TAX EXPENDITURES STATEMENT

2005

ISBN 0 642 74310 X

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Printed by CanPrint Communications Pty Ltd

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CHAPTER 1: INTRODUCTION

The Tax Expenditures Statement provides details of concessions, benefits and incentives delivered to taxpayers through the tax system. These are referred to as 'tax expenditures'. The Tax Expenditures Statement provides details of each identified tax expenditure provided by the Australian Government and, where possible, reports the estimated pecuniary value or order of magnitude of the benefit to taxpayers.

Tax expenditures, like direct expenditures, affect the government's budget. However, unlike direct expenditures, tax expenditures once legislated become part of the tax law with a recurring fiscal impact and do not receive regular scrutiny through the budget process. The Tax Expenditures Statement publishes information to assist transparency and encourage public scrutiny of government programmes delivered through the tax system.

This statement lists around 270 tax expenditures and estimates their value over an eight-year period, from 2001-02 to 2008-09. The tax expenditures in this statement reflect all announced policies and legislation applying up to the date of publication of the *2005-06 Mid-Year Economic and Fiscal Outlook.*

Interpreting the estimates of tax expenditures

Care should be taken in interpreting the estimates of tax expenditures presented in this document. As outlined in Chapter 3, the estimates of reported tax expenditures are not necessarily reliable indicators of the budgetary impact of removing particular tax concessions. Neither are the aggregate estimates presented in Chapter 2 necessarily reliable indicators of the total value of tax expenditures. Where aggregates are reported, they are only presented as broad indicators of trends of the value and composition of tax expenditures.

Care should also be taken in comparing the level of tax expenditures reported in different editions of the Tax Expenditures Statement, both for individual tax expenditures and in aggregate. Changes may arise for reasons that do not reflect any change in the actual magnitude of tax expenditures. These reasons include revisions to data, changes in methodology, identification of formerly unidentified tax expenditures, quantification of previously unquantified tax expenditures and deletion of abolished tax expenditures.

1.1 What is a tax expenditure?

The taxation system raises revenue to fund government activities. The tax system also provides government with the opportunity to promote objectives other than revenue raising. A government can achieve some of these objectives by reducing taxes in selected areas to provide incentives for economic activities or to direct assistance (in the form of lower taxes) to particular groups, individuals, businesses or activities.

A tax expenditure is a tax concession that provides a benefit to a specified activity or class of taxpayer. A negative tax expenditure occurs when these arrangements impose an additional charge rather than a benefit. Almost all tax expenditures in this statement are positive.

A tax expenditure can be provided in many forms, including a tax exemption, tax deduction, tax offset, concessional tax rate or deferral of a tax liability.

Direct expenditures could deliver the benefits of most tax expenditures. Tax expenditures deliver benefits through the taxation system and accordingly affect the budget position in a similar way to direct expenditures.

Tax expenditures also redistribute the tax burden between taxpayers. This is because most tax expenditures result in less tax being collected from particular taxpayers. As a result, taxes paid by individuals and businesses that do not benefit from the tax expenditure will be higher than they otherwise would need to be to raise the same total revenue.

To estimate the value of a tax expenditure, the tax arrangement that normally would apply needs to be identified. This allows the nature and extent of the concession to be established. The tax treatment that normally would apply is known as the 'benchmark'. The benchmark should neither favour nor disadvantage similar activities or classes of taxpayer. Tax expenditures are measured as deviations from the benchmark.

Not all concessional elements of the tax system are classified as tax expenditures because some are considered structural elements of the tax system and are incorporated in the benchmark. For example, the personal income tax system includes a progressive marginal tax rate structure, which results in individuals on lower incomes paying a lower marginal rate of income tax than those on higher incomes. This arrangement is an integral design feature of the Australian tax system and is not identified as a tax expenditure.

