,000. The threshold will return to $1,000 from 1 July 2018.

In addition to the immediate write-off, assets above the threshold are depreciated through simplified pooling arrangements at a rate of 30 per cent per year (15 per cent in the first year). The general small business pool can also be immediately deducted at the end of the income year if its value is less than the immediate write-off threshold (before deducting depreciation for the year).

B78 Small business simplified trading stock rules

Other economic affairs - Other economic affairs, nec ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Deferral	*2016 TES code:*	B80
Estimate Reliability:	Not Applicable	** Category*	1+
Commencement date:	2007	*Expiry date:*	
Legislative reference:	Subdivision 328-E of the *Income Tax Assessment Act 1997*		

Small business entities with aggregated annual turnover of less than $10 million ($2 million before 1 July 2016) may choose to use a simplified trading stock regime. Under this regime, in certain circumstances, changes in the value of trading stock do not have to be accounted for and stocktaking is not required at the end of the income year.

B79 International tax – concessional rate of final withholding tax on certain distributions by Australian managed investment trusts to foreign residents

General public services - General services ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
295	220	300	255	235	235	235	235

Tax expenditure type:	Concessional rate	*2016 TES code:*	B81
Estimate Reliability:	Low		
Commencement date:	1 July 2008	*Expiry date:*	
Legislative reference:	Subdivision 12-H of Schedule 1 to the *Taxation Administration Act 1953* Regulation 34 of the *Taxation Administration Regulations 2017*		

Note: estimates include tax expenditures B15 and B79

Distributions of Australian source net income (other than dividends, interest and royalties) by Australian managed investment trusts to foreign residents are subject to a final withholding tax. Since 1 July 2012, a 15 per cent rate has applied for residents of countries with which Australia has an information exchange arrangement (contained in Regulation 34 of the *Taxation Administration Regulations 2017*). Before 1 July 2008, distributions of Australian source net income (other than dividends, interest and royalties) were subject to a 30 per cent non-final withholding tax.

B80 Exception to equity interest test for certain related party at call loans

Other economic affairs - Other economic affairs, nec ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Deduction	*2016 TES code:*	B82
Estimate Reliability:	Not Applicable	** Category*	2+
Commencement date:	1 July 2005	*Expiry date:*	
Legislative reference:	Division 974 of the *Income Tax Assessment Act 1997*		

Related party at call loans, which would generally give rise to an equity interest, are taken to be debt interests for companies that have an annual turnover of less than $20 million. Therefore, payments on the loan are deductible debt interest whereas they are treated as a non-deductible equity interest under the benchmark.

RETIREMENT SAVINGS

C1 Concessional taxation of capital gains for superannuation funds

Social security and welfare ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
170	470	610	1,000	1,350	1,700	2,050	2,350

Tax expenditure type:	Reduction in taxable value	*2016 TES code:*	C1
Estimate Reliability:	Low		
Commencement date:	1999	*Expiry date:*	
Legislative reference:	Paragraph 115-10(b) and subparagraph 115-100(b)(i) of the *Income Tax Assessment Act 1997*		

In general, income earned by a superannuation fund is taxed at 15 per cent, to the extent the income rises during the accumulation phase. Two-thirds of any nominal capital gain made from a capital gains tax event occurring on or after 21 September 1999 is included in the assessable income of a fund, provided the fund has held the asset for at least 12 months. This effectively results in capital gains being taxed at a 10 per cent rate.

C2 Concessional taxation of employer superannuation contributions

Social security and welfare ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
14,500	16,050	17,150	16,150	16,900	17,750	19,400	20,900

Tax expenditure type:	Exemption, Concessional rate	*2016 TES code:*	C2
Estimate Reliability:	Medium		
Commencement date:	Introduced before 1985	*Expiry date:*	
Legislative reference:	Divisions 290, 291, 293 and 295 of the *Income Tax Assessment Act 1997*		

Employer contributions, up to the concessional contributions caps, are included in the assessable income of a superannuation entity and taxed at a concessional rate of 15 per cent. For individuals whose combined income and concessional contributions exceeds $250,000, the effective rate is 30 per cent.

Before 1 July 2017, the effective rate was 30 per cent for individuals whose combined income and concessional contributions exceeded $300,000.

C3 Concessional taxation of personal superannuation contributions

Social security and welfare ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
550	710	950	960	750	1,550	1,500	1,800

Tax expenditure type:	Exemption, Concessional rate	*2016 TES code:*	C3
Estimate Reliability:	Medium		
Commencement date:	Introduced before 1985	*Expiry date:*	
Legislative reference:	Divisions 290, 291, 293 and 295 of the *Income Tax Assessment Act 1997*		

Subject to the concessional contributions caps, deducted personal superannuation contributions to eligible superannuation funds are taxed at a concessional rate of 15 per cent. For individuals whose combined income and concessional contributions exceeds $250,000, the effective rate is 30 per cent.

Before 1 July 2017, only individuals earning less than 10 per cent of their income as an employee were able to make deductible personal superannuation contributions up to the concessional cap to eligible superannuation funds. Before 1 July 2017, for individuals whose combined income and concessional contributions exceeded $300,000 the effective rate was 30 per cent.

C4 Concessional taxation of superannuation entity earnings

Social security and welfare ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
11,350	12,250	16,400	18,350	19,250	23,250	26,050	28,950

Tax expenditure type:	Exemption, Concessional rate	*2016 TES code:*	C4
Estimate Reliability:	Low		
Commencement date:	Introduced before 1985	*Expiry date:*	
Legislative reference:	Division 295 of the *Income Tax Assessment Act 1997*		

The tax rate on earnings for complying superannuation entities is 15 per cent (accumulation phase) or nil where the earnings are derived from assets which are used to meet current pension liabilities (retirement phase). Complying superannuation entities are entitled to refunds of excess imputation credits attached to dividends payable to them.

A complying superannuation entity is one that has elected to be regulated and has complied with certain prudential requirements in the *Superannuation Industry (Supervision) Act 1993.*

From 1 July 2017, the value of assets transferred to the retirement phase is limited by the general transfer balance cap.

C5 Concessional taxation of unfunded superannuation

Social security and welfare ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
500	540	550	580	590	610	640	670

Tax expenditure type:	Exemption, Offset, Concessional rate	*2016 TES code:*	C5
Estimate Reliability:	Medium		
Commencement date:	Introduced before 1985	*Expiry date:*	
Legislative reference:	Part 3-30 and Subdivision 320-D of the *Income Tax Assessment Act 1997* Part 3-30 of the *Income Tax (Transitional Provisions) Act 1997*		

In the case of unfunded superannuation, no employer contributions are made until the benefit is provided on the member's retirement. The appropriate benchmark treatment of these amounts is taxation at personal rates on receipt by the member.

Unfunded superannuation lump sums are taxed in the same way as funded superannuation lump sums from untaxed funds (see C11). Similarly, unfunded superannuation income streams are taxed in the same way as funded superannuation income streams from untaxed funds (see C10). The tax treatment of a death benefit paid to a dependant as an income stream depends on the age of the fund member and the dependant. If either was aged 60 or over at the time of death, then the taxable component of payments to the dependant will be taxed at marginal rates with a 10 per cent tax offset. If both were under age 60 at the time of death, the taxable component of the pension will be taxed at the dependant's marginal rate and will become eligible for the 10 per cent offset once the dependant reaches age 60.

From 1 July 2017, where an individual's income stream from an unfunded scheme exceeds a $100,000 threshold, the amount in excess of the threshold does not receive the 10 per cent tax offset.

C6 Deductibility of life and total permanent disability insurance premiums provided inside of superannuation

Social security and welfare ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
1,520	1,790	2,020	2,120	2,370	2,540	2,730	2,950

Tax expenditure type:	Deduction, Concessional rate	*2016 TES code:*	New
Estimate Reliability:	Medium		
Commencement date:	15 March 2007	*Expiry date:*	
Legislative reference:	*Tax Assessment Act 1997* - Subdivision 295-G		

Death, total and permanent disability (TPD) and income protection policies can be provided inside of superannuation and premiums paid out of members' superannuation balances. These premiums are deductible (either partially or fully) for the fund. Therefore the income used to purchase members' premiums is effectively exempt from tax.

By contrast, death and TPD life insurance policies that are purchased by individuals outside of the superannuation system are not tax deductible, and must be purchased with after-tax income.

This item estimates the difference between the effective tax exempt status of income used to purchase death and TPD insurance in superannuation, and the tax that would be paid on this income by the individual policy holder had it been purchased outside of superannuation.

As income protection policies purchased outside the superannuation system are tax deductible, a tax expenditure does not arise when such policies are provided inside superannuation.

C7 Small business capital gains retirement exemption

Social security and welfare ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
390	410	480	530	550	560	590	620

Tax expenditure type:	Exemption	*2016 TES code:*	C6
Estimate Reliability:	Medium - Low		
Commencement date:	1997	*Expiry date:*	
Legislative reference:	Subdivision 152-D of the *Income Tax Assessment Act 1997*		

Under the benchmark, realised capital gains are generally assessable to taxpayers at their applicable tax rate in the year they arise. However, eligible small businesses can exclude capital gains arising from the sale of active small business assets, where the proceeds of the sale are used for retirement. There is a lifetime limit of $500,000 in respect of any one individual.

C8 Superannuation measures for low-income earners

Social security and welfare ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
120	200	220	210	210	220	220	220

Tax expenditure type:	Exemption, Reduction in taxable value	*2016 TES code:*	C7
Estimate Reliability:	Medium - Low		
Commencement date:	Co-contr bution introduced 1/7/2003. Low income superannuation contribution introduced 1/7/2012. Low income superannuation tax offset to be introduced 1/7/2017	*Expiry date:*	Low income superannuation contribution ends 30/6/2017. Co-contribution is ongoing.
Legislative reference:	*Superannuation (Government Co-Contribution for Low Income Earners) Act 2003* Subdivision 290-D of the *Income Tax Assessment Act 1997*		

The Superannuation Co-contribution and the Low Income Superannuation Tax Offset are Government payments that increase the retirement savings of eligible low-income taxpayers. The Low Income Superannuation Tax Offset has been in effect since 1 July 2017; a Low Income Superannuation Contribution applied up to that date. The payments are expense payments and are not included in the TES. The amounts indicated represent the impact of these payments not being taxed.

In addition, a tax offset is available for post-tax contributions to the superannuation account of a low-income spouse.

C9 Tax on excess non-concessional superannuation contributions

Social security and welfare ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
-23	-34	-30	-7	*	*	*	*

Tax expenditure type:	Exemption, Reduction in taxable value	*2016 TES code:*	C8
Estimate Reliability:	Medium	** Category*	2-
Commencement date:	2006. Excess contributions made after 1 July 2013 can be withdrawn	*Expiry date:*	
Legislative reference:	Division 292 of the *Income Tax (Transitional Provisions) Act 1997* Division 292 of the *Income Tax Assessment Act 1997* *Superannuation (Excess Non-Concessional Contributions Tax) Act 2007*		

Contributions above the non-concessional caps may be subject to the excess contributions tax levied at the top marginal tax rate including the Medicare levy (and temporary budget repair levy between 1 July 2014 and 30 June 2017). In addition, from 1 July 2017, non-concessional contributions made by individuals with a total superannuation balance of $1.6 million or more may be subject to the excess contributions tax. Non-concessional contributions above the non-concessional cap can be withdrawn, in which case, they are not subject to the excess contributions tax.

C10 Tax on funded superannuation income streams

Social security and welfare ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
-330	-370	-350	-370	-320	-340	-310	-330

Tax expenditure type:	Increased rate	*2016 TES code:*	C9
Estimate Reliability:	Medium		
Commencement date:	Introduced before 1985	*Expiry date:*	
Legislative reference:	Divisions 301 and 302 and Part 3-30 of the *Income Tax Assessment Act 1997* Part 3-30 of the *Income Tax (Transitional Provisions) Act 1997*		

Superannuation income stream payments from a taxed source are tax free for persons aged 60 and over. The taxable component of superannuation income stream payments from a taxed source to persons below age 60 is included in assessable income, and the tax paid on this amount creates a negative tax expenditure because benefits are untaxed under the superannuation benchmark. Similarly, a death benefit paid from a taxed source as a reversionary pension to a beneficiary aged under 60 is taxed.

Some offsets reduce the amount of tax paid, for instance a 15 per cent tax offset applies to the taxed element of the taxable component of superannuation income stream benefits paid to persons aged between preservation age and 60, and to disability benefits paid to persons of any age.

The taxable component of superannuation income stream payments from an untaxed source is included in the recipient's assessable income. A 10 per cent tax offset applies to the taxable component of pension payments for persons aged 60 and over.

Where an individual's income stream from an untaxed source exceeds a $100,000 threshold, the amount in excess of the threshold does not receive the 10 per cent tax offset.

Proceeds from life insurance claims that are taken as an income stream are taxed as a death benefit. Proceeds from TPD insurance claims that are taken as an income stream as taxed as a disability benefit.

C11 Tax on funded superannuation lump sums

Social security and welfare ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
-310	-390	-440	-480	-530	-590	-660	-730

Tax expenditure type:	Increased rate	*2016 TES code:*	C10
Estimate Reliability:	Medium		
Commencement date:	Introduced before 1985	*Expiry date:*	
Legislative reference:	Divisions 301, 302 and 307 and Part 3-30 of the *Income Tax Assessment Act 1997* Part 3-30 of the *Income Tax (Transitional Provisions) Act 1997*		

The tax raised on lump sum payments results in a negative tax expenditure because the benchmark treatment of savings applies marginal personal income tax rates to contributions and earnings, while benefits are generally tax free.

A taxable component of lump sums paid from a taxed fund is tax free for a person aged 60 or over. For a person aged between preservation age and 60, it is tax free up to the low rate cap and up to 15 per cent thereafter. For a person below preservation age a maximum tax rate of 20 per cent applies.

The taxable component of lump sums paid from untaxed funds to persons aged 60 or over is taxed at a maximum rate of 15 per cent up to the untaxed plan cap (indexed) and at the top marginal rate thereafter. For persons aged between preservation age and 60, the tax rate is a maximum rate of 15 per cent up to the low rate cap, a maximum of 30 per cent above the low rate cap but below the untaxed plan cap and at the top marginal rate thereafter. For persons under preservation age the tax rate is up to 30 per cent up to the untaxed plan cap and at the top marginal rate thereafter.

Special arrangements apply to lump sums paid to certain temporary residents who have departed Australia, while death benefit payments to non-dependants are taxed at a maximum rate of 15 per cent where paid from a taxed source and a maximum rate of 30 per cent from an untaxed source.

Lump sums paid from life insurance proceeds are taxed as a death benefit. Lump sums paid from TPD insurance proceeds are taxed as standard lump sums above, with the rate depending on the component, the age of the individual and the amount.

Lump sums released under the First Home Super Saver Scheme from 1 July 2018 will generally be taxed at the individual’s marginal tax rate less a 30 per cent offset.

C12 Exemption for small business assets held for more than 15 years

Other economic affairs - Other economic affairs, nec ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
155	195	275	295	320	340	350	370

Tax expenditure type:	Exemption	*2016 TES code:*	C11
Estimate Reliability:	Medium - High		
Commencement date:	1999	*Expiry date:*	
Legislative reference:	Subdivision 152-B of the *Income Tax Assessment Act 1997*		

Under the benchmark, realised capital gains are generally assessable to taxpayers at their applicable tax rate in the year they arise. However, capital gains arising from the disposal of active small business assets that have been held continuously for 15 years are exempt from capital gains tax where the taxpayer is permanently incapacitated or reaches the age of 55 and retires.

FRINGE BENEFITS TAX

D1 Exemption for compensation-related benefits, occupational health and counselling services and some training courses

Public order and safety ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2016 TES code:*	D1
Estimate Reliability:	Not Applicable	** Category*	3+
Commencement date:	1986	*Expiry date:*	
Legislative reference:	Sections 58J, 58K and 58M of the *Fringe Benefits Tax Assessment Act 1986*		

Certain benefits in relation to: compensable work related trauma, medical services, other forms of health care provided in work site first aid posts and medical clinics, work related medical examinations, work related medical screening, work related preventative health care, work related counselling and migrant language training are exempt from fringe benefits tax.

D2 Exemption for safety award benefits

Public order and safety ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2016 TES code:*	D2
Estimate Reliability:	Not Applicable	** Category*	1+
Commencement date:	1987	*Expiry date:*	
Legislative reference:	Section 58R of the *Fringe Benefits Tax Assessment Act 1986*		

An award related to occupational health or an occupational safety achievement that is granted to an employee is exempt from fringe benefits tax if its value does not exceed $200 per year.

D3 Reduction in taxable value for car expenses incurred for occupational health and counselling services and some training courses

Public order and safety ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Reduction in taxable value	*2016 TES code:*	D3
Estimate Reliability:	Not Applicable	** Category*	1+
Commencement date:	1987	*Expiry date:*	
Legislative reference:	Section 61F of the *Fringe Benefits Tax Assessment Act 1986*		

The taxable value of a fringe benefit may be reduced where an employee travels in their own car for the purpose of attending a work related medical examination, screening, preventative health care or counselling session, or for migrant language training and is reimbursed for the car expenses incurred calculated based on the distance travelled by the car.

