Tax Expenditures Statement

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Acronyms

ABARE	Australian Bureau of Agricultural and Resource Economics
ADF	Australian Defence Force or Approved Deposit Fund
ADI	Authorised deposit-taking institution
CDEP	Community Development Employment Project
CFC	Controlled foreign companies
CGT	Capital gains tax
CRAFT	Commonwealth Rebate for Apprentice Full-time Training
DEP	Dairy Exit Program
DGR	Deductible gift recipient
DTA	Double taxation agreement
DWT	Dividend withholding tax
ETM	Economic transaction method
ETP	Eligible termination payment
FBT	Fringe benefits tax
FIF	Foreign investment fund
FBTAA86	Fringe Benefits Tax Assessment Act 1986
FTB	Family Tax Benefit
FTCS	Foreign tax credit system
GDP	Gross domestic product
GST	Goods and services tax
IED	Income equalisation deposits

…continued

Acronyms continued

ITAA36	Income Tax Assessment Act 1936
ITAA97	Income Tax Assessment Act 1997
IT(TP)A97	Income Tax (Transitional Provisions) Act 1997
ITLAA00	Indirect Tax Legislation Amendment Act 2000
IWT	Interest withholding tax
LICs	Listed investment companies
LPG	Liquefied petroleum gas
MYEFO	Mid-Year Economic and Fiscal Outlook
na	Not available
nec	not elsewhere classified
OECD	Organisation for Economic Co-operation and Development
PBI	Public benevolent institution
PDF	Pooled Development Fund
PNG	Papua New Guinea
RBL	Reasonable Benefit Limit
RHQ	Regional headquarters
R&D	Research and development
SATO	Senior Australians' Tax Offset
SHS	Schanz-Haig-Simons
STS	Simplified Tax System
TES	Tax Expenditures Statement
TLM	Tax liability method
UCA	Uniform Capital Allowance

…continued

Acronyms continued

ULSD	Ultra low sulphur diesel
UPP	Undeducted purchase price
WET	Wine equalisation tax
Y2K	Year 2000 (compliance)

1 Introduction

1.1 Background

The *Tax Expenditures Statement* (TES) provides a detailed list of tax expenditures provided by the Commonwealth to individuals and businesses.

This Statement identifies around 260 tax expenditures and, for many of these, reports estimates of the financial benefits derived by the recipients over the period 1998-99 to 2005-06. The publication of detailed information on Commonwealth tax expenditures is a requirement of the *Charter of Budget Honesty Act 1998.*

The tax expenditures in this Statement reflect all announced policies and legislation applying up to the date of publication of the *2002-03 Mid-Year Economic and Fiscal Outlook* (MYEFO).

1.2 What is a tax expenditure?

A tax expenditure is a tax concession that is designed to provide a benefit to a specified activity or class of taxpayer. (A negative tax expenditure occurs when such arrangements impose a higher charge rather than a benefit. Almost all of the tax expenditures in this Statement are positive.) Tax expenditures can be delivered in a variety of ways: by a tax exemption, tax deduction, tax offset, reduced tax rate or by deferring a tax liability.

The benefits of most tax expenditures could be delivered equally by direct expenditures. Hence, tax expenditures are an alternative to direct expenditures as a method of delivering government assistance or meeting government objectives. This explains the use of the term *tax expenditures* — they are substitutes for expenditure, delivered through the taxation system. Accordingly, tax expenditures have an impact on the budget position, as do direct expenditures.

In order to estimate the value of a tax expenditure, it is necessary to identify the taxation arrangement that would normally apply, so that the nature and extent of the concession can be established. The taxation treatment that would otherwise apply is referred to as the *benchmark*. Benchmark taxation treatment should neither favour nor disadvantage similarly placed activities or classes of taxpayer. Tax expenditures are then defined as deviations from the benchmark.

Not all tax concessions are necessarily classified as tax expenditures. This is because some concessions are considered to be structural features of the taxation system and hence are incorporated in the benchmark.

For example, people on lower incomes pay a lower marginal rate of income tax than people on higher incomes. While this could be construed as a concessional rate of taxation, progressive marginal tax rates are considered to be an integral design feature of the Australian tax system. On that basis, lower marginal tax rates are not identified as tax expenditures.

There is an element of judgement involved in identifying which elements of the tax system constitute tax expenditures and which elements are structural features, given the diversity of taxation arrangements. For this reason, international comparisons of tax expenditures can be difficult to interpret. A discussion of the assumed structural features (that is, benchmarks) of the Australian tax system is provided in Chapter 3.

1.3 Purpose of this Statement

This Statement serves two broad objectives:

- to describe the benchmarks of the tax system and the extent to which the tax system differs from these, to inform the public debate, and/or to contribute to the discussion of the design of the tax system; and

- to facilitate assessing tax expenditures alongside direct expenditures.

In respect of the second objective, the publication of tax expenditure data enables tax expenditures to be reviewed and assessments made as to whether objectives are being met at reasonable cost. It facilitates a comparable degree of scrutiny for tax expenditures as occurs for direct expenditures.

Direct government expenditures are generally subject to a considerable amount of scrutiny from within the public sector (during the annual budget process) and by the Parliament and Parliamentary committees, the media and the general public. In part, this scrutiny stems from the need to gain Parliamentary approval each year for the level and composition of a substantial proportion of government expenditure. In contrast, concessional arrangements that give rise to tax expenditures usually only require approval from Parliament at the time they are introduced. Furthermore, the cost of tax expenditures is generally not directly observable because the Government does not receive the forgone tax revenue from concessionally-taxed activities.

Finally, the publication of tax expenditure data allows for a more comprehensive assessment of Commonwealth government activity. As noted above, tax expenditures are often a substitute for direct expenditures. Accordingly, unless both direct expenditures and tax expenditures are considered, the apparent size of government could be reduced simply by pursuing the objectives of expenditure programs through tax expenditures.

1.4 Interpretation of tax expenditure estimates

Some caution should be exercised when using the estimates in this Statement for wider purposes, such as estimating the amount of taxation revenue forgone as a result of tax provisions. Tax expenditure estimates identify the financial benefits derived by individuals or businesses that receive concessions. However, it does not necessarily follow that there would be an equivalent increase to Commonwealth revenue from the abolition of a tax expenditure. This is because of behavioural responses by the recipients of tax expenditures.

Concessionally-taxed activities tend to expand in response to the introduction of a concession. Accordingly, the same activity would be expected to contract should the related tax expenditure be abolished, with consequent implications for potential revenue flows from the taxation of this activity. Other responses may follow, in that:

- the removal of one concession may result in increased use of other concessionally-taxed activities, lowering tax revenue elsewhere; and
- under a progressive income tax system, the removal of a tax expenditure may result in some taxpayers moving into a higher marginal tax bracket — providing a boost to tax revenue.

In most cases, the net effect of these influences on revenue is likely to be unclear.

Furthermore, in cases where the level of activity is highly sensitive to the existence of the concession, the increase in revenue from removing this tax expenditure could be very small. In these cases, reporting tax expenditure estimates as the cost to revenue would give the impression that the tax expenditure has little material effect when in fact the financial benefits derived by the recipients could be quite large.

Therefore, for the purposes of this report, it is neither practical nor desirable to incorporate potential responses to the removal of a tax expenditure into the estimates.

Finally, tax expenditure estimates may, in some cases, differ from Budget estimates, because tax expenditures are estimated relative to designated benchmarks. For example, the tax expenditures for the capital gains tax (CGT) discounts applying to individuals are measured relative to a benchmark of full taxation of capital gains. The estimates reflect the projected level of capital gains realisations following the introduction of the concession on 1 October 1999. In contrast, the Budget estimates for implementing these measures take into account the offsetting impacts on revenue of removing CGT indexation and averaging and the revenue dividend arising from increased realisations.

1.5 Structure of this Statement

Chapter 2 provides an analysis of tax expenditure aggregates, including a discussion of trends in tax expenditures and a comparison with direct expenditures.

Chapter 3 contains a description of the benchmarks that are used to define tax expenditures in this Statement.

Chapter 4 provides an outline of the changes to the list of tax expenditures since the *2001 Tax Expenditures Statement*, outlining new tax expenditures, those that have been modified and those that are no longer reported.

Chapter 5 provides estimates of the cost of each tax expenditure.

Appendix A provides further detail on each tax expenditure, including legislative references, a brief discussion of some of the estimates and, for more recent tax expenditures, the date the expenditure was introduced. Generally, tax expenditures are described in greater detail as policy measures in the relevant Budget paper or MYEFO announcing their introduction.

Appendix B provides further discussion of tax expenditures related to superannuation benefits and disaggregated superannuation estimates.

2 Overview of tax expenditure aggregates

2.1 Introduction

Tax expenditure aggregates are reported and analysed in this chapter, with a breakdown of tax expenditures by both function and taxpayer affected. Care must be taken when interpreting these aggregates, particularly when making comparisons across time. There are several major considerations that need to be taken into account when analysing tax expenditure aggregates.

- First, some of the identified tax expenditures are not costed because of a lack of suitable data or may not be reported because of taxpayer confidentiality considerations. Hence, tax expenditure aggregates may underestimate the total benefit provided by tax expenditures.

- Second, the trend in aggregates over time reflects changes in the extent to which individual tax expenditures are accessed, changes to benchmark tax rates and changes in the coverage of tax expenditures being costed.

- Third, changes over time in methodology and data used to calculate the cost of tax expenditures can result in quite large revisions to the tax expenditure estimates. Therefore, estimates that were provided in previous editions of the TES may not be directly comparable to figures in this publication.

- Finally, tax expenditure aggregates are *net* aggregates as they include the offsetting effects of negative tax expenditures.

2.2 Trends in tax expenditures

Total measured tax expenditures as a share of GDP are reported in Table 2.1.

Table 2.1: Total measured tax expenditures[(a)]

Year	Superannuation $m	Other tax expenditures $m	Total $m	Tax expenditures as a proportion of GDP (%)
1998-99 (est)	10 100	16 091	26 191	4.4
1999-00 (est)	10 410	17 258	27 668	4.4
2000-01 (est)	9 820	20 497	30 317	4.5
2001-02 (est)	9 770	20 132	29 902	4.2
2002-03 (proj)	10 590	19 681	30 271	4.0
2003-04 (proj)	11 210	18 756	29 966	3.8
2004-05 (proj)	11 890	19 413	31 303	3.7
2005-06 (proj)	12 550	20 346	32 896	3.7

(a) Total measured tax expenditures are derived by summing the individual tax expenditure estimates in Table 5.1, and excluding items with estimates listed as being ‘less than’ (eg. <1, <5), rounded to zero (..) or na.

Tax expenditures as a proportion of GDP are estimated to have increased from 4.4 per cent in 1998-99 to 4.5 per cent in 2000-01 and are projected to fall to 3.7 per cent in 2005-06.

The increase in total measured tax expenditures, as a share of GDP in 2000-01, largely reflects the first full year operation of the Family Tax Benefit (a tax-exempt payment) (A45) and the introduction of the capital gains tax (CGT) discount for individuals (D41). The subsequent projected decline reflects the impact of the policy decision to remove accelerated depreciation for plant and equipment (D69).

- The accelerated depreciation for plant and equipment is estimated to decline from a large positive tax expenditure in 1998-99 to a large negative tax expenditure in 2005-06. It becomes a negative tax expenditure because accelerated depreciation merely brings forward tax deductions; hence deductions in coming years for investments made before accelerated depreciation was removed will be lower than they would have been under the benchmark.

2.3 Tax expenditures by function

Total measured tax expenditures by functional category are reported in Table 2.2 for the period 1999-00 to 2005-06. The year-to-year variations in functional aggregates are explained largely by policy decisions, particularly those related to *The New Tax System*. Significant movements in functional categories are listed below. (Tax expenditure reference codes used in chapter 5 and Appendix A are reported in parentheses.)

- The decline in the estimate for total defence tax expenditures between 1999-00 and 2000-01 reflects the tax exemption of pay and allowances for lower numbers of troops deployed in East Timor (A16).

- The increase in total health tax expenditures in 2000-01 reflects the first full year impact of the private health insurance tax offset, while the further increase in 2001-02 reflects increased take-up of private health cover in 2000-01 (A31). The increase also reflects an increase in the tax expenditure for the income tax exemption for registered health benefit organisations due to increased growth in health fund membership and greater profitability in this sector (D1).

- The decline in total social security and welfare tax expenditures in 2001-02 reflects the cessation of the tax expenditures associated with the exemption of the one-off payments made to senior Australians as part of *The New Tax System* (A47, A52). The increases in 2002-03 and beyond largely reflect expected growth in the value of superannuation assets and continued growth in superannuation contributions (B1).

- The increase in total housing and community amenities tax expenditures in 2000-01 reflects the extension of an FBT exemption for remote area housing benefits to all employers (C16).

Table 2.2: Aggregate tax expenditures by function[(a)]

	Estimates ($m)			Projections ($m)			
	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
General public services							
A. Legislative and executive affairs	3	2	4	4	2	4	4
B. Financial and fiscal affairs	0	0	0	0	0	0	0
C. Foreign economic aid	275	245	265	335	360	400	440
D. General research	0	0	0	0	0	0	0
E. General services	8	13	12	13	13	13	14
F. Govt superannuation benefits	0	0	0	0	0	0	0
Defence	108	95	96	101	101	101	101
Public order and safety	0	0	0	0	0	0	0
Education	8	6	6	6	7	7	7
Health	1 020	1 315	1 535	1 540	1 525	1 615	1 780
Social security and welfare	17 558	18 192	17 900	19 020	19 993	21 119	22 295
Housing and community amenities	210	250	245	260	265	270	280
Recreation and culture	66	62	45	45	74	69	84
Fuel and energy	1 630	1 750	1 670	1 635	1 655	1 685	1 700
Agriculture, fisheries and forestry	230	310	451	788	150	157	159
Mining and mineral resources (other than fuels), manufacturing and construction	3 104	2 588	1 728	914	247	- 39	- 236
Transport and communications	35	40	50	50	50	50	50
Other economic affairs							
A.Tourism and area promotion	85	85	70	60	65	65	70
B. Labour and employment affairs	17	22	21	13	9	9	9
C. Other economic affairs, nec	1 411	3 543	4 072	3 714	3 450	3 745	4 229
Other purposes							
A. Public debt interest	0	0	0	0	0	0	0
B. Nominal superannuation interest	0	0	0	0	0	0	0
C. General purpose inter-government transactions	0	0	0	0	0	0	0
D. Natural disaster relief	1	0	0	0	0	0	0
E. Contingency reserve	0	0	0	0	0	0	0
F. Asset sales	0	0	0	0	0	0	0
Not allocated to function	1 899	1 799	1 732	1 773	2 000	2 033	1 910
Total(b)	**27 668**	**30 317**	**29 902**	**30 271**	**29 966**	**31 303**	**32 896**

(a) Total tax expenditures by functional category are derived by summing the individual tax expenditure estimates in Table 5.1, and excluding items with estimates listed as being 'less than' (eg. <1, <5), rounded to zero (..) or na.

(b) Items may not sum due to rounding.

- The decline in total recreation and culture tax expenditures from 1999-00 to 2002-03 reflects the change in the tax incentives for film investment which is estimated to decline from a positive tax expenditure in 2000-01 to a negative tax expenditure in 2001-02 (D48).
  - The projected increase in total recreation and culture tax expenditures in 2003-04 reflects the introduction of a tax offset for large scale film production (D50).

- The decline in total fuel and energy tax expenditures in 2001-02 and 2002-03 reflects a decline in the value of the excise concession on aviation gasoline and aviation turbine fuel (E6).

- The increase in total agriculture, fisheries and forestry tax expenditures from 2000-01 to 2002-03 reflects a significant increase in the value of tax expenditures aimed at smoothing the impact of fluctuating incomes for primary producers (D9, D92).

  - While the cost of income tax averaging rose, the main increase is due to strong growth in Farm Management Deposit Scheme (FMD) contributions by primary producers. Due to the volatility of farm incomes and FMD deposits, these tax expenditures are not reported beyond 2002-03, which results in a significant decline in total tax expenditures in 2003-04.

- The significant fall in the cost of mining, manufacturing and construction tax expenditures results from the removal of accelerated depreciation for businesses with an annual turnover of $1 million or more on 21 September 1999 (D69).

- The increase in total tax expenditures for other economic affairs in 2000-01 reflects the introduction of the capital gains tax (CGT) discount for individuals (D41) and the transitional arrangements for prepayments (D84). The latter is estimated to cost $660 million in 2000-01 before becoming a negative tax expenditure from 2001-02.

  - The decline in total tax expenditures for other economic affairs projected in 2002-03 reflects the transitional exemption of small business from abolition of accelerated depreciation, balancing charge offset and low-value pooling (D76), which changes from a large positive tax expenditure in 2001-02 to a negative tax expenditure in 2002-03.

- The decline in estimates for total measured tax expenditures that are 'not allocated to function' in 2000-01 largely reflects the cessation of the savings tax offset (B9). The further decline in 2001-02 is attributable to the immediate deductibility of Y2K related information technology upgrades (D81) and the immediate deductibility of GST related plant and software (D82), which both change from a positive tax expenditure in 2000-01 to a negative tax expenditure in 2001-02.

  - The increase for total measured tax expenditures that are 'not allocated to function' in 2003-04 is attributable to the introduction of a Fringe Benefits Tax exemption for certain payments to prescribed employee entitlement funds from 1 April 2003 (C57).

Changes in functional aggregates relative to the *2001 Tax Expenditures Statement* largely reflect the availability of estimates for items that were previously unquantifiable, the availability of new data that causes existing estimates to be significantly revised and the introduction of new tax expenditures.

- Estimates are now available for venture capital concessions (D36), small business 50 per cent exemption (D37) and CGT scrip-for-scrip roll-over relief (D42) which all fall under the other economic affairs functional category. In addition, estimates are now provided for the capital expenditure deduction for mining, quarrying and petroleum operations (D60) which falls under the mining, manufacturing and construction category.

- The reduction in total fuel and energy tax expenditures relative to the *2001 Tax Expenditures Statement* largely reflects a downward revision in the tax expenditure for the excise exemption for compressed natural gas (E4).

2.4 Comparison with direct expenditure

The tax expenditure estimates for 2001-02 by functional category are presented alongside direct government expenditure in Table 2.3. The list of direct expenditures by function is reproduced from Table 3 of the *2001-02 Final Budget Outcome.*

Comparisons between tax expenditures and direct expenditures are informative in broad terms, although the costings are not strictly comparable for the following reasons:

- A tax expenditure tends to provide a higher benefit than a direct expenditure of the same magnitude. This is because direct expenditures are often taxable, whereas tax expenditures are not. Therefore, a direct expenditure will, in some circumstances, have a smaller net budgetary impact than a tax expenditure of equivalent nominal value.

- The removal of a tax expenditure or a direct expenditure of the same magnitude may have different effects on the underlying fiscal balance for reasons discussed in chapter 1.4.

For tax exempt and tax offset personal cash transfers, the addition of tax expenditures and direct expenditures will tend to overstate the impact on the fiscal balance. For example, in the case of A40 (exemption of certain social security and repatriation payments), the direct expenditure column includes the full cost to government of the programme; however there is also an associated tax expenditure for the value of the income tax exemption to the recipient. Other examples include A31 and A41 to A48. (An equivalent point applies to the addition of refundable tax offsets and the value of the tax exemption in Table 2.2 for tax expenditures A31 and A45[1].)

1 From 2001-02, refundable tax offsets are identified as an expense and are therefore no longer treated as tax expenditures. Prior to that time they were treated as either expenses or tax expenditures. The value of the income tax exemption to the recipient is still treated as a tax expenditure.

Table 2.3: Aggregate tax expenditures and direct expenditures by function in 2001-02

	Tax expenditures(a) $m	Direct expenditures $m
General public services		
A. Legislative and executive affairs	4	778
B. Financial and fiscal affairs	0	3 567
C. Foreign economic aid	265	2 151
D. General research	0	1 698
E. General services	12	550
F. Govt superannuation benefits	0	1 497
Defence	96	12 017
Public order and safety	0	1 856
Education	6	11 761
Health	1 535	27 614
Social security and welfare	17 900	69 081
Housing and community amenities	245	2 210
Recreation and culture	45	2 036
Fuel and energy	1 670	3 052
Agriculture, fisheries and forestry	451	1 691
Mining and mineral resources (other than fuels), manufacturing and construction	1 728	1 686
Transport and communications	50	2 647
Other economic affairs		
A.Tourism and area promotion	70	142
B. Labour and employment affairs	21	3 243
C. Other economic affairs, nec	4 072	513
Other purposes		
A. Public debt interest	0	4 995
B. Nominal superannuation interest	0	4 987
C. General purpose inter-government transactions	0	6 561
D. Natural disaster relief	0	87
E. Contingency reserve	0	0
F. Asset sales	0	64
Not allocated to function	1 732	0
Total(b)	**29 902**	**166 482**

(a) Total tax expenditures by functional category are derived by summing the individual tax expenditure estimates in Table 5.1, and excluding items with estimates listed as being 'less than' (eg. <1, <5), rounded to zero (..) or na.

(b) Items may not sum due to rounding.

As reported in Table 2.3, total measured tax expenditures in 2001-02 are valued at $29.9 billion. Social security and welfare tax expenditures comprise 60 per cent of total measured tax expenditures.

When compared to the sum of both total measured tax expenditures and total direct expenditure, 15 per cent of total government assistance is provided through tax expenditures.

The proportion of government assistance delivered through tax expenditures, however, varies greatly by functional category. In most cases, the assistance provided by direct expenditure significantly exceeds the benefit provided by tax expenditures. The exceptions are:

- mining, manufacturing and construction, although this category includes the accelerated depreciation tax expenditures which have been removed from 21 September 1999 for businesses with an annual turnover of $1 million or more (D69, D70); and

- other economic affairs, due to a number of large tax expenditures in this category including the concessional rate of fringe benefits tax on motor vehicles (C32), the CGT discount for individuals (D41) and the transitional exemption of small business from abolition of accelerated depreciation, balancing charge offset and low-value pooling (D76).

2.5 Tax expenditures by taxpayer affected

While many tax expenditures may be accessed by more than one group of taxpayers, they are often targeted to particular taxpayer groups. This section provides a broad indication of how the main taxpayer groups benefit from tax expenditures. The purpose of this analysis is to provide an overall picture of the direction of tax expenditures despite the difficulties in determining the final beneficiary of the assistance.

For the purpose of this analysis, the classification of 'taxpayer affected' is by the legal incidence of the tax. Legal incidence should not be confused with the economic incidence of a tax measure. Legal incidence refers to the taxpayer upon which the tax is levied. In contrast, the economic incidence of a tax relates to the taxpayer (or taxpayers) that bear the cost of a tax, or benefit from a tax expenditure. Economic incidence will differ from legal incidence if the group bearing the legal incidence is able to pass on some or all of the cost or benefit of the tax, and thus have it feed through into prices (including factor prices, such as wages and the return on capital).