1.2 Why report tax expenditures?

The publication of the Tax Expenditures Statement is an integral component of the Australian Government's budget reporting. The publication of detailed information on Australian Government tax expenditures is a requirement under the *Charter of Budget Honesty Act 1998* and serves three key functions. These are to:

- allow tax expenditures to receive a similar degree of scrutiny as direct expenditures;
- allow for a more comprehensive assessment of government activity; and
- contribute to the design of the tax system, by promoting and assisting public debate on all elements of the tax system.

Tax expenditure reporting in the OECD

In the early 1970s, only Germany and the United States reported tax expenditures. By 1983, Australia, Austria, Canada, France and Spain were also regularly identifying tax expenditures. Currently, almost all OECD member countries report tax expenditures. Most of these countries, including Australia, report tax expenditures annually.

The purpose of reporting tax expenditures is generally the evaluation of tax expenditures and to promote and assist public debate on the design of the tax system. Australia's Tax Expenditures Statement has a broad coverage including the majority of taxes levied by the Australian Government.

In general most OECD tax expenditure reporting countries report tax expenditures that relate to personal and business income taxes and value added taxes, where applicable. Australia, like Belgium, France, Germany, Netherlands, United Kingdom and the United States, reports tax expenditures on the majority of central government direct and indirect taxes. Austria and Italy report tax expenditures at all levels of government.

Tax expenditure reporting in the OECD (continued)

Of the OECD tax expenditure reporting countries, at least nine, including Australia, have noted the importance of reporting tax expenditures and made it a legal requirement. These countries include Austria, Belgium, France, Germany, Italy, Portugal, Spain and the United States. In addition, most of these countries explicitly link tax expenditure reporting to the budget process.

Source: *Tax Expenditures — Shedding Light on Government Spending through the Tax System, Lessons from Developed and Transition Economies,* The World Bank, Washington DC (2003).

TRANSPARENCY AND SCRUTINY

The Tax Expenditures Statement improves tax system transparency, thereby allowing greater public scrutiny of government policies.

In Australia, direct government expenditures are generally scrutinised during the annual budget process by the Parliament and parliamentary committees, the media and the general public. Concessional arrangements that give rise to tax expenditures often only receive consideration from Parliament at the time they are introduced. Furthermore, the cost of tax expenditures is generally not directly observable as it does not arise from a direct transaction with government. The publication of information on tax expenditures contributes to the review and assessment of tax expenditures, especially whether their objectives are being met at a reasonable cost and in the interest of the community in general.

SCOPE OF GOVERNMENT

The publication of tax expenditure information allows for a more comprehensive assessment of Australian Government activity. Unless direct expenditures and tax expenditures are both reported, the scope of government influence on the economy and society could be under-recognised. By reporting tax expenditures, all government 'expenditure' is accounted for.

TAX SYSTEM DESIGN

Transparent reporting of tax expenditures assists with the design of the tax system. Information in this statement assists in the evaluation, design and development of the tax system by helping to fulfil three key principles of tax system design: efficiency, equity and simplicity. Provision of detailed information on tax expenditures allows for a more thorough assessment of the tax system in respect to:

- its effect on resource allocation, incentives for taxpayer behaviour and distortions created by tax expenditures;
- the most appropriate way to administer concessions, particularly as most tax expenditures could be delivered as direct expenditures;
- whether the policy intent to provide concessions through the tax system is achieved; and
- the impact on different entities within the economy, particularly as tax expenditures shift the tax burden to entities that are not treated concessionally.

1.3 Coverage of this statement

This statement covers the following general-purpose Australian Government taxes:

- income tax (personal and business);
- fringe benefits tax;
- capital gains tax;
- excise duties;
- wine equalisation tax;
- luxury car tax;
- petroleum resource rent tax; and
- crude oil excise.

Taxes excluded from this statement are:

- customs duty or tariffs, except to the extent that the duty concerned is analogous to an excise duty that applies to similar goods produced in Australia; and
- specific-purpose taxes, such as agricultural levies, which are generally levied for cost-recovery purposes.