D4 Exemption for benefits provided by certain international organisations

General public services - Foreign affairs and economic aid ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2016 TES code:*	D4
Estimate Reliability:	Not Applicable	** Category*	1+
Commencement date:	1986	*Expiry date:*	
Legislative reference:	Sections 55 and 56 of the *Fringe Benefits Tax Assessment Act 1986*		

An exemption from fringe benefits tax applies to benefits provided by certain international organisations that are exempt from income tax and other taxes by virtue of the *International Organisations (Privileges and Immunities) Act 1963,* the *Consular Privileges and Immunities Act 1972* or the *Diplomatic Privileges and Immunities Act 1967* and by organisations established under international agreements which oblige Australia to grant the organisation a general tax exemption.

D5 Exemption for benefits received by Australian Government employees in receipt of military compensation payments

Defence ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
35	40	55	70	70	65	65	65

Tax expenditure type:	Exemption	*2016 TES code:*	D5
Estimate Reliability:	Medium		
Commencement date:	1995	*Expiry date:*	
Legislative reference:	Sections 6AA and 6AB of the *Fringe Benefits Tax (Application to the Commonwealth) Act 1986*		

Benefits provided to Australian Government employees in receipt of military compensation payments are exempt from fringe benefits tax.

D6 Exemption for health care benefits provided to members of the Defence Force

Defence ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
440	600	580	600	590	590	630	640

Tax expenditure type:	Exemption	*2016 TES code:*	D6
Estimate Reliability:	Medium		
Commencement date:	1995	*Expiry date:*	
Legislative reference:	Section 6AC of the *Fringe Benefits Tax (Application to the Commonwealth) Act 1986*		

All health care benefits provided by the Australian Government to members of the Australian Defence Force (because of their membership) are exempt from fringe benefits tax.

D7 Exemption for war service loans

Defence ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
1	1	1	1	1	1	1	1

Tax expenditure type:	Exemption	*2016 TES code:*	D7
Estimate Reliability:	Medium - High		
Commencement date:	1986	*Expiry date:*	
Legislative reference:	Section 6 of the *Fringe Benefits Tax (Application to the Commonwealth) Act 1986*		

Loan concessions authorised under the *Defence Service Homes Act 1918* and made by virtue of an employee's war service are exempt from fringe benefits tax.

D8 Reduction in taxable value for education costs of children of employees posted overseas

Education ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Reduction in taxable value	*2016 TES code:*	D8
Estimate Reliability:	Not Applicable	** Category*	1+
Commencement date:	1987	*Expiry date:*	
Legislative reference:	Section 65A of the *Fringe Benefits Tax Assessment Act 1986*		

The taxable value of fringe benefits (including a car, expense payment, property or residual benefit) in respect of full-time education of children of employees posted overseas may be reduced. The extent of the reduction relates to the period of the employee's service overseas.

D9 Exemption for charities promoting the prevention or control of disease in human beings

Health ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
125	135	135	145	150	160	170	180

Tax expenditure type:	Exemption	*2016 TES code:*	D9
Estimate Reliability:	Medium - High		
Commencement date:	2001	*Expiry date:*	
Legislative reference:	Section 5B and Subsection 57A(5) of the *Fringe Benefits Tax Assessment Act 1986*		

Charities whose principal activity is to promote the prevention or control of diseases in human beings are provided with an exemption from fringe benefits tax for up to $31,177 of the grossed-up taxable value of fringe benefits per employee for the fringe benefits tax years ending 31 March 2016 and 31 March 2017. In all other fringe benefits tax years the exemption is up to $30,000 per employee.

D10 Exemption for public and not-for-profit hospitals and public ambulance services

Health ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
1,250	1,350	1,400	1,500	1,650	1,750	1,850	1,950

Tax expenditure type:	Exemption	*2016 TES code:*	D10
Estimate Reliability:	Medium		
Commencement date:	2000	*Expiry date:*	
Legislative reference:	Sections 57A(3) and 57A(4) of the *Fringe Benefits Tax Assessment Act 1986*		

Public and not-for-profit hospitals and public ambulance services are provided with an exemption from fringe benefits tax for up to $17,667 of the grossed-up taxable value of fringe benefits per employee for the FBT years ending 31 March 2017 and 2016. In all other FBT years the exemption is up to $17,000 per employee.

D11 Exemption for travel costs of employees and their families associated with overseas medical treatment

Health ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2016 TES code:*	D11
Estimate Reliability:	Not Applicable	** Category*	1+
Commencement date:	1987	*Expiry date:*	
Legislative reference:	Section 58L of the *Fringe Benefits Tax Assessment Act 1986*		

Benefits that meet the costs of travel away from a work place located in a foreign country in order to obtain medical treatment are exempt from fringe benefits tax. Accommodation and meals are also exempt if provided en route.

D12 Exemption for accommodation, fuel and meals for live-in employees caring for the elderly or disadvantaged

Social security and welfare ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2016 TES code:*	D12
Estimate Reliability:	Not Applicable	** Category*	1+
Commencement date:	1986	*Expiry date:*	
Legislative reference:	Sections 58 and 58U of the *Fringe Benefits Tax Assessment Act 1986*		

Certain benefits that are provided to people employed in caring for elderly or disadvantaged persons and who reside with them in their own homes are exempt from fringe benefits tax. The benefits that are exempt are accommodation, residential fuel, meals and other food and drink provided in the home to the employee.

D13 Exemption for emergency assistance

Social security and welfare ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2016 TES code:*	D13
Estimate Reliability:	Not Applicable	** Category*	1+
Commencement date:	1987	*Expiry date:*	
Legislative reference:	Section 58N of the *Fringe Benefits Tax Assessment Act 1986*		

Certain benefits provided by way of emergency assistance to employees are exempt from fringe benefits tax. Emergency assistance includes certain first aid or other emergency health care; emergency meals, food supplies, clothing, accommodation, transport, or use of household goods; temporary repairs; and any other similar benefit.

D14 Exemption for public benevolent institutions (excluding hospitals)

Social security and welfare ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
1,300	1,400	1,500	1,650	1,650	1,750	1,900	2,000

Tax expenditure type:	Exemption	*2016 TES code:*	D14
Estimate Reliability:	Medium - High		
Commencement date:	2001	*Expiry date:*	
Legislative reference:	Subsection 57A(1) of the *Fringe Benefits Tax Assessment Act 1986*		

Public benevolent institutions (excluding hospital activities) are provided with an exemption from fringe benefits tax for up to $31,177 of the grossed-up taxable value of fringe benefits per employee for the fringe benefits tax years ending 31 March 2016 and 31 March 2017. In all other fringe benefits tax years the exemption is up to $30,000 per employee.

D15 Exemption from the fringe benefit cap for meal entertainment and entertainment facility leasing expenses

Social security and welfare ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
430	455	470	430	435	475	505	530

Tax expenditure type:	Exemption	*2016 TES code:*	D15
Estimate Reliability:	Low		
Commencement date:	1 January 2001	*Expiry date:*	
Legislative reference:	Section 5B and Subsections 57A(1) and 57A(5) of the *Fringe Benefits Tax Assessment Act 1986*		

Charitable institutions whose principal activity is to promote the prevention or control of diseases in human beings, public and not-for-profit hospitals, public ambulance services, and public benevolent institutions (excluding hospital activities) are provided with an exemption from fringe benefits tax for meal entertainment and entertainment facility leasing expenses. Since 1 April 2016, the fringe benefits tax exemption on these items is no longer unlimited, with a $5,000 cap on the grossed-up taxable value of fringe benefits per employee imposed.

D16 Exemption for meals for primary production employees in remote areas

Housing and community amenities ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2016 TES code:*	D16
Estimate Reliability:	Not Applicable	** Category*	2+
Commencement date:	1 April 2000	*Expiry date:*	
Legislative reference:	Section 58ZD of the *Fringe Benefits Tax Assessment Act 1986*		

Certain meals provided on working days to employees of primary producers in remote areas are exempt from fringe benefits tax.

D17 Exemption for remote area housing and reduction in taxable value for housing assistance

Housing and community amenities ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption, Reduction in taxable value	*2016 TES code:*	D17
Estimate Reliability:	Not Applicable	** Category*	3+
Commencement date:	1986, 1988, 2000	*Expiry date:*	
Legislative reference:	Sections 58ZC, 59, 60, and 65CC of the *Fringe Benefits Tax Assessment Act 1986*		

Housing benefits (the right to use accommodation as a usual place of residence) provided to employees in remote areas are exempt from fringe benefits tax. The taxable value of housing assistance provided to employees in remote areas is generally reduced by 50 per cent. Housing assistance may include housing loans or the reimbursement of rent paid by an employee.

D18 Exemption for certain fringe benefits provided to live-in employees providing domestic services to religious institutions and practitioners

Recreation and culture ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2016 TES code:*	D18
Estimate Reliability:	Not Applicable	** Category*	2+
Commencement date:	1986	*Expiry date:*	
Legislative reference:	Section 58T of the *Fringe Benefits Tax Assessment Act 1986*		

Accommodation, residential fuel, meals and other food and drink provided to live-in employees who provide domestic services and are employed by religious institutions or religious practitioners are exempt from fringe benefits tax.

D19 Exemption for fringe benefits provided to certain employees of religious institutions

Recreation and culture ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
65	70	75	75	80	85	90	95

Tax expenditure type:	Exemption	*2016 TES code:*	D19
Estimate Reliability:	Low		
Commencement date:	1986	*Expiry date:*	
Legislative reference:	Section 57 of the *Fringe Benefits Tax Assessment Act 1986*		

Benefits provided to an employee, or to a spouse or child of the employee, of a religious institution are exempt from fringe benefits tax if the employee is a religious practitioner and only if the benefit is provided principally in respect of pastoral duties or any other duties or activities that are directly related to the practice, study, teaching or propagation of religious beliefs.

D20 Application of statutory formula to value car benefits

Other economic affairs - Total labour and employment affairs ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
810	720	740	840	850	910	980	1,020

Tax expenditure type:	Discounted valuation	*2016 TES code:*	D20
Estimate Reliability:	Medium - Low		
Commencement date:	1986	*Expiry date:*	
Legislative reference:	Section 9 of the *Fringe Benefits Tax Assessment Act 1986*		

A fringe benefit arises where an employee is provided with a car for private use. A car fringe benefit can be valued using the statutory formula method, under which the value of a person's car fringe benefit is determined by multiplying the cost of the car by the proportion of days the vehicle is used privately by the statutory rate of 20 per cent for contracts entered into after 7.30pm (AEST) on 10 May 2011. For contracts entered into prior to this, the statutory rates decreased as annual kilometres travelled increased.

D21 Approved worker entitlement fund payment exemption

Other economic affairs - Total labour and employment affairs ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
210	205	210	210	210	215	225	225

Tax expenditure type:	Exemption	*2016 TES code:*	D21
Estimate Reliability:	Low		
Commencement date:	2003	*Expiry date:*	
Legislative reference:	Sections 58PA and 58PB of the *Fringe Benefits Tax Assessment Act 1986*		

Payments to approved worker entitlement funds providing for entitlements such as redundancy and long service leave of employees are exempt from fringe benefits tax. The funds must be either endorsed by the Commissioner of Taxation or be a long service leave fund established under a Commonwealth, State or Territory law. Legislation currently before the Parliament proposes to change the regulation of worker entitlement funds from the Commissioner of Taxation to the Registered Organisations Commissioner.

D22 Australian Traineeship System - exemptions for certain employees

Other economic affairs - Total labour and employment affairs ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2016 TES code:*	D22
Estimate Reliability:	Not Applicable	** Category*	1+
Commencement date:	1987	*Expiry date:*	
Legislative reference:	Section 58S of the *Fringe Benefits Tax Assessment Act 1986*		

Food, drink and accommodation provided to people training under the Australian Traineeship System may be exempt from fringe benefits tax if the benefit is provided in accordance with an award or an industry custom. Benefits relating to food or drink must not be provided at a party, reception or other social function.

D23 Car parking benefits

Other economic affairs - Total labour and employment affairs ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Discounted valuation	*2016 TES code:*	D23
Estimate Reliability:	Not Applicable	** Category*	2+
Commencement date:	1993	*Expiry date:*	
Legislative reference:	Division 10A of the *Fringe Benefits Tax Assessment Act 1986*		

A car parking fringe benefit arises if a car is parked at premises that are owned or leased by, or otherwise under the control of, the provider, there is a commercial parking station within one kilometre radius of the car parking premises charging an all-day fee greater than $8.66 (for the year commencing 1 April 2017) and certain other conditions are met. There are four methods for valuing car parking fringe benefits that may result in a non-market valuation.

D24 Certain relocation and recruitment expenses exemption and reduction in taxable value

Other economic affairs - Total labour and employment affairs ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption, Reduction in taxable value	*2016 TES code:*	D24
Estimate Reliability:	Not Applicable	** Category*	2+
Commencement date:	1 January 1986	*Expiry date:*	
Legislative reference:	Sections 58A to 58D and 58F of the *Fringe Benefits Tax Assessment Act 1986* Sections 61B to 61E of the *Fringe Benefits Tax Assessment Act 1986*		

Certain benefits associated with relocation and recruitment expenses, including transport, temporary accommodation, relocation consultants and other benefits, are exempt from fringe benefits tax, while others may be eligible for a reduction in taxable value.

D25 Compassionate travel exemption

Other economic affairs - Total labour and employment affairs ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2016 TES code:*	D25
Estimate Reliability:	Not Applicable	** Category*	1+
Commencement date:	1989	*Expiry date:*	
Legislative reference:	Section 58LA of the *Fringe Benefits Tax Assessment Act 1986*		

Certain travel costs provided on compassionate grounds to an employee, or their close relatives, are exempt from fringe benefits tax.

D26 Discounted valuation for board meals

Other economic affairs - Total labour and employment affairs ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
5	5	5	5	6	6	6	6

Tax expenditure type:	Discounted valuation	*2016 TES code:*	D26
Estimate Reliability:	Low		
Commencement date:	1986	*Expiry date:*	
Legislative reference:	Section 36 of the *Fringe Benefits Tax Assessment Act 1986*		

Where an employee is entitled to accommodation and to at least two meals a day, eligible meals (known as 'board meals') are valued at concessional rates for the purposes of fringe benefits tax. The taxable value is $2 per meal per adult, or $1 per meal per child under the age of 12.

D27 Discounted valuation for holidays for employees and their families when posted overseas

Other economic affairs - Total labour and employment affairs ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Discounted valuation	*2016 TES code:*	D27
Estimate Reliability:	Not Applicable	** Category*	1+
Commencement date:	1987	*Expiry date:*	
Legislative reference:	Sections 61A and 143C of the *Fringe Benefits Tax Assessment Act 1986*		

For fringe benefits tax purposes, the value of an overseas holiday provided as industry custom or under an industrial award to an employee and their family while posted overseas, is reduced by 50 per cent or 50 per cent of a benchmark holiday cost, whichever is lower. Overseas transport, meals and accommodation are included.

D28 Discounted valuation of arm's length transaction price for in-house property and residual fringe benefits

Other economic affairs - Total labour and employment affairs ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Discounted valuation	*2016 TES code:*	D28
Estimate Reliability:	Not Applicable	** Category*	2+
Commencement date:	1986	*Expiry date:*	
Legislative reference:	Sections 42, 48 and 49 of the *Fringe Benefits Tax Assessment Act 1986*		

The taxable value of in-house property and residual fringe benefits (generally, goods or services sold by the employer to the public) is 75 per cent of the lowest retail price charged to the public in the ordinary course of business. This includes airline transport fringe benefits. This treatment is not available for in-house fringe benefits accessed by way of a salary sacrifice arrangement.

D29 Employees of public transport providers - free or discounted travel exemption

Other economic affairs - Total labour and employment affairs ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
50	55	60	65	65	70	75	75

Tax expenditure type:	Exemption	*2016 TES code:*	D29
Estimate Reliability:	Low		
Commencement date:	1986	*Expiry date:*	
Legislative reference:	Subsection 47(1) of the *Fringe Benefits Tax Assessment Act 1986*		

Where an employer operates a business of providing public transport, the provision of free or discounted travel (other than in an aircraft) to employees of that business for travelling to and from work is exempt from fringe benefits tax. Free or discounted travel on a scheduled metropolitan service is also exempt from fringe benefits tax. This exemption excludes benefits provided under a salary sacrifice arrangement.

D30 Employer contributions to secure childcare places exemption

Other economic affairs - Total labour and employment affairs ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2016 TES code:*	D30
Estimate Reliability:	Not Applicable	** Category*	1+
Commencement date:	1986	*Expiry date:*	
Legislative reference:	Subsection 47(8) of the *Fringe Benefits Tax Assessment Act 1986*		

Payments made by employers to obtain priority of access to approved childcare services for children of employees are exempt from fringe benefits tax.