- For instance, the legal incidence of a tax expenditure may be on the manufacturer of a product. However, the economic incidence may actually fall on consumers of the product via a change in price.

Total measured tax expenditures by taxpayer affected are reported in Table 2.4. The major influences behind changes in taxpayer-affected aggregates are generally the same as those listed in chapter 2.3. For example, the increase in personal income tax expenditures in 2000-01 reflects the introduction of both the CGT discount for individuals (D41) and Family Tax Benefit (A45) (a tax-exempt payment). The increase in the tax expenditures for primary producers from 1999-00 to 2002-03 mainly reflects increased use of Farm Management Deposits (FMDs) (D92). The subsequent decline for primary producers reflects the change in projected tax expenditures for averaging of primary producer incomes (D9) and FMDs, which, due to the volatility in the estimates, are not reported beyond 2002-03.

Table 2.4: Aggregate tax expenditures by taxpayer affected[a]

	Estimates ($m)				Projections ($m)			
Taxpayer	**1998-99**	**1999-00**	**2000-01**	**2001-02**	**2002-03**	**2003-04**	**2004-05**	**2005-06**
Businesses	4 870	5 219	6 068	4 798	3 517	2 520	2 451	2 658
Defence	407	438	465	476	501	511	531	551
Donors	230	250	300	330	350	380	420	450
Employees	1 550	1 470	1 275	1 225	1 170	1 115	1 065	1 010
Employers	1 098	1 133	1 118	1 128	1 150	1 381	1 421	1 466
Financial institutions	40	35	150	175	155	155	155	20
Government	95	90	95	95	85	90	95	95
Hospitals	145	155	115	120	125	125	130	135
Superannuation funds and beneficiaries	10 100	10 410	9 820	9 770	10 590	11 210	11 890	12 550
Non-profit organisations	540	575	625	725	744	779	799	824
Personal income taxpayers	2 743	3 232	5 930	6 994	7 328	7 643	8 145	8 808
Retirees/allowees	3 335	3 570	3 215	2 762	2 840	2 920	3 020	3 110
Property owners	0	0	0	0	0	0	0	0
Primary producers	219	230	310	451	788	150	157	159
Students	8	8	6	6	6	7	7	7
Non-residents	800	830	810	830	905	965	1 000	1 035
Miscellaneous(b)	11	23	15	17	17	15	17	18
Total(c)	**26 191**	**27 668**	**30 317**	**29 902**	**30 271**	**29 966**	**31 303**	**32 896**

(a) Total tax expenditures by taxpayer affected are derived by summing the individual tax expenditure estimates in Table 5.1, and excluding items with estimates listed as being ‘less than’ (eg. <1, <5), rounded to zero (..) or na.

(b) Expenditures included in the ‘Miscellaneous’ category are those for which the ‘taxpayer affected’ does not belong to any of the other identified categories.

(c) Items may not sum due to rounding.

The following provides, for measured tax expenditures, a list of tax expenditure reference codes that correspond to each category of taxpayer affected.

Businesses	B5, D18, D25, D36-D38, D59-D61, D63, D64, D69-D73, D75-D82, D84, D98, D102, E1, E2, E4-E6, E8-E10
Defence force personnel, including veterans and their families	A10, A11, A16, A19, A21, A48, C3, C4
Donors to approved organisations	A65
Employees	B2-B4
Employers	C16, C20, C23, C32, C33, C42, C57, D21
Financial institutions	D22, D29, D103
Government	D31
Hospitals and State and Territory authorities	C8
Superannuation funds and beneficiaries, termination payment recipients	B1, B6
Non-profit organisations	C13, C35, C37, D1, D6, D8, D20
Personal income taxpayers	A9, A18, A27-A34, A36-A39, A41, A43-A46, A53, A54, A59, A69, A70, A72, B9, D16, D41, D42, D44, D48, D87, D89
Retirees and allowees	A35, A40, A42, A47, A52
Primary producers	D9, D12, D14, D51-D53, D55-D58, D91, D92, E7
Students	A23
Non-residents	A6, D50, D95, D101, D110
Miscellaneous	A2, A3, A55, A67, C22, D27, D28

3 Methodology

3.1 Defining benchmarks

What is a tax expenditure benchmark?

A basic requirement in any analysis of tax expenditures is to identify the regular taxation arrangements that apply to similar classes of taxpayers or types of activity. These arrangements — referred to as the benchmark — represent a reference point against which to establish the nature and extent of any concession. Tax expenditures are defined as deviations from the benchmark.

Establishing an appropriate benchmark for determining tax expenditures often involves an element of judgement: benchmarks may vary across countries and within countries over time. The principal criterion of benchmark design is that it should represent a consistent taxation treatment of similar activities or classes of taxpayers. That is, a benchmark taxation treatment should neither favour nor disadvantage similarly placed activities or classes of taxpayers.

For example, the allowance granted to Australian primary producers to average their yearly incomes over time is a tax benefit not available to all income taxpayers. In this case, the estimated benefit to primary producers is measured by comparing the income tax they pay against the income tax paid by other taxpayers with similar incomes that are ineligible to access this concession. The benchmark is the income tax rate structure that would generally apply to yearly income.

Since the vast majority of Australian taxes are imposed on 'income' (as opposed to consumption), the definition of income used is important in determining what constitutes a tax expenditure. In this Statement, the framework for defining income is the Schanz-Haig-Simons (SHS) definition, which is the increase in economic wealth between two points in time, plus consumption in that period. In this definition of income, 'consumption' includes all expenditures, except those incurred in the earning or the production of income.

The approach to benchmarking in this Statement

A practical approach to defining benchmarks has been adopted in this Statement since the adoption of an ideal benchmark based on the pure SHS definition of income would result in many additional tax expenditures of little policy relevance. In particular, provisions considered to be intrinsic to the operation of the tax system have been incorporated into the benchmarks, rather than being classified as tax expenditures themselves. However, where the inclusion of a feature of the tax system in the benchmark is questionable, that feature has generally been excluded from the benchmark and reported as a tax expenditure.

Some features of the tax system have been incorporated into the benchmark as a practical necessity. For example, taxing unrealised gains on a large range of assets and taxing the imputed rent from consumer durables would not be practical. Hence, these features form part of the benchmark.

For the purpose of providing a clear structure for the reporting of tax expenditures, five major components of the benchmark have been identified. These are: the personal income tax benchmark; the retirement benefits benchmark; the fringe benefits tax benchmark; the business tax benchmark; and the excise duty benchmark. Although the association of some tax expenditures with a particular benchmark may be arbitrary, it does not affect the measurement or existence of a tax expenditure.

- The business tax benchmark and the personal income tax benchmark are not mutually exclusive. The distinction when identifying tax expenditures against these benchmarks is that income derived from investment and production based activities for all types of taxpayers is reported against the business tax benchmark. (The key exception is investment related to retirement benefits, which is treated under the retirement benefits benchmark.)

3.2 General features of the taxation benchmark

The following features are universal to all major components of the benchmark:

- The accounting period is the single financial year.
  - Averaging provisions, available only to selected classes of taxpayers (such as primary producers) are regarded as tax expenditures. However, carry-forward loss provisions are considered to be a part of the benchmark.
- A nominal, rather than real, income benchmark is adopted with some ad hoc adjustments for inflation.
- Income is assessed on a Tax Liability Method (TLM) accrual basis (see chapter 5.2 for further information). However, those provisions where income is assessed on a realisation basis (for example, under the capital gains provisions of the *Income Tax Assessment Act 1936*) are considered to be intrinsic features of the tax system and hence are incorporated into the benchmark.

3.3 The personal income tax benchmark

The following features are a part of the personal income tax benchmark (and therefore are not identified as tax expenditures):

- The legislated progressive personal income tax rate scale, including the tax-free threshold and Medicare levy.
  - The income tax rebate for low-income earners has been excluded from the benchmark, and therefore identified as a tax expenditure, on the grounds that it provides assistance to a distinct class of taxpayer and could be replaced by a direct expenditure.
- The individual is the tax unit.
  - Consequently, tax expenditures are deemed to arise where taxpayers' liabilities are modified according to their dependant-care responsibilities, for example the dependent spouse tax offset (A37).
- Imputed rent from owner-occupied housing and the income received from inheritances are not taxable. The expenses incurred in earning imputed rent are not deductible.
- Personal cash transfers[1] (including any refundable tax offset equivalents[2]) are taxable.
  - Therefore, any non-refundable tax offsets or exemptions from tax are treated as tax expenditures.
  - From the 2002-03 Budget, refundable tax offsets are identified as an expense and are therefore no longer treated as tax expenditures. Prior to that time they were treated as either expenses or tax expenditures.
- Australian residents are assessed on their worldwide income. Foreign tax credits are provided up to the amount of Australian tax payable in respect of the Australian resident's foreign income. Non-residents are taxed on Australian source income only. Specific rules deal with arriving and departing residents and intermediate categories of residence such as temporary residents.
- Exemptions are provided for sovereign immunity and some international taxation rights.

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1 Personal cash transfers are cash payments from the Government to individuals not for services rendered.

2 Unlike an ordinary tax offset, a refundable tax offset is paid even if an individual does not have a tax liability. It is essentially a cash payment from the tax system. Examples include the Family Tax Benefit and the Private Health Insurance tax offset, which can be paid either as an expense or through the tax system.

- Expenses incurred in earning assessable income are deductible. The main exceptions, where they are treated as tax expenditures, are:
  - deductions for depreciation if they provide more generous treatment than effective life depreciation;
  - provisions that defer deductions, which are identified as negative tax expenditures; and
  - deductions claimed on the basis of statutory formulae which yield a larger deduction than the actual cost incurred.

3.4 The retirement benefits benchmark

The following features are a part of the benchmark for retirement and other employment termination benefits:

- Remuneration in respect of employment is deductible for taxable employers and fully taxed to the employee.
- Additions to savings are financed out of after-tax income.
- Investment income on savings is taxed in the income year it is derived.
- Capital gains are subject to full taxation at the time of realisation. This corresponds with the treatment of capital gains earned by companies under the business tax benchmark.
- Savings (including interest) that have already been taxed are not taxed upon withdrawal.

3.5 The fringe benefits tax benchmark

The following features are a part of the fringe benefits tax (FBT) benchmark:

- FBT applies to all non-salary and non-wage benefits provided to employees or associates (except where their wage or salary income is exempt from personal income tax). All employers providing such benefits are liable for FBT.
- FBT is levied at the maximum personal tax rate, including the Medicare levy.
  - Although potential negative tax expenditures arise where employees, who receive fringe benefits, face marginal personal tax rates below the maximum rate, this feature is accepted as part of the benchmark as the effective administration of FBT requires that it be levied at a single rate.
- The benchmark value of a fringe benefit to an employee is taken to be its market value less any contribution paid by the employee.

- In some cases, statutory formulae are available to calculate the taxable value of the benefit. As for the substantiation rules, tax expenditures are deemed to arise where the formulae provide a concession to taxpayers, such as the application of the formula to value car benefits (C32).

FBT is applied to the tax inclusive value of the fringe benefits and is deductible to the employer. From 1 July 2000, a grossed-up rate, inclusive of GST, applies to the provision of benefits to an employee where those benefits would attract GST if acquired directly by the employee. A special rebate applies to non-government entities that are exempt from income tax but subject to FBT and this rebate is treated as a tax expenditure.

3.6 The business tax benchmark

The following features are a part of the business tax benchmark:

- Capital gains tax (CGT) applies to the full consideration of realised nominal gains and losses. (This is consistent with the treatment of capital gains and losses of companies where assets are acquired after 21 September 1999.)
  - The following exemptions are also considered to be intrinsic features of the tax system and are included as a part of the CGT benchmark:
    - CGT exemption for gains on assets acquired prior to 20 September 1985;
    - CGT exemption for gains received by way of compensation or damages for any wrong or injury suffered by a taxpayer;
    - CGT exemption of gains or winnings from gambling; and
    - CGT roll-over relief on the death of a taxpayer, or the transfer of assets between spouses upon breakdown of marriage.
  - However, capital receipts that are specifically exempt under the CGT provisions are classified as tax expenditures, such as the CGT exemption for cultural bequests and cultural gifts (D35).
- Expenses incurred in earning assessable income are deductible, broadly in accordance with the change in value over the life of the service or asset purchased.
  - Provisions that defer deductions are identified as negative tax expenditures.
  - For depreciable assets, the benchmark is effective life depreciation.
  - The benchmark for advance expenditure (prepayments) on services is generally full apportionment over the service period.

- Where an asset is held for both income-producing and private purposes, deductions should be limited to the portion of expenses relating to the monetary income.

- The benchmark incorporates the imputation system of company taxation.
  - Under imputation, the value of concessions is offset to some degree since such concessions reduce company tax paid. The subsequent taxation, in the hands of shareholders, of dividends paid out of tax-preferred income (as also occurred under the classical system) is generally not costed in this Statement because of the practical difficulties in doing so.
  - The taxation treatment of co-operative companies departs from the taxation of other companies under the imputation system. Tax expenditures arise where the income and distributions of co-operative companies receive concessional treatment.
- The taxation rules that apply to sole traders, partnerships and trusts, which are not separate taxable entities, are regarded as design features of the tax system.
- From 1 July 2002, wholly owned groups that consolidate will be treated as a single entity for income tax purposes. Consolidated groups can transfer assets and tax attributes within the group without any income tax consequences.
  - Transitional provisions extend access to the grouping rules for wholly owned company groups that do not consolidate from 1 July 2002.
- From 1 January 2003, investment income derived by friendly societies that is attributable to Income bonds, Funeral policies and Scholarship plans that currently qualifies for exemption from tax will be assessable. Friendly societies will be entitled to a deduction for the investment component of the benefits paid out to policyholders (other than benefits paid from scholarship plans that are returned to investors rather than being applied for the benefit of nominated students). A deduction will also be allowed for benefits applied to nominated students under scholarship plans that are currently subject to tax.
- Separate income tax scales are applicable to non-resident individual taxpayers.
- The dividend withholding tax (DWT), interest withholding tax (IWT) and royalty withholding tax (RWT) to the extent they apply to non-residents generally are included in the benchmark. The allocation of taxing rights in Australia's double tax agreements (other than tax sparing provisions) are also intrinsic to the tax system.
- Foreign Dividend Account, any Foreign Income Account provisions (from introduction) and the exemption from IWT for interest paid to non-residents by an offshore banking trust.
- Foreign-source income is taken to be assessed for residents on a worldwide basis, with a limit on foreign tax credits to the amount of Australian tax payable in respect

of the foreign income. Tainted income (that is, passive income such as interest, royalties and dividends, and highly mobile forms of active income) is assessed on an accrual basis. Most active foreign-source income is assessed on a repatriation basis with a credit for any foreign tax paid (that is, the foreign tax credit system (FTCS) is applied).

- An exemption from the operation of the FTCS is provided for branch income and certain non-portfolio dividends derived in a listed country. There is a tax expenditure for the amount that foreign company tax, plus DWT, is less than the amount of Australian tax payable.

- Most tainted income derived by controlled foreign companies in broad exemption-listed countries is exempt from accrual taxation on the presumption that it has been comparably taxed. There is a tax expenditure for the difference between foreign tax paid on a current basis and what would have been payable in Australia.

- Under the transferor trust rules, the amount of income available for distribution from the trust is taxed on an accrual basis. It is assumed that transferor trusts are used as passive investment vehicles and not for the conduct of active businesses. Most of the income of transferor trusts in broad exemption-listed countries is exempt from accrual taxation on the presumption that it has been comparably taxed. There is also a tax expenditure for the amount that foreign tax paid on a current basis is less than would have been payable in Australia.

- The benchmark for taxing foreign investment fund (FIF) interests is the taxation on an accrual basis of the amount of passive income available for distribution from the FIF to the Australian investor. The active income derived by the FIF and distributed to the Australian investor is taxed on a repatriation basis.

• The mutuality principle, which treats certain receipts as not being income, applies to non-profit associations and societies.

  - However, the global income tax exemptions for the income of specified non-profit organisations (for example, trade unions, cultural and sporting societies), which extend, for example, to investment income and income from business activities in competition with taxable entities, are treated as tax expenditures.

• Exemptions are provided for sovereign immunity and some international taxation rights.

• From 1986-87, the benchmark for unprocessed petroleum products (crude oil, condensate, liquefied petroleum gas and ethane) produced in offshore areas under the Commonwealth's jurisdiction is petroleum resource rent tax. The benchmark for petroleum products produced in projects that commenced prior to 1 July 1986 is crude oil excise, which may continue to apply unless taxpayers elect to pay petroleum resource rent tax.

3.7 The excise duty benchmark

The following features are a part of the excise duty benchmark:

- There are no exemptions for classes of taxpayers or activities.
- Imported petroleum, tobacco, beer, spirits and other excisable alcoholic beverages of an alcohol strength not exceeding 10 per cent, are subject to customs duty which is analogous to excise duty on these items.
- The excise rate on unleaded petrol (which is also the rate for diesel) is the benchmark for petroleum fuels.
  - The higher rates of excise on leaded petrol (up to 2000-01) and high sulphur diesel are recognised as negative tax expenditures (E1, E2).
  - The lower excise rates on fuel oil, heating oil, kerosene, aviation gasoline and aviation turbine fuel are recognised as tax expenditures (E5, E6).
  - The excise exemption for LPG is recognised as a tax expenditure (E4).
- The current excise rate on tobacco is the benchmark for all tobacco products.
  - Per stick taxation applies to cigarettes with up to 0.8 grams of tobacco per stick. The per stick excise rate on cigarettes with 0.8 grams of tobacco per stick is recognised as equivalent to the excise rate on loose tobacco and, therefore, is not a tax expenditure. However, the excise rate on cigarettes with less than 0.8 grams of tobacco per stick represents a negative tax expenditure (E3), compared with the excise rate on other tobacco products.
- There are currently five different benchmarks for alcohol, reflecting alcohol type.
  - Three benchmarks for beer, comprising the current excise rates for full-strength, mid strength and low-strength beer, packaged in individual containers not exceeding 48 litres. The excise-free threshold of 1.15 per cent of alcohol, which applies to all beer, is included in all three benchmarks.
    - The excise rate applying to full strength beer, packaged in individual containers not exceeding 48 litres is also the benchmark for other excisable beverages of an alcoholic strength not exceeding 10 per cent.
  - The current excise rate on spirits is the benchmark for spirits.
    - The lower excise rate on brandy is recognised as a tax expenditure (E7).
  - The wine benchmark, which covers wine, alcoholic cider and other alcoholic products, is based on the wine equalisation tax (WET) (because these products are not subject to excise duty).

: The Commonwealth WET cellar door rebate provided for certain direct sales by producers either at their premises, by mail order or over the internet, is recognised as a tax expenditure (E9).

4 Changes from 2001 TES

4.1 Introduction

This chapter provides an outline of the major changes to the list or nature of tax expenditures since the *2001 Tax Expenditures Statement*.

4.2 New tax expenditures

Tax expenditures arising from measures that have been announced or legislated since the *2001 Tax Expenditures Statement* up to the date of publication of the *2002-03 Mid-Year Economic and Fiscal Outlook* (MYEFO) are as follows (tax expenditure reference codes, used in chapter 5 and Appendix A, are reported in parentheses):

- exemption from income tax of the baby bonus payment (A53);
- concessional tax treatment for venture capital managers (A59);
- deduction for the payment of the Incurred-But-Not-Reported levy (A72);
- fringe benefits tax exemption for certain payments to prescribed employee entitlement funds (C57);
- tax relief for demergers of companies and trusts (D46);
- removal of income tax at the point of conversion or exchange of traditional securities (D47); and
- statutory effective life caps on a range of assets used in the oil, gas and airline industries (D74).

Measures that were not previously reported, but which have been recently identified as tax expenditures, are as follows (tax expenditure reference codes are reported in parentheses):

- immediate deduction for depreciating assets costing no more than $300 that are used to produce assessable income of a non-business nature (A71);
- an amendment to legislation to allow for the division of superannuation either by court order, or by agreement between the two parties on marriage breakdown (B1);
- exemption from excise of condensate produced or marketed separately from a crude oil stream (D15);

- concessional tax treatment for eligible foreign authorised deposit-taking institutions (ADIs), or the holding company of eligible foreign ADIs, or newly established local ADIs, when transferring assets and liabilities (D106); and
- additional excise applied to diesel with a sulphur content higher than 50 parts per million (E2).

4.3 Modified tax expenditures

Modified tax expenditures are those that have changed materially since the *2001 Tax Expenditures Statement*. The nature of a modification may include a change to the benchmark, the decision to remove a tax expenditure in a certain year, an amalgamation of tax expenditures, or the inclusion of a new part. Items that have been modified as a result of a change to the applicable tax rate are not listed.

The following tax expenditures have been modified since they were last reported in the *2001 Tax Expenditures Statement* (the respective tax expenditure reference codes from this Statement and the *2001 Tax Expenditures Statement* are reported in parentheses):

- the threshold for the medical expenses offset is to be increased from $1,250 to $1,500 from the 2002-03 year of income (A27:A27);
- the Medicare levy low income thresholds have increased to $14,539 for individuals and $24,534 for families. The additional amount of threshold for each dependent child or student has also increased to $2,253. The threshold for pensioners below penson age has increased to $16,570 (A28:A28);
- from 2001-02 the components of the private health insurance rebate and Family Tax Benefit claimed through the tax system have been reclassified as an expense and are therefore no longer reported as tax expenditures (A31:A31, A45:A45);
- the pensioner tax offset for pensioners below age pension age was increased to $1,710 for individuals and $1,245 for each member of a couple with effect from the 2001-02 income year (A35:A35);
- the exemption of the language, literacy and numeracy supplement is included in the exemption of certain social security and repatriation payments (A40:A40);
- the eligibility for the Senior Australians' Tax Offset (SATO) was extended to senior Australians of veterans age who are eligible for a veterans' pension or allowance benefit (whether or not they receive a payment), and to senior Australians who are eligible for an age pension without meeting the residency requirement (A42:A42);
- the Government announced its response to the Report of the Inquiry into Charities and Related Organisations. Elements of the measure modify a number of tax expenditures, including (A65:A63, C13:C13, C35:C35, and D3:D3). These elements are:

- a legislative definition of a charity for the purpose of administration of Commonwealth laws;
- a new category of deductible gift recipient (DGR) for charities whose principal activities promote the prevention and control of harmful and abusive behaviour among humans;
- requiring charities, public benevolent institutions and health promotion charities to be endorsed by the ATO in order to access all relevant tax concessions; and
- allowing entities established in perpetuity to be endorsed as DGRs.