Estimates of the value of assistance provided to various industries, including tariff arrangements, appear in the Productivity Commission's *Trade and Assistance Review*.

The goods and services tax (GST) imposed and collected by the Australian Government on behalf of the States and Territories is not included in this statement.

1.4 Structure of this statement

The remainder of this statement is divided into the following sections.

TRENDS

Chapter 2 provides an overview of Australian Government tax expenditures, including trends, aggregates and a comparison with direct expenditures.

METHODOLOGY AND BENCHMARKS

Chapter 3 outlines the various approaches to measuring and modelling tax expenditure estimates, and provides a guide on how to interpret tax expenditure estimates.

Chapter 4 describes the benchmarks used to identify and measure tax expenditures.

DETAILS AND ADDITIONAL INFORMATION

Chapter 5 outlines changes to the list of tax expenditures since the *2004 Tax Expenditures Statement*, new tax expenditures, modified tax expenditures and tax expenditures no longer reported.

Chapter 6 details each tax expenditure, including an estimate, if available, of the benefit taxpayers derive, a description of the tax expenditure, a legislative reference for the tax expenditure, and for more recent tax expenditures, the date the expenditure was introduced. Further information on tax expenditures appears in the relevant budget documentation when the concession was introduced.

Appendix A provides an overview of the main modelling techniques used to estimate tax expenditures.

Appendix B provides a discussion of tax expenditures related to superannuation benefits and conceptual issues relating to interpretation of the superannuation tax expenditure estimates.

CHAPTER 2: TRENDS IN TAX EXPENDITURE ESTIMATES

This chapter provides details on the trends in tax expenditure estimates. The changes in the overall level of tax expenditures since the *2004 Tax Expenditures Statement* largely reflect the availability of estimates for items that were previously unquantifiable and the availability of new data that allowed existing estimates to be revised.

2.1 Interpretation of trends and aggregates

Care must be taken when interpreting tax expenditure aggregates, particularly when making comparisons across time and against direct expenditures. There are several major considerations that need to be taken into account when analysing tax expenditure aggregates.

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

- 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.

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

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

Further details on how to interpret tax expenditure estimates are provided in *Chapter 3: Measuring Tax Expenditures*.

2.2 Trends in tax expenditures

Total measured tax expenditures are reported in Table 2.1. Measured tax expenditures as a proportion of GDP are projected to be steady at around 4.1 per cent between 2004-05 and 2008-09.

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

Year	Superannuation[(b)] $m	Other tax expenditures $m	Total $m	Tax expenditures as a proportion of GDP (%)
2001-02 (est)	11,140	19,374	30,514	4.1
2002-03 (est)	10,395	19,268	29,663	3.8
2003-04 (est)	14,000	19,854	33,854	4.0
2004-05 (est)	14,405	22,454	36,859	4.1
2005-06 (proj)	15,890	23,117	39,007	4.1
2006-07 (proj)	16,585	24,340	40,925	4.1
2007-08 (proj)	18,005	25,008	43,013	4.1
2008-09 (proj)	19,285	26,119	45,404	4.1

(a) Total measured tax expenditures are derived by summing the individual tax expenditure estimates, excluding estimates that are rounded to zero (..) or unquantifiable (*).
(b) Includes the sum of tax expenditures C1 and C2.

The projected increase in the superannuation tax expenditure largely reflects the impact of the 2005-06 Budget policy decision to abolish the superannuation surcharge from 1 July 2005, which has been incorporated in the estimates for the concessional taxation of funded superannuation (C1)[1].

There has also been an upward revision to the estimates for the capital gains tax discount for individuals and trusts (E15), reflecting an increase in nominal capital gain on assets. The value of this tax expenditure item is heavily affected by movements in asset prices which can be volatile with the result that substantial revisions to the estimates for the projection years can be expected in future Tax Expenditures Statements.