D31 Employer-provided motor vehicle parking exemption

Other economic affairs - Total labour and employment affairs ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2016 TES code:*	D31
Estimate Reliability:	Not Applicable	** Category*	2+
Commencement date:	1987	*Expiry date:*	
Legislative reference:	Section 58G of the *Fringe Benefits Tax Assessment Act 1986* Regulation 13A of the *Fringe Benefits Tax Regulations 1992*		

Parking for disabled employees, and for employees of scientific, religious, charitable or other public educational institutions, is exempt from fringe benefits tax.

D32 Expenses for employees living away from home exemption

Other economic affairs - Total labour and employment affairs ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
70	50	40	40	40	40	40	40

Tax expenditure type:	Exemption	*2016 TES code:*	D32
Estimate Reliability:	Low		
Commencement date:	1986	*Expiry date:*	
Legislative reference:	Sections 21, 31, 47(5), 58E, 58ZD and 63 of the *Fringe Benefits Tax Assessment Act 1986*		

Accommodation, food, household goods and payments for extra expenses provided to employees living away from their usual place of residence (in order to perform their duties of employment) are exempt from fringe benefits tax. A range of requirements must be satisfied in order to access this concession.

D33 In-house fringe benefits - reduction in the aggregate taxable value

Other economic affairs - Total labour and employment affairs ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Reduction in taxable value	*2016 TES code:*	D33
Estimate Reliability:	Not Applicable	** Category*	2+
Commencement date:	1986	*Expiry date:*	
Legislative reference:	Section 62 of the *Fringe Benefits Tax Assessment Act 1986*		

The taxable value of in-house fringe benefits (for example, goods sold by the employer to the public) provided to an employee is reduced by $1,000, or the taxable value of the benefits is reduced to zero if the benefits are less than $1,000. The reduction in taxable value does not apply where the benefits are provided under a salary sacrifice arrangement.

D34 Loan benefits exemption

Other economic affairs - Total labour and employment affairs ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2016 TES code:*	D34
Estimate Reliability:	Not Applicable	** Category*	1+
Commencement date:	1986	*Expiry date:*	
Legislative reference:	Section 17 of the *Fringe Benefits Tax Assessment Act 1986*		

Certain in-house loan benefits and certain loans to employees to meet employment-related expenses are exempt from fringe benefits tax.

D35 Long service awards exemption

Other economic affairs - Total labour and employment affairs ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2016 TES code:*	D35
Estimate Reliability:	Not Applicable	** Category*	1+
Commencement date:	1987	*Expiry date:*	
Legislative reference:	Section 58Q of the *Fringe Benefits Tax Assessment Act 1986*		

Long service awards granted in recognition of 15 years or more service, up to a specified maximum amount, are exempt from fringe benefits tax.

D36 Minor benefits exemption

Other economic affairs - Total labour and employment affairs ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2016 TES code:*	D36
Estimate Reliability:	Not Applicable	** Category*	2+
Commencement date:	1987	*Expiry date:*	
Legislative reference:	Section 58P of the *Fringe Benefits Tax Assessment Act 1986*		

Minor benefits, worth less than $300 and where it is unreasonable to treat them as fringe benefits, are exempt from fringe benefits tax.

D37 Minor private use of company motor vehicle exemption

Other economic affairs - Total labour and employment affairs ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2016 TES code:*	D37
Estimate Reliability:	Not Applicable	** Category*	2+
Commencement date:	1 January 1986	*Expiry date:*	
Legislative reference:	Subsection 47(6) of the *Fringe Benefits Tax Assessment Act 1986*		

Where an employee is provided with the use of a motor vehicle that is not a car, such use is exempt from fringe benefits tax if any private use is restricted to travel to and from work, use which is incidental to travel in the course of duties of employment, and non-work-related use that is minor, infrequent and irregular. There is a separate exemption for taxi travel by employees.

D38 Philanthropy - exemption for donations to deductible gift recipients

Other economic affairs - Total labour and employment affairs ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2016 TES code:*	D38
Estimate Reliability:	Not Applicable	** Category*	2+
Commencement date:	1 July 2008	*Expiry date:*	
Legislative reference:	Subsection 148(2A) of the *Fringe Benefits Tax Assessment Act 1986*		

Donations to deductible gift recipients made under salary sacrifice arrangements are exempt from fringe benefits tax.

D39 Police officers - free or discounted travel to and from duty on public transport exemption

Other economic affairs - Total labour and employment affairs ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2016 TES code:*	D39
Estimate Reliability:	Not Applicable	** Category*	1+
Commencement date:	2000	*Expiry date:*	
Legislative reference:	Subsection 47(1A) of the *Fringe Benefits Tax Assessment Act 1986*		

The provision of travel on public transport to police officers for the purpose of travel between the officer's place of residence and their primary place of employment is exempt from fringe benefits tax.

D40 Private use of business property exemption

Other economic affairs - Total labour and employment affairs ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2016 TES code:*	D40
Estimate Reliability:	Not Applicable	** Category*	3+
Commencement date:	1986	*Expiry date:*	
Legislative reference:	Sections 41 and 47(3) of the *Fringe Benefits Tax Assessment Act 1986*		

The personal use of property (other than a motor vehicle) principally used directly in connection with business operations is exempt from fringe benefits tax. The property must be onsite or ordinarily located onsite, and provided to or consumed by an employee on a working day. This exemption excludes meals provided under a salary sacrifice arrangement.

D41 Provision of food and drink in certain circumstances exemption

Other economic affairs - Total labour and employment affairs ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2016 TES code:*	D41
Estimate Reliability:	Not Applicable	** Category*	1+
Commencement date:	1986	*Expiry date:*	
Legislative reference:	Sections 54 and 58V of the *Fringe Benefits Tax Assessment Act 1986*		

Where employees receive meals that are board fringe benefits, any additional food and drink supplied to them is exempt from fringe benefits tax. Food and drink provided to domestic employees who do not 'live-in' may also be exempt if consumed at the place of employment and the employer is a religious institution or individual.

D42 Recreational or childcare facilities on an employer's business premises exemption

Other economic affairs - Total labour and employment affairs ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2016 TES code:*	D42
Estimate Reliability:	Not Applicable	** Category*	2+
Commencement date:	1986	*Expiry date:*	
Legislative reference:	Subsection 47(2) of the *Fringe Benefits Tax Assessment Act 1986*		

Recreational or childcare facilities are exempt from fringe benefits tax if the facilities are provided on an employer's business premises for the benefit of employees.

D43 Remote area holiday benefits discounted valuation

Other economic affairs - Total labour and employment affairs ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Discounted valuation	*2016 TES code:*	D43
Estimate Reliability:	Not Applicable	** Category*	1+
Commencement date:	1986	*Expiry date:*	
Legislative reference:	Sections 60A and 61 of the *Fringe Benefits Tax Assessment Act 1986*		

The value of holiday-related transport benefits (including the cost of appropriate meals and accommodation en route) provided to employees working in a remote area (and in some cases family members) are generally reduced by 50 per cent.

D44 Small business employee car parking exemption

Other economic affairs - Total labour and employment affairs ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2016 TES code:*	D44
Estimate Reliability:	Not Applicable	** Category*	2+
Commencement date:	1997	*Expiry date:*	
Legislative reference:	Section 58GA of the *Fringe Benefits Tax Assessment Act 1986*		

Car parking benefits provided to employees of small businesses are exempt from fringe benefits tax if the parking is not provided in a commercial car park. The employer must not be a government body, listed public company or subsidiary of a listed public company, and the employer's total income must be less than $10 million.

D45 Taxi travel to or from place of work exemption

Other economic affairs - Total labour and employment affairs ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2016 TES code:*	D45
Estimate Reliability:	Not Applicable	** Category*	1+
Commencement date:	1995	*Expiry date:*	
Legislative reference:	Section 58Z of the *Fringe Benefits Tax Assessment Act 1986*		

Any benefit arising from taxi travel by an employee is exempt from fringe benefits tax if the travel is a single trip beginning or ending at the employee's place of work.

D46 Transport for oil rig and remote area employees exemption

Other economic affairs - Total labour and employment affairs ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2016 TES code:*	D46
Estimate Reliability:	Not Applicable	** Category*	2+
Commencement date:	1986	*Expiry date:*	
Legislative reference:	Subsection 47(7) of the *Fringe Benefits Tax Assessment Act 1986*		

Transport provided to employees working in remote areas or on oil rigs may be exempt from fringe benefits tax.

D47 Work-related items exemption

Other economic affairs - Total labour and employment affairs ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2016 TES code:*	D47
Estimate Reliability:	Not Applicable	** Category*	2+
Commencement date:	1995	*Expiry date:*	
Legislative reference:	Section 58X of the *Fringe Benefits Tax Assessment Act 1986*		

Eligible work-related items (such as mobile phones, laptop computers, protective clothing and tools of trade) provided by an employer to an employee are exempt from fringe benefits tax.

D48 Fringe benefits tax record keeping exemption

Other economic affairs - Other economic affairs, nec ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
..	..	..	..	..	..	..	..

Tax expenditure type:	Record keeping exemption	*2016 TES code:*	D48
Estimate Reliability:	High		
Commencement date:	1 January 1999	*Expiry date:*	
Legislative reference:	Part XIA of the *Fringe Benefits Tax Assessment Act 1986*		

Certain employers are eligible to use record keeping exemption arrangements when calculating their fringe benefits tax liability. The employer's liability is based on their aggregate fringe benefits amount in the most recent base year (a year after 1 April 1996) in which they qualified to use the exemption arrangements. This may result in concessional tax treatment compared to being required to keep full fringe benefits tax records.

D49 Meal entertainment fringe benefits - 50/50 valuation method

Other economic affairs - Other economic affairs, nec ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Record keeping exemption	*2016 TES code:*	D49
Estimate Reliability:	Not Applicable	** Category*	2+
Commencement date:	1 January 1995	*Expiry date:*	
Legislative reference:	Sections 37B and 37BA of the *Fringe Benefits Tax Assessment Act 1986*		

An employer may elect to value meal entertainment fringe benefits using the 50/50 method, under which the taxable value is equal to 50 per cent of total food and drink entertainment expenditure incurred in an FBT year relating to employees and their associates as well as third parties.

D50 Philanthropy - rebate for certain not-for-profit, non-government bodies

Other economic affairs - Other economic affairs, nec ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
45	50	45	45	55	60	75	80

Tax expenditure type:	Rebate	*2016 TES code:*	D50
Estimate Reliability:	Medium		
Commencement date:	1994	*Expiry date:*	
Legislative reference:	Section 65J of the *Fringe Benefits Tax Assessment Act 1986*		

Certain not-for-profit, non-government bodies (including, in general, charitable institutions, schools, and trade unions) are eligible for a partial rebate of the fringe benefits tax that would otherwise be payable on up to $30,000 of the grossed-up taxable value of fringe benefits per employee. This threshold changed to $31,177 for the fringe benefits tax years ending 31 March 2016 and 31 March 2017 only.

CAPITAL GAINS TAX

E1 Exemption for valour or brave conduct decorations

Defence ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
..	..	..	..	..	..	..	..

Tax expenditure type:	Exemption	*2016 TES code:*	E1
Estimate Reliability:	Low		
Commencement date:	1985	*Expiry date:*	
Legislative reference:	Paragraph 118-5(b) of the *Income Tax Assessment Act 1997*		

Capital gains or losses arising from the disposal of a decoration awarded for valour or brave conduct are exempt from capital gains tax (CGT). This exemption is available unless the owner of the decoration had paid money or given any other property for it.

E2 Roll-over for membership interests in medical defence organisations

Health ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Deferral	*2016 TES code:*	E2
Estimate Reliability:	Not Applicable	** Category*	1+
Commencement date:	2007	*Expiry date:*	
Legislative reference:	Subdivision 124-P of the *Income Tax Assessment Act 1997*		

A CGT roll-over is available for capital gains arising from the exchange of a membership interest in a medical defence organisation for a similar interest in another medical defence organisation where both organisations are companies limited by guarantee and subject to certain other conditions, until the ultimate disposal of the replacement membership interest.

E3 Exemptions for special disability trusts

Social security and welfare ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2016 TES code:*	E3
Estimate Reliability:	Not Applicable	** Category*	1+
Commencement date:	1 July 2006	*Expiry date:*	
Legislative reference:	Sections 118-85 and 118-215 to 118-230 of the *Income Tax Assessment Act 1997*		

Assets donated to a special disability trust (SDT) are exempt from CGT. A trustee of a SDT is also eligible for the CGT main residence exemption to the extent the principal beneficiary uses the dwelling as a home.

E4 Concessions for conservation covenants

Housing and community amenities ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Reduction in taxable value	*2016 TES code:*	E4
Estimate Reliability:	Not Applicable	** Category*	1+
Commencement date:	15 June 2000	*Expiry date:*	
Legislative reference:	Section 104-47 of the *Income Tax Assessment Act 1997*		

For CGT purposes, perpetual conservation covenants are treated as a part disposal of land, rather than the creation of a right. This treatment results in a reduced capital gain because a portion of the cost base of the land is taken into account. Landowners can also benefit from any CGT concession or exemption that may apply to the capital gain.

E5 Main residence exemption

Housing and community amenities ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
21,000	24,000	28,500	30,000	33,500	35,500	38,500	41,000

Tax expenditure type:	Exemption	*2016 TES code:*	E5
Estimate Reliability:	Low		
Commencement date:	1985	*Expiry date:*	
Legislative reference:	Subdivision 118-B of the *Income Tax Assessment Act 1997*		

Capital gains or losses on the disposal of an individual's main residence and up to two hectares of adjacent land are exempt from CGT, to the extent the dwelling is used as a home.

From 9 May 2017, the main residence exemption is not available to foreign and temporary tax residents when they sell property in Australia. Foreign and temporary tax residents who hold property on 9 May 2017 can continue to claim the exemption until 30 June 2019. Legislation giving effect to this measure has not yet been introduced into Parliament.

See tax expenditure E6 for the 50 per cent discount component of the main residence exemption.

E6 Main residence exemption - discount component

Housing and community amenities ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
25,500	30,000	35,000	36,500	40,500	42,500	46,000	50,000

Tax expenditure type:	Reduction in taxable value	*2016 TES code:*	E6
Estimate Reliability:	Low		
Commencement date:	1999	*Expiry date:*	
Legislative reference:	Division 115 of the *Income Tax Assessment Act 1997*		

Capital gains or losses on the disposal of an individual's main residence and up to two hectares of adjacent land are exempt from CGT, to the extent the dwelling is used as a home.

Disposals of other assets by individuals or trusts receive a CGT exemption applying to 50 per cent of any nominal gain where the asset has been owned for at least 12 months. The 50 per cent CGT discount is not available to the extent that a capital gain was accrued while the individual was a foreign or temporary resident.

The CGT treatment of the main residence effectively provides a 100 per cent exemption. Conceptually, this can be split into a component reflecting the 50 per cent discount provided to disposals of non-main residence assets and a 'top up' component that brings the concession up to 100 per cent.

See tax expenditure E5 for the remainder of the value of the CGT main residence exemption. See tax expenditure E13 for detail on the 50 per cent discount applying to other assets.

E7 Main residence exemption extensions

Housing and community amenities ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2016 TES code:*	E7
Estimate Reliability:	Not Applicable	** Category*	3+
Commencement date:	1985 and 1996	*Expiry date:*	
Legislative reference:	Sections 118-145, 118-195 and 118-200 of the *Income Tax Assessment Act 1997*		

A taxpayer's dwelling may continue to be treated as their main residence even if it ceases to be their main residence for up to six years, if the dwelling is used to produce assessable income; or indefinitely, if the dwelling is not used to produce assessable income. This is provided that no other dwelling is treated as the taxpayer's main residence during the period of absence.

In addition, a taxpayer who receives a dwelling as beneficiary of a deceased estate, or who owns the dwelling as the trustee of a deceased estate, may be able to disregard all or a proportion of a capital gain or loss if certain conditions are met.

E8 Exemption for the disposal of assets under the Cultural Gifts program

Recreation and culture ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2016 TES code:*	E8
Estimate Reliability:	Not Applicable	** Category*	1+
Commencement date:	1999	*Expiry date:*	
Legislative reference:	Subsection 118-60(2) of the *Income Tax Assessment Act 1997*		

Capital gains or losses arising from gifts made under the Cultural Gifts program are exempt from CGT. The Cultural Gifts program, which does not apply to testamentary gifts, encourages donations of significant cultural items from private collections to public art galleries, public museums and public libraries or Artbank by offering tax benefits to the donor.

E9 Roll-over for worker entitlement funds

Other economic affairs - Total labour and employment affairs ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Deferral	*2016 TES code:*	E9
Estimate Reliability:	Not Applicable	** Category*	2+
Commencement date:	2003	*Expiry date:*	
Legislative reference:	Subdivision 126-C of the *Income Tax Assessment Act 1997*		

A CGT roll-over is available for a fund that amends or replaces its trust deed in order to become an approved worker entitlement fund for fringe benefits tax purposes.

E10 Concession for non-portfolio interests in foreign companies with active businesses

Other economic affairs - Other economic affairs, nec ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Reduction in taxable value	*2016 TES code:*	E10
Estimate Reliability:	Not Applicable	** Category*	3+
Commencement date:	2004	*Expiry date:*	
Legislative reference:	Section 768-505 of the *Income Tax Assessment Act 1997*		

Capital gains and losses of Australian companies and controlled foreign companies arising from certain CGT events related to non-portfolio interests in foreign companies with active business assets are reduced. The reduction reflects the degree to which the assets of the foreign company are used in active business. The concession applies where the Australian company holds a direct voting percentage of 10 per cent or more in the foreign company throughout a 12 month period.