- the tax expenditure relating to deductions for gifts, other than trading stock, to approved donees has been modified to reflect the introduction of apportionment of deductions for cash donations, which will apply in respect of donations made on or after 1 July 2003 (A65:A63);
- the types of payments eligible for the structured settlements tax exemption have been widened to include certain lump sums paid to the claimant sometime after settlement, provided they satisfy conditions similar to those required of structured settlement annuities (A70:A68);
- a number of changes announced in, and since, the 2002-03 Budget will impact on the concessional treatment of superannuation (B1:B1). These changes include:
  - an increase in the fully deductible amount for superannuation contributions made by the self-employed;
  - a reduction in the superannuation contribution and termination payments surcharge rates (also affects B2:B2);
  - allowing members of accumulation funds to split future employer and personal superannuation contributions with a spouse;
  - allowing eligible temporary residents access to their superannuation benefit upon permanent departure from Australia, subject to a special tax;
  - abolishing the rebate for personal superannuation contributions made by low-income earners;
  - allowing working people aged between 70 and 75 to make personal superannuation contributions;
  - allowing parents, other relatives and friends to make superannuation contributions on behalf of a child;
  - allowing recipients of the Baby Bonus to contribute the Baby Bonus, as well as any other amount, to a superannuation fund or retirement savings account;

- a modification to the tax treatment of eligible termination payments (ETPs) from superannuation funds to limit the overall effective rate of taxation that applies to the excessive component;
- amending the taxation treatment of internal roll-over transactions to ensure that these transactions are classified as ETPs and can be reported for Reasonable Benefit Limit (RBL) purposes;
- an amendment to legislation to allow for the division of superannuation either by court order, or by agreement between the two parties on marriage breakdown; and
- the tax exemption of the Government superannuation co-contribution for low-income earners.

- the tax expenditure for the income tax exemption for certain non-profit societies now includes the income tax exemption for the Commonwealth Games Federation (D6:D6);
- depreciation for upgrading mains electricity to a business property has been merged with depreciation of the capital cost of telephone lines for primary producers under a new item, titled depreciation of the capital cost of telephone lines and mains electricity (D55:D56, D75);
- a number of accelerated depreciation concessions were removed when the Uniform Capital Allowance (UCA) system took effect on 1 July 2001 but were not reported in the *2001 Tax Expenditures Statement* (D60:D61, D61:D62, D63:D64, D66:D67, D67:D68, D69:D70, D70:D71);
- upon entry into force, the Second Protocol of the Australia-Malaysia Double Taxation Agreement (DTA) will extend the operation of the tax sparing provisions to 30 June 2003, at which time they will permanently expire (D98:D100);
- tax expenditures under the excise benchmark now include the equivalent tax expenditure associated with like items that are subject to customs duty (E1:E1, E3:E2, E5:E4, E6:E5, E7,E6, E8:E7, E10:E9); and
- the cessation of excise-free arrangements for ethanol from 18 September 2002 has resulted in the removal of the ethanol component from the exemption from excise for 'alternative fuels' tax expenditure (E4:E3).

4.4 Deleted tax expenditures

Deleted tax expenditures are tax expenditures that are not reported in this Statement but were reported in the *2001 Tax Expenditures Statement*. They do not include tax expenditures that have been abolished but are still reported in Table 5.1 because they have an impact over the reported time horizon, which extends back to 1998-99. (Instead, tax expenditures that have been abolished are generally reported as being modified.)

Tax expenditures that have been deleted since the *2001 Tax Expenditures Statement* are as follows (parentheses refer to the tax expenditure reference codes from the *2001 Tax Expenditures Statement)*:

- the income tax exemption for Australian film receipts has not applied since 25 May 1988 and its cost is included in D49 (D8);

- the CGT exemption for disposal of assets under the Rural and Remote General Practice program has been deleted, as there is no economic gain being exempted - it is necessary only because of the particular drafting scheme of the CGT legislation (D33);

- the CGT exemption for payments under the Sydney Aircraft Noise Insulation Project has been deleted, as there is no economic gain being exempted — it is necessary only because of the particular drafting scheme of the CGT legislation (D37);

- the CGT exemption for payments under the M4/M5 Cashback Scheme has been deleted, as there is no economic gain being exempted - it is necessary only because of the particular drafting scheme of the CGT legislation (D38); and

- depreciation for upgrading mains electricity to a business property (D75) has been merged with depreciation of the capital cost of telephone lines for primary producers and is therefore no longer separately identifed.

5 Tax expenditure estimates

5.1 Introduction

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

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

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

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

5.2 Accrual estimates

The Commonwealth Government has completed a phased transition from cash to accrual budgeting. Historically, cash accounting has underpinned the production of public accounts. This TES is the third to be prepared on an accrual basis[1] using the tax liability method (TLM) of revenue recognition.

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

1 Government Finance Statistics (GFS) basis.

Under the TLM method of revenue recognition, the Commonwealth is deemed to have accrued revenue at the time a taxpayer makes a self-assessment or when an assessment of tax liability is raised by the Australian Taxation Office or the Australian Customs Service. In many instances, this method retains elements of cash revenue recognition, for example where assessment and payment occur at the same time.

- An alternative method of revenue recognition is the economic transaction method (ETM), under which the Commonwealth is deemed to have accrued revenue at the time the relevant economic or financial transaction occurs. For example, company tax would be accrued in the year a company earned the income rather than when the tax assessment is issued and payment is required (which can be up to eighteen months later).

- In principle, ETM is generally more consistent with accrual accounting principles. However, with respect to tax revenue, the Commonwealth, at this stage, considers that the TLM provides a more robust and reliable basis for forecasting revenue than ETM.

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

Abbreviations and notation for Table 5.1

The following notations are used:

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

The column titles of Table 5.1 are described below.

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

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

- The **Functional Group** column allocates each tax expenditure to a functional group. Aggregates for each group are reported in Table 2.2.
    - A capital letter in parentheses (following a function name) denotes the relevant sub-function listed in Table 2.2. For example 'General public services (A)' refers to the Table 2.2 reference 'General public services', sub-function 'A. Legislative and executive affairs'.

- The **Description** column provides a brief outline of the nature of the exemption. A list of abbreviations used in these descriptions is provided at the front of this Statement.

- Tax expenditure costings are separated into estimates (for historical years) and projections (for future years). The 2001-02 figures are preliminary only and are subject to revision on receipt of further tax data for this year.

Table 5.1: Tax expenditures reference table

Index	Functional Group	Description	Estimates ($m) 1998-99	1999-00	2000-01	2001-02	Projections ($m) 2002-03	2003-04	2004-05	2005-06
A Personal income tax benchmark										
A1	General public services (A)	Exemption of official salaries and ex-Australian income of the Governor-General and Governor of any State	<2	<2	<2	<2	<1	<1	<1	-
A2	General public services (A)	Deduction for Federal, State and Territory government candidates' election expenses	4	3	2	4	4	2	4	4
A3	General public services (A)	Deduction of up to $1000 for local government candidates' election expenses	included in A2							
A4	General public services (C)	Exemption of official salary and emoluments of officials of prescribed international organisations	na	na	na	na	na	na	na	na
A5	General public services (C)	Exemption of income of visitors who are representatives of a foreign press organisation	na	na	na	na	na	na	na	na
A6	General public services (C)	Total or partial exemptions of income earned by Australians working overseas	240	250	240	260	330	360	400	440
A7	General public services (C)	Exemption from income tax for non-residents providing advice to government or as a member of a Royal Commission	na	na	na	na	na	na	na	na
A8	General public services (C)	Exemption of Australian-sourced income earned by Government representatives visiting Australia or by their official staff	na	na	na	na	na	na	na	na
A9	General public services (E)	Exemption of income of residents of Norfolk Island	5	8	13	12	13	13	13	14
A10	Defence	Exemption of pay and allowances for part-time members of Australian Defence Force Reserves	40	35	30	30	30	30	30	30
A11	Defence	Exemption of certain allowances and bounties payable to Australian Defence Force personnel	2	3	2	3	3	3	3	3

Table 5.1: Tax expenditures reference table (continued)

Index	Functional Group	Description	Estimates ($m)				Projections ($m)			
			1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
A12	Defence	Exemption of the value of rations and quarters supplied without charge to Australian Defence Force personnel	na	na	na	na	na	na	na	na
A13	Defence	Exemption of pay and allowances earned in Australia by foreign forces	<1	<1	<1	<1	<1	<1	<1	<1
A14	Defence	Exemption of compensation for loss of pay and allowances paid to Australian Defence Force Reserve personnel	-	-	-	na	na	na	na	na
A15	Defence	Exemption of compensation for loss of deployment allowance paid to Australian Defence Force members	-	-	-	na	na	na	na	na
A16	Defence	Exemption of pay and allowances earned by members of the Australian Defence Force in an area prescribed by regulation	<1	35	18	18	18	18	18	18
A17	Defence	Exemption of some payments to civilian personnel in service with an armed force of the United Nations	<1	<1	<1	<1	<1	<1	<1	<1
A18	Defence	Tax offsets for Australian Defence Force personnel serving overseas				included in A54				
A19	Defence	Exemption from the Medicare levy for Australian Defence Force members	30	30	30	30	35	35	35	35
A20	Defence	Exemption of income earned by visitors assisting in the defence of Australia	<1	<1	<1	<1	<1	<1	<1	<1
A21	Defence	Exemption of Disturbance Allowance for Australian Defence Force members	5	5	5	5	5	5	5	5
A22	Defence	Exemption of Scholarship Allowance payable to Australian Defence Force members	na	na	na	na	na	na	na	na
A23	Education	Exemption of income from certain Commonwealth educational scholarships or forms of assistance	8	8	6	6	6	7	7	7

Table 5.1: Tax expenditures reference table (continued)

Index	Functional Group	Description	Estimates ($m) 1998-99	1999-00	2000-01	2001-02	Projections ($m) 2002-03	2003-04	2004-05	2005-06
A24	Education	Exemption of income from other scholarships or forms of assistance in limited circumstances	na	na	na	na	na	na	na	na
A25	Education	Exemption of Australian income of visiting representatives of educational, scientific, religious or philanthropic societies and associations	<1	<1	<1	<1	<1	<1	<1	<1
A26	Education	Exemption for grants from the Australian-American Educational Foundation	<1	<1	<1	<1	<1	<1	<1	<1
A27	Health	Medical expenses tax offset	125	130	150	150	160	155	160	170
A28	Health	Exemption from the Medicare levy for residents with a taxable income below a threshold	280	290	310	330	340	340	340	340
A29	Health	Medicare levy exemption for non-residents, repatriation beneficiaries, foreign government representatives and certain residents	45	55	55	60	70	75	80	85
A30	Health	Income-tested tax offset for private health insurance	160	60	-	-	-	-	-	-
A31	Health	30 per cent tax offset for expenditure on private health insurance	-	120	195	-	-	-	-	-
		Exemption of private health insurance tax offset/benefit, including expense equivalent	-	380	560	740	760	800	840	890
A32	Health	Medicare levy surcharge	-105	-140	-150	-85	-85	-85	-85	-85
A33	Social security and welfare	Tax offset for sole parents	250	260	50	-	-	-	-	-
A34	Social security and welfare	Tax offset for taxpayers supporting a dependent relative, parent-in-law, or invalid relative	12	13	16	18	19	20	20	20

Table 5.1: Tax expenditures reference table (continued)

Index	Functional Group	Description	Estimates ($m) 1998-99	1999-00	2000-01	2001-02	2002-03	Projections ($m) 2003-04	2004-05	2005-06
A35	Social security and welfare	Tax offset for recipients of taxable repatriation or social security pensions; or unemployment, sickness or special benefits	1980	2080	710	740	770	790	820	850
A36	Social security and welfare	Tax offset for housekeeper who cares for a prescribed dependant of the taxpayer	420	430	360	340	350	360	360	370
A37	Social security and welfare	Tax offset for dependent spouse				included in A36				
A38	Social security and welfare	Tax offset for child-housekeeper				included in A36				
A39	Social security and welfare	Tax offset for low income earners	490	440	460	410	380	360	340	320
A40	Social security and welfare	Exemption of certain social security and repatriation payments	1330	1460	670	710	740	780	820	860
A41	Social security and welfare	Exemption of rent subsidy payments under the Commonwealth/State mortgage and rent relief schemes	13	12	13	13	13	14	14	15
A42	Social security and welfare	Senior Australians' Tax Offset	25	30	1290	1310	1330	1350	1380	1400
A43	Social security and welfare	Family Tax Assistance, Parts A and B	400	380	-	-	-	-	-	-
A44	Social security and welfare	Tax offset for CDEP participants	7	8	7	7	8	9	10	10
A45	Social security and welfare	Family Tax Benefit, Parts A and B (tax offset)	-	-	11	-	-	-	-	-
		Exemption of Family Tax Benefit, Parts A and B, including expense equivalent	-	-	1980	2250	2370	2480	2610	2740
A46	Social security and welfare	Exemption of Child Care Benefit	-	-	350	460	600	790	1030	1350
A47	Social security and welfare	Exemption of one-off savings bonus payments to senior Australians	-	-	430	-	-	-	-	-
A48	Social security and welfare	Exemption of certain war-related payments and pensions	330	330	370	380	400	410	430	450
A49	Social security and welfare	Exemption of compensation paid by Federal Republic of Germany for Nazi persecution	<5	<5	<5	<5	<5	<5	<5	<5

Table 5.1: Tax expenditures reference table (continued)

Index	Functional Group	Description	Estimates ($m)				Projections ($m)			
			1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
A50	Social security and welfare	Exemption of pensions, annuities or allowances paid by certain foreign governments for persecution				included in A49				
A51	Social security and welfare	Income tax exemption for certain pensions received by PNG residents	na	na	na	na	na	na	na	na
A52	Social security and welfare	Exemption of one-off payment to older Australians	-	-	115	2	-	-	-	-
A53	Social security and welfare	Exemption of the baby bonus	-	-	-	-	5	20	35	45
A54	Housing & community amenities	Zone tax offsets	180	175	170	175	180	185	185	190
A55	Recreation and culture	Concessional rates of tax for abnormal receipts	5	5	6	6	6	6	6	7
A56	Other economic affairs (B)	Deductibility of union dues and subscriptions to business associations	na	na	na	na	na	na	na	na
A57	Other economic affairs (B)	Deferral of tax on share discounts and exemption of share discounts received by an employee under an approved employee share acquisition scheme	na	na	na	na	na	na	na	na
A58	Other economic affairs (B)	Tax deferral advantage of subtracting undeducted purchase price component of pension or annuity from assessable income	na	na	na	na	na	na	na	na
A59	Other economic affairs (C)	Concession for venture capital managers	-	-	-	-	-	1	5	10
A60-63	Not allocated to function	Concessions under the substantiation provisions for employment-related expenses.	na	na	na	na	na	na	na	na
A64	Not allocated to function	Tax offset on certain payments of income received in arrears	<1	<1	<1	<1	<1	<1	<1	<1
A65	Not allocated to function	Deduction for gifts other than trading stock to approved donees	230	250	300	330	350	380	420	450
A66	Not allocated to function	Deduction for gifts of trading stock to approved donees				included in A65				

Table 5.1: Tax expenditures reference table (continued)

Index	Functional Group	Description	Estimates ($m) 1998-99	1999-00	2000-01	2001-02	Projections ($m) 2002-03	2003-04	2004-05	2005-06
A67	Not allocated to function	Concession for post-judgement interest awards in personal injury compensation cases	-	14	2	2	2	2	2	2
A68	Not allocated to function	Tax offset of interest on certain government securities	<1	<1	<1	<1	<1	<1	<1	<1
A69	Not allocated to function	Exemption from income tax of one-off payments to former civilian internees and detainees of the Japanese	-	-	4	-	-	-	-	-
A70	Not allocated to function	Exemption for structured settlement annuities	-	-	-	-	1	3	4	5
A71	Not allocated to function	Immediate deduction for low-value depreciating assets not used in business	-	-	na	na	na	na	na	na
A72	Not allocated to function	Deduction for payment of Incurred-But-Not-Reported levy	-	-	-	-	-	-	1	2
B	**Retirement benefits benchmark**									
B1	Social security and welfare	Concessional treatment of superannuation	10100	10410	9820	9770	10590	11210	11890	12550
B2	Social security and welfare	Concessional treatment of non-superannuation termination benefits	1130	1060	930	890	850	810	770	730
B3	Social security and welfare	Capped taxation rate applying to unused recreation and long service leave	260	250	210	200	185	175	165	150
B4	Social security and welfare	Taxation of 5 per cent of unused long service leave accumulated by 15 August 1978	160	160	135	135	135	130	130	130
B5	Social security and welfare	CGT exemption on the sale of a small business at retirement	25	25	25	25	25	25	25	25
B6	Social security and welfare	CGT discount for complying superannuation funds				included in B1				
B7	Other economic affairs (C)	Small business 15 year retirement CGT exemption	-	-	na	na	na	na	na	na
B8	Other economic affairs (C)	CGT roll-over relief for changes to trust deeds of ADF and superannuation funds	na	na	na	na	na	na	na	na
B9	Not allocated to function	Savings tax offset	350	520	-	-	-	-	-	-

Table 5.1: Tax expenditures reference table (continued)

Index	Functional Group	Description	Estimates ($m)				Projections ($m)			
			1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
C Fringe benefits tax benchmark										
C1	General public services (B)	Benefits provided by certain international organisations	na	na	na	na	na	na	na	na
C2	Defence	Loan benefits on war service home loans	na	na	na	na	na	na	na	na
C3	Defence	Exclusion from reporting requirement for certain benefits provided to Australian Defence Force personnel	-	-	10	10	10	10	10	10
C4	Defence	Exclusion from reporting for certain elements of the Overseas Living Allowance				included in C3				
C5	Defence	Exclusion from reporting of benefits associated with Australian Defence Force removals	na	na	na	na	na	na	na	na
C6	Education	Education costs for children of employees posted overseas	na	na	na	na	na	na	na	na
C7	Education	Disregard of possible application of the $250 threshold for deductibility for some self-education expenses	<5	<5	<5	<5	<5	<5	<5	<5
C8	Health	Benefits provided by public hospitals to their employees	145	155	115	120	125	125	130	135
C9	Health	Employee/family travel costs associated with overseas medical treatment	<5	<5	<5	<5	<5	<5	<5	<5
C10	Social security and welfare	Safety award benefits up to $200 per year per employee	na	na	na	na	na	na	na	na
C11	Social security and welfare	Recreation/child care facilities on an employer's premises	na	na	na	na	na	na	na	na
C12	Social security and welfare	Employer contributions to secure child-care places in certain centres	na	na	na	na	na	na	na	na
C13	Social security and welfare	Benefits provided by PBIs (excluding public hospitals) to employees	190	210	240	240	250	260	270	280

Table 5.1: Tax expenditures reference table (continued)

			Estimates ($m)				Projections ($m)			
Index	Functional Group	Description	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
C14	Social security and welfare	Accommodation, fuel and meals for live-in employees caring for the elderly or disadvantaged	na	na	na	na	na	na	na	na
C15	Social security and welfare	Employer provided property/facilities for immediate relief of employees in times of emergency	na	na	na	na	na	na	na	na
C16	Housing & community amenities	Housing benefits and residential fuels in remote areas	35	35	80	70	80	80	85	90
C17	Housing & community amenities	Exemption for housing provided by certain employers in regional areas	-	-	na	na	na	na	na	na
C18	Housing & community amenities	Exclusion from reporting for regional housing benefits provided by certain employers in regional areas	-	-	na	na	na	na	na	na
C19	Housing & community amenities	Discount on interest or purchase price for remote area housing purchase assistance	na	na	na	na	na	na	na	na
C20	Transport and communications	Free or discounted commuter travel to employees where the employer carries on a business of providing public transport	30	35	35	45	45	45	45	45
C21	Transport and communications	Employee taxi travel arriving at or leaving from place of work	na	na	na	na	na	na	na	na
C22	Transport and communications	FBT exemption for free travel to and from duty by police officers on public transport	-	-	5	5	5	5	5	5
C23	Other economic affairs (A)	Discounted valuation of employee stand-by travel for airline employees and travel agents	85	85	85	70	60	65	65	70
C24	Other economic affairs (B)	FBT exemption for certain long service awards for more than 15 years of service	<5	<5	<5	<5	<5	<5	<5	<5
C25	Other economic affairs (B)	Food and accommodation provided to employees training under the Australian Traineeship Scheme	<5	<5	<5	<5	<5	<5	<5	<5
C26	Other economic affairs (B)	Certain relocation and recruitment expenses	na	na	na	na	na	na	na	na

Table 5.1: Tax expenditures reference table (continued)

			Estimates ($m)				Projections ($m)			
Index	Functional Group	Description	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
C27	Other economic affairs (B)	Compensation related benefits, occupational health and counselling services and some training courses	na	na	na	na	na	na	na	na
C28	Other economic affairs (B)	Discounted valuation of certain relocation and recruitment expenses	na	na	na	na	na	na	na	na
C29	Other economic affairs (B)	Reimbursement of car expenses incurred with occupational health and counselling services and some training courses	na	na	na	na	na	na	na	na
C30	Other economic affairs (C)	Exemption for certain loan benefits	na	na	na	na	na	na	na	na
C31	Other economic affairs (C)	Discounted valuation of certain loan benefits	na	na	na	na	na	na	na	na
C32	Other economic affairs (C)	Application of statutory formula to value car benefits	910	940	880	910	940	960	980	1000
C33	Other economic affairs (C)	Record keeping for employers submitting a return below a threshold	-	6	6	6	6	6	6	6
C34	Other economic affairs (C)	Car parking on small business premises	na	na	na	na	na	na	na	na
C35	Not allocated to function	Rebate of FBT for some non-government, non-profit organisations	60	70	40	30	35	35	35	40
C36	Not allocated to function	Benefits in relation to certain compassionate travel of employees	<5	<5	<5	<5	<5	<5	<5	<5
C37	Not allocated to function	Fringe benefits provided by religious institutions	175	180	180	180	180	185	185	185
C38	Not allocated to function	Staff accommodation at religious institutions and meals provided in religious houses	<5	<5	<5	<5	<5	<5	<5	<5
C39	Not allocated to function	Provision of food and drink in certain circumstances	na	na	na	na	na	na	na	na
C40	Not allocated to function	Discounted valuation of arm's length transaction price for in-house property and residual fringe benefits	na	na	na	na	na	na	na	na
C41	Not allocated to function	Airline transport fringe benefits and in-house benefits up to a threshold	na	na	na	na	na	na	na	na

Table 5.1: Tax expenditures reference table (continued)

Index	Functional Group	Description	Estimates ($m) 1998-99	1999-00	2000-01	2001-02	Projections ($m) 2002-03	2003-04	2004-05	2005-06
C42	Not allocated to function	Board fringe benefits	25	25	20	16	15	15	15	15
C43	Not allocated to function	Certain car parking fringe benefits	na	na	na	na	na	na	na	na
C44	Not allocated to function	Benefits resulting from valuation arrangements for car parking	na	na	na	na	na	na	na	na
C45	Not allocated to function	Discounted valuation for holiday travel for employees posted overseas	na	na	na	na	na	na	na	na
C46	Not allocated to function	Transport for oil rig and remote area employees in certain circumstances	na	na	na	na	na	na	na	na
C47	Not allocated to function	Discounted valuation of remote area holiday benefits	na	na	na	na	na	na	na	na
C48	Not allocated to function	Minor benefits	na	na	na	na	na	na	na	na
C49	Not allocated to function	Private use of business property consumed on business premises	na	na	na	na	na	na	na	na
C50	Not allocated to function	Allowances and accommodation benefits	na	na	na	na	na	na	na	na
C51	Not allocated to function	Minor and infrequent private use of company car	na	na	na	na	na	na	na	na
C52	Not allocated to function	Loans to employees to meet employment-related and accommodation-related expenses	na	na	na	na	na	na	na	na
C53	Not allocated to function	Exclusion from reporting for certain travel in marked emergency vehicles	-	-	na	na	na	na	na	na
C54	Not allocated to function	Charities promoting the prevention or control of disease in people	-	-	na	na	na	na	na	na
C55	Not allocated to function	Exclusion from reporting of benefits associated with police force removals	-	-	-	na	na	na	na	na
C56	Not allocated to function	Exclusion from reporting of benefits associated with home-to-work travel in unmarked police vehicles	-	-	-	na	na	na	na	na
C57	Not allocated to function	Exemption for certain payments to prescribed employee entitlement funds	-	-	-	-	-	210	225	240

Table 5.1: Tax expenditures reference table (continued)

Index	Functional Group	Description	Estimates ($m) 1998-99	1999-00	2000-01	2001-02	Projections ($m) 2002-03	2003-04	2004-05	2005-06
D Business tax benchmark										
Income tax benchmark										
D1	Health	Income tax exemption for registered health benefit organisations	50	50	105	220	230	250	260	270
D2	Health	Income tax exemption for public and non-profit hospitals	<1	<1	<1	<1	<1	<1	<1	<1
D3	Social security and welfare	Income tax exemption for religious, scientific, charitable or public educational institutions	na	na	na	na	na	na	na	na
D4	Social security and welfare	Concessional taxation treatment of mining payments made in respect of mining and exploration activities on Aboriginal land	<1	<1	<1	<1	<1	<1	<1	<1
D5	Social security and welfare	Taxation of life insurance investment income	na	na	na	na	na	na	na	na
D6	Recreation and culture	Income tax exemption for certain non-profit societies	25	25	20	15	15	15	15	15
D7	Recreation and culture	Income tax exemption for the Australian Film Finance Corporation	<1	<1	<1	<1	<1	<1	<1	<1
D8	Recreation and culture	Income tax exemption for certain promotion and development non-profit societies	30	30	30	30	25	25	25	25
D9	Agriculture, forestry and fishing	Income tax averaging for primary producers	75	70	140	175	175	na	na	na
D10	Agriculture, forestry and fishing	Deferment of income from a double wool clip	na	na	na	na	na	na	na	na
D11	Agriculture, forestry and fishing	Spreading insurance recoveries for loss of timber or livestock	na	na	na	na	na	na	na	na
D12	Agriculture, forestry and fishing	Valuation of livestock from natural increase	60	70	70	75	85	90	95	95
D13	Agriculture, forestry and fishing	Transitional trading stock rules for oyster farmers	-	-	-	..	..	..	..	..

Table 5.1: Tax expenditures reference table (continued)

			Estimates ($m)				Projections ($m)			
Index	Functional Group	Description	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
D14	Agriculture, forestry and fishing	Income tax exemption for Dairy Exit Program payments	-	-	-	1	1	1	-	-
D15	Fuels and energy	Condensate excise free status	na	na	na	na	na	na	na	na
D16	Mining, mineral, manufacturing	Infrastructure Bonds Scheme	105	85	60	25	20	10	-	-
D17	Mining, mineral, manufacturing	Infrastructure Borrowings Tax Offset Scheme	<75	<75	<75	<75	<75	<75	<75	<75
D18	Mining, mineral, manufacturing	Income tax exemption for sale, transfer or assignment of mining rights	18	5	-	-	-	-	-	-
D19	Mining, mineral, manufacturing	Income tax exemption for funds established for scientific research	<1	<1	<1	<1	<1	<1	<1	<1
D20	Other economic affairs (B)	Income tax exemption for trade unions and registered organisations	10	10	10	10	9	9	9	9
D21	Other economic affairs (B)	Income tax exemption for CRAFT apprenticeship rebates	13	7	12	11	4	-	-	-
D22	Other economic affairs (C)	Concessional tax rate for the life insurance business of friendly societies	10	10	5	..	-	-	-	-
D23	Other economic affairs (C)	Income tax exemption for current pension liabilities	na	na	na	na	na	na	na	na
D24	Other economic affairs (C)	Income tax exemptions for foreign superannuation funds	na	na	na	na	na	na	na	na
D25	Other economic affairs (C)	Pooled Development Funds (PDFs)	<1	3	5	11	13	16	19	20
D26	Other economic affairs (C)	Concessional treatment of some credit unions	<1	<1	<1	<1	<1	<1	<1	<1
D27	Other purposes (D)	Income tax exemption for business assistance grants from the Katherine District Business Re-Establishment Fund	2	-	-	-	-	-	-	-
D28	Other purposes (D)	Income tax exemption for business grants from the Cyclones Elaine and Vance Trust Account	-	1	-	-	-	-	-	-
D29	Not allocated to function	Transitional taxation of life insurance management fees	-	-	120	150	135	135	135	-

Table 5.1: Tax expenditures reference table (continued)

Index	Functional Group	Description	Estimates ($m) 1998-99	1999-00	2000-01	2001-02	Projections ($m) 2002-03	2003-04	2004-05	2005-06
D30	Not allocated to function	Income tax exemption for State/Territory bodies	na	na	na	na	na	na	na	na
D31	Not allocated to function	Income tax exemption for municipal authorities and other local governing bodies	95	90	95	95	85	90	95	95
Capital gains tax (CGT) benchmark										
D32	Defence	CGT exemption for valour or brave conduct decorations	<1	<1	<1	<1	<1	<1	<1	<1
D33	Housing & community amenities	CGT treatment of perpetual conservation covenants	-	-	-	<1	<1	<1	<1	<1
D34	Housing & community amenities	CGT main residence exemption	na	na	na	na	na	na	na	na
D35	Recreation and culture	CGT exemption for the disposal of assets under the Cultural Bequests and Cultural Gifts programs	na	na	na	na	na	na	na	na
D36	Other economic affairs (C)	Venture capital concessions	-	-	-	-	-	-20	-25	-30
D37	Other economic affairs (C)	Small business 50 per cent CGT exemption	-	-	-	na	125	125	130	135
D38	Other economic affairs (C)	Small business CGT roll-over	60	55	60	40	40	40	40	40
D39	Other economic affairs (C)	Small business CGT partial exemption for goodwill	na	na	na	-	-	-	-	-
D40	Other economic affairs (C)	Exemption from reducing the cost base of trusts for CGT purposes	na	na	na	na	na	na	na	na
D41	Other economic affairs (C)	CGT discount for individuals and trusts	-	-	1310	1810	1810	1810	1910	2030
D42	Other economic affairs (C)	CGT scrip-for-scrip roll-over relief	-	-	-	125	115	105	95	85
D43	Other economic affairs (C)	CGT roll-over for assets compulsorily acquired, lost or destroyed	-	-	na	na	na	na	na	na
D44	Other economic affairs (C)	CGT discount for investors in LICs	-	-	-	5	20	20	20	20
D45	Other economic affairs (C)	Non-imposition of CGT on capital gains that accrue before an asset becomes a segregated pension asset but are realised after the asset becomes a segregated pension asset	na	na	na	na	na	na	na	na
D46	Other economic affairs (C)	Taxation relief for demergers	-	-	-	-	na	na	na	na

Table 5.1: Tax expenditures reference table (continued)

			Estimates ($m)				Projections ($m)			
Index	Functional Group	Description	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
D47	Other economic affairs (C)	Removal of taxation of financial instruments at point of conversion or exchange	-	-	-	na	na	na	na	na
Deductions benchmark										
Effective life										
D48	Recreation and culture	Tax incentives for film investment	6	6	6	-6	-6	-7	-7	-8
D49	Recreation and culture	Film Licensed Investment Companies	-	na	na	na	na	na	na	na
D50	Recreation and culture	Refundable tax offset for large scale film production	-	-	-	-	5	35	30	45
D51	Agriculture, forestry and fishing	Accelerated depreciation for water management costs	20	20	20	20	25	25	25	25
D52	Agriculture, forestry and fishing	Landcare deduction				included in D51				
D53	Agriculture, forestry and fishing	Landcare offset	1	1	<1	<1	<1	<1	<1	<1
D54	Agriculture, forestry and fishing	Deduction for horse breeding stock	na	na	na	na	na	na	na	na
D55	Agriculture, forestry and fishing	Depreciation of the capital cost of telephone lines and mains electricity	8	8	8	8	8	8	8	8
D56	Agriculture, forestry and fishing	Tax write-off for horticultural plants	3	4	5	6	7	7	8	9
D57	Agriculture, forestry and fishing	Accelerated depreciation for grapevine plantings	4	5	7	10	12	15	17	18
D58	Agriculture, forestry and fishing	Drought investment allowance	15	10	5	1	-	-	-	-
D59	Mining, mineral, manufacturing	Development allowance	260	250	220	200	170	-	-	-
D60	Mining, mineral, manufacturing	Capital expenditure deduction for mining, quarrying and petroleum operations	40	30	30	30	20	20	20	20
D61	Mining, mineral, manufacturing	Deduction for patents, designs and copyrights	30	30	30	35	-	-	-	-
D62	Mining, mineral, manufacturing	Exploration and prospecting deduction	na	na	na	na	na	na	na	na
D63	Mining, mineral, manufacturing	Deduction for expenditure on environmental impact studies				included in D64				
D64	Mining, mineral, manufacturing	Deduction for environmental protection activities	18	14	13	13	11	11	12	13

Table 5.1: Tax expenditures reference table (continued)

			Estimates ($m)					Projections ($m)		
Index	Functional Group	Description	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
D65	Mining, mineral, manufacturing	Depreciation to nil value rather than estimated scrap value	<10	<10	<10	<10	<10	<10	<10	<10
D66	Mining, mineral, manufacturing	Depreciation balancing adjustment roll-over relief	na	na	na	na	na	na	na	na
D67	Mining, mineral, manufacturing	Balancing charge roll-over relief for exploration, mining and quarrying activities	na	na	na	na	na	na	na	na
D68	Mining, mineral, manufacturing	Absence of cost base recapture for certain assets	na	na	na	na	na	na	na	na
D69	Mining, mineral, manufacturing	Accelerated depreciation allowance for plant and equipment	2200	2270	1710	740	-20	-500	-710	-800
D70	Mining, mineral, manufacturing	Accelerated depreciation for employees' amenities				included in D69				
D71	Mining, mineral, manufacturing	Accelerated depreciation for mining buildings	400	440	450	400	360	310	260	220
D72	Mining, mineral, manufacturing	Depreciation pooling for low-value assets	-	-	100	310	370	410	390	320
D73	Mining, mineral, manufacturing	Accelerated depreciation for Australian trading ships	-8	-20	-25	-25	-17	-14	-11	-9
D74	Transport and communications	Statutory effective life caps	-	-	-	-	na	na	na	na
D75	Other economic affairs (C)	The Simplified Tax System	-	-	-	280	550	240	340	450
D76	Other economic affairs (C)	Transitional exemption of small business from abolition of accelerated depreciation, balancing charge offset and low-value pooling	-	-	220	470	-260	-90	-60	-40
D77	Other economic affairs (C)	R&D refundable tax offset for small companies	-	-	-	-	15	12	10	8
D78	Other economic affairs (C)	R&D tax concession	390	340	370	380	270	280	320	350
D79	Other economic affairs (C)	Premium tax concession for additional R&D expenditure	-	-	-	40	105	120	135	150
D80	Not allocated to function	Accelerated depreciation for software	15	65	165	250	270	240	175	95
D81	Not allocated to function	Immediate deduction relating to Y2K upgrades	5	105	130	-70	-65	-65	-40	-

Table 5.1: Tax expenditures reference table (continued)

Index	Functional Group	Description	Estimates ($m) 1998-99	1999-00	2000-01	2001-02	Projections ($m) 2002-03	2003-04	2004-05	2005-06
D82	Not allocated to function	Immediate deductibility for GST-related plant and software	-	-	185	-50	-50	-40	-35	-10
Apportionment										
D83	Other economic affairs (C)	Prepayment rule for STS taxpayers and non-business expenditure by individuals	na	na	na	na	na	na	na	na
D84	Other economic affairs (C)	Transitional arrangements for prepayments	-	30	660	-30	-80	-200	-200	-50
D85	Other economic affairs (C)	The 10-year rule for prepayments	na	na	na	na	na	na	na	na
D86	Other economic affairs (C)	Exemption from the tax shelter prepayments measure for passive investments	-	-	na	na	na	na	na	na
D87	Other economic affairs (C)	Prepayment rule for forestry managed investments	-	-	-	-	25	5	-	25
Private use										
D88	Other economic affairs (C)	Capitalisation of ownership costs of assets held partly for private use	na	na	na	na	na	na	na	na
D89	Not allocated to function	Exemption from non-commercial losses provisions (primary producers and artists)	-	-	-	155	160	160	165	165
Other										
D90	Social security and welfare	Deductibility of expenses incurred in providing entertainment free to members of the public who are sick, disabled, poor or otherwise disadvantaged	na	na	na	na	na	na	na	na
D91	Agriculture, forestry and fishing	Income Equalisation Deposits scheme	25	9	-	-	-	-	-	-
D92	Agriculture, forestry and fishing	Farm Management Deposit (FMD) scheme	-	25	50	150	470	na	na	na
D93	Other economic affairs (C)	Deduction to co-operative companies	na	na	na	na	na	na	na	na
International benchmark										
D94	General public services (C)	Income tax exemption for prescribed international organisations	na	na	na	na	na	na	na	na
D95	General public services (C)	IWT exemption for certain overseas organisations				included in D110				

Table 5.1: Tax expenditures reference table (continued)

Index	Functional Group	Description	Estimates ($m)				Projections ($m)			
			1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
D96	General public services (C)	DWT exemption for certain overseas organisations	na	na	na	na	na	na	na	na
D97	General public services (C)	IWT and DWT exemptions for prescribed international organisations	na	na	na	na	na	na	na	na
D98	General public services (C)	Tax sparing provisions in Australia's DTAs	10	25	5	5	5	<5	-	-
D99	General public services (C)	Exemption for branch profits from foreign tax credit system	na	na	na	na	na	na	na	na
D100	Defence	Income tax exemption for certain US projects in Australia	na	na	na	na	na	na	na	na
D101	Other economic affairs (C)	Half IWT on foreign bank branch interest payments to the foreign bank	included in D110							
D102	Other economic affairs (C)	Deductibility of costs of setting up a regional headquarters	2	2	2	<1	<1	<1	<1	<1
D103	Other economic affairs (C)	Concessional tax treatment of income of offshore banking units	30	25	25	25	20	20	20	20
D104	Other economic affairs (C)	DWT exemption for Pooled Development Funds	<2	<2	<2	<2	<2	<2	<2	<2
D105	Other economic affairs (C)	De minimis exemption for thin capitalisation	-	-	-	-	<2	<2	<2	<2
D106	Other economic affairs (C)	Concessional tax treatment for foreign ADIs	na	na	na	na	na	na	na	na
D107	Not allocated to function	Exemption of non-portfolio dividends from the foreign tax credit system	na	na	na	na	na	na	na	na
D108	Not allocated to function	Exemption from accrual taxation for controlled foreign companies	na	na	na	na	na	na	na	na
D109	Not allocated to function	Exemption from accrual taxation for transferor trusts	na	na	na	na	na	na	na	na
D110	Not allocated to function	Exemption from IWT on widely held debentures	560	580	570	570	570	570	570	550
E Excise duty benchmark										
E1	Health	Higher rate of excise levied on leaded petrol	-105	-80	-25	-	-	-	-	-

Table 5.1: Tax expenditures reference table (continued)

			Estimates ($m)				Projections ($m)			
Index	Functional Group	Description	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
E2	Health	Higher rate of excise levied on high sulphur diesel	-	-	-	-	-60	-135	-110	-25
E3	Health	Higher rate of excise levied on cigarettes with less than 0.8 grams of tobacco	-	na	na	na	na	na	na	na
E4	Fuels and energy	Exemption from excise for 'alternative fuels'	540	570	640	660	670	690	720	740
E5	Fuels and energy	Concessional rate of excise levied on fuel oil, heating oil and kerosene	220	220	240	240	235	235	235	230
E6	Fuels and energy	Concessional rate of excise levied on aviation gasoline and aviation turbine fuel	750	840	870	770	730	730	730	730
E7	Agriculture, forestry and fishing	Concessional rate of excise levied on brandy	8	8	5	5	5	4	4	4
E8	Not allocated to function	No excise-free threshold for excisable alcoholic beverages (other than beer) not exceeding 10 per cent alcohol	-	-	-55	-75	-80	-85	-90	-95
E9	Not allocated to function	WET rebate scheme	-	-	13	14	15	15	16	16
E10	Not allocated to function	Concessional rate of excise levied on beer sold in containers greater than 48 litres	-	-	30	135	150	150	155	155
E11	Not allocated to function	Concessional rate of excise levied on beer produced for non-commercial purposes using commercial facilities or equipment	<1	<1	<1	<1	<1	<1	<1	<1
E12	Not allocated to function	Excise concession for microbreweries	-	-	<1	<1	<1	<1	<1	<1

Appendix A

Description of tax expenditures

This Appendix provides further information on the tax expenditures identified in Table 5.1, including legislative references and, in some cases, an expanded description and discussion of the estimates. Tax expenditure reference codes from the *2001 Tax Expenditures Statement* are also reported to facilitate comparison.

A Personal income tax benchmark

A1 Exemption of official salaries and ex-Australian income of the Governor-General and Governor of any State

Introduced before 1985. Legislative reference: Section 51-15 ITAA97. 2001 TES reference code: A1.

The official salaries and ex-Australian income of the Governor-General and State Governors are no longer exempt from income tax taking effect from appointments after 28 June 2001.

A2 Deduction for Federal, State and Territory government candidates' election expenses

Introduced before 1985. Legislative reference: Section 25-60 ITAA97. 2001 TES reference code: A2.

A3 Deduction of up to $1000 for local government candidates' election expenses

Introduced in 1985. Legislative reference: Section 74A ITAA36. 2001 TES reference code: A3.

A4 Exemption of official salary and emoluments of officials of prescribed international organisations

Introduced before 1985. Legislative reference: *International Organisations (Privileges and Immunities) Act 1963*. 2001 TES reference code: A4.

A5 Exemption of income of visitors who are representatives of a foreign press organisation

Introduced before 1985. Legislative reference: Section 23(c)(v) ITAA36. 2001 TES reference code: A5.

A6 Total or partial exemptions of income earned by Australians working overseas

Introduced before 1985. Legislative reference: Sections 23AF and 23AG ITAA36. 2001 TES reference code: A6.

Income earned by Australians working overseas on approved projects is exempt from income tax in Australia if the individual has been engaged in a continuous period of overseas service for 91 days or more.

A7 Exemption from income tax for non-residents providing advice to government or as a member of a Royal Commission

Introduced before 1985. Legislative reference: Section 23(b) ITAA36. 2001 TES reference code: A7.

This applies to remuneration paid by the government of the Commonwealth or of a State.

A8 Exemption of Australian-sourced income earned by Government representatives visiting Australia or by their official staff

Introduced before 1985. Legislative reference: Section 23(c)(iii) ITAA36. 2001 TES reference code: A8.

A9 Exemption of income of residents of Norfolk Island

Introduced before 1985. Legislative reference: Section 24G ITAA36. 2001 TES reference code: A9.

The exemption of income of Norfolk Island residents reflects the fact that the island is basically self-supporting. The only contributions by the Commonwealth are of a one-off nature, eg a dollar for dollar grant for a water and sewerage scheme.

A10 Exemption of pay and allowances for part-time members of Australian Defence Force Reserves

Introduced before 1985. Legislative reference: Section 51-5 ITAA97. 2001 TES reference code: A10.

A11 Exemption of certain allowances and bounties payable to Australian Defence Force personnel

Introduced before 1985. Legislative reference: Section 51-5 ITAA97. 2001 TES reference code: A11.

These allowances and bounties include living-out allowances, child-education allowances, separation allowances, living-away-from-home allowances, retention-of-lodging allowances and re-engagement bounty.

In the case of living-away-from-home allowances and living allowances paid to Australian Defence Force (ADF) personnel, the benchmark is defined to be compensation for the actual additional cost faced by employees in living away from their homes. Accordingly, the tax expenditure relates solely to any excess over this component.

A12 Exemption of the value of rations and quarters supplied without charge to Australian Defence Force personnel

Introduced before 1985. Legislative reference: Section 23(t)(iv) ITAA36. 2001 TES reference code: A12.

The value of rations and quarters supplied without charge to defence force personnel is exempt from income tax. However, since 1986-87 certain allowances have been subject to FBT.

A13 Exemption of pay and allowances earned in Australia by foreign forces

Introduced before 1985. Legislative reference: Section 23(u) ITAA36. 2001 TES reference code: A13.

This does not apply if the remuneration is paid by the Australian Government.

A14 Exemption of compensation for loss of pay and allowances paid to Australian Defence Force Reserve personnel

Announced in 2001. Legislative reference: Section 51-33 ITAA97 2001 TES reference code: A14.

Payments received by ADF Reserve personnel to compensate for the loss of pay and allowances where the Reserve Force member is forced to resign from the Reserve Forces due to injuries sustained whilst serving are to be exempt from income tax. This exemption is to apply to assessments for the 1996-97 and later years of income.

A15 Exemption of compensation for loss of deployment allowance paid to Australian Defence Force members

Announced in 2001. Legislative reference: Section 51-32 ITAA97 2001 TES reference code: A15.

Payments received by ADF personnel to compensate for the loss of a deployment allowance where the deployment allowance ceases to be paid due to injuries sustained in a warlike situation are to be exempt from income tax. This exemption is to apply to assessments for the 1996-97 and later years of income.

A16 Exemption of pay and allowances earned by members of the Australian Defence Force in an area prescribed by regulation

Introduced before 1985. Legislative reference: Sections 23AC and 23AD ITAA36. 2001 TES reference code: A16.

The increase in the estimate in 1999-00 is associated with the deployment of ADF members to East Timor. Estimates from 2000-01 reflect ongoing deployment of ADF members to East Timor.

A17 Exemption of some payments to civilian personnel in service with an armed force of the United Nations

Introduced before 1985. Legislative reference: Sections 23AB(5); 23AB(10) and 23AB(6) ITAA36. 2001 TES reference code: A17.

These include: compensation for incapacity, impairment or death (Section 23AB(5)); relief from unpaid tax by such personnel in the event of death (Section 23AB(10)); and partial exemption of living allowances (Section 23AB(6)).

A18 Tax offsets for Australian Defence Force personnel serving overseas

Introduced before 1985. Legislative reference: Section 79B ITAA36. 2001 TES reference code: A18.