E11 Deferral of liability when taxpayer dies

Other economic affairs - Other economic affairs, nec ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Deferral	*2016 TES code:*	E11
Estimate Reliability:	Not Applicable	** Category*	3+
Commencement date:	1999	*Expiry date:*	
Legislative reference:	Division 128 of the *Income Tax Assessment Act 1997*		

There is no CGT taxing point when a taxpayer dies. Recognition of the gains or losses accruing during the life of the deceased is deferred until the person inheriting the CGT asset later disposes of it. An exception applies if the asset passes to an exempt entity, the trustee of a complying superannuation entity, or a foreign resident.

E12 Demerger concessions

Other economic affairs - Other economic affairs, nec ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption, Deferral	*2016 TES code:*	E12
Estimate Reliability:	Not Applicable	** Category*	3+
Commencement date:	2002	*Expiry date:*	
Legislative reference:	Division 125 of the *Income Tax Assessment Act 1997* Subsection 44(4) of the *Income Tax Assessment Act 1936*		

Concessions are available to defer or exempt the CGT payable in respect of the restructuring of a corporate or trust group, where the group is split into two or more entities or groups (that is, by demerging). There are three elements to demerger relief:

- CGT roll-over at the shareholder or trust membership interest level for interests such as shares that are exchanged during the demerger process;
- a CGT exemption for certain capital gains and losses at the entity level; and
- an income tax exemption for certain 'demerger dividends'.

E13 Discount for individuals and trusts

Other economic affairs - Other economic affairs, nec ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
4,420	6,310	8,270	8,440	10,270	10,520	11,010	11,840

Tax expenditure type:	Reduction in taxable value	*2016 TES code:*	E13
Estimate Reliability:	Medium		
Commencement date:	1999; 2012 (removal for non-residents)	*Expiry date:*	
Legislative reference:	Division 115 of the *Income Tax Assessment Act 1997*		

A CGT exemption applies to 50 per cent of any nominal capital gain made by a resident individual or trust where the asset has been owned for at least 12 months. Different rules may apply to assets acquired before 21 September 1999.

E14 Discount for investors in listed investment companies

Other economic affairs - Other economic affairs, nec ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
40	60	55	55	60	70	75	80

Tax expenditure type:	Deduction	*2016 TES code:*	E14
Estimate Reliability:	Low		
Commencement date:	2001	*Expiry date:*	
Legislative reference:	Subdivision 115-D of the *Income Tax Assessment Act 1997*		

The shareholders of a listed investment company (LIC) who receive dividends that represent a distribution of capital gains made by that company are entitled to a deduction equivalent to the CGT discount they would have received if they had realised the capital gains themselves. This concession applies in respect of gains realised by a LIC on or after 1 July 2001, provided the assets have been held by the LIC for at least 12 months.

E15 Exemption for assets acquired before 20 September 1985

Other economic affairs - Other economic affairs, nec ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2016 TES code:*	E15
Estimate Reliability:	Not Applicable	** Category*	2+
Commencement date:	1985	*Expiry date:*	
Legislative reference:	Division 104 of the *Income Tax Assessment Act 1997*		

Capital gains or losses on assets acquired before 20 September 1985 (the commencement date of the CGT regime) are generally exempt from CGT.

E16 Exemption for demutualisation of mutual entities

Other economic affairs - Other economic affairs, nec ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2016 TES code:*	E16
Estimate Reliability:	Not Applicable	** Category*	1+
Commencement date:	1995 (mutual entities); 2007 (health insurers); 2008 (friendly societies)	*Expiry date:*	
Legislative reference:	Division 9AA and Schedule 2H of the *Income Tax Assessment Act 1936* Division 315 and 316 of the *Income Tax Assessment Act 1997*		

Capital gains and losses arising under the demutualisation of a mutual entity, including a life insurer, general insurer or health insurer are disregarded for members and/or policyholders that receive shares in the demutualised entity. Special rules determine the cost base of the shares received.

E17 Exemption for testamentary gifts to deductible gift recipients

Other economic affairs - Other economic affairs, nec ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2016 TES code:*	E17
Estimate Reliability:	Not Applicable	** Category*	1+
Commencement date:	1999 (expanded 2005)	*Expiry date:*	
Legislative reference:	Subsections 118-60(1) and (1A) of the *Income Tax Assessment Act 1997*		

Testamentary gifts (gifts made under a will) of certain property to deductible gift recipients are exempt from CGT.

E18 Exemption from the market value substitution rule for certain interests in widely held entities

Other economic affairs - Other economic affairs, nec ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2016 TES code:*	E18
Estimate Reliability:	Not Applicable	** Category*	1+
Commencement date:	2006	*Expiry date:*	
Legislative reference:	Section 116-30 of the *Income Tax Assessment Act 1997*		

The CGT market value substitution rule deems assets that are disposed of for less than their market value to have been disposed for a consideration equal to their market value. This treatment exempts membership interests in widely-held entities that are disposed of by way of a redemption, cancellation or surrender of the interest from the market value substitution rule, that is, they are subject to CGT at their disposal value.

E19 Grandfathering indexation of the cost base

Other economic affairs - Other economic affairs, nec ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Reduction in taxable value	*2016 TES code:*	E19
Estimate Reliability:	Not Applicable	** Category*	2+
Commencement date:	1985	*Expiry date:*	
Legislative reference:	Section 110-36 and Division 114 of the *Income Tax Assessment Act 1997*		

For assets acquired at or before 11:45 am EST on 21 September 1999, taxpayers may choose to calculate the capital gain on the asset by reference to its indexed cost base. Taxpayers that choose to use the indexed cost base cannot access the CGT discount. The indexed cost base for these assets was frozen as at 30 September 1999.

E20 Quarantining of capital losses

Other economic affairs - Other economic affairs, nec ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Denial of deduction	*2016 TES code:*	E20
Estimate Reliability:	Not Applicable	** Category*	4-
Commencement date:	1985	*Expiry date:*	
Legislative reference:	Section 100-50 of the *Income Tax Assessment Act 1997*		

Capital losses may only be offset against capital gains, which means they are quarantined from ordinary income.

E21 Removal of taxation of certain financial instruments at point of conversion or exchange

Other economic affairs - Other economic affairs, nec ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Deferral	*2016 TES code:*	E21
Estimate Reliability:	Not Applicable	** Category*	2+
Commencement date:	2002	*Expiry date:*	
Legislative reference:	Sections 26BB and 70B of the *Income Tax Assessment Act 1936*		

Gains or losses from conversion or exchange of convertible or exchangeable interests issued after 14 May 2002 are not subject to taxation at the point of conversion or exchange, but instead, taxation is deferred until the ultimate disposal of the shares.

Convertible interests are financial instruments that may convert into shares in the company that issued the convertible interest. Exchangeable interests are instruments that may convert into shares in a company other than the issuer.

E22 Roll-over for assets compulsorily acquired, lost or destroyed

Other economic affairs - Other economic affairs, nec ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Deferral	*2016 TES code:*	E22
Estimate Reliability:	Not Applicable	** Category*	1+
Commencement date:	1985	*Expiry date:*	
Legislative reference:	Subdivision 124-B of the *Income Tax Assessment Act 1997*		

A CGT roll-over is available for capital gains where an asset is compulsorily acquired (whether by a private or public acquirer), lost or destroyed and the taxpayer purchases a replacement asset. The capital gains liability is deferred until the ultimate disposal of the replacement asset.

E23 Roll-over for complying superannuation funds in certain circumstances

Other economic affairs - Other economic affairs, nec ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Deferral	*2016 TES code:*	E23
Estimate Reliability:	Not Applicable	** Category*	2+
Commencement date:	1994 (ADFs); 2008 (merging funds); 2013 (inter-fund MySuper mandatory transfers) and 2015 (intra-fund MySuper mandatory transfers)	*Expiry date:*	2017 (merging funds and MySuper mandatory transfers)
Legislative reference:	Subdivision 126-C (trust deeds), and Division 310 (merging funds) of the *Income Tax Assessment Act 1997* Division 311 of the *Income Tax Assessment Act 1997* (MySuper mandatory transfers)		

Tax relief is provided for superannuation funds which merge, where a complying superannuation fund or a complying Approved Deposit Fund amends or replaces its trust deed, in certain circumstances.

From 24 December 2008 to 1 July 2020, complying superannuation funds that merge are able to transfer capital and revenue losses to a new merged fund and to defer the taxation consequences on gains and losses from revenue and capital assets that are rolled over. Without the tax relief, the merged fund would not be able to access past losses and members would be taxed as if they had disposed and repurchased their assets at the time of the merger.

Similar tax relief was also provided between 1 July 2013 to 1 July 2017 for mandatory transfers of default members' balances and relevant assets to a MySuper product in another complying superannuation fund. In addition, from 29 June 2015 to 1 July 2017 asset roll-over relief was provided for mandatory transfers of default members' balances and relevant assets to a MySuper product within a complying superannuation fund's structure.

E24 Roll-over for replacement small business active assets

Other economic affairs - Other economic affairs, nec ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
210	220	250	310	320	330	340	350

Tax expenditure type:	Deferral	*2016 TES code:*	E24
Estimate Reliability:	Medium		
Commencement date:	1997	*Expiry date:*	
Legislative reference:	Subdivision 152-E of the *Income Tax Assessment Act 1997*		

Under the benchmark, realised capital gains are generally assessable to taxpayers at their applicable tax rate in the year they arise. However, a CGT roll-over is available for eligible small businesses, for capital gains arising from the disposal of active small business assets if the proceeds of the sale are used to purchase other active small business assets. Active assets include assets used in carrying on a business and intangible assets inherently connected with a business (for example, goodwill).

E25 Roll-over for statutory licences and water entitlements

Other economic affairs - Other economic affairs, nec ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Deferral	*2016 TES code:*	E25
Estimate Reliability:	Not Applicable	** Category*	1+
Commencement date:	1985, 2005 and 2006	*Expiry date:*	
Legislative reference:	Subdivisions 124-C (statutory licences) and 124-R (water entitlements) of the *Income Tax Assessment Act 1997*		

A CGT roll-over is available where a statutory licence ends and is replaced with a new licence that authorises substantially similar activity to the original licence. In addition, a CGT roll-over is available where a taxpayer's ownership of one or more water entitlements ends and the taxpayer receives one or more replacement water entitlements.

E26 Roll-over for transfer of assets on marriage or relationship breakdown

Other economic affairs - Other economic affairs, nec ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Deferral	*2016 TES code:*	E26
Estimate Reliability:	Not Applicable	** Category*	2+
Commencement date:	1985	*Expiry date:*	
Legislative reference:	Subdivision 126-A of the *Income Tax Assessment Act 1997*		

An automatic roll-over is available where a CGT asset is transferred to a spouse or former spouse because of a marriage or relationship breakdown, or under a binding financial agreement or an arbitral award entered into under the *Family Law Act 1975* or similar arrangements under state, territory or foreign legislation.

E27 Roll-overs not otherwise recognised

Other economic affairs - Other economic affairs, nec ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Deferral	*2016 TES code:*	E27
Estimate Reliability:	Not Applicable	** Category*	NA
Commencement date:	Various	*Expiry date:*	
Legislative reference:	Divisions 122, 124 and 126 of the *Income Tax Assessment Act 1997*		

This tax expenditure encompasses other CGT roll-overs not specifically covered in existing CGT roll-over tax expenditures. For example, the crown lease roll-over in Subdivision 124-J, the roll-over for the disposal of assets by a trust to a company provided in Subdivision 124-N, and the roll-overs facilitating a change to a company structure in Division 122.

E28 Scrip-for-scrip roll-over

Other economic affairs - Other economic affairs, nec ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
-300	-160	-170	-150	*	*	*	*

Tax expenditure type:	Deferral	*2016 TES code:*	E28
Estimate Reliability:	Low	** Category*	3+
Commencement date:	1999	*Expiry date:*	
Legislative reference:	Subdivision 124-M of the *Income Tax Assessment Act 1997*		

A CGT roll-over is available for capital gains arising from an exchange of interests in companies or fixed trusts, removing impediments to takeovers or similar arrangements. The roll-over ensures that an equity holder who exchanges original shares or other equity for new equity in a takeover or merger can defer a CGT liability arising from the exchange until the ultimate disposal of the replacement asset.

E29 Small business 50 per cent reduction

Other economic affairs - Other economic affairs, nec ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
580	600	680	830	840	850	870	890

Tax expenditure type:	Exemption	*2016 TES code:*	E29
Estimate Reliability:	Medium		
Commencement date:	1999	*Expiry date:*	
Legislative reference:	Subdivision 152-C of the *Income Tax Assessment Act 1997*		

Under the benchmark, realised capital gains are generally assessable to taxpayers at their applicable tax rate in the year they arise. However, a capital gain that arises from the sale of active assets held in an eligible small business can be reduced by 50 per cent. This applies in addition to any CGT discount entitlement of the taxpayer. Active assets include assets used in carrying on a business and intangible assets inherently connected with a business (for example, goodwill).

E30 Small business restructure roll-over

Other economic affairs - Other economic affairs, nec ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
-	-	-	-	20	20	25	25

Tax expenditure type:	Deferral	*2016 TES code:*	E30
Estimate Reliability:	Very Low		
Commencement date:	1 July 2016	*Expiry date:*	
Legislative reference:	Subdivision 328-G of the *Income Tax Assessment Act 1997*		

Under the benchmark, realised capital gains are generally assessable to taxpayers at their applicable tax rate in the year they arise. However, owners of small business active assets are eligible for capital gains roll-over relief when they change the legal structure of their business, provided the underlying economic ownership of the assets is unchanged.

COMMODITY AND OTHER INDIRECT TAXES

F1 Primary industry levy exemptions

Agriculture, forestry and fishing ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2016 TES code:*	F1
Estimate Reliability:	Not Applicable	** Category*	1+
Commencement date:	Introduced before 1985	*Expiry date:*	
Legislative reference:	*Primary Industries (Customs) Charges Act 1999* *Primary Industries (Excise) Levies Act 1999*		

Under the benchmark, primary industry levies would generally apply to all participants in a primary industry. However certain producers are exempt from primary industry levies. While the specific exemptions differ on a commodity by commodity basis, they are all in some way related to the quantity or value of the particular commodity produced in a given year.

F2 Exemptions from radiocommunications taxes for not-for-profit community or government entities

General public services - General services ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
3	5	7	7	8	8	8	8

Tax expenditure type:	Exemption	*2016 TES code:*	F2
Estimate Reliability:	Medium		
Commencement date:	1992	*Expiry date:*	
Legislative reference:	Section 294, Part 5.7 of the *Radiocommunications Act 1992*, and Regulation 5 of the *Radiocommunications Taxes Collection Regulations 1985*		

An exemption from the apparatus licence fee is available to organisations or individuals who are: diplomatic and consular missions; surf lifesaving and remote area ambulance services; emergency services or services for the safe-guarding of human life — such as rural fire fighting and coast guard services. These must be staffed principally by volunteers and be exempt from paying income tax.

F3 Passenger Movement Charge exemptions

Transport and communication ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
70	70	70	80	80	90	90	100

Tax expenditure type:	Exemption	*2016 TES code:*	F3
Estimate Reliability:	Medium - High		
Commencement date:	1978	*Expiry date:*	
Legislative reference:	Section 5, *Passenger Movement Charge Collection Act 1978*		

Certain passengers are exempt from the Passenger Movement Charge including foreign diplomats, children and outbound crew.

F4 Luxury car tax

Other economic affairs - Other economic affairs, nec ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
-476	-540	-620	-674	-680	-700	-750	-790

Tax expenditure type:	Increased rate	*2016 TES code:*	F5
Estimate Reliability:	Medium		
Commencement date:	1 July 2000	*Expiry date:*	
Legislative reference:	*A New Tax System (Luxury Car Tax) Act 1999* *A New Tax System (Luxury Car Tax Imposition - General) Act 1999* *A New Tax System (Luxury Car Tax Imposition - Customs) Act 1999* *A New Tax System (Luxury Car Tax Imposition - Excise) Act 1999*		

The luxury car tax currently applies to cars that have a GST inclusive price over $65,094 (the luxury car tax threshold for the 2017-18 financial year). The luxury car tax is 33 per cent of the GST exclusive value of the car that exceeds the luxury car tax threshold. Generally, motor vehicle purchases are only subject to GST. Consequently, the luxury car tax is a negative tax expenditure.

'Primary producers' or certain tourism businesses that acquire a 'refund-eligible car' are eligible to claim a tax refund of up to $3,000 of the amount of luxury car tax paid.

Since October 2008, a higher luxury car tax threshold has applied to fuel efficient cars. Eligible fuel efficient cars are subject to a threshold of $75,526 (for the 2017-18 financial year).

Since February 2017, public museums and public art galleries that have been endorsed by the Commissioner of Taxation as a Deductible Gift Recipient are allowed to acquire cars free of luxury car tax when the car is acquired for the purpose of public display.