A19 Exemption from the Medicare levy for Australian Defence Force members

Introduced before 1985. Legislative reference: Section 251U ITAA36. 2001 TES reference code: A19.

A20 Exemption of income earned by visitors assisting in the defence of Australia

Introduced before 1985. Legislative reference: Section 23(v) ITAA36. 2001 TES reference code: A20.

A21 Exemption of Disturbance Allowance for Australian Defence Force members

Introduced before 1985. Legislative reference: Section 51-5 ITAA97. 2001 TES reference code: A21.

A22 Exemption of Scholarship Allowance payable to Australian Defence Force members

Introduced before 1985. Legislative reference: Section 51-5 ITAA97. 2001 TES reference code: A22.

The Scholarship Allowance is payable to an ADF member whose child forfeits a scholarship or bursary because of the member's posting to another locality.

A23 Exemption of income from certain Commonwealth educational scholarships or forms of assistance

Introduced before 1985. Legislative reference: Sections 23(ya) and 23(zaa) ITAA36. 2001 TES reference code: A23.

Income derived by way of scholarships, allowances, bursaries or other education allowances provided by the Commonwealth to an overseas student (Section 23(ya)) or as part of a Commonwealth scheme to assist secondary education or the education of isolated children (Section 23(zaa)) is exempt from income tax.

A24 Exemption of income from other scholarships or forms of assistance in limited circumstances

Introduced before 1985. Legislative reference: Section 23(z) ITAA36. 2001 TES reference code: A24.

This exemption does not apply where: payments are received from a person or authority upon condition that they will become, or continue to be, an employee of that person or authority or enter into or continue to be a party to a contract for labour; or an amount received under a scholarship where the scholarship is not provided principally for educational purposes; or a Commonwealth education or training payment or an education entry payment provided under the *Social Security Act 1991*.

A25 Exemption of Australian income of visiting representatives of educational, scientific, religious or philanthropic societies and associations

Introduced before 1985. Legislative reference: Section 23(c)(iv) ITAA36. 2001 TES reference code: A25.

This exemption relates to income derived from individuals visiting Australia for the purpose of attending international or Commonwealth conferences in Australia or carrying on research.

A26 Exemption for grants from the Australian-American Educational Foundation

Introduced before 1985. Legislative reference: Section 51-10 ITAA97. 2001 TES reference code: A26.

Grants from the Foundation are exempt if they are from funds made available to the Foundation under the agreement establishing it.

A27 Medical expenses tax offset

Introduced before 1985. Legislative reference: Section 159P ITAA36. 2001 TES reference code: A27.

Qualifying medical expenses over a threshold, paid by a taxpayer in a year of income in respect of themselves and any dependants, less any amount paid to them or entitled to be paid in respect of those expenses by government or a society, association or fund, is allowable as a tax offset to the extent of 20 per cent of the excess above that threshold.

From the 2002-03 income year, the threshold above which the medical expenses offset becomes payable will be increased from $1,250 to $1,500.

A28 Exemption from the Medicare levy for residents with a taxable income below a threshold

Introduced before 1985. Legislative reference: Section 7 *Medicare Levy Act 1986*. 2001 TES reference code: A28.

A29 Medicare levy exemption for non-residents, repatriation beneficiaries, foreign government representatives and certain residents

Introduced in 1985. Legislative reference: Section 251U ITAA36. 2001 TES reference code: A29.

The latter category comprises residents of Norfolk Island, the Territory of Cocos (Keeling) Islands and the Territory of Christmas Island.

A30 Income-tested tax offset for private health insurance

Introduced in 1997. Legislative reference: Subdivision 61G, Sections 61-300 to 61-320 ITAA97. 2001 TES reference code: A30.

This measure had effect from 1 July 1997 to 31 December 1998 and has now been replaced by the Private Health Insurance 30 per cent tax offset.

A31 30 per cent tax offset for expenditure on private health insurance; Exemption of private health insurance tax offset/benefit, including expense equivalent

Introduced in 1998. Legislative reference: Subdivision 61G, Sections 61-330 to 61-345 ITAA97. 2001 TES reference code: A31.

The 30 per cent private health insurance tax offset can be claimed as either a direct payment (to the insurer or claimed from the Health Insurance Commission) or through the tax system as a tax offset. From 2001-02 all claims are recorded in Budget documentation as an expense. Prior to 2001-02 the component that is claimed as a tax offset is recorded in the TES as a tax expenditure.

A further tax expenditure arises for the value of the income tax exemption for both the expense and expense equivalent (tax offset).

The value of these two separate components are both listed in Table 5.1.

A32 Medicare levy surcharge

Introduced in 1997. Legislative reference: Sections 8B-8C *Medicare Levy Act 1986*. 2001 TES reference code: A32.

A Medicare levy surcharge of one percentage point has applied since 1 July 1997 to single individuals with taxable incomes in excess of $50,000 and couples and families with combined taxable incomes in excess of $100,000 who do not have adequate private health insurance. The surcharge is treated as a negative tax expenditure.

A33 Tax offset for sole parents

Introduced before 1985. Legislative reference: Section 159K ITAA36. 2001 TES reference code: A33.

Tax offset for a sole parent who has the sole care of a dependent child under 16 or a student.

Sole parent tax offset was replaced with Family Tax Benefit, Part B on 1 July 2000.

A34 Tax offset for taxpayers supporting a dependent relative, parent-in-law, or invalid relative

Introduced before 1985. Legislative reference: Section 159J ITAA36. 2001 TES reference code: A34.

A35 Tax offset for recipients of taxable repatriation or social security pensions; or unemployment, sickness or special benefits

Introduced before 1985. Legislative reference: Sections 160AAA(1) and 160AAA(2) ITAA36. 2001 TES reference code: A35.

The Beneficiary Tax offset ensures that recipients with no taxable income during the year other than their benefit do not have a tax liability.

From 2000-01, the pensioner tax offset for pensioners over age pension age is included in the Senior Australian's Tax Offset (A42). The pensioner tax offset for pensioners below age pension age was increased to $1,710 for individuals and $1,245 for each member of a couple with effect from the 2001-02 income year.

A36 Tax offset for housekeeper who cares for a prescribed dependant of the taxpayer

Introduced before 1985. Legislative reference: Section 159L ITAA36. 2001 TES reference code: A36.

The Housekeeper Tax offset is available to a taxpayer in limited circumstances where a housekeeper is engaged in keeping house for the taxpayer and caring for a dependant. This tax expenditure previously included the Dependent Spouse Tax offset (with child) which was replaced by Family Tax Benefit, Part B on 1 July 2000.

A37 Tax offset for dependent spouse

Introduced in 1976. Legislative reference: Section 159J ITAA36. 2001 TES reference code: A37.

This applies where there are no dependant children.

A38 Tax offset for child-housekeeper

Introduced before 1985. Legislative reference: Section 159J(1B) ITAA36. 2001 TES reference code: A38.

A39 Tax offset for low income earners

Introduced in 1993. Legislative reference: Section 159N ITAA 1936. 2001 TES reference code: A39.

A40 Exemption of certain social security and repatriation payments

Introduced before 1985. Legislative reference: Sections 52-5 to 52-40 ITAA97. 2001 TES reference code: A40.

Certain social security pensions, benefits and allowances, and certain repatriation pensions paid under the *Social Security Act 1991*, and the *National Health Act 1953*, are exempt from income tax.

This tax expenditure previously included Family Allowance, which was replaced with Family Tax Benefit, Part A on 1 July 2000.

A41 Exemption of rent subsidy payments under the Commonwealth/State mortgage and rent relief schemes

Introduced before 1985. Legislative reference: Section 23(ke) ITAA36. 2001 TES reference code: A41.

A42 Senior Australians' Tax Offset

Introduced in 1996. Legislative reference: Section 160AAAA and Section 160AAAB ITAA36. 2001 TES reference code: A42.

The Senior Australians' Tax Offset (SATO) (formerly the low income aged persons tax offset) was increased to $2,230 for individuals and $1,602 for each member of a couple with effect from the 2000-01 income year. The SATO also includes pensioners over age pension age who previously received the pensioner tax offset (formerly included in A35).

A43 Family Tax Assistance, Parts A and B

Introduced in 1996. Legislative reference: Part II, Division 5, Section 20A-20V of *Income Tax Rates Act 1986*. 2001 TES reference code: A43.

The Family Tax Assistance, Parts A and B were replaced with Family Tax Benefit, Parts A and B on 1 July 2000.

A44 Tax offset for community development employment project (CDEP) participants

Introduced in 1998. Legislative reference: Section 160AAA ITAA36. 2001 TES reference code: A44.

A45 Family Tax Benefit, Parts A and B (tax offset); Exemption of Family Tax Benefit, Parts A and B, including expense equivalent

Introduced in 2000. Eligibility and rate provisions for Family Tax Benefit, Parts A and B are contained under the *A New Tax System (Family Assistance) Act 1999*. Legislative reference: Section 52-150 ITAA97. 2001 TES reference code: A45.

The Family Tax Benefit, Part A replaced two Family Allowance payments, Family Tax Payment, Part A and Family Tax Assistance, Part A on 1 July 2000.

The Family Tax Benefit, Part B replaced Basic Parenting Payment, Guardian Allowance, Family Tax Payment, Part B, Dependant Spouse Tax Offset (with children), Sole Parent Tax Offset and Family Tax Assistance, Part B on 1 July 2000.

The Family Tax Benefit can be claimed as either a direct payment or through the tax system as a tax offset. From 2001-02 all claims are recorded in Budget documentation as an expense. Prior to 2001-02 the component that is claimed as a tax offset is recorded in the TES as a tax expenditure.

A further tax expenditure arises for the value of the income tax exemption for both the expense and expense equivalent (tax offset).

The value of these two separate components are both listed in Table 5.1.

A46 Exemption of Child Care Benefit

Introduced in 2000. Legislative reference: Section 52-150 ITAA97. 2001 TES reference code: A46.

Child Care Benefit is exempt from income tax. Child Care Benefit replaced Childcare Tax Offset and Childcare Assistance on 1 July 2000.

A47 Exemption of one-off savings bonus payments to senior Australians

Introduced in 2000. Legislative reference: Section 52-130 ITAA97. 2001 TES reference code: A47.

The Aged Persons Savings Bonus and the Self-Funded Retirees Supplementary Bonus made to senior Australians under the *A New Tax System (Bonuses for Older Australians) Act 1999* are both exempt from income tax.

As these payments are one-off in nature, this tax expenditure will not be ongoing.

A48 Exemption of certain war-related payments and pensions

Introduced before 1985. Legislative reference: Section 52-60 to 52-110 ITAA97. 2001 TES reference code: A48.

Repatriation pensions, or pensions, allowances and payments of a similar nature, and certain war-related payments and pensions are exempt from income tax.

A49 Exemption of compensation paid by Federal Republic of Germany for Nazi persecution

Introduced before 1985. Legislative reference: Section 23(kc) ITAA36. 2001 TES reference code: A49.

A50 Exemption of pensions, annuities or allowances paid by certain foreign governments for persecution

Introduced before 1985. Legislative reference: Section 23(kca) ITAA36. 2001 TES reference code: A50.

A51 Income tax exemption for certain pensions received by Papua New Guinea (PNG) residents

Introduced in 1985. Legislative reference: Section 23(kd) ITAA36. 2001 TES reference code: A51.

Pensions received from Australia by PNG residents are exempt providing PNG gives a reciprocal exemption.

A52 Exemption of one-off payment to older Australians

Introduced in 2001. Legislative reference: Section 52-10 ITAA97. 2001 TES reference code: A52.

The $300 one-off payment provided to people of age pension age who receive income support or are outside the taxation and social security system is exempt from income tax.

As these payments are one-off in nature, this tax expenditure will not be ongoing.

A53 Exemption of the baby bonus

Introduced in 2002. Legislative reference: Section 61-350 ITAA97. 2001 TES reference code: na.

The baby bonus is payable as a refundable tax offset to eligible taxpayers in recognition of the loss of income that generally follows the arrival of a family's first child.

The tax expenditure from the baby bonus arises from the value of the income tax exemption.

A54 Zone tax offsets

Introduced before 1985. Legislative reference: Section 79A ITAA36. 2001 TES reference code: A53.

An individual taxpayer resident in Zone A or Zone B or the special areas of either zone is entitled to a tax offset.

A55 Concessional rates of tax for abnormal receipts

Introduced before 1985. Legislative reference: Division 405 ITAA97. 2001 TES reference code: A54.

Concessional rates of tax are available for abnormal receipts derived by authors, composers, dramatists, artists, sportspersons and inventors to lessen the impact of fluctuations on the marginal tax rates of these taxpayers.

A56 Deductibility of union dues and subscriptions to business associations

Introduced before 1985. Legislative reference: Section 25-55 ITAA97. 2001 TES reference code: A55.

A57 Deferral of tax on share discounts and exemption of share discounts received by an employee under an approved employee share acquisition scheme

Introduced before 1995. Legislative reference: Division 13A ITAA36. 2001 TES reference code: A56.

The deferral is for up to 10 years.

A58 Tax deferral advantage of subtracting undeducted purchase price component of pension or annuity from assessable income

Introduced before 1985. Legislative reference: Section 23AA ITAA36. 2001 TES reference code: A57.

Assessable income of a pension or annuity stream is determined after subtracting the undeducted purchase price (UPP) component of that income stream. The UPP of a superannuation pension or annuity is apportioned evenly over the term of the income stream payments, providing a tax deferral advantage.

A59 Concession for venture capital managers

Announced in 2002. 2001 TES reference code: na.

The 'carried interest' (a performance based share of partnership profits paid to venture capital fund managers by investors) will be taxed in the same way as capital gains in the hands of individual venture capital fund managers. This will provide individual managers with the benefit of a 50 per cent discount on their carried interest.

Concessions under the substantiation provisions for employment-related expenses [A60-A63]:

A60 *A reasonable overtime meal allowance*

Introduced in 1986. Legislative reference: Sections 82KT-82KZB ITAA36. 2001 TES reference code: A58.

A61 *Expenses on accommodation, meals and incidental costs of travel in Australia*

Introduced in 1986. Legislative reference: Sections 82KT-82KZB ITAA36. 2001 TES reference code: A59.

A62 *Expenses which do not exceed the amount of certain award transport allowances*

Introduced in 1986. Legislative reference: Sections 82KT-82KZB ITAA36. 2001 TES reference code: A60.

A63 *Alternatives to the actual expenses method of substantiating car expenses*

Introduced in 1986. Legislative reference: Sections 82KT-82KZB ITAA36. 2001 TES reference code: A61.

A64 Tax offset on certain payments of income received in arrears

Introduced in 1986. Legislative reference: Sections 159ZR-159ZRD ITAA36. 2001 TES reference code: A62.

Tax offsets are available for certain payments of income received in arrears, including lump sum payments of workers or accident compensation, and social security and other benefits, received on or after 1 July 1986.

A65 Deduction for gifts other than trading stock to approved donees

Introduced before 1985. Legislative reference: Sections 30-15 to 30-105 ITAA97. 2001 TES reference code: A63.

A66 Deduction for gifts of trading stock to approved donees

Introduced before 1985. Legislative reference: Section 78(12) ITAA36. 2001 TES reference code: A64.

This applies where the deduction is the value of stock included in the taxpayer’s assessable income.

A67 Concession for post-judgement interest awards in personal injury compensation cases

Introduced in 1999. Legislative reference: Section 51-55 ITAA97. 2001 TES reference code: A65.

A68 Tax offset of interest on certain government securities

Introduced before 1985. Legislative reference: Section 160AB ITAA36. 2001 TES reference code: A66.

A tax offset is provided in relation to interest on certain government or semi-government securities issued before 1 November 1968.

A69 Exemption from income tax of one-off payments to former civilian internees and detainees of the Japanese

Introduced in 2001. Legislative reference: Section 11 of the *Compensation (Japanese Internment) Act 2001*. 2001 TES reference code: A67.

The one-off ex gratia payment of $25,000 made to former civilian internees and detainees of the Japanese in compensation for their pain and suffering in World War II is exempt from income tax.

A70 Exemption for structured settlement annuities

Announced in 2001. 2001 TES reference code: A68.

This measure provides a tax exemption for income from qualifying annuities that are purchased for the benefit of seriously injured people as compensation for their injuries.

A71 Immediate deduction for low-value depreciating assets not used in business

Introduced in 2001. Legislative reference: Subsection 40-80(2) ITAA97. 2001 TES reference code: na.

Depreciating assets costing less than $300 that are used predominantly for the purpose of producing assessable income that is not income from carrying on a business are immediately deductible. This measure was legislated in 2001 and took effect from 1 July 2000 to continue the treatment available before this date.

A72 Deduction for payment of Incurred-But-Not-Reported levy

Announced in 2002. 2001 TES reference code: na.

The Government will provide a specific deduction from income tax for all medical practitioners (including retirees) who are required to pay the Incurred-But-Not-Reported levy.

B Retirement benefits benchmark

B1 Concessional treatment of superannuation

Introduced before 1985. Legislative reference: Part IX ITAA36. 2001 TES reference code: B1.

The concessional treatment of superannuation contributions, fund income and unfunded benefits paid is the largest single tax expenditure. Details of the scope and interpretation of the estimates are set out in Appendix B.

B2 Concessional treatment of non-superannuation termination benefits

Introduced before 1985. Legislative reference: Division 2, Sub-division AA ITAA36. 2001 TES reference code: B2.

Prior to the 2000 TES this was part of B1, but is now reported separately.

B3 Capped taxation rate applying to unused recreation and long service leave

Introduced before 1985. Legislative reference: Sections 26AC, 26AD ITAA36. 2001 TES reference code: B3.

Taxation of lump sums paid after 15 August 1978 for unused annual leave or for unused long service leave: (i) in respect of service before 18 August 1993 is capped at 30 per cent plus the Medicare levy (Division 17); and (ii) in respect of service on or after 18 August 1993 under circumstances of bona fide redundancy, early retirement scheme or invalidity is capped at 30 per cent plus the Medicare levy (Division 17).

B4 Taxation of 5 per cent of unused long service leave accumulated by 15 August 1978

Introduced before 1985. Legislative reference: Sections 26AD ITAA36. 2001 TES reference code: B4.

Reduced taxation applies to unused long service leave attributable to service up to 15 August 1978.

B5 CGT exemption on the sale of a small business at retirement

Introduced in 1997. Legislative reference: Division 152 ITAA97. 2001 TES reference code: B5.

Capital gains arising from the sale of active small business assets are exempt from capital gains tax, up to a lifetime limit of $500,000, where the proceeds of the sale are used for retirement.

B6 CGT discount for complying superannuation funds

Introduced in 1999. Legislative reference: Section 115-10 and paragraph 115-100(b) of ITAA97. 2001 TES reference code: B6.

Complying superannuation and related funds that dispose of an asset that they have held for at least one year only include two thirds of any nominal capital gain in their assessable income. For assets acquired prior to 21 September 1999, and held for at least one year, the fund may instead choose to include the whole difference between the disposal price and the frozen indexed cost base as at 30 September 1999.

B7 Small business 15 year retirement CGT exemption

Introduced in 1999. Legislative reference: Division 152 ITAA97. 2001 TES reference code: B7.

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. This exemption is only available if the taxpayer retires, having reached the age of 55 or is permanently incapacitated.

B8 CGT roll-over relief for changes to trust deeds of Approved Deposit Fund and superannuation funds

Introduced in 1994. Legislative reference: Subdivision 126-C ITAA97. 2001 TES reference code: B8.

CGT roll-over relief is provided where a complying Approved Deposit Fund (ADF) converts to a complying superannuation fund, or where a complying superannuation fund or a complying ADF redesigns its trust deed.

B9 Savings tax offset

Introduced in 1998. Legislative reference: Subdivision 61-A, section 61-50 to 61-70 (repealed) ITAA97. 2001 TES reference code: B9.

A tax offset for savings was introduced in 1998, to a value in 1998-99 of 7.5 per cent of undeducted superannuation contributions and/or net personal income from savings and investment, with a maximum rebate of $225. The rebate applied only to that one tax year.

C Fringe benefits tax benchmark

C1 Benefits provided by certain international organisations

Introduced in 1986. Legislative reference: Section 55 FBTAA86. 2001 TES reference code: C1.

FBT exemption for benefits provided by certain international organisations.

C2 Loan benefits on war service home loans

Introduced in 1986. Legislative reference: Section 6 of *Fringe Benefits Tax (Application to the Commonwealth) Act 1986*. 2001 TES reference code: C2.

FBT exemption for loan benefits on war service home loans provided under the *Defence Service Homes Act 1918.*

C3 Exclusion from reporting requirement for certain benefits provided to Australian Defence Force personnel

Introduced in 1999. Legislative reference: *Fringe Benefits Tax Regulations 1992*. 2001 TES reference code: C3.

C4 Exclusion from reporting for certain elements of the Overseas Living Allowance

Introduced in 1999. Legislative reference: *Fringe Benefits Tax Regulations 1992*. 2001 TES reference code: C4.

The component of the Commonwealth Overseas Living Allowance that compensates personnel for the additional costs associated with living at overseas posts is excluded from the fringe benefits reporting requirement.

C5 Exclusion from reporting of benefits associated with Australian Defence Force removals

Introduced in 2001. Legislative reference: Fringe Benefits Tax Regulations 1992. 2001 TES reference code: C5.

Fringe benefits associated with the removal or storage of household effects of Australian Defence Force members are excluded from the fringe benefits reporting requirements where the removal is Defence-directed.

C6 Education costs for children of employees posted overseas

Introduced in 1986. Legislative reference: Section 65A FBTAA86. 2001 TES reference code: C6.

FBT reduction of the taxable value for education costs paid by employers for children of employees posted overseas.

C7 Disregard of possible application of the $250 threshold for deductibility for some self-education expenses

Introduced in 1986. Legislative reference: Section 24(1) FBTAA86. 2001 TES reference code: C7.

To be applied when determining the 'otherwise deductible' rule for expense payment benefits of this kind.

C8 Benefits provided by public hospitals to their employees

Introduced in 1986. Legislative reference: Section 57A FBTAA86. 2001 TES reference code: C8.

An FBT exemption on up to $17,000 of grossed up taxable value per employee is provided to employees of public hospitals, if they are employed by a State or Territory health authority rather than the institution itself, and to employees of not-for-profit hospitals.

Prior to 2000-01, the exemption was not capped.

C9 Employee/family travel costs associated with overseas medical treatment

Introduced in 1986. Legislative reference: Section 58L FBTAA86. 2001 TES reference code: C9.

FBT exemption for travel costs of employees and their families in foreign countries to obtain medical treatment.

C10 Safety award benefits up to $200 per year per employee

Introduced in 1986. Legislative reference: Section 58R FBTAA86. 2001 TES reference code: C10.

FBT exemption for providing safety award benefits up to a value of $200 per year per employee.

C11 Recreational/child-care facilities on an employer's premises

Introduced in 1986. Legislative reference: Section 47(2) FBTAA86. 2001 TES reference code: C11.

FBT exemption for provision of recreational or child-care facilities on an employer's premises.

C12 Employer contributions to secure child-care places in certain centres

Introduced in 1986. Legislative reference: Section 47(8) FBTAA86. 2001 TES reference code: C12.

FBT exemption for employer contributions to guarantee places for employees' children in certain child-care centres.

C13 Benefits provided by public benevolent institutions (PBIs) (excluding public hospitals) to employees

Introduced in 1986. Legislative reference: Section 57A(1) FBTAA86. 2001 TES reference code: C13.

FBT exemption on up to $30,000 of grossed up taxable value per employee provided to employees of PBIs, excluding public hospitals.

Prior to 2000-01, the exemption was not capped.

C14 Accommodation, fuel and meals for live-in employees caring for the elderly or disadvantaged

Introduced in 1986. Legislative reference: Sections 58 and 58U FBTAA86. 2001 TES reference code: C14.

FBT exemption for accommodation, fuel and meals for live-in employees caring for the elderly or disadvantaged.

C15 Employer provided property/facilities for immediate relief of employees in times of emergency

Introduced in 1986. Legislative reference: Section 58N FBTAA86. 2001 TES reference code: C15.

FBT exemption for employer-provided property and facilities for immediate relief of employees in times of emergency.

C16 Housing benefits and residential fuels in remote areas

Introduced in 1986. Legislative reference: Sections 58ZC and 59(1) FBTAA86. 2001 TES reference code: C16.

FBT exemption for remote area housing benefits and FBT reduction of the taxable value for residential fuel.

From 2000-01, the estimate reflects the extension of an FBT exemption for remote area housing benefits to all employers. Previously, an FBT reduction of the taxable value was only available for remote area housing benefits, with the exemption being provided only to primary producers.

C17 Exemption for housing provided by certain employers in regional areas

Introduced in 2000. Legislative reference: Section 58ZC FBTAA86. 2001 TES reference code: C17.

FBT exemption for housing benefits provided by charities, public hospitals that are PBI's, non-profit hospitals and police services to their employees in regional areas.

C18 Exclusion from reporting for regional housing benefits provided by certain employers in regional areas

Introduced in 2000. Legislative reference: *Fringe Benefits Tax Regulations 1992*. 2001 TES reference code: C18.

Housing benefits provided by charities, non-profit hospitals and police services in regional areas are excluded from the fringe benefits reporting requirement for FBT years commencing from 1 April 1999.

C19 Discount on interest or purchase price for remote area housing purchase assistance

Introduced in 1986. Legislative reference: Section 60 FBTAA86. 2001 TES reference code: C19.

FBT reduction of the taxable value to 50 per cent of the discount on interest or purchase price for remote area housing purchase assistance.

C20 Free or discounted commuter travel to employees where the employer carries on a business of providing public transport

Introduced in 1986. Legislative reference: Section 47(1) FBTAA86. 2001 TES reference code: C20.

FBT exemption for providing free or discounted commuter travel to employees where the employer carries on a business of providing public transport.

The increase in the estimates from 1999-2000 to 2000-01 reflects the new GST-inclusive gross-up formula.

C21 Employee taxi travel arriving at or leaving from place of work

Introduced in 1997. Legislative reference: Section 58Z(1) FBTAA86. 2001 TES reference code: C21.

FBT exemption for employee taxi travel arriving at or leaving from place of work.

C22 FBT exemption for free travel to and from duty by police officers on public transport

Introduced in 2000. Legislative reference: Section 47(1A) FBTAA86. 2001 TES reference code: C22.

C23 Discounted valuation of employee stand-by travel for airline employees and travel agents

Introduced in 1986. Legislative reference: Section2 32 and 33 FBTAA86. 2001 TES reference code: C23.

The FBT valuation of stand-by travel for airline employees and travel agents is 37.5 per cent of the full fare.

C24 FBT exemption for certain long service awards for more than 15 years of service

Introduced in 1986. Legislative reference: Section 58Q FBTAA86. 2001 TES reference code: C24.

FBT exemption for long service awards for service of more than 15 years, up to a value of $500 per employee.

C25 Food and accommodation provided to employees training under the Australian Traineeship Scheme

Introduced in 1986. Legislative reference: Section 58S FBTAA86. 2001 TES reference code: C25.

FBT exemption for food and accommodation provided to employees training under the Australian Traineeship Scheme.

C26 Certain relocation and recruitment expenses

Introduced in 1986. Legislative reference: Sections 58A-D and F FBTAA86. 2001 TES reference code: C26.

FBT exemption for providing certain relocation and recruitment expenses.

C27 Compensation related benefits, occupational health and counselling services and some training courses

Introduced in 1986. Legislative reference: Sections 58J, K and M FBTAA86. 2001 TES reference code: C27.

FBT exemption for providing benefits in respect of compensable work-related trauma, in-house health care facilities, occupational health and counselling services and some training courses.

C28 Discounted valuation of certain relocation and recruitment expenses

Introduced in 1986. Legislative reference: Sections 61B-E FBTAA86. 2001 TES reference code: C28.

FBT reduction in the taxable value of certain relocation and recruitment expenses.

C29 Reimbursement of car expenses incurred with occupational health and counselling services and some training courses

Introduced in 1986. Legislative reference: Section 61F FBTAA86. 2001 TES reference code: C29.

FBT reduction in the taxable value of benefits in the form of a reimbursement of car expenses on cents per kilometre basis.

C30 Exemption for certain loan benefits

Introduced in 1986. Legislative reference: Section 17 FBTAA86. 2001 TES reference code: C30.

FBT exemption for benefits on certain loans where the interest paid is above the declared rate. The term 'declared rate' (also referred to as the 'benchmark rate') is used to refer to the rate declared by the Commissioner of Taxation for the purpose of determining FBT liability for loan benefits.

C31 Discounted valuation of certain loan benefits

Introduced in 1986. Legislative reference: Section 19 FBTAA86. 2001 TES reference code: C31.

FBT undervaluation of benefits on certain loans where the interest paid is below the declared rate. The term 'declared rate' (also referred to as the 'benchmark rate') is used to refer to the rate declared by the Commissioner of Taxation for the purpose of determining FBT liability for loan benefits.

C32 Application of statutory formula to value car benefits

Introduced in 1986. Legislative reference: Section 9 FBTAA86. 2001 TES reference code: C32.

FBT undervaluation of benefits resulting from the statutory formula available to value car benefits.

The reduction in the estimate for 2000-01 reflects the reduced cash-out value associated with the lower personal tax rates under *The New Tax System.*

C33 Record keeping for employers submitting a return below a threshold

Introduced in 1998. Legislative reference: Section 135(A) FBTAA86. 2001 TES reference code: C33.

FBT exemption for record keeping for employers (other than a government body or tax-exempt body) submitting a return in a base year with taxable benefits below a threshold and thereafter not significantly altering the amount or kind of benefits provided in each year.

C34 Car parking on small business premises

Introduced in 1997. Legislative reference: Section 58GA FBTAA86. 2001 TES reference code: C34.

For the purposes of the exemption, small business employers are taxpayers (other than government bodies and listed public companies and their subsidiaries) with gross incomes of less than $10 million.

C35 Rebate of FBT for some non-government, non-profit organisations

Introduced in 1994. Legislative reference: Section 65J FBTAA86. 2001 TES reference code: C35.

The reduction in the estimates in 2000-01 reflects the lower personal tax rates under *The New Tax System*, and the further reduction from 2001-02 onwards reflects the imposition of a $30,000 per employee cap.

C36 Benefits in relation to certain compassionate travel of employees

Introduced in 1986. Legislative reference: Section 58LA FBTAA86. 2001 TES reference code: C36.

FBT exemption for benefits provided by employers in relation to certain compassionate travel of employees.

C37 Fringe benefits provided by religious institutions

Introduced in 1986. Legislative reference: Section 57 FBTAA86. 2001 TES reference code: C37.

FBT exemption for fringe benefits provided to religious practitioners who work in religious institutions.

C38 Staff accommodation at religious institutions and meals provided in religious houses

Introduced in 1986. Legislative reference: Section 58T FBTAA86. 2001 TES reference code: C38.

FBT exemption for staff accommodation at religious institutions and meals provided in religious houses to domestic employees.

C39 Provision of food and drink in certain circumstances

Introduced in 1986. Legislative reference: Sections 54 and 58V FBTAA86. 2001 TES reference code: C39.

Food and drink provided to employees is exempt from FBT in certain circumstances.

C40 Discounted valuation of arm's length transaction price for in-house property and residual fringe benefits

Introduced in 1986. Legislative reference: Sections 42(1), 48 and 49 FBTAA86. 2001 TES reference code: C40.

FBT reduction of the taxable value to 75 per cent of the arm's length transaction price for in-house property and residual fringe benefits.

C41 Airline transport fringe benefits and in-house fringe benefits up to a threshold

Introduced in 1986. Legislative reference: Section 62 FBTAA86. 2001 TES reference code: C41.

FBT exemption for up to $500 per employee of the taxable value of airline transport fringe benefits and free or discounted goods or services of a kind ordinarily provided to employers' customers or clients.

C42 Board fringe benefits

Introduced in 1986. Legislative reference: Section 36 FBTAA86. 2001 TES reference code: C42.

The FBT valuation of board fringe benefits is $2 per meal, or $1 per meal if the person is under the age of 12.

C43 Certain car parking fringe benefits

Introduced in 1993. Legislative reference: Section 58G FBTAA86. 2001 TES reference code: C43.

FBT exemption for certain car parking fringe benefits, including benefits provided by employers who are non-profit scientific organisations, charitable institutions, religious institutions or public education institutions.

An exemption for all car parking benefits was available up to 1 July 1993.

C44 Benefits resulting from valuation arrangements for car parking

Introduced in 1993. Legislative reference: Section 39A FBTAA86. 2001 TES reference code: C44.

FBT undervaluation of benefits resulting from valuation arrangements for car parking.

C45 Discounted valuation for holiday travel for employees posted overseas

Introduced in 1986. Legislative reference: Section 61A FBTAA86. 2001 TES reference code: C45.

FBT reduction in the taxable value of holiday travel for employees posted overseas.

C46 Transport for oil rig and remote area employees in certain circumstances

Introduced in 1986. Legislative reference: Section 47(7) FBTAA86. 2001 TES reference code: C46.

FBT exemption in certain circumstances for transport for oil rig and remote area employees.

C47 Discounted valuation of remote area holiday benefits

Introduced in 1986. Legislative reference: Sections 60A and 61 FBTAA86. 2001 TES reference code: C47.

FBT reduction in taxable value for remote area holiday benefits, including those given to the employee's family.

C48 Minor benefits

Introduced in 1986. Legislative reference: Section 58P FBTAA86. 2001 TES reference code: C48.

FBT exemption for minor benefits, for example benefits of less than $100 that are provided infrequently and/or are difficult to value.

C49 Private use of business property consumed on business premises

Introduced in 1986. Legislative reference: Sections 41 and 47(3) FBTAA86. 2001 TES reference code: C49.

FBT exemption for private use of business property consumed on business premises and principally for use in connection with business operations.

C50 Allowances and accommodation benefits

Introduced in 1986. Legislative reference: Sections 21, 31, 47(5), 58E and 63 FBTAA86. 2001 TES reference code: C50.

FBT exemption for benefits such as allowances or components of allowances, accommodation, food and household goods provided to employees while they are living away from home in order to perform duties of employment.

C51 Minor and infrequent private use of company car

Introduced in 1986. Legislative reference: Section 47(6) FBTAA86. 2001 TES reference code: C51.

FBT exemption for private use of a taxi, panel van, utility or other vehicle where the use is minor and infrequent, including use for home-to-work travel.

C52 Loans to employees to meet employment-related and accommodation-related expenses

Introduced in 1986. Legislative reference: Sections 17(3) and 17(4) FBTAA86. 2001 TES reference code: C52.

FBT exemption for fringe benefits on loans provided to employees to meet employment-related and accommodation-related expenses.

C53 Exclusion from reporting for certain travel in marked emergency vehicles

Introduced in 2000. Legislative reference: *Fringe Benefits Tax Regulations 1992*. 2001 TES reference code: C53.

Benefits associated with travel between home and work in a marked emergency vehicle are excluded from the fringe benefits reporting requirement. The emergency vehicle must be one used by an ambulance, police or firefighting service and be visibly marked for that purpose. It also must be fitted with flashing warning lights and sirens.

C54 Charities promoting the prevention or control of disease in people

Introduced in 2000 (applied from 1 April 1999). Legislative reference: Section 57A(5) FBTAA86. 2001 TES reference code: C54.

FBT exemption on up to $30,000 of grossed up taxable value per employee provided to employees by charities whose main activity is promoting the prevention or control of disease or illness in people.

C55 Exclusion from reporting of benefits associated with police force removals

Announced in 2001. 2001 TES reference code: C55.

Fringe benefits associated with the removal or storage of household effects of police officers are to be excluded from the fringe benefits reporting requirement. To be eligible for the exclusion, the removal or storage will have to be as a result of a move undertaken at the direction of the police force.

C56 Exclusion from reporting of benefits associated with home-to-work travel in unmarked police vehicles

Introduced in 2001. Legislative reference: *Fringe Benefits Tax Regulations 1992*. 2001 TES reference code: C56.

Benefits associated with travel between home and work in an unmarked police vehicle are excluded from the fringe benefits reporting requirement. The exclusion is limited to situations where such vehicles are taken home by police officers in order to enable them to respond to events of crime and public safety. The unmarked police vehicle must be fitted with a police radio, concealed or portable warning lights and concealed or portable sirens.

C57 Exemption for certain payments to prescribed employee entitlement funds

Announced in 2002. 2001 TES reference code: na.

FBT exemption for certain payments to prescribed employee entitlement funds.

D Business tax benchmark

Income tax benchmark

D1 Income tax exemption for registered health benefit organisations

Introduced before 1985. Legislative reference: Section 50-30 ITAA97. 2001 TES reference code: D1.

Income of registered health benefit organisations is exempt from income tax, provided the organisations are not operated for the gain or profit of their individual members.

The growth in the estimates reflects increased health fund membership and greater profitability of the sector.

D2 Income tax exemption for public and non-profit hospitals

Introduced before 1985. Legislative reference: Section 50-30 ITAA97. 2001 TES reference code: D2.

Income of public hospitals, and hospitals operated by a society or association other than for gain or profit of its individual members, is exempt from income tax.

D3 Income tax exemption for religious, scientific, charitable or public educational institutions

Introduced before 1985. Legislative reference: Section 50-5 ITAA97. 2001 TES reference code: D3.

D4 Concessional taxation treatment of mining payments made in respect of mining and exploration activities on Aboriginal land

Introduced before 1985. Legislative reference: Division 11C of Part III ITAA36. 2001 TES reference code: D4.

Specified mining payments to Aboriginal and Torres Strait Islander persons or specified distributing bodies are exempt from income tax, where those payments have already attracted mining withholding tax.

D5 Taxation of life insurance investment income

Introduced before 1985. Legislative reference: Sections 26AH and 160AAB ITAA36. 2001 TES reference code: D5.

For the 2000-01 income year and beyond, life insurance investment policyholders' undistributed income will be taxed at the company rate (previously taxed at the trustee rate): these rates result in concessionary taxation for some policy holders. Reversionary bonus income distributed to policyholders after 10 years is exempt from further tax. If distributed before 10 years, income is assessable to policyholders, and a tax offset is given based on the company rate, not the actual tax paid.

D6 Income tax exemption for certain non-profit societies

Introduced before 1985. Legislative reference: Section 50-45 ITAA97. 2001 TES reference code: D6.

The income of non-profit societies, associations or clubs established for the encouragement of sport or games, music, art, animal racing and literature is exempt from income tax.

This tax expenditure is the exemption of income not related to the application of the mutuality principle.

D7 Income tax exemption for the Australian Film Finance Corporation

Introduced in 1988. Legislative reference: Section 50-45 ITAA97. 2001 TES reference code: D7.

D8 Income tax exemption for certain promotion and development non-profit societies

Introduced before 1985. Legislative reference: Section 50-40 ITAA97. 2001 TES reference code: D9.

Income of non-profit societies or associations predominantly devoted to the promotion or development of aviation or tourism, or of agricultural, pastoral, horticultural, viticultural, manufacturing or industrial resources of Australia is exempt from income tax.

This tax expenditure is the exemption of income not related to the application of the mutuality principle.

D9 Income tax averaging for primary producers

Introduced before 1985. Legislative reference: Division 392 ITAA97. 2001 TES reference code: D10.

Primary producers can elect to pay tax at a tax rate based on the average income earned over the previous five income years. If the taxpayer has not been using this facility for five years, the tax rate is based on the income years in which averaging has applied, and the previous year. This measure provides a concession because, on balance, the saving from paying less tax in high income years outweighs additional tax paid in low income years.

The growth in the estimates reflects increased income by primary producers. Projections beyond 2003-04 are not reported as the tax expenditure is extremely sensitive to variations in primary production income, which depends on a number of external factors.

D10 Deferment of income from a double wool clip

Introduced before 1985. Legislative reference: Section 385-135 ITAA97. 2001 TES reference code: D11.

D11 Spreading insurance recoveries for loss of timber or livestock

Introduced before 1985. Legislative reference: Subdivision 385-E ITAA97. 2001 TES reference code: D12.

Insurance recoveries from loss of timber or livestock, and net income from forced disposal of livestock, can be spread over five income years. If the compulsory disposal of livestock relates to the Brucellosis and Tuberculosis Eradication Campaign, the deferral period is extended to 10 years.

D12 Valuation of livestock from natural increase

Introduced before 1985. Legislative reference: Section 70-55 ITAA97. 2001 TES reference code: D13.

Primary producers can elect to adopt specified values for natural increase in livestock. These specified values are below the actual cost of production.

D13 Transitional trading stock rules for oyster farmers

Announced in 2001. 2001 TES reference code: D14.

Oyster farmers using the traditional stick method are able to value their trading stock at year-end using a designated value per stick. As a transition to this method, stick farmers are able to apply, in the 2001-02 income year, an opening stock valuation based on the per stick designated value rather than the closing stock value of the previous year.

D14 Income tax exemption for Dairy Exit Program payments

Introduced in 2000. Legislative reference: Section 118-37(1)(e) ITAA97. 2001 TES reference code: D15.

The Dairy Exit Program (DEP) is one component of the Government's Dairy Industry Adjustment Package. The DEP provides eligible dairy farmers who choose to exit agriculture with a payment of up to $45,000. This payment is exempt from income tax and could be applied for until 30 June 2002.

D15 Condensate excise free status

Introduced before 1985. Legislative reference: Schedule 17(B) of *the Excise Tariff Act 1921*. 2001 TES reference code: na.

Condensate produced in a State or Territory or inside the outer limits of the territorial sea of Australia or marketed separately from a crude oil stream is free of excise. The condensate excise free status was granted as a concession to the petroleum industry in 1977.

D16 Infrastructure Bonds Scheme

Introduced in 1992. Legislative reference: Division 16L ITAA36. 2001 TES reference code: D16.

Interest income from loans to eligible infrastructure facilities is exempt from income tax, while the interest paid by the borrower is not deductible. After 15 December 1994, the lender could elect to include the income in assessable income and receive an offset at the company tax rate for the income. The scheme was closed to new projects from 14 February 1997, and replaced by the Infrastructure Borrowings Tax Offset Scheme in 1998.

D17 Infrastructure Borrowings Tax Offset Scheme

Introduced in 1998. Legislative reference: Section 396-5 to 396-110 ITAA97. 2001 TES reference code: D17.

Resident lenders receive a tax offset at the company tax rate for interest income received from loans for approved land transport infrastructure projects. The interest paid by the borrower is not deductible.

The cost of this scheme is capped at $75 million per annum. The costing indicates the maximum level of expenditure that is possible under the IBTOS. Actual expenditure depends on the eligible projects that are supported under the scheme, and the time period over which those projects are undertaken.

D18 Income tax exemption for sale, transfer or assignment of mining rights

Introduced before 1985. Legislative reference: Paragraph 23 (pa) ITAA36. 2001 TES reference code: D18.

Income derived by bona fide prospectors from sale, transfer or assignment of rights to mine gold, prescribed metals or prescribed minerals is exempt from income tax. This measure only applies to rights acquired before 20 August 1996.

D19 Income tax exemption for funds established for scientific research

Introduced before 1985. Legislative reference: Section 50-5 ITAA97. 2001 TES reference code: D19.

Income of funds established for the purpose of enabling scientific research to be conducted by, or in conjunction with, a public university or hospital is exempt from income tax.

D20 Income tax exemption for trade unions and registered organisations

Introduced before 1985. Legislative reference: Section 50-15 ITAA97. 2001 TES reference code: D20.

The income of trade unions and registered associations of employers and employees is exempt from income tax.

This tax expenditure is the exemption of income not related to the application of the mutuality principle.

D21 Income tax exemption for CRAFT apprenticeship rebates

Introduced: before 1985. Legislative reference: Section 23(jc) ITAA36. 2001 TES reference code: D21.

Rebates paid to employers who take on apprentices under the Commonwealth Rebate for Apprentice Full-time Training (CRAFT) scheme are exempt from income tax. This measure was converted into a grants program, and hence applies only to apprentices who commenced work before 1 January 1998.

D22 Concessional tax rate for the life insurance business of friendly societies

Introduced before 1985. Legislative reference: Schedule 2, Item 111, Subsection 23C *Income Tax Rates Act 1986*. 2001 TES reference code: D22.

Traditionally the life insurance business of friendly societies has been treated more concessionally than that of life insurance companies. The benefit has been wound back progressively since 1983-84 when the exemption for this business was removed and a 20 per cent tax rate applied. The rate was increased to 30 per cent from 1988-89 and to 33 per cent in 1994-95. The tax rate differential is legislated to be removed from the 2001-02 income year when the rate will decrease to 30 per cent, consistent with the company tax rate that will apply to life insurance companies.

D23 Income tax exemption for current pension liabilities

Introduced before 1985. Legislative reference: Sections 282B and 283 ITAA36. 2001 TES reference code: D23.

Income relating to current pensions is not taxable in the hands of the superannuation fund. It is taxable when paid to the pensioner, but this could be some time after the income accrues, representing a deferral of tax liability.

D24 Income tax exemptions for foreign superannuation funds

Introduced before 1985. Legislative reference: Paragraphs 23(jb) and 128B (3)(a) ITAA36. 2001 TES reference code: D24.

Interest and certain dividends received by a foreign superannuation fund are exempt from income tax. This income is also exempt from non-resident withholding tax if it is exempt from income tax in the country in which the foreign superannuation fund resides.

D25 Pooled Development Funds (PDFs)

Introduced in 1992. Legislative reference: Sections 46(1), (2), (7), (7A); 46A(1), (5), (9), (10); Division 10E of Part III and Division 12A of Part IIIAITAA36; and Sections 3(1); 23(4C), (4D) *Income Tax Rates Act 1986*. 2001 TES reference code: D25.

Concessional taxation treatment is available to investment companies that are established and registered as PDFs.