F5 Tourism - inwards duty free

Other economic affairs - Other economic affairs, nec ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2016 TES code:*	F6
Estimate Reliability:	Not Applicable	** Category*	3+
Commencement date:	Introduced before 1985 1 July 2000 (WET)	*Expiry date:*	
Legislative reference:	Item 15 of Schedule 4 to the *Customs Tariff Act 1995* Section 7-15 of a *A New Tax System (Wine Equalisation Tax) Act 1999*		

Tobacco and alcohol products brought into Australia by inbound international travellers 18 years and over, within an allowance, are not subject to excise-equivalent customs duty or wine equalisation tax.

F6 Concessional rate of excise levied on aviation gasoline and aviation turbine fuel

Fuel and energy ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
950	1,110	1,260	1,230	1,280	1,330	1,390	1,450

Tax expenditure type:	Concessional rate	*2016 TES code:*	F7
Estimate Reliability:	Medium		
Commencement date:	15 March 1956	*Expiry date:*	
Legislative reference:	Item 10 of the Schedule to the *Excise Tariff Act 1921*		

Aviation gasoline and aviation turbine fuel are subject to a lower rate of excise than the benchmark rate. From 1 July 2012 to 30 June 2014, the excise rate included a 'carbon component rate', which was determined by the emission factor of each fuel and the carbon price. The inclusion of a carbon component of excise reduced the value of the concessional rate of excise. From 1 July 2014, the value of the concession increased due to the removal of the carbon component.

F7 Excise concessions for 'alternative fuels'

Fuel and energy ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
340	270	240	190	190	200	200	200

Tax expenditure type:	Concessional rate, Increased rate	*2016 TES code:*	F8
Estimate Reliability:	Low		
Commencement date:	1985	*Expiry date:*	
Legislative reference:	*Excise Tariff Act 1921*		

The benchmark rates for fuel consumed in an internal combustion engine are based on categories of energy density of the fuel types. There are categories for high, medium and low energy density fuels.

Alternative fuels including biodiesel, ethanol, liquefied petroleum gas (LPG), liquefied natural gas (LNG) and compressed natural gas (CNG) are subject to lower excise rates than the benchmark.

In June 2015, the Government passed legislation to gradually increase excise duty on domestically produced biodiesel and fuel ethanol.

Before 1 July 2015, domestically produced biodiesel and fuel ethanol were subject to the same excise rates as petrol and diesel, with grants available to producers to offset the excise. From 1 July 2015, the excise rates for these fuels were reduced to zero and the grants ceased. The excise rates for domestically manufactured fuel ethanol and biodiesel then increase on 1 July of each subsequent year until the final rates are reached on 1 July 2020 and 1 July 2030 respectively.

The final rates for biodiesel (a high energy content fuel) and fuel ethanol (a medium energy content fuel) will be 50 per cent of the respective benchmark rates.

Since 1 July 2015, the excise rates for LPG, LNG and CNG have been 50 per cent of the benchmark rate applying to high energy content fuels.

Users of small, non-commercial scale, domestically-based compressed natural gas refuellers are exempt from paying excise duty on compressed natural gas used to fuel their vehicles.

F8 Excise levied on fuel oil, heating oil and kerosene

Fuel and energy ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
-440	-250	-190	-110	-115	-125	-135	-140

Tax expenditure type:	Increased rate	*2016 TES code:*	F9
Estimate Reliability:	Medium - Low		
Commencement date:	2006	*Expiry date:*	
Legislative reference:	Item 10 of the Schedule to the *Excise Tariff Act 1921*		

The benchmark excise rate for fuels consumed for a purpose other than in an internal combustion engine is zero. Fuel oil, heating oil and kerosene are subject to excise equivalent to that applying to petroleum and diesel. Users are eligible for a fuel tax credit of an equivalent value.

F9 Excise levied on fuel products used for purposes other than as fuel

Fuel and energy ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
-55	-55	-55	-60	-60	-60	-65	-70

Tax expenditure type:	Increased rate	*2016 TES code:*	F10
Estimate Reliability:	Medium - Low		
Commencement date:	1 July 2006	*Expiry date:*	
Legislative reference:	Item 10 of the Schedule to the *Excise Tariff Act 1921*		

Fuels consumed for a purpose other than in an internal combustion engine (such as toluene, mineral turpentine and white spirits) are subject to excise equivalent to that applying to petroleum and diesel. Business users of these products are eligible for a fuel tax credit of an equivalent value.

F10 Higher rate of excise levied on cigarettes not exceeding 0.8 grams of tobacco

Health ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
-1,790	-1,935	-2,065	-2,215	-2,360	-2,555	-2,800	-3,055

Tax expenditure type:	Increased rate	*2016 TES code:*	F11
Estimate Reliability:	Medium - Low		
Commencement date:	1999	*Expiry date:*	
Legislative reference:	Item 5 of the Schedule to the *Excise Tariff Act 1921*		

Note: estimate for 2012-13 is not reported consistent with statutory requirements relating to taxpayer confidentiality.

The benchmark excise rate is the rate per kilogram applying to tobacco products containing more than 0.8 grams of tobacco. Cigarettes and cigars containing no more than 0.8 grams of tobacco pay excise at a per-stick rate. Due to the way that the per-stick rate and per-kilogram rate are equalised, cigarettes containing less tobacco than the equalisation weight will have a higher excise liability than if they were subject to the benchmark rate. The equalisation weight reduced to 0.775 grams per stick from 1 September 2017. The equalisation weight will further reduce to 0.75 grams per stick from 1 September 2018, 0.725 grams per stick from 1 September 2019 and 0.70 grams per stick from 1 September 2020.

F11 Concessional rate of excise levied on brandy

Other economic affairs - Other economic affairs, nec ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
4	5	5	4	4	4	5	5

Tax expenditure type:	Concessional rate	*2016 TES code:*	F12
Estimate Reliability:	Medium		
Commencement date:	9 November 1979	*Expiry date:*	
Legislative reference:	Item 3 of the Schedule to the *Excise Tariff Act 1921*		

Brandy is subject to a lower rate of excise than the benchmark rate of other spirits.

F12 Concessional rate of excise levied on brew-on-premise beer

Other economic affairs - Other economic affairs, nec ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
4	4	4	3	3	3	3	3

Tax expenditure type:	Concessional rate	*2016 TES code:*	F13
Estimate Reliability:	Medium		
Commencement date:	1 January 1993	*Expiry date:*	
Legislative reference:	Item 1 of the Schedule to the *Excise Tariff Act 1921*		

Brew-on-premise beer (that is, beer produced for non-commercial purposes using commercial facilities or equipment) is subject to a lower rate of excise than the benchmark rate of full strength beer packaged in individual containers not exceeding 48 litres.

F13 Concessional rate of excise levied on draught beer

Other economic affairs - Other economic affairs, nec ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
160	160	160	165	170	175	185	190

Tax expenditure type:	Concessional rate	*2016 TES code:*	F14
Estimate Reliability:	Medium		
Commencement date:	1 January 2001	*Expiry date:*	
Legislative reference:	Item 1 of the Schedule to the *Excise Tariff Act 1921*		

Draught beer (that is, beer packaged in individual containers exceeding 48 litres) is subject to a lower rate of excise than the benchmark rate of full strength beer packaged in individual containers not exceeding 48 litres.

F14 Concessional rate of excise levied on low strength packaged beer

Other economic affairs - Other economic affairs, nec ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
7	6	6	5	5	5	6	6

Tax expenditure type:	Concessional rate	*2016 TES code:*	F15
Estimate Reliability:	Medium		
Commencement date:	21 August 1984	*Expiry date:*	
Legislative reference:	Item 1 of the Schedule to the *Excise Tariff Act 1921*		

Low strength beer with an alcohol content of no more than 3 per cent packaged in containers not exceeding 48 litres is subject to a lower rate of excise than the benchmark rate of similarly packaged full strength beer.

F15 Excise concession for alcohol producers

Other economic affairs - Other economic affairs, nec ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
5	5	6	6	10	11	12	13

Tax expenditure type:	Rebate	*2016 TES code:*	F16
Estimate Reliability:	Medium		
Commencement date:	1/7/2012 (brewers) 1/7/2017 (distillers)	*Expiry date:*	
Legislative reference:	Table 1, Item 21 of Schedule 1 to the *Excise Regulation 2015* Item 5, Division 4 of the *Excise Regulation 2015*		

Breweries receive an excise refund of 60 per cent of excise paid on or after 1 July 2012, up to a maximum amount of $30,000 per financial year. Domestic distilleries and producers of low strength fermented beverages such as non-traditional cider (excluding most alcopop producers) can also claim the refund for excise paid on or after 1 July 2017.

F16 Excise exemption for privately produced beer

Other economic affairs - Other economic affairs, nec ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2016 TES code:*	F17
Estimate Reliability:	Not Applicable	** Category*	2+
Commencement date:	18 April 1973	*Expiry date:*	
Legislative reference:	Schedule to the *Excise Tariff Act 1921*		

Beer made for personal use by private individuals is exempt from the payment of excise.

F17 Wine equalisation tax exemption for privately produced wine

Other economic affairs - Other economic affairs, nec ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2016 TES code:*	F19
Estimate Reliability:	Not Applicable	** Category*	2+
Commencement date:	19 August 1970	*Expiry date:*	
Legislative reference:	*A New Tax System (Wine Equalisation Tax) Act 1999*		

Wine made for personal use by private individuals is exempt from the wine equalisation tax.

F18 Wine equalisation tax producer rebate

Other economic affairs - Other economic affairs, nec ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
300	310	320	310	300	260	250	260

Tax expenditure type:	Rebate	*2016 TES code:*	F20
Estimate Reliability:	Medium		
Commencement date:	1/10/2004 1 July 2018 (tightened eligibility criteria and reduced rebate cap)	*Expiry date:*	
Legislative reference:	*A New Tax System (Wine Equalisation Tax) Act 1999*		

Wine producers are able to claim a rebate of wine equalisation tax (WET) of up to $500,000 per financial year. The rebate also extends to traditional cider, perry, mead, and sake.

From 1 July 2018, eligibility for the rebate will be tightened, including by requiring wine producers to own at least 85 per cent of the grapes used to make the wine throughout the winemaking process, and for wine to be branded and packaged in a container not exceeding five litres (51 litres for cider and perry).

The tightened eligibility criteria will apply to all wine from the 2018 vintage irrespective of when the rebate is claimed.

The rebate cap will also be reduced to $350,000 from 1 July 2018.

F19 Certain exemptions for diplomatic missions and foreign diplomats

General public services - Foreign affairs and economic aid ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
1	1	1	1	1	1	1	1

Tax expenditure type:	Exemption	*2016 TES code:*	F21
Estimate Reliability:	Medium - High		
Commencement date:	21 August 1940	*Expiry date:*	
Legislative reference:	Division 2 and Schedule 1 of the *Excise Regulation 2015* Section 10 of the *Diplomatic Privileges and Immunities Act 1967* Section 10 of the *Consular Privileges and Immunities Act 1972* Section 11 of the *International Organisations (Privileges and Immunities) Act 1963* Section 12 of the *Overseas Missions (Privileges and Immunities) Act 1995*		

Note: estimates represent excise duty only.

Excise, luxury car tax and wine equalisation tax are not payable (or an equivalent amount of that paid is claimable) for alcohol, fuel, motor vehicles and tobacco used for official purposes by diplomatic missions or for personal use by persons identified in the *Diplomatic Privileges and Immunities Act 1967*.

F20 Certain exemptions for Australian military sea vessels

Defence ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2016 TES code:*	F22
Estimate Reliability:	Not Applicable	** Category*	1+
Commencement date:	1934	*Expiry date:*	
Legislative reference:	Table 2, Item 6 of Schedule 1 to the *Excise Regulation 2015*		

Note: estimates represent excise duty only.

Excise on tobacco and certain alcoholic products is not payable by Australian military seagoing vessels in full commission when the products are consumed on board.

F21 Customs duty

Mining, manufacturing and construction ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
-3,040	-2,700	-2,280	-1,590	-1,260	-1,260	-1,290	-1,410

Tax expenditure type:	Increased rate	*2016 TES code:*	F23
Estimate Reliability:	Medium - High		
Commencement date:	4 October 1901	*Expiry date:*	
Legislative reference:	*Customs Act 1901* *Customs Tariff Act 1995*		

Customs duty is collected on certain goods imported into Australia (for example, most cars are subject to 5 per cent customs duty upon importation). This is a negative tax expenditure because the benchmark treatment is that imported goods are subject to the same taxes on consumption as domestically produced goods and, therefore, are free from customs duty (except for excise-equivalent customs duty).

NATURAL RESOURCES TAXES

G1 Junior Minerals Exploration Incentive

Mining, manufacturing and construction ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
-	-	-	-	6	4	9	7

Tax expenditure type:	Exemption	*2016 TES code:*	New
Estimate Reliability:	Medium		
Commencement date:	1 July 2014	*Expiry date:*	30 June 2021
Legislative reference:	Not yet legislated		

A tax incentive will be provided to Australian resident investors that purchase newly issued shares in small minerals exploration companies that are raising capital to fund greenfields exploration activity. Eligible companies will be able to create exploration credits by giving up a portion of their tax losses relating to their exploration expenditure, which can then be distributed to investors.

Most investors that receive a credit will be entitled to a refundable tax offset or an additional franking credit if the investor is a company. As the refundable tax offset is an expense item, it does not appear as a tax expenditure in its own right. However, under the benchmark a tax expenditure arises because payments made under this arrangement are exempt from tax.

The Junior Minerals Exploration Incentive will commence from 1 July 2017. It will build on the former Exploration Development Incentive which applied from the 2014-15 income year and ceased to be available for new expenditure after 30 June 2017.

G2 Crude Oil Excise

Fuel and energy ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Deduction	*2016 TES code:*	G1
Estimate Reliability:	Not Applicable	** Category*	NA
Commencement date:	1 July 2012	*Expiry date:*	
Legislative reference:	*Petroleum Resource Rent Tax Assessment Act 1987*		

Under the natural resource benchmark, crude oil excise is treated as a prepayment of Petroleum Resource Rent Tax (PRRT) liabilities and to the extent that the crude oil excise exceeds the PRRT payable in a year, a negative tax expenditure will arise for that period. Where crude oil excise credits are carried forward and used to reduce PRRT in later periods, a tax expenditure will arise in the year the carried forward credit is utilised.

G3 PRRT - denial of refund of tax credits for losses at project end

Fuel and energy ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Denial of refund	*2016 TES code:*	G2
Estimate Reliability:	Not Applicable	** Category*	1-
Commencement date:	1 July 1990	*Expiry date:*	
Legislative reference:	*Petroleum Resource Rent Tax Act 1987*		

There is no refund of the tax value of losses available when the project closes down. This treatment is consistent with the benchmark prior to 1 July 2012 but gives rise to a tax expenditure under the benchmark applying from 1 July 2012.

G4 PRRT - expenditure uplift rate

Fuel and energy ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Deduction	*2016 TES code:*	G3
Estimate Reliability:	Not Applicable	** Category*	2+
Commencement date:	1 July 1990	*Expiry date:*	
Legislative reference:	*Petroleum Resource Rent Tax Act 1987*		

Expenditure that generates project losses is uplifted at a number of different rates depending on when the expenditure took place and the nature of the expenditure. For example, exploration expenditure is uplifted at the long term bond rate plus 15 percentage points and general expenditure is uplifted at the long term bond rate plus 5 percentage points. These uplift rates are beyond the notional benchmark rate of the long term bond rate.

G5 PRRT - gas transfer price regulations

Fuel and energy ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Deduction	*2016 TES code:*	G4
Estimate Reliability:	Not Applicable	** Category*	2+
Commencement date:	20 December 2005	*Expiry date:*	
Legislative reference:	*Petroleum Resource Rent Tax Assessment Regulation 2015*		

The PRRT gas transfer price regulations stipulate rules for calculating the gas transfer price where there is no arm's length transaction in an integrated liquefied natural gas (LNG) project. The regulations provide an allowance for capital expenditure which is based on the long term bond rate plus 7 percentage points rather than the notional benchmark rate which is the long term bond rate. The regulations also include provisions in the calculation of the gas transfer price that reduce the estimated upstream gas price by half the difference between the estimated 'upstream' price and the estimated 'downstream' price where the upstream price is the higher.

G6 PRRT - starting base and uplift rate for capital assets

Fuel and energy ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Deduction	*2016 TES code:*	G5
Estimate Reliability:	Not Applicable	** Category*	2+
Commencement date:	1 July 2012	*Expiry date:*	
Legislative reference:	*Petroleum Resource Rent Tax Assessment Act 1987*		

Existing investments of projects brought under the PRRT on 1 July 2012 are recognised through the provision of a starting base allowance. The starting base allowance recognises assets relating to the upstream assets of the PRRT project on 2 May 2010. Unused starting base losses are uplifted at the long term bond rate plus 5 percentage points. Unused exploration expenditure under the look back valuation option is uplifted at long term bond rate plus 15 percentage points.