For Australian superannuation funds, franked dividends from a Pooled Development Fund that relate to capital gains on an eligible venture capital investment, will be exempt from tax. Those superannuation funds will also be entitled to a refundable imputation credit.

D26 Concessional treatment of some credit unions

Introduced before 1985. Legislative reference: Section 23G ITAA 1936 and Section 23(6) of *Income Tax Rates Act 1986*. 2001 TES reference code: D26.

Interest income received by some credit unions is exempt from income tax. This exemption was removed from the beginning of the 1994-95 income year for credit unions with gross balance sheet assets of $30 million or more and for other credit unions from the 1995-96 income year. Taxation was at the concessional rate of 20 per cent until the beginning of the 1997-98 income year at which time the full corporate rate applied. Concessional rates of taxation will be provided for credit unions with low levels of notional taxable income.

D27 Income tax exemption for business assistance grants from the Katherine District Business Re-Establishment Fund

Introduced in 1999. Legislative reference: Schedule 2 of Taxation Laws Amendment Act (No.4) 1999. 2001 TES reference code: D27.

Business assistance grants provided from the Katherine and District Business Re-Establishment Fund are exempt from income tax. These grants were capped at a maximum level of $10,000 per eligible business.

D28 Income tax exemption for business grants from the Cyclones Elaine and Vance Trust Account

Introduced in 2000. Legislative reference: Schedule 4 of *Taxation Laws Amendment Act (3) 2000*. 2001 TES reference code: D28.

Business assistance grants provided from the Cyclones Elaine and Vance Trust Account are exempt from income tax. These grants were capped at a maximum level of $10,000 per eligible business.

D29 Transitional taxation of life insurance management fees

Introduced in 2000. Legislative reference: Section 320-40 ITAA97. 2001 TES reference code: D29.

Life insurance companies are exempt on one-third of specified management fees on certain life insurance policies taken out before 1 July 2000. The exemption will cease to apply from 30 June 2005.

D30 Income tax exemption for State/Territory bodies

Introduced before 1985. Legislative reference: Part III Division 1AB ITAA36. 2001 TES reference code: D30.

State/Territory bodies, except for excluded bodies, are exempt from income tax.

D31 Income tax exemption for municipal authorities and other local governing bodies

Introduced before 1985. Legislative reference: Section 50-25 ITAA97. 2001 TES reference code: D31.

Capital gains tax (CGT) benchmark

D32 CGT exemption for valour or brave conduct decorations

Introduced before 1985. Legislative reference: Paragraph 118-5(b) ITAA97. 2001 TES reference code: D32.

Capital gains or losses arising from the disposal of a decoration awarded for valour or brave conduct are exempt from capital gains tax, unless the owner of the decoration had paid money or given any other property for it.

D33 CGT treatment of perpetual conservation covenants

Announced in 2001. 2001 TES reference code: D34.

For capital gains tax purposes, perpetual conservation covenants (which have been accredited by the Minister for the Environment and Heritage) will be treated like a part disposal of the land, rather than the creation and disposal of a new asset.

D34 CGT main residence exemption

Introduced in 1985. Legislative reference: Subdivision 118-B ITAA97. 2001 TES reference code: D35.

Capital gains or losses on the disposal of a taxpayer's main residence and up to two hectares of adjacent land are exempt from capital gains tax.

D35 CGT exemption for the disposal of assets under the Cultural Bequests and Cultural Gifts programs

Introduced in 1994. Legislative reference: Section 118-60 ITAA97. 2001 TES reference code: D36.

D36 Venture capital concessions

Introduced in 1999. Legislative reference: Subdivision 118-G ITAA36. 2001 TES reference code: D39.

Non-resident pension funds that are tax exempt in their home jurisdiction (being either Canada, France, Germany, Japan, UK, USA or other approved jurisdictions) are exempt from income tax on the disposal of investments in new equity in eligible venture capital investments.

The current concession also extends to other eligible tax-exempt non-resident investors including: endowment funds, venture capital fund-of-funds, and taxable non-resident investors holding less than 10 per cent of a venture capital limited partnership.

D37 Small business 50 per cent CGT exemption

Introduced in 1999. Legislative reference: Division 152 ITAA97. 2001 TES reference code: D40.

Only 50 per cent of capital gains arising from the sale of active small business assets are subject to capital gains tax.

D38 Small business CGT roll-over

Introduced in 1997. Legislative reference: Division 152 ITAA97. 2001 TES reference code: D41.

Individuals receive a capital gains tax roll-over on the disposal of active small business assets if they use the proceeds of the sale to purchase other active small business assets.

D39 Small business CGT partial exemption for goodwill

Introduced in 1986. Legislative reference: Sections 118-250 and 118-255 ITAA97. 2001 TES reference code: D42.

Where an individual disposes of a business with net business interests of less than $2.2 million, only 50 per cent of any capital gain that is attributable to goodwill is subject to CGT. This measure only applies to disposals before 21 September 1999, as it was replaced by the small business 50 per cent CGT exemption for sale of active business assets (D35) on 21 September 1999.

D40 Exemption from reducing the cost base of trusts for CGT purposes

Introduced in 1986. Legislative reference: Subsection 104-70(7) ITAA97. 2001 TES reference code: D43.

Certain payments do not reduce the cost base of trusts for CGT purposes.

D41 CGT discount for individuals and trusts

Introduced in 1999. Legislative reference: Section 115-10 and paragraph 115-100(a) ITAA97. 2001 TES reference code: D44.

An individual or trust that disposes of an asset owned for at least one year only includes 50 per cent of any nominal capital gain in their assessable income. For assets acquired prior to 21 September 1999, and held for one year or more, an individual or trust may instead choose to include the whole difference between the disposal price and the frozen indexed cost base as at 30 September 1999.

The tax expenditure for this measure from 2000-01 reflects the cost of the concession, relative to the capital gains tax benchmark of full nominal taxation. As outlined in chapter 1.4, the estimate assumes that the same level of realisations would occur if capital gains were taxed at the full rate.

D42 CGT scrip-for-scrip roll-over relief

Introduced in 1999. Legislative reference: Subdivision 124-M ITAA97. 2001 TES reference code: D45.

Capital gains tax roll-over relief is available for capital gains arising from an exchange of interests in companies or fixed trusts, for example because of a takeover. As a result, the capital gains tax liability is deferred from the time of the takeover until the ultimate disposal of the replacement asset.

D43 CGT roll-over for assets compulsorily acquired, lost or destroyed

Introduced before 1985. Legislative reference: Subdivision 124-B ITAA97. 2001 TES reference code: D46.

Taxpayers are eligible for a roll-over of capital gains or losses to a replacement asset where an asset is compulsorily acquired, lost or destroyed.

D44 CGT discount for investors in listed investment companies (LICs)

Introduced in 2001. Legislative reference: Subdivision 115D ITAA97. 2001 TES reference code: D47.

Individual shareholders of LICs will benefit from the 50 per cent CGT discount on distributions of eligible capital gains derived at the LIC level. LICs will continue to be assessed for income tax under the company tax provisions.

D45 Non-imposition of CGT on capital gains that accrue before an asset becomes a segregated pension asset but are realised after the asset becomes a segregated pension asset.

Introduced in 1988. Legislative reference: s282B, s283 ITAA36. 2001 TES reference code: D48.

This tax expenditure relates to unrealised capital gains that accrue to complying superannuation funds on assets before the assets become segregated pension assets. When an asset becomes a segregated pension asset and is subsequently realised, the accrued unrealised capital gain is not subject to CGT.

D46 Taxation relief for demergers

Announced in 2002. 2001 TES reference code: na.

Upon enactment of the relevant legislation, tax relief will be provided for demergers that occur on or after 1 July 2002, that involve a restructuring of a corporate or a trust group by splitting the group into two or more entities or groups.

D47 Removal of taxation of financial instruments at point of conversion or exchange

Announced in 2002. 2001 TES reference code: na.

Upon enactment and commencement of relevant legislation, investors who hold financial instruments through conversion or exchange will not be subject to income tax until the instruments are ultimately sold. Investors will also be able to qualify for capital gains tax treatment over the entire holding period of this type of investment if the gain or loss on disposal is of a capital nature.

Deductions benchmark

D48 Tax incentives for film investment

Introduced before 1985. Legislative reference: Divisions 10B and 10BA ITAA36. 2001 TES reference code: D49.

Capital expenditure incurred in acquiring an interest in the initial copyright of a new Australian film receives an immediate deduction (for certain types of film) or a write-off over two years.

The estimates for this tax expenditure reflect the fact that the measure brings forward the timing of tax deductions relative to deductions available under the effective life benchmark. Previous *Tax Expenditure Statement* estimates assumed deductions would not be available under the benchmark.

D49 Film Licensed Investment Companies

Introduced in 1998. Legislative reference: Sections 375-850 to 375-880 ITAA97. 2001 TES reference code: D50.

Amounts paid by an investor in the 1998-99 and 1999-2000 income years for shares in a Film Licensed Investment Company are immediately deductible.

D50 Refundable tax offset for large scale film production

Introduced in 2001. Legislative reference: Division 376 ITAA97. 2001 TES reference code: D51.

Producers of eligible large scale films will be able to receive a refundable tax offset equivalent to 12.5 per cent of qualifying Australian expenditure on the film. The offset will be paid through the tax system directly to producers. To be eligible, films need at least $15 million of qualifying Australian expenditure, and for that expenditure to amount to at least 70 per cent of the production cost. If qualifying Australian expenditure is over $50 million, the 70 per cent criterion does not apply.

D51 Accelerated depreciation for water management costs

Introduced before 1985. Legislative reference: Subdivision 40-F ITAA97. 2001 TES reference code: D52.

The capital costs of investment for conserving or conveying water can be deducted by primary producers over 3 years.

D52 Landcare deduction

Introduced before 1985. Legislative reference: Sections 40-630 to 40-640 ITAA97. 2001 TES reference code: D53.

Primary producers and users of rural land can claim an immediate deduction for capital expenditure on soil conservation, prevention of land degradation and related measures.

D53 Landcare offset

Introduced in 1998. Legislative reference: Former Division 388 ITAA97. 2001 TES reference code: D54.

Primary producers and users of rural land, with taxable income of up to $20,000 a year, can claim a 30 cents in the dollar tax offset for capital expenditure on soil conservation, prevention of land degradation and related measures. This measure can be claimed as an alternative to the landcare deduction (D53).

This measure has ceased to apply to expenditure incurred from 1 July 2001 onwards. The offset will continue to apply after 1 July 2002 to expenditure incurred before that date where the offset is apportioned over three years, or where taxpayers had insufficient tax payable to claim the entire offset in earlier income years.

D54 Deduction for horse breeding stock

Introduced in 1992. Legislative reference: Sections 70-60, 70-65 ITAA97. 2001 TES reference code: D55.

Taxpayers can elect to write-off horse breeding stock acquired on or after 19 August 1992 on a prime cost basis. Up to 25 per cent of the cost of sires and up to 33 1/3 per cent of the cost of mares can be written off per annum.

D55 Depreciation of the capital cost of telephone lines and mains electricity

Introduced before 1985. Legislative reference: Sections 40-645 to 40-655 ITAA97. 2001 TES reference code: D56 and D75.

Capital expenditure incurred on extending telephone lines to a primary production property and capital expenditure incurred on connecting or upgrading mains electricity to a property on which a business is conducted can be depreciated on a ten-year prime cost basis.

D56 Tax write-off for horticultural plants

Introduced in 1995. Legislative reference: Division 40-F ITAA97. 2001 TES reference code: D57.

An accelerated depreciation regime is available for capital expenditure incurred in establishing horticultural plants, with deductions available from the first commercial season.

D57 Accelerated depreciation for grapevine plantings

Introduced in 1993. Legislative reference: Division 40-F ITAA97. 2001 TES reference code: D58.

Expenditure incurred in acquiring and establishing grape vines can be written off on a prime cost basis over four years, with the deductions being available from the time the vines are planted.

D58 Drought investment allowance

Introduced in 1995. Legislative reference: Part IX of the ITAA36. 2001 TES reference code: D59.

An immediate deduction of 10 per cent (up to a total deduction of $5,000) of capital expenditure on drought preparedness assets is available. This allowance is in addition to depreciation deductions that can be claimed for the assets. This measure ceased to apply to expenditure incurred from 1 July 2000.

D59 Development allowance

Introduced in 1992. Legislative reference: Sections 15, 27 and 40 of *Development Allowance Authority Act 1992*. 2001 TES reference code: D60.

For major projects approved by the Development Allowance Authority, 10 per cent of the value of plant and equipment, including motor vehicles and primary production, can be immediately deducted. Registrations for projects closed on 31 July 1996.

D60 Capital expenditure deduction for mining, quarrying and petroleum operations

Introduced before 1985. Legislative reference: Subdivision 40-B ITAA97 as adjusted by sections 40-35, 40-40 and 40-75 IT(TP)97. 2001 TES reference code: D61.

Certain capital expenditure incurred before 1 July 2001, or relating to a depreciating asset (not plant or equipment) acquired before 1 July 2001, in carrying on a prescribed mining, petroleum or quarrying operation can be deducted over the lesser of the life of the project or 10 years (20 years for quarrying).

This treatment has only ongoing transitional application. Capital expenditure incurred after 1 July 2001 that cannot be included in the cost of a depreciating asset acquired before 1 July 2001 (used in carrying on a prescribed mining, petroleum or quarrying operation (except plant and equipment)) is deductible over the life of the project.

D61 Deduction for patents, designs and copyrights

Introduced before 1985. Legislative reference: Former Division 373 ITAA97. 2001 TES reference code: D62.

Expenditure incurred in obtaining, or seeking to obtain, the registration or extension of a patent, design or copyright is immediately deductible.

This treatment does not apply to expenditure incurred after 1 July 2001. From 1 July 2001, this expenditure is deductible over the life of the underlying intellectual property.

D62 Exploration and prospecting deduction

Introduced before 1985. Legislative reference: Subsection 40-80(1) and section 40-730 ITAA97. 2001 TES reference code: D63.

Capital expenditure used for exploration or prospecting by general and petroleum miners and in quarrying is immediately deductible.

D63 Deduction for expenditure on environmental impact studies

Introduced in 1991. Legislative reference: Section 40-B ITAA97 as adjusted by section 40-55 IT(TP)97. 2001 TES reference code: D64.

Expenditure incurred on an eligible environmental impact study can be deducted over the lesser of 10 years or the life of the project to which it relates.

This treatment does not apply to expenditure incurred after 1 July 2001. From 1 July 2001, this expenditure can only be deducted over the life of the project.

D64 Deduction for environmental protection activities

Introduced in 1992. Legislative reference: Sections 40-75 and 40-760 ITAA97. 2001 TES reference code: D65.

Expenditure used to control pollution and manage waste, where the waste or pollution was produced by, or is on the site of, the taxpayer's business is immediately deductible.

D65 Depreciation to nil value rather than estimated scrap value

Introduced before 1985. Legislative reference: Division 40 ITAA97. 2001 TES reference code: D66.

D66 Depreciation balancing adjustment roll-over relief

Introduced before 1985. Legislative reference: Section 40-340 ITAA97. 2001 TES reference code: D67.

The tax liability for balancing adjustments arising from the disposal of depreciating assets can be deferred. The liability can be used to reduce future capital allowance deductions. Roll-over relief is available for balancing adjustments arising from certain changes in ownership interests in depreciating assets, such as disposal within a wholly-owned group or as a result of a marriage breakdown.

Prior to 21 September 1999, roll-over relief was also available when replacement items of plant and equipment were acquired. This treatment continued to be available to businesses with turnover of less than $1 million until 1 July 2001 (see D76).

D67 Balancing charge roll-over relief for exploration, mining and quarrying activities

Introduced before 1985. Legislative reference: Sections 330-540 to 330-552 ITAA97. 2001 TES reference code: D68.

Balancing adjustments arising from certain changes in ownership interests in property, such as disposal of an asset within a wholly-owned group or as a result of a marriage breakdown, can be rolled over.

With the introduction of the uniform capital allowance system on 1 July 2001 this specific treatment is no longer available. In certain circumstances the general balancing adjustment roll-over relief (see D66) will provide some of the treatment previously provided by this measure.

D68 Absence of cost base recapture for certain assets

Introduced before 1985. Legislative reference: Division 43 and Section 110-45 ITAA97. 2001 TES reference code: D69.

Certain buildings and structures receive deductions which are not recaptured on disposal of the asset, in that the cost base of the asset is not reduced by the amount of deductions obtained. This measure ended for assets acquired after 13 May 1997.

D69 Accelerated depreciation allowance for plant and equipment

Introduced in 1992. Legislative reference: Former Division 42 and Subdivision 40-B ITAA97 as adjusted by sections 40-10 and 40-12 IT(TP)97. 2001 TES reference code: D70.

An accelerated depreciation allowance was provided for plant and equipment acquired under contract, or commenced to be constructed, on or after 27 February 1992. This concession was removed for individuals and businesses with a turnover of $1 million or more per annum on 21 September 1999.

This treatment was further removed from businesses with a turnover of less than $1 million from 1 July 2001. These businesses can opt to enter the simplified tax system from this time and utilise the simplified capital allowances system (see D75).

This tax expenditure brings forward the timing of tax deductions relative to deductions available under the effective life benchmark. It becomes a negative tax expenditure from 2002-03 because, for investments made before accelerated depreciation was abolished, deductions in coming years will be lower than they would have been under the benchmark as these deductions have already been claimed.

D70 Accelerated depreciation for employees' amenities

Introduced in 1994. Legislative reference: Former section 42-150 and Subdivision 40-B ITAA97 as adjusted by sections 40-10 and 40-12 IT(TP)97. 2001 TES reference code: D71.

Plant, including plumbing fixtures and fittings, acquired for providing meals, meal facilities, clothing cupboards, first aid, restrooms or recreational facilities for employees (or their children) of a business, is depreciable over three years. This concession was removed for individuals and businesses with a turnover of $1 million or more per annum on 21 September 1999.

This treatment was further removed from businesses with turnovers of less than $1 million from 1 July 2001. These businesses can opt to enter the simplified tax system from this time and utilise the simplified capital allowances system (see D75).

D71 Accelerated depreciation for mining buildings

Introduced in 1982. Legislative reference: Former Subdivision 330-C and Subdivision 40-B ITAA97 as adjusted by 40-35 *Income Tax (Transitional Provisions) Act 1997*. 2001 TES reference code: D72.

Buildings used to carry on mining and quarrying operations and for housing and welfare in relation to carrying on mining operations can be deducted over the lesser of the life of the project or ten years (20 years for quarrying).

This concession was removed on 1 July 2001 for buildings constructed or acquired after this date.

D72 Depreciation pooling for low-value assets

Introduced in 2000. Legislative reference: Subdivision 40-E ITAA97. 2001 TES reference code: D73.

Assets costing less than $1,000 are written off at the declining balance rate of 37 ½ per cent, through a low-value asset pool. Once an election to create a low-value pool is made, all assets costing less than $1,000 are provided this treatment. This measure applies to taxpayers who choose not to, or are ineligible to, enter the simplified tax system.

D73 Accelerated depreciation for Australian trading ships

Introduced before 1985. Legislative reference: Section 53I(2), 57AM ITAA36. 2001 TES reference code: D74.

Australian trading ships commissioned on or after 29 July 1977 can be depreciated on a prime cost basis over five years. This concession is not available for ships commissioned after 1 July 1997.

The estimates for this tax expenditure reflect the fact that the measure brings forward the timing of tax deductions relative to deductions available under the effective life benchmark.

D74 Statutory effective life caps

Introduced in 2002. Legislative reference: Section 40-102 ITAA97. 2001 TES reference code: na.

Statutory effective life caps for a range of assets used in the oil, gas and airline industries allow businesses to claim larger capital allowance deductions than those available under the Commissioner of Taxation's effective life determinations.

D75 The Simplified Tax System

Introduced in 2001. Legislative reference: Division 328 ITAA97. 2001 TES reference code: D76.

Businesses with an average annual turnover of less than $1 million can elect to join the Simplified Tax System (STS). The STS provides a simpler means of managing their bookkeeping and income tax compliance requirements. They will also receive income tax benefits from being able to immediately write off purchases costing less than $1,000, and writing off assets that cost $1,000 or more at accelerated rates.

D76 Transitional exemption of small business from abolition of accelerated depreciation, balancing charge offset and low-value pooling

Introduced in 1999. Legislative reference: Subdivision 42-K ITAA97. 2001 TES reference code: D77.

For eligible businesses, a range of accelerated depreciation measures that were terminated as of 21 September 1999 were retained until the commencement of the Simplified Tax System (STS) on 1 July 2001. Eligible businesses were those with three-year annual turnovers of less than $1 million. The measures that continue to apply to these eligible businesses were accelerated depreciation, the balancing charge offset, the pooling of low-value depreciable assets, and the immediate deductibility of plant items costing up to $300.

The estimates for this tax expenditure reflect the fact that the measure brings forward the timing of tax deductions relative to deductions available under the effective life benchmark.

D77 Research and development (R&D) refundable tax offset for small companies

Announced in 2001. Legislative reference: Section 73I ITAA36. 2001 TES reference code: D78.

Companies with annual turnover of less than $5 million that undertake up to $1 million of R&D are eligible to receive a refundable tax offset, equivalent to the value of the R&D tax concession.

This is available from the first income year starting after 30 June 2001.

D78 Research and development (R&D) tax concession

Introduced in 1985. Legislative reference: Sections 73B and 73BA ITAA36. 2001 TES reference code: D79.

Eligible expenditure on R&D activities generally receives an immediate 125 per cent deduction. Until 29 January 2001, eligible expenditure on R&D plant was deductible at 125 per cent over three years. From that date, expenditure on plant used in R&D activities is deductible over its effective life with a 25 per cent loading. Expenditure on 'core technology' which relates to R&D activities is deductible at a rate of 100 percent over the period of the related R&D activities.

D79 Premium tax concession for additional research and development (R&D) expenditure

Introduced in 2001. Legislative reference: Section 73Q to 73Y ITAA36. 2001 TES reference code: D80.

Companies that increase certain R&D expenditure are eligible to receive a 175 per cent concession. The 175 per cent premium covers all additional R&D expenditure excluding plant, pilot plant, contracted plant, plant leases, core technology, R&D related interest and items excluded from the 125 per cent R&D tax concession.

This is available from the first income year starting after 30 June 2001.

D80 Accelerated depreciation for software

Introduced in 1998. Legislative reference: Subdivision 40-E ITAA97. 2001 TES reference code: D82.

Expenditure incurred in acquiring, developing or commissioning software that is mainly used in performing the functions for which the software was developed is depreciable over 2½ years.

D81 Immediate deduction relating to Y2K upgrades

Introduced in 1998. Legislative reference: Sections 46-1 to 46-110 ITAA97. 2001 TES reference code: D83.

Expenditure on software related to Y2K upgrades is immediately deductible if it was incurred between 11 May 1998 and 1 July 1999.