GOODS AND SERVICES TAX

H1 Financial supplies - financial acquisitions threshold - input tax credits

General public services - Financial and fiscal affairs ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Concessional rate	*2016 TES code:*	H1
Estimate Reliability:	Not Applicable	** Category*	3+
Commencement date:	1 July 2000	*Expiry date:*	
Legislative reference:	Sections 11-15(4) and 189-5 of the *A New Tax System (Goods and Services Tax) Act 1999*		

Generally, financial supplies are not subject to GST and input tax credits cannot be claimed for such supplies. However, entities that make financial supplies without exceeding the financial acquisitions threshold are entitled to input tax credits for acquisitions used or intended to be used for making the financial supplies. This allows entities to claim input tax credits for financial supplies, where they have principal commercial activities other than providing financial supplies.

An entity does not exceed the financial acquisitions threshold if the input tax credits it would have been entitled to for the acquisitions do not exceed $150,000 or 10 per cent of their total input tax credits for the year.

H2 Financial supplies - input taxed treatment

General public services - Financial and fiscal affairs ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
2,800	2,800	3,000	3,200	3,400	3,600	3,800	4,050

Tax expenditure type:	Exemption, Concessional rate	*2016 TES code:*	H2
Estimate Reliability:	Medium - Low		
Commencement date:	1 July 2000	*Expiry date:*	
Legislative reference:	Subdivision 40-A of the *A New Tax System (Goods and Services Tax) Act 1999*		

Generally, financial supplies are not subject to GST and input tax credits cannot be claimed for such supplies. For example, banks do not charge GST on the supply of bank accounts to customers, and cannot claim back the GST component of the costs they incur in supplying bank accounts. A positive tax expenditure arises in this situation as the GST paid is less than 10 per cent of the final value of the financial supply.

A negative tax expenditure arises where the financial supply is to a business. This is because no GST would actually be payable under the benchmark (subjecting financial services to GST) in this situation as businesses would claim an input tax credit for the GST amount. However, under actual tax arrangements, some GST is paid as input tax credits cannot be claimed on financial supplies to businesses.

Financial supplies are input taxed due to the difficulty in valuing them. The input tax treatment of financial supplies in Australia is consistent with international practice.

H3 Financial supplies - reduced input tax credits

General public services - Financial and fiscal affairs ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
700	700	750	800	850	900	950	1,000

Tax expenditure type:	Concessional rate	*2016 TES code:*	H3
Estimate Reliability:	Low		
Commencement date:	1 July 2000	*Expiry date:*	
Legislative reference:	Division 70 of the *A New Tax System (Goods and Services Tax) Act 1999*		

Generally, financial supplies are not subject to GST and input tax credits cannot be claimed for such supplies. However, input tax credits may be claimed for the acquisition of certain supplies, (including cash management, funds transfer, and debt collection services) but at a reduced rate (either 55 or 75 per cent of the standard input tax credit entitlement depending on the acquisition).

Reduced input tax credits are designed to reduce the bias between insourcing and outsourcing the relevant services, as GST can apply where these services are outsourced, but not when they are provided internally by employees.

H4 Charities and non-profit bodies

General public services - General services ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2016 TES code:*	H4
Estimate Reliability:	Not Applicable	** Category*	3+
Commencement date:	1 July 2000	*Expiry date:*	
Legislative reference:	Subdivision 38-G of the *A New Tax System (Goods and Services Tax) Act 1999*		

Non-profit bodies are entitled to a higher GST registration threshold of $150,000. They are entitled to GST-free treatment on non-commercial activities, certain retirement village services, bingo, and sale of second hand goods. Charities can elect to have fundraising treated as input taxed. This option is also available to gift deductible entities and government schools. Simplified accounting methods may be available and a range of other concessions apply.

Certain entities have the option of separately identifying some or all of their operations and treating each as a separate entity for GST purposes.

H5 Child care services

Housing and community amenities ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
1,010	1,160	1,250	1,330	1,420	1,600	1,750	1,910

Tax expenditure type:	Exemption	*2016 TES code:*	H5
Estimate Reliability:	Medium - Low		
Commencement date:	1 July 2000	*Expiry date:*	
Legislative reference:	Subdivision 38-D of the *A New Tax System (Goods and Services Tax) Act 1999*		

Generally, child care will be GST-free where the provider is eligible to receive government funding, or if the provider is a registered carer or child care service for the purposes of the relevant Commonwealth legislation. All supplies that are directly related to child care are also GST-free.

H6 Water, sewerage and drainage

Housing and community amenities ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
840	850	900	900	950	1,010	1,060	1,120

Tax expenditure type:	Exemption	*2016 TES code:*	H6
Estimate Reliability:	Medium		
Commencement date:	1 July 2000	*Expiry date:*	
Legislative reference:	Subdivision 38-I of the *A New Tax System (Goods and Services Tax) Act 1999*		

A supply of water is GST-free unless it is supplied in, or transferred into, a container with a capacity of less than 100 litres. The draining of storm water, the emptying of a septic tank and sewerage and sewerage-like services are also GST-free. Water sold as a beverage is included in tax expenditure H27.

H7 Diplomats, diplomatic missions and approved international organisations

General public services - Foreign affairs and economic aid ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
7	8	8	9	10	11	11	12

Tax expenditure type:	Exemption	*2016 TES code:*	H7
Estimate Reliability:	Medium		
Commencement date:	1 July 2000	*Expiry date:*	
Legislative reference:	Section 10B of the Diplomatic Privileges and Immunities Act 1967 Section 10A of the Consular Privileges and Immunities Act 1972 Section 11C of the International Organisations (Privileges and Immunities) Act 1963		

Diplomatic missions, consulates and certain international organisations may be reimbursed the GST included in their purchases of certain goods and services, where the purchase is for the official use of the organisation. The GST included in purchases by diplomatic and consular staff, or certain staff of some international organisations, for the private use of the person may also be refundable. The refund must be within the scope of the *Diplomatic Privileges and Immunities Act 1967*, the *Consular Privileges and Immunities Act 1972*, or the *International Organisations (Privileges and Immunities) Act 1963*.

H8 Global roaming by visitors to Australia

Transport and communication ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2016 TES code:*	H8
Estimate Reliability:	Not Applicable	** Category*	1+
Commencement date:	1 July 2000	*Expiry date:*	
Legislative reference:	Section 38-570 of the *A New Tax System (Goods and Services Tax) Act 1999*		

Telecommunication supplies for global roaming services provided to visitors to Australia are GST-free, consistent with Australia's treaty obligations under the International Telecommunication Regulations (the Melbourne Agreement).

H9 Tourist refund scheme

Other economic affairs - Tourism and area promotion ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2016 TES code:*	H9
Estimate Reliability:	Not Applicable	** Category*	2+
Commencement date:	1 July 2000	*Expiry date:*	
Legislative reference:	Division 168 of the *A New Tax System (Goods and Services Tax) Act 1999*		

International travellers visiting Australia and Australians travelling overseas may be able to claim a refund of GST paid on certain goods bought in Australia if the total value of the goods is $300 or more, they are purchased within 60 days of departure and the goods are taken with the traveller when they depart Australia.

In addition, residents of Australia's External Territories (such as Norfolk, Cocos (Keeling) and Christmas Islands) can claim refunds of GST under the tourist refund scheme. Claims can be made if Australian External Territory residents leaving Australia can show proof that the goods have been exported to their External Territory within the required period after the goods were acquired.

H10 Boats for export

Other economic affairs - Other economic affairs, nec ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
8	15	14	12	12	11	12	12

Tax expenditure type:	Exemption	*2016 TES code:*	H10
Estimate Reliability:	Low		
Commencement date:	1 July 2000	*Expiry date:*	
Legislative reference:	Item 4 of section 38-185 of the *A New Tax System (Goods and Services Tax) Act 1999*		

Supplies of eligible boats used for recreational purposes are GST-free if the boats are exported by the purchaser from Australia within 12 months, with effect from 1 July 2011. Other goods must be exported from Australia within 60 days in order to be GST-free.

H11 Importation threshold

Other economic affairs - Other economic affairs, nec ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
390	380	390	390	390	-	-	-

Tax expenditure type:	Exemption	*2016 TES code:*	H12
Estimate Reliability:	Low		
Commencement date:	1 July 2000	*Expiry date:*	
Legislative reference:	Section 42-5 of the *A New Tax System (Goods and Services Tax) Act 1999* Schedule 4 to the *Customs Tariff Act 1995*		

With the exception of consignments containing tobacco, tobacco products or alcoholic beverages, a GST exemption currently applies to imports of goods with a customs value of no more than $1,000. From 1 July 2018, these goods will be subject to GST. Overseas suppliers that have a turnover of $75,000 or more will be required to account for GST for low value goods supplied to consumers in Australia, using a vendor registration model.

H12 Tourism - domestic travel as part of an international arrangement

Other economic affairs - Other economic affairs, nec ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2016 TES code:*	H13
Estimate Reliability:	Not Applicable	** Category*	2+
Commencement date:	1 July 2000	*Expiry date:*	
Legislative reference:	Section 38-355 of the *A New Tax System (Goods and Services Tax) Act 1999*		

Domestic air or sea travel within Australia by residents or non-residents as part of a wider international arrangement is not subject to GST. Domestic air travel within Australia by non-residents is also GST-free if the ticket is purchased while the passenger is outside Australia. Transport insurance for the above supplies is also GST-free.

H13 Tourism - inwards duty free

Other economic affairs - Other economic affairs, nec ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2016 TES code:*	H14
Estimate Reliability:	Not Applicable	** Category*	3+
Commencement date:	1 July 2000	*Expiry date:*	
Legislative reference:	Section 38-415 of the *A New Tax System (Goods and Services Tax) Act 1999*		

Supplies made through an inwards duty free shop to inbound international travellers are not subject to GST.

H14 Tourism - travel agents - overseas travel

Other economic affairs - Other economic affairs, nec ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
180	190	210	215	220	230	240	255

Tax expenditure type:	Exemption	*2016 TES code:*	H15
Estimate Reliability:	Low		
Commencement date:	1 July 2000	*Expiry date:*	
Legislative reference:	Section 38-360 of the *A New Tax System (Goods and Services Tax) Act 1999*		

The arranging of overseas travel, accommodation and other services by travel agents in Australia in the course of their business is GST-free. The arranging service must relate to a holiday or supply that takes place or is used overseas.

H15 Education

Education ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
3,650	3,800	4,050	4,200	4,550	4,900	5,250	5,650

Tax expenditure type:	Exemption	*2016 TES code:*	H16
Estimate Reliability:	Medium		
Commencement date:	1 July 2000	*Expiry date:*	
Legislative reference:	Subdivision 38-C of the *A New Tax System (Goods and Services Tax) Act 1999*		

Certain education supplies are GST-free. These include education courses, directly related administrative services provided by the same provider as the education course, curriculum-related goods, student accommodation for students attending a primary, secondary or special education course provided by the same provider as the education course, excursions and field trips (excluding food and accommodation provided as part of a tertiary course, tertiary residential college course or professional or trade course) and supplies related to the recognition of prior learning.

H16 Health - drugs and medicinal preparations

Health ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
340	360	380	400	430	460	490	520

Tax expenditure type:	Exemption	*2016 TES code:*	H17
Estimate Reliability:	Medium		
Commencement date:	1 July 2000	*Expiry date:*	
Legislative reference:	Section 38-50 of the *A New Tax System (Goods and Services Tax) Act 1999*		

Most medicines for human use are GST-free. GST-free medicines include: medicines that can only be supplied on prescription; medicines supplied as a pharmaceutical benefit; non-prescription drugs that can only be supplied by a doctor, dentist, pharmacist or other prescribed person as described by relevant state or territory law; medicines supplied under the Special Access Scheme; and certain analgesics covered by a written determination by the Federal Health Minister.

H17 Health - medical aids and appliances

Health ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
55	70	75	80	85	90	95	105

Tax expenditure type:	Exemption	*2016 TES code:*	H18
Estimate Reliability:	Low		
Commencement date:	1 July 2000	*Expiry date:*	
Legislative reference:	Sections 38-38, 38-45, 38-47 and Subdivision 38-P of the *A New Tax System (Goods and Services Tax) Act 1999*		

A medical aid or appliance is GST-free if the medical aid or appliance is listed in Schedule 3 to the *A New Tax System (Goods and Services Tax) Act 1999*, or specified in the regulations and specifically designed for people with an illness or disability and not widely used by others.

The supply of cars for use by disabled persons, spare parts for medical aids and appliances and the services related to the provision of the medical aid or appliance are GST-free. Goods that are the subject of a written determination by the Federal Health Minister are also GST-free, including certain disability support delivered under the *National Disability Insurance Scheme Act 2013*.

H18 Health - medical and health services

Health ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
3,300	3,400	3,650	3,800	4,100	4,350	4,650	4,950

Tax expenditure type:	Exemption	*2016 TES code:*	H19
Estimate Reliability:	Medium		
Commencement date:	1 July 2000	*Expiry date:*	
Legislative reference:	Sections 38-7, 38-10, 38-15, 38-20 of the *A New Tax System (Goods and Services Tax) Act 1999*		

Medical services are GST-free if: they are a service for which a Medicare benefit is payable under the *Health Insurance Act 1973*; they are supplied by, or on behalf of, a medical practitioner; and they constitute a service that is generally accepted in the medical profession as being necessary for the treatment of the patient.

Health services rendered by a recognised professional, as well as hospital treatment are also GST-free. Goods supplied in the course of making GST-free health care services are generally GST-free.

H19 Health - residential care, community care and other care services

Health ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
950	950	1,010	1,060	1,130	1,210	1,290	1,380

Tax expenditure type:	Exemption	*2016 TES code:*	H20
Estimate Reliability:	Medium		
Commencement date:	1 July 2000	*Expiry date:*	
Legislative reference:	Sections 38-25, 38-30, 38-35, 38-38 of the *A New Tax System (Goods and Services Tax) Act 1999*		

Some services provided by care and specialist disability providers are GST-free, including certain disability supports delivered under the *National Disability Insurance Scheme Act 2013*. The quality of care principles found in the *Aged Care Act 1997* apply in determining the tax status of specific care services. In general, publicly funded aged or disability care services are GST-free, as are privately funded aged care services which meet the quality of care principles found in the *Aged Care Act 1997* and are provided to those needing daily living activities assistance or nursing services.

H20 Private health insurance

Health ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
260	290	320	350	370	410	430	460

Tax expenditure type:	Exemption	*2016 TES code:*	H21
Estimate Reliability:	Medium		
Commencement date:	1 July 2000	*Expiry date:*	
Legislative reference:	Sections 38-55, 38-60 of the *A New Tax System (Goods and Services Tax) Act 1999*		

A supply of private health insurance by a private health insurer (within the meaning of the *Private Health Insurance Act 2007*) is GST-free. In line with the GST treatment of general insurance, the tax expenditure for this item is based on the difference between the premium income of private health insurers and the value of benefits paid out.

H21 Religious services

Recreation and culture ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
35	40	45	45	50	55	60	65

Tax expenditure type:	Exemption	*2016 TES code:*	H22
Estimate Reliability:	Low		
Commencement date:	1 July 2000	*Expiry date:*	
Legislative reference:	Section 38-220 of the *A New Tax System (Goods and Services Tax) Act 1999*		

Supplies of religious services are GST-free if supplied by a religious institution and the supplied service is integral to the practice of that religion.

H22 Supplies of farm land

Agriculture, forestry and fishing ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2016 TES code:*	H23
Estimate Reliability:	Not Applicable	** Category*	3+
Commencement date:	1 July 2000	*Expiry date:*	
Legislative reference:	Subdivision 38-O of the *A New Tax System (Goods and Services Tax) Act 1999*		

Specific supplies of farm land are GST-free. This includes: farm land supplied for farming on which a farming business has been carried on for at least five years and upon which a farming business is intended to continue to be carried on; and subdivided farm land that is potential residential land that is supplied to associates for nil or inadequate consideration.

H23 Registration thresholds

Other economic affairs - Other economic affairs, nec ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2016 TES code:*	H24
Estimate Reliability:	Not Applicable	** Category*	3+
Commencement date:	1 July 2000	*Expiry date:*	
Legislative reference:	Section 23-15 and Part 4-5 of the *A New Tax System (Goods and Services Tax) Act 1999* Regulations 23-15.01 and 23-15.02 of the *A New Tax System (Goods and Services Tax) Regulation 1999*		

Entities (other than taxi operators) with a GST turnover less than $75,000 or $150,000 for non-profit entities are not required to register for GST. Supplies made by unregistered entities are not subject to GST.

H24 Simplified accounting methods

Other economic affairs - Other economic affairs, nec ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
12	11	11	14	15	15	15	15

Tax expenditure type:	Concessional rate	*2016 TES code:*	H25
Estimate Reliability:	Low		
Commencement date:	1 July 2000	*Expiry date:*	
Legislative reference:	Division 123 of the *A New Tax System (Goods and Services Tax) Act 1999*		

The Commissioner of Taxation can create simplified accounting methods (SAMs) that some small businesses can choose to apply to reduce their GST compliance costs. SAMs allow taxpayers to apply simple ratios to calculate their GST liabilities (or components of them) rather than accounting for each supply to determine if it is taxable or non-taxable. Being ratios, SAMs will benefit some taxpayers by reducing their GST liabilities while increasing the GST liabilities of others, relative to the amounts calculated using a full GST calculation.