The estimates for this tax expenditure reflect the fact that the measure brings forward the timing of tax deductions relative to deductions available under the effective life benchmark.

D82 Immediate deductibility for GST-related plant and software

Introduced in 2000. Legislative reference: Sections 25-80, 42-168 ITAA97. 2001 TES reference code: D84.

Expenditure incurred by small and medium size businesses on acquiring plant or software (including upgrades) for the purpose of implementing the GST is immediately deductible. This deduction is available for the year ending 30 June 2000 even if the equipment is not installed for use by 30 June 2000, provided that the equipment is ordered by 30 June 2000 and installed by 30 June 2001. To qualify for the extension, taxpayers had to have ordered the equipment (through entering into a legally binding agreement to purchase) before 30 June 2000, although it need not have been paid for by that date.

The estimates for this tax expenditure reflect the fact that the measure brings forward the timing of tax deductions relative to deductions available under the effective life benchmark.

D83 Prepayment rule for Simplified Tax System (STS) taxpayers and non-business expenditure by individuals

Introduced in 2001. Legislative reference: Section 82 KZM ITAA36. 2001 TES reference code: D85.

Advance expenditure by STS taxpayers and non-business prepayments of individuals are immediately deductible where incurred in respect of services to be provided over a period not exceeding 12 months and not extending beyond the income year in which the expenditure is incurred. This provision replaced the remaining applications of the 13 month rule, which was previously removed (21 September 1999) for businesses with a turnover of $1 million or more per annum.

D84 Transitional arrangements for prepayments

Introduced in 1999. Legislative reference: Division 3 Part III Sections 82 KZMB, KZMC, 82 KZL (1) ITAA36. 2001 TES reference code: D86.

Five year transitional rules are available to phase-in the impact of removing the 13-month rule for advance expenditure.

The tax expenditure estimates are positive in 1999-2000 and 2000-01 and negative in the following years, reflecting the effect of spreading the revenue impact that would otherwise occur in 1999-2000 and, in particular, 2000-01 over a five year period.

D85 The 10-year rule for prepayments

Introduced in 1988. Legislative reference: Subsection 82 KZL (1) ITAA36. 2001 TES reference code: D87.

The deduction for advance expenditure in respect of services to be provided over an indeterminate period (for example, life membership) or exceeding 10 years can be spread evenly over the first 10 years of that period.

D86 Exemption from the tax shelter prepayments measure for passive investments

Introduced in 1988. Legislative reference: Section 82 KZME ITAA36. 2001 TES reference code: D88.

Advance expenditure in relation to investments in infrastructure bonds, shares, units, rental property and arrangements entered into before 1 July 2000, to which product rulings apply, continue to be immediately deductible. This is provided that the expenditure meets the requirements of the prepayment rule applying to STS taxpayers and non-business expenditure by individuals.

D87 Prepayment rule for forestry managed investments

Announced in 2001. Legislative reference: Section 82KZMG ITAA36 2001 TES reference code: D89.

For investors in forestry managed investment schemes, advance expenditure on seasonally dependent agronomic operations in the establishment of a forestry plantation is immediately deductible, where the work is to be completed within 12 months and by the end of the year following that in which the expenditure is incurred. The gross income received by the managed investment provider is assessable in the period the expenditure is incurred by the investor, rather than when the work is done on the investor's behalf. A once-off transitional arrangement applies in 2001-02 and 2002-03 to spread the income associated with the bring forward in the first year of use by the company over two years.

D88 Capitalisation of ownership costs of assets held partly for private use

Introduced in 1991. Legislative reference: Subsection 110-25(4) ITAA97. 2001 TES reference code: D90.

Where an asset, other than a collectible or personal use asset, is acquired after 20 August 1991, non-capital costs of ownership such as interest, maintenance and repairs, insurance and rates can be included in the cost base of the asset if not otherwise deductible. Inclusion of such costs in the cost base of property held for private use is inconsistent with the benchmark.

D89 Exemption from non-commercial losses provisions (primary producers and artists)

Introduced in 2000. Legislative reference: Subsections 35-10 (4) and (5) ITAA97. 2001 TES reference code: D91.

Primary producers and artists with other assessable income of less than $40,000 are exempt from the non-commercial losses measure. This exemption allows an immediate deduction for losses from primary production and art businesses that are of a non-commercial nature.

D90 Deductibility of expenses incurred in providing entertainment free to members of the public who are sick, disabled, poor or otherwise disadvantaged

Introduced in 1985. Legislative reference: Section 32-50 ITAA97. 2001 TES reference code: D92.

D91 Income Equalisation Deposits (IED) scheme

Introduced before 1985. Legislative reference: Sections 3, 4B(5), 18, 19, 20A, and 20B of *Loan (Income Equalization Deposits) Act 1976*. 2001 TES reference code: D93.

Investments by primary producers made under the IED scheme are deductible, with subsequent withdrawals being assessable. The IED scheme had a maximum limit on deposits of $300,000. From 7 April 1995, the Farm Management Bonds scheme (a component of the IED scheme) was enhanced, with the investment component raised to 100 per cent and a new maximum limit on deposits of $150,000. These schemes were replaced by the Farm Management Deposit scheme from 2 January 1999.

D92 Farm Management Deposit (FMD) scheme

Introduced in 1999. Legislative reference: Schedule 2G, Sections 393-10 to 393-65 ITAA36. 2001 TES reference code: D94.

Investments by primary producers made under the FMD scheme are deductible, with subsequent withdrawals being assessable. The FMD has a maximum limit on deposits of $300,000. The FMD scheme replaced the Income Equalisation Deposits and Farm Management Bonds schemes.

The growth in the estimates reflects increased investments by primary producers. Projections beyond 2003-04 are not reported as the tax expenditure is extremely sensitive to variations in the amounts deposited and withdrawn in any year, which are highly volatile as they depend on a number of external factors.

D93 Deduction to co-operative companies

Introduced before 1985. Legislative reference: Section 120 ITAA36. 2001 TES reference code: D95.

Deductions are provided to co-operative companies for the repayment of principal of certain Commonwealth and State government loans.

International benchmark

D94 Income tax exemption for prescribed international organisations

Introduced before 1985. Legislative reference: Section 6 of *International Organisations (Privileges and Immunities) Act 1963.* 2001 TES reference code: D96.

The income of prescribed international organisations (eg UN, WTO, and OECD) is exempt from income tax.

D95 IWT exemption for certain overseas organisations

Introduced before 1985. Legislative reference: Paragraph 128B(3)(a) ITAA36. 2001 TES reference code: D97.

Interest received by certain organisations, which are exempt from tax in their home country, is exempt from interest withholding tax (IWT).

D96 DWT exemption for certain overseas organisations

Introduced before 1985. Legislative reference: Paragraph 128B(3)(a) ITAA36. 2001 TES reference code: D98.

Dividends received by certain organisations, which are exempt from tax in their home country, are exempt from dividend withholding tax (DWT).

D97 IWT and DWT exemptions for prescribed international organisations

Introduced before 1985. Legislative reference: Section 6 of the *International Organisations (Privileges and Immunities) Act 1963*. 2001 TES reference code: D99.

Interest and dividends received by prescribed international organisations which, under *the International Organisations (Privileges and Immunities) Act*, are exempt from the ordinary provisions of the ITAA, are exempt from both interest withholding tax and dividend withholding tax.

D98 Tax sparing provisions in Australia's double tax agreements (DTAs)

Date of effect depends on the date of effect of the DTA. Legislative reference: provided for in DTAs. 2001 TES reference code: D100.

Tax sparing provisions in Australia’s DTAs apply to specific investment tax incentives (eg tax holidays) offered by developing countries. Under tax sparing, the tax forgone by the country in providing the tax concession to Australian resident investors is deemed to have been paid for the purposes of Australia’s foreign tax credit system, enabling the Australian residents to claim a tax credit for the foreign tax forgone in relation to their investments. The Government has announced that tax sparing will generally not be provided or renewed in future agreements.

D99 Exemption for branch profits from foreign tax credit system

Introduced in 1990. Legislative reference: Section 23AH ITAA36. 2001 TES reference code: D101.

Most income from a business carried on by an Australian company through a permanent establishment (branch) in a listed country is exempt from Australian tax. The exempt income broadly comprises operating profits and capital gains in the case of a permanent establishment in a limited exemption-listed country and most passive and other tainted income, as well as in the case of a permanent establishment in a broad exemption-listed country.

D100 Income tax exemption for certain US projects in Australia

Introduced before 1985. Legislative reference: Section 23AA ITAA36. 2001 TES reference code: D102.

The profits and remuneration of US contractors, US armed forces members, or other US residents or citizens in connection with certain US Government projects in Australia are exempt from Australian income tax, providing the income is subject to tax in the US.

D101 Half IWT on foreign bank branch interest payments to the foreign bank

Introduced in 1994. Legislative reference: Section 160ZZZJ ITAA36. 2001 TES reference code: D103.

Only half the notional interest paid to a foreign bank from its Australian branch is subject to the full rate of interest withholding tax.

D102 Deductibility of costs of setting up a regional headquarters

Introduced in 1994. Legislative reference: Sections 82C-CE ITAA36. 2001 TES reference code: D104.

Certain business costs, including relocation and incorporation costs, associated with setting up a regional headquarters (RHQ) in Australia are deductible. These costs must be incurred within a two year period commencing 12 months before and ending 12 months after the RHQ first derives assessable income from the provision of 'regional headquarters support'.

D103 Concessional tax treatment of income of offshore banking units

Introduced in 1992. Legislative reference: Division 9A ITAA36. 2001 TES reference code: D105.

From 1 July 1992, eligible income derived by an offshore banking unit receives a concessional rate of tax (effectively 10 per cent).

D104 DWT exemption for Pooled Development Funds

Introduced in 1992. Legislative reference: Sections 128B(3)(ba), 124ZM ITAA36. 2001 TES reference code: D106.

D105 De minimis exemption for thin capitalisation

Introduced in 2001. Legislative reference: s820-35 ITAA 97 2001 TES reference code: D81.

A taxpayer may claim debt deductions of up to $250,000 without being subject to thin capitalisation rules. An additional de minimis rule is included in the thin capitalisation regime for outward investing entities where the foreign assets of that entity and its associates represent up to 10 per cent of the total combined assets of that entity and its associates.

D106 Concessional tax treatment for foreign authorised deposit-taking institutions (ADIs)

Introduced in 1993. Legislative reference: Schedule 1 (ss170-33(2)) and Schedule 2 (ss170-133(2)) Financial Corporations (Transfer of Assets and Liabilities) Act 1993. 2001 TES reference code: na.

Amendments have extended the period by two years to transfer a tax loss or net capital loss for banks obtaining ADI authority to be eligible for concessional tax treatment when transferring assets and liabilities from locally incorporated subsidiaries of foreign banks to newly established branches of the parent foreign bank. Moreover, the deadline to effect any subsequent transfer of assets and liabilities has been extended from 30 June 2004 to 30 June 2006.

D107 Exemption of non-portfolio dividends from the foreign tax credit system

Introduced in 1990. Legislative reference: Section 23AJ ITAA36. 2001 TES reference code: D107.

Non-portfolio dividends, where the dividends are paid by a company resident in a listed country to an Australian resident company, are exempt income.

D108 Exemption from accrual taxation for controlled foreign companies

Introduced in 1990. Legislative reference: Subsections 385(1), (2) ITAA36. 2001 TES reference code: D108.

Most tainted income derived by controlled foreign companies in broad exemption-listed countries is exempt from accrual taxation applied to the attributable taxpayer.

D109 Exemption from accrual taxation for transferor trusts

Introduced in 1990. Legislative reference: Paragraph 102AAU(1)(b) ITAA36. 2001 TES reference code: D109.

Most income of transferor trusts in broad exemption-listed countries is exempt from accrual taxation applied to the transferor.

D110 Exemption from IWT on widely held debentures

Introduced before 1985. Legislative reference: Section 128F ITAA36. 2001 TES reference code: D110.

Certain widely spread debentures are exempt from interest withholding tax. This has been extended to publicly offered corporate securities issued in Australia, as well as securities issued by non-resident companies operating through a permanent establishment in Australia. In addition, the requirement to pay IWT on interest on nostro accounts held with foreign banks has been removed.

E Excise duty benchmark

E1 Higher rate of excise levied on leaded petrol

Introduced in 1994. Legislative reference: Item 11 of Schedule of *Excise Tariff Act 1921*. 2001 TES reference code: E1.

Leaded petrol is subject to a higher rate of excise than unleaded petrol and diesel. The decline in the value of this tax expenditure to zero in 2001-02 reflects the introduction of lead-replacement petrol, which pays at the unleaded rate.

E2 Higher rate of excise levied on high sulphur diesel

Announced in 1999. 2001 TES reference code: na.

An incentive for the production of ultra low sulphur diesel (ULSD), announced as part of the *Measures for a Better Environment* package, is proposed to be implemented through a diesel sulphur excise differential. Diesel with a sulphur content higher than 50 parts per million will be excised at a higher rate than the ULSD (and unleaded petrol) rate.

E3 Higher rate of excise levied on cigarettes with less than 0.8 grams of tobacco

Introduced in 1999. Legislative reference: Item 8 of Schedule of *Excise Tariff Act 1921*. 2001 TES reference code: E2.

Cigarettes are subject to excise on a per-stick basis. For cigarettes with more than 0.8 grams of tobacco, this treatment is the same as the treatment of loose tobacco and cigars, which are subject to excise per kilogram of tobacco. For cigarettes with 0.8 grams of tobacco per stick, the per stick excise rate represents equivalent treatment to the excise treatment of loose tobacco and cigars. However, for cigarettes with less than 0.8 grams of tobacco, the per stick excise rate is a higher liability than for an equivalent amount of loose tobacco or cigars.

E4 Exemption from excise for 'alternative fuels'

Introduced before 1985. Legislative reference: these products are not dutiable under the *Excise Tariff Act 1921*. 2001 TES reference code: E3.

Alternative fuels for vehicle use, including LPG and compressed natural gas, are exempt from excise duty. The tax expenditure is based on estimates and projections of fuel use published by ABARE in *Australian Energy Consumption and Production* (1997) and actual clearance data. The estimates are calculated on an equivalent unit of energy basis, which adjusts for the different energy content of alternative fuels compared to the energy content of unleaded petrol.

The significant change in this estimate, compared with the *2001 Tax Expenditures Statement*, largely reflects a downward revision in assumed compressed natural gas consumption.

E5 Concessional rate of excise levied on fuel oil, heating oil and kerosene

Introduced before 1985. Legislative reference: Item 11 of Schedule of *Excise Tariff Act 1921*. 2001 TES reference code: E4.

Fuel oil, heating oil and kerosene are subject to a lower rate of excise than unleaded petrol and diesel. The decline in the estimates in the late 1990s is attributable to a reclassification of duty collected on certain fuel oil sales from excise duty to customs duty, and a reduction in use of heating oil due to compliance activity to discourage the substitution of heating oil for diesel.

E6 Concessional rate of excise levied on aviation gasoline and aviation turbine fuel

Introduced before 1985. Legislative reference: Item 11 of Schedule of *Excise Tariff Act 1921*. 2001 TES reference code: E5.

Aviation gasoline and aviation turbine fuel are subject to a lower rate of excise than unleaded petrol and diesel.

E7 Concessional rate of excise levied on brandy

Introduced before 1985. Legislative reference: Item 2A of *Excise Tariff Act 1921*. 2001 TES reference code: E6.

Brandy is subject to a lower rate of excise than other spirits.

E8 No excise-free threshold for excisable alcoholic beverages (other than beer) not exceeding 10 per cent alcohol

Introduced in 2000. Legislative reference: Item 1 of Schedule of *Excise Tariff Act 1921*. 2001 TES reference code: E7.

These beverages do not qualify for the excise-free threshold of 1.15 per cent of alcohol which applies to beer.

E9 Wine equalisation tax (WET) rebate scheme

Introduced in 2000. Legislative reference: Schedule 9A of ITLAA00. 2001 TES reference code: E8.

The Commonwealth is augmenting the States' 15 per cent subsidy schemes for cellar door and mail order wine sales by providing an additional 14 per cent rebate on cellar door, mail order and internet sales up to $300,000 per annum (wholesale value). This rebate then tapers to zero for sales between $300,000 and $580,000.

E10 Concessional rate of excise levied on beer sold in containers greater than 48 litres

Introduced in 2001. Legislative reference: Item 1 of Schedule of *Excise Tariff Act 1921*. 2001 TES reference code: E9.

Beer packaged in individual containers exceeding 48 litres (a proxy for draught beer) is subject to a lower rate of excise than beer packaged in individual containers not exceeding 48 litres.

E11 Concessional rate of excise levied on beer produced for non-commercial purposes using commercial facilities or equipment

Introduced in 1993. Legislative reference: Item 1 of Schedule of *Excise Tariff Act 1921*. 2001 TES reference code: E10.

Beer produced for non-commercial purposes using commercial facilities or equipment is subject to a lower rate of excise than other beer.

E12 Excise concession for microbreweries

Introduced in 2000. Legislative reference: *Excise Act 1901 Regulation 50(1)(zzd)*. 2001 TES reference code: E11.

Microbreweries producing less than 30,000 litres of product per annum receive excise concessions in the form of a refund of excise paid. The refund paid in any financial year cannot exceed the lesser of $10,000 or 60 per cent of the excise payable.

Appendix B

Superannuation benefits

B.1 Scope

This Appendix sets out the estimated tax expenditures related to the superannuation system for 1998-99 to 2001-02 and forward projections for the following four years. It also briefly examines some conceptual issues relating to the interpretation of these estimates.

Superannuation in Australia is taxed at a concessional rate at three stages against the remuneration and saving benchmark:

- when contributions are made to a superannuation fund (by an employer or a member);
- when investments in superannuation funds earn income; and
- when unfunded superannuation benefits are paid out.

The overall taxation regime remains concessional and in each year the estimated benefits to those with superannuation is calculated against the relevant benchmark. This benchmark has been summarised in chapter 3.

The calculation requires projections of contributions, earnings and eligible termination payments (ETPs). The estimates use Australian Taxation Office and RIMGROUP[1] projections of contributions, earnings and payouts. They also assume that tax is collected from superannuation funds in the year in which the contributions and earnings occur.

1 RIMGROUP is the model used by Treasury's Retirement and Income Modelling Unit to project superannuation fund contributions, earnings and payouts as well as related retirement income, social security and taxation aggregates.

B.2 Interpretation

The estimate of the tax expenditure in the forward projections is not necessarily indicative of the cost of the superannuation concessions over the long term:

- the taxes on superannuation pensions and lump sums could be expected to provide a greater offset to the cost of the under-taxation of contributions in future years, when there are larger numbers of taxpayers drawing down their superannuation savings relative to the numbers in the accumulation phase; and

- the current superannuation tax concessions will have an (intended) impact on certain direct budgetary expenses in future years, particularly age pension payments.

Further, the estimates in Table B1 cannot be interpreted as a time series of the ongoing revenue savings that could be obtained if the superannuation concessions were eliminated. This is because the increase in tax revenue arising from the elimination of the tax expenditures with respect to a particular year would cause the superannuation tax base to be smaller for the next year. For example, if contributions and fund earnings in 2001-02 had been taxed according to the retirement benefits benchmark, superannuation fund assets, and hence fund earnings, would be lower in 2002-03 than if the concessional tax treatment had applied in the previous year. The cost of taxing fund earnings concessionally in 2002-03 would, in these circumstances, be lower than if the superannuation concessions had applied in 2001-02.

In addition, the estimated cost of the tax expenditure on retirement and other employment termination benefits assumes no behavioural change involving either the superannuation portfolio composition or the saving rate. To the extent that this is an unrealistic assumption, the budgetary cost of these concessions will be overestimated.

B.3 Estimates

Table B1 provides detailed superannuation tax expenditure estimates. These tax expenditures are reported collectively as ‘concessional treatment of superannuation’ in Table 5.1 (tax expenditure reference code B1).

These estimates are generally comparable with those published in the 2001 TES. New policy measures, such as higher deductions for the self employed, have been incorporated into the estimates. Each year there are also variations arising from the revision of earnings estimates. The taxable earnings of superannuation funds are not readily predictable. A major reason is that it lies within the discretion of a fund manager to decide when any accrued capital gains of a fund are realised. In addition, the earnings series is intrinsically volatile, reflecting fluctuations in interest rates and dividends.

Fund earnings have been ‘smoothed out’ for the forward projections as this is considered to provide a better indication of the cost of the tax expenditure over time.

Table B1: Estimated tax expenditures through superannuation tax concessions, 1998-99 to 2005-06

	1998-99 ($m)	1999-00 ($m)	2000-01(a) ($m)	2001-02(a) ($m)	2002-03(a) ($m)	2003-04(a) ($m)	2004-05(a) ($m)	2005-06(a) ($m)
Costs								
1 Under taxation of employer contributions(b)(c)	4530	4880	4460	4650	5280	5640	6010	6320
2 Deduction for self-employed/unsupported	210	230	190	190	190	200	200	200
3 Under taxation of fund earnings	5220	5180	4680	4420	4680	4960	5240	5580
4 Under taxation of unfunded lump sums(d)	520	520	450	450	450	450	450	450
5 Measures for low income earners(e)	15	10	10	10	10	25	25	25
6 Spouse contributions and rebates	10	10	15	15	15	15	20	20
7 Frozen indexation and CGT discounts for funds	-	-	340	380	390	410	420	440
Sub-total(f)	10505	10830	10145	10115	11015	11700	12365	13035
Offsets								
8 Tax on funded pensions	(g)	(g)	(g)	(g)	(g)	(g)	(g)	(g)
9 Tax on funded lump sums before 1/7/83	25	25	20	20	20	20	20	20
10 Tax on funded lump sums from 1/7/83	380	400	310	330	340	360	380	400
11 Allow temporary residents access to super	-	-	-	-	70	110	75	70
Total offsets	405	425	330	350	430	490	475	490
Total tax expenditures	10100	10410	9820	9770	10590	11210	11890	12550

(a) Includes the new personal income tax rates under *The New Tax System* that became effective from 1 July 2000.
(b) Includes the revenue impact of the surcharge on superannuation contributions for high income earners.
(c) Includes changes to FBT which require employers to identify on group certificates the grossed-up taxable value of fringe benefits, starting in the 1999-2000 income year, for determining the liability for tax surcharges such as the superannuation contribution surcharge.
(d) Non-superannuation benefits are reported as a separate tax expenditure (B2) in Table 5.1 and are not included in this table.
(e) For years up to 2002-03 this line shows the level of the tax rebate available to low income earners who made personal contributions. From 2003-04 the line shows the impact of the government co-contribution being untaxed.
(f) Totals may not sum due to rounding.
(g) Indeterminate, but unlikely to be significant.

Index

This index cross-references keywords with tax expenditure reference codes (a unique identifier for each tax expenditure). Tax expenditures in Table 5.1 and Appendix A are ordered by their tax expenditure reference codes. Generally, only one keyword from each tax expenditure is indexed.

D

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