While SAMs are designed to reduce compliance costs rather than provide a tax concession, entities that expect to receive a tax benefit from applying SAMs are more likely to adopt this methodology than those that do not. This would be expected to result in a net tax concession.

H25 Precious metal

Mining, manufacturing and construction ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2016 TES code:*	H26
Estimate Reliability:	Not Applicable	** Category*	2+
Commencement date:	1 July 2000	*Expiry date:*	
Legislative reference:	Subdivision 38-L of the *A New Tax System (Goods and Services Tax) Act 1999*		

The first supply of a precious metal (after its refining by or on behalf of the supplier) to a precious metal dealer is GST-free, while subsequent supplies of precious metals are input taxed. The GST-free treatment of precious metals recognises that precious metal prices are internationally fixed, and gold dealers cannot pass on the GST on sales they make. Making the initial supply after refining GST free is intended to ensure that there is no GST embedded in the price of that sale.

To address integrity concerns of precious metals transactions receiving GST credits under the second-hand goods rules, a 2017-18 Budget measure introduced a reverse charge in business-to-business transactions for goods that derive most of their value from their precious metal content. The definition of second-hand goods was also amended to clarify that precious metals are not second-hand goods for the purpose of claiming input tax credits.

The tax expenditure is represented by the GST refunds to businesses that first supply precious metals and sell them GST-free and that no GST is collected on precious metal imports, less the input tax credits denied for purchasing businesses. The 2017-18 Budget measure reduces the tax expenditure by addressing revenue leakage arising from input tax credit claims on precious metals that are fraudulently supplied as second-hand goods.

H26 Cross-border transport supplies

Transport and communication ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2016 TES code:*	H27
Estimate Reliability:	Low	** Category*	1+
Commencement date:	1 July 2010	*Expiry date:*	
Legislative reference:	Section 13-20 of the *A New Tax System (Goods and Services Tax) Act 1999*		

Since 1 July 2010, the total transport and insurance cost of imported goods is included in the calculation of the value of the taxable importation. If the imported good is a non-taxable importation (for example, the supply of the good would be GST-free), the domestic transport or insurance component of the transportation supplied is still not taxed.

H27 Food

Other economic affairs - Other economic affairs, nec ($m)

2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
6,200	6,400	6,600	6,800	7,100	7,300	7,600	7,900

Tax expenditure type:	Exemption	*2016 TES code:*	H28
Estimate Reliability:	Medium		
Commencement date:	1 July 2000	*Expiry date:*	
Legislative reference:	Subdivision 38-A of the *A New Tax System (Goods and Services Tax) Act 1999*		

Most food items for human consumption that are prepared and/or consumed at home are GST-free. Examples of GST-free food include: fresh fruit and vegetables, fish, dairy products, bread and meat. Examples of GST-free beverages include unflavoured milk products, tea, coffee, water and fruit juices. Food and beverages subject to GST include: restaurant and takeaway meals, confectionary, savoury snacks, ice cream, biscuits and soft drinks.

CHAPTER 5: REVENUE GAIN ESTIMATES OF TAX EXPENDITURES

The revenue gain approach is an alternative to the revenue forgone approach used to produce the tax expenditure estimates in Chapter 4. Revenue gain estimates for individual tax expenditure items are more akin to estimates of the revenue impact of budget measures.

Because they take account of behavioural responses, revenue gain estimates are often lower than revenue forgone estimates.

- Introducing a tax expenditure may create incentives for taxpayers to change their behaviour to utilise (or avoid) the new tax provision. Removing the tax expenditure (so that the benchmark tax treatment prevailed) would remove this incentive and may cause a corresponding change in taxpayer behaviour.

In particular, taxpayers may make greater use of other tax expenditures if a particular tax expenditure were to be (hypothetically) abolished.

- For example, a revenue gain estimate for the concessional treatment of employer superannuation contributions would take account of the potential for voluntary employer contributions to be redirected to other tax-preferred investments.

Consistent with a recommendation of the Australian National Audit Office in its 2007-08 performance audit of the TES,[3] this Chapter reports revenue gain estimates for 10 large tax expenditures.

These tax expenditures have been chosen because they best illustrate the considerable differences between the revenue forgone and revenue gain approaches, and how those differences can vary between tax expenditure items.

Revenue gain estimates for tax expenditures relating to the CGT concessions for housing (E5 and E6) and the CGT discount for individuals and trusts (E13) have not been produced because of the significant uncertainty about taxpayer behavioural responses were these tax expenditures to be (hypothetically) abolished.

3 ANAO Audit Report No. 32, 2007-08, *Preparation of the Tax Expenditures Statement*, Recommendation 5.

Revenue gain estimates should be treated with extreme caution.

- In practice, the revenue gain can be difficult to estimate as there is usually little, if any, information on how taxpayers might react to the removal of a tax expenditure. Assumptions about taxpayer behavioural responses therefore need to be made, and these assumptions can be difficult to meaningfully substantiate.

- Revenue gains estimates assume that a tax expenditure is abolished with immediate effect, whereas it may be more plausible on policy grounds to adopt transitional arrangements (for example, grandfathering), or to reduce the size of a tax expenditure rather than abolish it.

- Judgments also need to be made about likely policy settings — for example, whether it is realistic to assess the abolition of a single tax expenditure (for example, a particular GST exemption) while keeping other tax expenditures unchanged (for example, other GST exemptions).

- Revenue gain estimates do not take into account any potential changes in direct expenditure flowing from the removal of a tax expenditure.

5.1. 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 2017;

- 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 text below each set of estimates.

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 effects.

Revenue forgone and revenue gain estimates are presented for a four-year period from 2017-18. A brief outline of the reasons for any difference between the revenue gain and revenue forgone estimates is then provided.

TAX EXPENDITURES BASED ON REVENUE GAIN APPROACH

C4: Concessional taxation of superannuation entity earnings

Estimates	Revenue forgone estimate ($m)				Revenue gain estimate ($m)			
	2017-18	2018-19	2019-20	2020-21	2017-18	2018-19	2019-20	2020-21
	19,250	23,250	26,050	28,950	18,300	21,300	23,300	25,600

Reason for difference: Broadly, the revenue gain approach yields a lower estimate of the tax expenditure because it incorporates a likely behavioural response, with removal of the concessional taxation of both superannuation contributions and earnings leading to reduced superannuation contributions (and lower balances). It is assumed current preservation rules remain. In the accumulation phase, voluntary concessional contributions are assumed to cease (as in C2) and most non concessional contributions also cease 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 Seniors and Pensioners Tax Offset), the funds withdrawn attract minimal tax in the new investments chosen.

C2: Concessional taxation of employer superannuation contributions

Estimates	Revenue forgone estimate ($m)				Revenue gain estimate ($m)			
	2017-18	2018-19	2019-20	2020-21	2017-18	2018-19	2019-20	2020-21
	16,900	17,750	19,400	20,900	16,300	17,050	18,600	20,050

Reason for difference: Broadly, the revenue gain approach yields a lower estimate of the tax expenditure because it incorporates a likely behavioural response, with removal of the concessional taxation of superannuation leading to reduced superannuation contributions. 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.

H27: GST — Food

Estimates	Revenue forgone estimate ($m)				Revenue gain estimate ($m)			
	2017-18	2018-19	2019-20	2020-21	2017-18	2018-19	2019-20	2020-21
	7,100	7,300	7,600	7,900	6,900	7,200	7,400	7,700

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.

H15: GST — Education

Estimates	Revenue forgone estimate ($m)				Revenue gain estimate ($m)			
	2017-18	2018-19	2019-20	2020-21	2017-18	2018-19	2019-20	2020-21
	4,550	4,900	5,250	5,650	4,100	4,400	4,750	5,100

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'.

H18: GST — Health — medical and health services

Estimates	Revenue forgone estimate ($m)				Revenue gain estimate ($m)			
	2017-18	2018-19	2019-20	2020-21	2017-18	2018-19	2019-20	2020-21
	4,100	4,350	4,650	4,950	4,050	4,300	4,550	4,850

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)**			
	2017-18	**2018-19**	**2019-20**	**2020-21**	**2017-18**	**2018-19**	**2019-20**	**2020-21**
	3,400	3,600	3,800	4,050	3,400	3,600	3,800	4,050
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.							

A24: Concessional taxation of non-superannuation termination benefits								
Estimates	**Revenue forgone estimate ($m)**				**Revenue gain estimate ($m)**			
	2017-18	**2018-19**	**2019-20**	**2020-21**	**2017-18**	**2018-19**	**2019-20**	**2020-21**
	2,400	2,300	2,200	2,100	2,400	2,300	2,200	2,100
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 no material difference between the revenue forgone and revenue gain estimates.							

A41: Exemption of Family Tax Benefit payments								
Estimates	**Revenue forgone estimate ($m)**				**Revenue gain estimate ($m)**			
	2017-18	**2018-19**	**2019-20**	**2020-21**	**2017-18**	**2018-19**	**2019-20**	**2020-21**
	2,070	2,020	2,070	2,060	2,070	2,020	2,070	2,060
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.							

B12: Exemption from interest withholding tax on certain securities								
Estimates	**Revenue forgone estimate ($m)**				**Revenue gain estimate ($m)**			
	2017-18	**2018-19**	**2019-20**	**2020-21**	**2017-18**	**2018-19**	**2019-20**	**2020-21**
	2,010	2,010	2,010	2,010	1,430	1,500	1,420	1,420
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.							

F21: Customs duty								
Estimates	**Revenue forgone estimate ($m)**				**Revenue gain estimate ($m)**			
	2017-18	**2018-19**	**2019-20**	**2020-21**	**2017-18**	**2018-19**	**2019-20**	**2020-21**
	-1,260	-1,260	-1,290	-1,410	-1,260	-1,260	-1,290	-1,410
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.							

APPENDIX A: TECHNICAL NOTES

This appendix provides further technical information regarding the reliability of estimates, how unquantifiable tax expenditures are reported, detailed information about the benchmark tax treatment used in the TES and an overview of the various modelling techniques used to quantify tax expenditure estimates.

A.1 Reliability

Tax expenditure estimates vary in reliability depending on the quality, detail and frequency of the underlying data, the consequent extent to which calculations must be based on assumptions, and the sensitivity of estimates to those assumptions.

Importantly, the TES reports estimates for future years. In many cases, this unavoidably reduces their reliability because of the inherent uncertainty around forecasts of future economic conditions. Estimates with higher reliability tend to be those where future taxpayer behaviour is relatively more predictable because of longstanding stable trends in the historical data, or where only estimates based on historical data are reported.

The reliability of each tax expenditure estimate (where quantified) has been assessed by separately scoring:

- the reliability of the available data;
- the underlying assumptions made where no or insufficient data is available; and
- other relevant factors (for example, the volatility of growth rates over time).

Scores range from 0 (very low) to 3 (high). The three scores are then summed to give an overall reliability rating as set out below.

Score	**Rating**
0	Very low
1	Low
2	Low
3	Low
4	Medium — low
5	Medium
6	Medium
7	Medium
8	Medium — high
9	High

The reliability of quantified tax expenditures in the 2017 TES is shown in Table A1.

Table A1: Reliability of quantified tax expenditures for 2017-18

Reliability rating	Number of tax expenditures
High	4
Medium — high	13
Medium	60
Medium — low	20
Low	39
Very low	6
Not Applicable	4
Total	**146**

A.2 Unquantifiable tax expenditures

In many cases there is insufficient data to produce a reliable estimate for a tax expenditure item. While Treasury has access to detailed tax data collected by the Australian Taxation Office from tax returns, the scope of this data is limited by the number and nature of questions on the tax return itself. While expanding the tax return could increase the data available for estimating tax expenditures, this would increase compliance costs for taxpayers. Treasury also utilises, for example, Australian Bureau of Statistics data where relevant.

In the 2017 TES, estimates are not available for 2017-18 for around 49 per cent of tax expenditures — that is, 143 out of 289 expenditures.

Where tax expenditures are not quantifiable, an order of magnitude is provided using the categories set out in Table A2.

Table A2: Orders of magnitude

Order of magnitude range	
Category	**Expected tax expenditure ($m)**
0	0 on average over reporting period
1	0–10
2	10–100
3	100–1,000
4	1,000 +
NA	not available

Category classifications are provided as a broad guide only. They are based on assumptions and judgment and should be treated with caution.

The category classification also indicates whether a tax expenditure is positive or negative. For example, '1+' indicates a positive tax expenditure. Where a tax expenditure could be positive or negative, a '+/-' classification is assigned.

The category assigned to a tax expenditure refers to the year the tax expenditure is considered to be most significant.

A.3 Benchmarks

Benchmarks represent a standard taxation treatment that applies to similar taxpayers or types of activity.

- Benchmarks may also incorporate structural elements of the tax system; for example, the progressive income tax rate scale for individual taxpayers.

Determining benchmarks involves judgment. Consequently, the choice of benchmark may be contentious and benchmarks may vary over time. The choice of benchmark should not be interpreted as indicating a view on how an activity or taxpayer ought to be taxed.

Broadly, benchmarks comprise the following elements:

- the tax base — the activities or transactions subject to the tax;
- the tax rate — the rate of tax that applies to the base;
- the tax unit — the entity liable to pay the tax; and
- the tax period — the period in which the activities or transactions are undertaken.

INCOME TAX BENCHMARK

The starting point for defining the income tax benchmark is the Schanz-Haig-Simons (SHS) definition of income. Under this definition, income is equal to the increase in an entity's economic wealth (stock of assets) between two points in time plus the entity's consumption in that period. Consumption includes all expenditures except those incurred in earning or producing income.

However, the income tax benchmark departs from the SHS definition of income in places – for example, it does not include unrealised capital gains. The benchmark must also deal with features of the tax system not addressed by the SHS definition – for example, the progressive personal tax rate scale, which is included in the benchmark as it is considered to be a structural feature of the tax system.

Tax base

Under the income tax benchmark, income includes:

- wages and salaries;
- allowances;

- business receipts;
- realised capital gains (except where they form part of the normal trading activities of a business);
- interest, royalties and dividends;
- partnership income;
- government cash transfers; and
- distributions from trusts.

Expenses incurred in earning assessable income are deductible. Where an expense is incurred for both income producing and private purposes, deductions are limited to the portion of expenses relating to income production.

The income tax benchmark incorporates a range of features of the tax system, including the following:

- Assessment applies to nominal rather than real income. Expenses incurred in earning income are deductible at historical cost.
- The taxable income of some taxpayers (typically individuals) is assessed on a cash basis – that is, as it is actually received by the taxpayer. The taxable income of other taxpayers (typically businesses) is assessed on an accruals basis – that is, when the right to the income arises (even if it has not yet been received).
- Deductions for expenses related to economic benefits that extend beyond the income year in which the expenditure is incurred are spread over the period of the benefits. This treatment also applies to expenditure in advance (prepayments) for services.
- Imputed rent from owner-occupied housing is not included in income. Expenditure incurred in earning imputed rent is not deductible.
- Certain gains, such as gains received by way of compensation for damage or any wrong or injury suffered by a taxpayer (where compensation is not solely responsible for the loss of income), or gains or winnings from gambling (where taxpayers are not considered to be carrying on a business of gambling), are not included in income.

- Losses are deductible against assessable income for a later income year. Losses generally cannot be transferred to other taxpayers, and some losses may only be claimed against certain types of future income.
  - Non-commercial loss rules prevent individuals carrying on unprofitable business activities from claiming deductions for losses arising from such activities against their other income. The denial of losses from non-commercial activities is part of the benchmark.
- Depreciation deductions are made over the effective life of the asset.
- Business capital expenditures not elsewhere recognised within the taxation laws (black hole expenditures) are deductible over five years.
- The mutuality principle excludes income from dealings with oneself or members of mutual associations and societies. For instance, goods produced by taxpayers for their own consumption, or services performed by taxpayers for their own benefit are generally not included in the tax base.
- Arrangements to reduce or eliminate double taxation - for example, the imputation system, which eliminates the double taxation of company profits distributed to resident shareholders.

Under the income tax benchmark, Australian residents are taxed on their Australian source and foreign source income. The benchmark also incorporates international tax arrangements, including the following:

- Resident taxpayers are allowed to claim foreign income tax offsets up to the amount of Australian tax payable on their foreign income. These arrangements ensure foreign source income is not excessively taxed.
- The controlled foreign company and trust rules ensure Australian residents cannot escape or defer taxation of certain income (often passive in nature) by interposing a foreign resident legal entity.
- Transfer pricing and thin capitalisation rules and interest, dividend and royalty withholding taxes aim to tax appropriately Australian sourced income and are included in the benchmark.
- Foreign residents are taxed on their Australian source income only. As part of this benchmark, where foreign income (or foreign capital gains) earned by an Australian entity is subsequently distributed to a foreign resident, the distribution attracts no Australian tax.
  - Generally, persons in Australia on temporary visas are taxed as foreign residents.

- The benchmark for Australian residents includes their worldwide capital gains. For foreign residents, the benchmark includes the limitation of domestic and treaty capital gains tax rules to the direct or indirect disposal of interests in Australian land (and similar interests such as mining rights) and branch office assets (from 12 December 2006).
- Taxation treaties primarily operate to allocate taxing rights over income between the source country of income and the taxpayer's country of residence. However, some articles (by incorporation into Australia's domestic law) have the effect of imposing taxation or determining source. For distributions of Australian source income to foreign residents, the basic rates of Australian tax (typically imposed as withholding tax) prescribed in these treaties in respect of specified classes of income, such as interest, dividend and royalty income, are included in the benchmark as the applicable tax rates.
  - Under this approach, the benchmark rate of interest, dividend and royalty withholding rates will vary depending on whether the country in question has a tax treaty with Australia.
  - If a tax treaty exists, the benchmark rates of withholding tax for a class of income will be the 'basic rate', where the basic rate is the highest rate specified in the treaty for each withholding tax.
  - Exemptions or reductions relative to the basic rates prescribed in a particular tax treaty will give rise to tax expenditures.
  - If a tax treaty does not apply, any exemptions or reductions from the standard domestic statutory rates will give rise to tax expenditures.

Tax rates

The income tax benchmark includes:

- for resident individuals: the tax-free threshold, the progressive personal income tax rate scale, Low Income Tax Offset, the Medicare levy and, from 2014-15 to 2016-17, the Temporary Budget Repair Levy (TBRL);
- for non-resident individuals: the foreign resident income tax scale, non-eligibility for the Low Income Tax Offset and non-liability for the Medicare levy (although they are liable for the TBRL); and
- for companies: the company tax rate (currently, 30 per cent).

Tax unit

For the personal income tax system in Australia, the benchmark unit is the individual.

For companies, the benchmark tax unit is the company (including the head entity of a consolidated group or a multiple entry consolidated group).

Sole traders, partnerships and trusts are not separate tax units. Income earned by these entities is taxable in the hands of the recipient.

Tax period

Generally, the tax period under the income tax benchmark is the financial year (1 July to 30 June). However, the benchmark also includes arrangements for entities whose accounting period differs from the standard financial year (for example, companies with a substituted accounting period).

Superannuation

Superannuation may be taxed at three stages:

- when contributions are made to a superannuation fund;
- when investments in superannuation funds earn income; and
- when superannuation benefits are paid out.

The income tax benchmark treatment of superannuation is that contributions are made from after-tax income, earnings are taxed at marginal rates and benefits from superannuation are untaxed. Any costs associated with superannuation investments are deductible under the benchmark.

As discussed in Chapter 3, this year's publication explored reporting superannuation tax expenditures against an expenditure tax benchmark, in addition to an income tax benchmark.

Fringe benefits

Under the income tax benchmark:

- fringe benefits are classified as individual employee income;
- the tax base includes property rights, privileges or services. However, payments of salary or wages, eligible termination payments, contributions to complying superannuation funds and certain benefits arising from employee share schemes are excluded;
- the benchmark value of a fringe benefit to an employee is taken to be its market value less any contribution that the employee pays from after-tax income;
- the tax rate is the employee's marginal income tax rate;
- fringe benefits tax is calculated on the grossed-up taxable value (that is, the pre-tax equivalent value) of the fringe benefit. In some cases, discount valuation methods are available to calculate the taxable value of a fringe benefit. Such methods are reported as tax expenditures;

- the tax unit is the employer (as the relevant legislation makes employers liable for the tax);
- generally, employers may claim the cost of providing fringe benefits and the amount of fringe benefits tax paid as income tax deductions; and
- the tax period is the fringe benefits tax year (1 April to 31 March).

INDIRECT TAX BENCHMARKS

The main indirect taxes are:

- the goods and services tax;
- taxes on commodities such as fuel, tobacco, alcoholic beverages and motor vehicles;
- crude oil excise and the Petroleum Resource Rent Tax; and
- miscellaneous taxes such as agricultural levies and the passenger movement charge.

Unlike the income tax benchmark, there is no starting point such as the Schanz-Haig-Simons definition of income for determining the benchmarks for indirect taxes. Each indirect tax therefore has its own benchmark that reflects the standard features of the tax in question. Identifying the standard features of a tax unavoidably involves judgment.

Generally, for each tax, the tax unit under the benchmark is the entity that has the legal obligation to pay the tax.

Goods and services tax

The goods and services tax (GST) is a broad-based consumption tax charged at the rate of 10 per cent. While it is payable at each step of the supply chain, firms are normally able to claim an input tax credit (ITC) for the GST they pay on their inputs.

The supply of certain goods and services is either:

- GST-free – that is, where no GST is payable on the supply and the supplier is entitled to claim ITCs; or
- input-taxed – that is, where no GST is payable on the supply but the supplier cannot claim ITCs (or can only claim reduced credits).

ITCs do not constitute tax expenditures as they are an integral part of the GST system, ensuring that the economic incidence of the tax usually falls on final consumers.

Broadly, the tax base for the GST benchmark is the supply of all goods and services in Australia. The definition of 'goods and services' is broad and includes, for example, commercial property. Other features of the benchmark tax base include:

- exports are exempt from GST;
- non-commercial activities of governments are exempt from GST;
- the supply of private residential accommodation[4] is input-taxed (meaning rent is not subject to GST);
- the sale of pre-existing residential premises is input-taxed;
  - the sale of new residential premises and the supply of alterations, additions and improvements to residential premises are subject to GST;
- goods and services supplied to oneself are not subject to GST.

The tax unit for the GST benchmark is the supplier of goods or services (consistent with the legal incidence of the tax). Exceptions include 'reverse charging', where the purchaser is liable to pay GST. Reverse charging occurs in limited situations where goods or services are imported (for example, where an overseas supplier itself imports goods into Australia and installs them, this supplier and the Australian purchaser may agree that the purchaser pays the GST).

- The tax rate for the GST benchmark is 10 per cent.
- The tax period for the GST benchmark is the financial year (1 July to 30 June).

Fuel

The Australian Government imposes a volumetric tax on the consumption of fuel (that is, tax is charged as a fixed proportion of the quantity sold).

The tax base for the consumption of all fuel (or energy) is split into two activities:

- fuels consumed in an internal combustion engine (that is, primarily for transport use); and
- fuels consumed for a purpose other than in an internal combustion engine (for example, a product that can be used as a fuel in an internal combustion engine but is used in a solvent application or for heating).

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4 Including owner-occupied housing and long-term commercial residential accommodation.

The taxation of these activities reflects longstanding and integral features of the tax system whereby excise rates are dependent on whether the fuel is used in an internal combustion engine.

The benchmark excise rates for fuels consumed in an internal combustion engine are the full energy content based rates established using an energy band system and in reference to the rate applying high energy content fuels. The bands used are:

- high energy content fuels, with an energy content of more than 30 megajoules per litre (such as petrol, diesel, biodiesel and aviation fuel);
- medium energy content fuels, with an energy content between 20 and 30 megajoules per litre (such as liquefied petroleum gas (LPG) and fuel ethanol), and an excise rate approximately two-thirds of that applying to high energy content fuels;
- low energy content fuels, with an energy content of less than 20 megajoules per litre (such as methanol), and an excise rate approximately 45 per cent of that applying to high energy content fuels; and
- liquefied natural gas (LNG) and compressed natural gas (CNG) fuels, which are taxed on a mass basis using a conversion rate of approximately 1.37 litres per kilogram.[5]

Fuels consumed other than in an internal combustion engine are exempt from excise under the benchmark.

Tobacco

The Australian Government imposes a volumetric tax on the consumption of tobacco (that is, tax is charged as a fixed proportion of the quantity sold).

The benchmark for the consumption of tobacco and tobacco products is the excise rate that applies to tobacco by weight of tobacco content.

Alcoholic beverages

The Australian Government imposes volumetric taxes on the consumption of beer and spirits (that is, tax is charged as a fixed proportion of the quantity sold) and an ad valorem tax on the consumption of wine (that is, tax is charged as a fixed proportion of the value of the commodity sold).

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5 For example, 38.143 cents per litre multiplied by 1.37 litres per kilogram becomes 52.26 cents per kilogram.

The tax base for the consumption of alcoholic beverages is separated into three components based on the types of beverage:

- the consumption of lower alcohol content beverages such as beer;
- the consumption of higher alcohol content beverages (beverages with greater than 10 per cent alcohol content) such as brandy and other spirits (including spirits mixed in ready to drink beverages); and
- the consumption of wine and alcoholic cider.

The taxation of these activities reflects a longstanding feature of the tax system whereby different tax rates apply to beer, spirits and wine.

- The benchmark excise rate for lower alcohol content beverages (for example, beer) is the volumetric excise rate that applies to full strength packaged beer (including the excise-free threshold of the first 1.15 per cent of alcohol).
- The benchmark excise rate for higher alcohol content beverages (for example, spirits) is the volumetric excise rate on spirits other than brandy.
- The benchmark rate for wine and alcoholic cider is the ad valorem wine equalisation tax rate.

Motor vehicles

Generally, motor vehicle purchases are only subject to goods and services tax. Consequently, the luxury car tax is a negative tax expenditure.

Customs duties

The customs duty benchmark treats goods imported into Australia as being subject to the same taxes on consumption as domestically produced goods. The main domestic consumption taxes are goods and services tax and excise-equivalent customs duties on tobacco, alcohol and fuel. Customs duty (other than on excise-equivalent goods) therefore constitutes a negative tax expenditure.

Natural resources

The natural resources benchmark only applies to the extraction of petroleum products (crude oil, natural gas, LPG, condensate and coal seam gas) with some variation in treatment before and after the expansion of the Petroleum Resource Rent Tax (PRRT) on 1 July 2012. The benchmark does not apply to the extraction of other natural resources.

From 1 July 2012, the PRRT applies to all petroleum production offshore and onshore (including coal seam gas). Consequently, the natural resources benchmark applying from 1 July 2012 is based on the new taxation arrangements and applies to all petroleum and coal seam gas.

The benchmark is a 40 per cent tax rate on the economic rents earned on the extraction of these resources. There is a full tax-loss offset which can be utilised by transferring tax losses among commonly owned projects that are subject to the same tax rate. The tax unit is the project interest.

The benchmark also includes immediate expensing of project expenditures. To the extent that losses are carried forward because they cannot be utilised immediately, they are uplifted at the long-term government bond rate (a proxy for the risk-free rate). The uplift rate compensates investors for the delay in the recognition of the tax credit and preserves the value of the tax credit over time. A refund of unutilised tax credits is available when the project closes down.

Under the arrangements applying from 1 July 2012, crude oil excise is still payable in respect of certain petroleum production, and is creditable against the project's PRRT liabilities. Where this occurs, the crude oil excise paid in a period is treated as a prepayment of the PRRT liability for that period. To the extent that the tax prepayment exceeds the PRRT liability in a year, a negative tax expenditure arises for the year, while credits for overpayments recouped in subsequent years would count as positive tax expenditures in those years.

Passenger Movement Charge

The Passenger Movement Charge is a flat charge imposed on persons upon their departure from Australia. Exemptions from the charge create a tax expenditure.

Primary industry levies

Primary industry levies provide collective industry funding for activities such as research and development, promotion and marketing, residue testing and plant and animal health programs. The levies are levied on the volume or value of the relevant type of produce. Exemptions from levies create tax expenditures (except exemptions for products which are unfit for human consumption or exemptions for products used by the producer for domestic purposes).

MAJOR BANK LEVY BENCHMARK

From 1 July 2017, the benchmark for the major bank levy has been taken to be equivalent to the levy as outlined in the *Major Bank Levy Act 2017* (the Act).

The levy applies to Authorised Deposit-taking Institutions (ADI) with total liabilities of greater than $100 billion, with the threshold indexed to grow in line with nominal GDP. The levy is imposed at a rate of 0.015 per cent on certain liabilities of the ADI that are reported to the Australian Prudential Regulation Authority on a quarterly basis. For further detail on the certain liabilities please see the Act.

A.4 Modelling tax expenditures

This section provides an overview of the various modelling techniques used in the TES to estimate the value of tax expenditures.

The methods used to calculate the estimates of individual tax expenditures in this statement vary. The appropriate approach is determined by the nature of the tax benchmark, the particular tax concession examined and the availability of data. Data availability is a major factor influencing the reliability of the estimates and, in many cases, estimates are not provided owing to data limitations.

The approaches used to estimate tax expenditures include aggregate modelling, distributional modelling and microsimulation. The approach most commonly used is distributional modelling.

AGGREGATE MODELLING

This approach involves using information on the aggregate volume of transactions to calculate the value of a particular tax concession. Aggregate modelling is an appropriate approach for measuring tax exemptions or concessions where the impact can be represented as a simple proportion of the total transactions concerned. Data sources suitable for aggregate modelling include national accounts data, trade and production statistics, and aggregates derived from administrative databases (such as taxation records).

Aggregate modelling is used to estimate tax expenditures for fuel excise. Tax expenditures for exemptions or reduced excise rates can be estimated from statistics on the aggregate volume of fuels produced.

DISTRIBUTIONAL MODELLING

This approach involves using discrete aggregate data to calculate the impact of tax concessions on particular segments of the economy. Distributional modelling is an appropriate approach for measuring concessions that vary according to the characteristics of the taxpayer. Data sources suitable for distributional modelling include survey data and data derived from administrative databases.

Distributional modelling is used to estimate tax expenditures for personal income tax concessions when the cost is related to a taxpayer's taxable income. For these concessions, data on income distribution and tax concessions by grade of taxable income can be used to estimate the cost of tax expenditures for those concessions.

MICROSIMULATION

This approach involves examining detailed datasets, such as taxpayer records, to determine the value of taxable transactions for each taxpayer. The value of the tax expenditure is the difference between the tax paid on those transactions under the concession and the tax that would have been collected under the benchmark. Microsimulation modelling requires either a comprehensive database of all taxpayers or a detailed sample that is representative of the population. The data must provide sufficient detail on the value of transactions affecting the calculation of tax liabilities to allow the required calculations.

Microsimulation modelling is used to estimate tax expenditures that closely target particular taxpayer groups (for instance, benefits subject to detailed eligibility tests) and concessions where the payment rate varies considerably according to taxpayer behaviour or circumstance.

Microsimulation modelling can also be used to derive key information, such as average effective tax rates, which can be used in other models that employ aggregate or distributional modelling. This is appropriate for situations where detailed datasets are not available for all items.

REVENUE FORGONE ESTIMATES – DOUBLE COUNTING AND CLAWBACKS

Treatment of imputation

The value of some concessions reported in this statement is partially offset as a result of the imputation system. For example, concessions that reduce company tax may be clawed back through the subsequent taxation of dividends in the hands of shareholders. The estimates in this statement generally make no allowance for this clawback owing to the practical difficulties of doing so.

Income tax clawback

In addition, the value of some tax expenditures can include an income tax clawback. An income tax clawback will occur when a taxpayer's taxable income is affected by the operation of a particular tax expenditure.

For example, an income tax clawback can occur in respect of taxes that are deductible for income tax purposes and that are not passed on to final consumers through higher prices. That is, while a tax expenditure may offer a concession to a group of taxpayers or type of activity, if that concession were removed, there would be a resulting increase in deductible expenses and decrease in income tax paid that would partially offset the additional tax liability.

Tax expenditure estimates for consumption taxes generally do not include an income tax clawback as consumption taxes are usually assumed to be passed onto final consumers, resulting in no change to the taxable income of the taxpayer. Tax expenditure estimates for other taxes can include an income tax clawback where the tax is assumed to be borne by the taxpayer.

Capital gains tax estimates

Under the income tax benchmark as it applies to CGT, nominal capital gains are fully taxable upon realisation. The most significant tax expenditure against this benchmark is the 50 per cent discount for capital gains realised by resident individuals and trusts, which affects most capital gains realised by these entities.

Individuals and trusts may also be eligible for other CGT concessions. The revenue forgone methodology that is generally used in this statement implies that estimates for these other CGT concessions should be calculated against the benchmark of full taxation of nominal capital gains.

To avoid double counting, the values of tax expenditures for other CGT concessions are reduced by the CGT discount component and the discount component of these other concessions is included in the tax expenditure for the CGT discount (E13). This modification to the tax expenditure methodology provides more realistic estimates of the value of the benefits taxpayers receive from capital gains concessions in aggregate, though it has the effect of understating the value of individual CGT tax expenditures other than the discount.

A.5 Accrual estimates

Like budget revenue estimates, tax expenditures estimates are prepared in accordance with Australian Accounting Standards and Government Finance Statistics standards for accrual accounting.

Broadly, tax expenditures arising from the following taxes use the Tax Liability Method (TLM) method of accrual accounting:

- individuals and other withholding taxation;
- company income taxation; and
- superannuation taxation.[6]

Under TLM, taxation revenue is accounted for at the time a taxpayer makes a self-assessment or when an assessment of a taxation liability is raised by the relevant authority (such as the Australian Taxation Office).

Tax expenditures arising from indirect taxes, natural resource taxes and fringe benefits tax use the Economic Transactions Method, under which tax revenue is recognised in the reporting period in which the taxpayer earns the income in question.

6 These three forms of taxation also incorporate capital gains taxation.

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