Table 2.2 presents measured tax expenditures by the benchmark against which they are estimated for the period 2001-02 to 2008-09. The retirement savings benchmark, containing the superannuation tax expenditures, is the largest benchmark classification. This is followed by the personal income benchmark. For all reported years, the total measured tax expenditures representing the commodity taxes benchmark give rise to a negative estimate, largely reflecting the higher rate of excise levied on cigarettes (F7).

1 Throughout the remainder of this document, where a reference to a particular tax expenditure is made, the tax expenditure reference code used in Chapter 6 is reported in parentheses.

Table 2.2: Measured tax expenditures by benchmark[(a)]

Year	Personal income $m	Business income $m	Retirement savings $m	Fringe benefits tax $m	Capital gains tax $m	Commodity taxes $m	Natural resource taxes $m
2001-02 (est)	9,083	5,083	11,955	1,942	2,425	-124	150
2002-03 (est)	9,696	3,587	11,150	2,002	3,190	-142	180
2003-04 (est)	10,854	3,116	14,751	2,164	3,265	-446	150
2004-05 (est)	11,412	3,073	15,193	2,483	4,740	-372	330
2005-06 (proj)	12,333	2,350	16,654	2,607	4,939	-206	330
2006-07 (proj)	13,095	2,532	17,339	2,737	4,997	-105	330
2007-08 (proj)	13,553	2,672	18,760	2,870	4,983	-155	330
2008-09 (proj)	14,163	2,719	20,045	3,011	5,214	-78	330

(a) Measured tax expenditures by benchmark are derived by summing the individual tax expenditure estimates, excluding estimates that are rounded to zero (..) or unquantifiable (*).

2.3 Large tax expenditures

Table 2.3 provides a list of the largest measured tax expenditures for 2005-06 in terms of their absolute magnitude. The twelve largest positive tax expenditures account for over 80 per cent of the aggregate value of tax expenditures in 2005-06.

The largest tax expenditure is the concessional treatment of funded superannuation (C1) which is estimated to provide a benefit to taxpayers of around $15.5 billion in 2005-06. The next largest measured tax expenditures for 2005-06 are the capital gains tax discount for individuals and trusts (E15) and the income tax exemption of the Family Tax Benefit, Parts A and B (A39). These tax expenditures are estimated to provide a benefit to taxpayers in 2005-06 of around $4.4 billion and $2.5 billion respectively.

The largest negative tax expenditures in 2005-06 are the higher rate of excise levied on cigarettes (F7) and the reduction in depreciation deductions for plant and equipment (B43) following the abolition of the accelerated depreciation regime. These tax expenditures are estimated to be around -$1.4 billion and -$0.9 billion respectively.

Table 2.3: Large measured tax expenditures in 2005-06

Tax expenditure		Value $m
Large positive tax expenditures		
C1	Concessional taxation of funded superannuation	15,520
E15	Capital gains tax discount for individuals and trusts	4,390
A39	Exemption of Family Tax Benefit, Parts A and B, including expense equivalent	2,470
A29	Senior Australians' Tax Offset	1,840
A28	Tax offset for recipients of certain social security benefits, pensions or allowances	1,330
D24	Application of statutory formula to value car benefits	1,140
A38	Exemption of certain income support benefits, pensions or allowances	900
A22	Exemption of 30 per cent private health insurance refund, including expense equivalent	890
A64	Deduction for gifts to approved donees	800
F5	Concessional rate of excise levied on aviation gasoline and aviation turbine fuel	780
A31	Tax offset for low income earners	660
F6	Exemption from excise for 'alternative fuels'	630
Large negative tax expenditures		
F7	Higher rate of excise levied on cigarettes with less than 0.8 grams of tobacco	-1355
B43	Accelerated depreciation allowance for plant and equipment	-890

There are a number of tax expenditures for which an estimate is not available but have been assigned an order of magnitude classification (for details refer to *Chapter 6: Tax Expenditures*).

2.4 Trends in tax expenditures by function

Total measured tax expenditures by functional category are reported in Table 2.4 for the period 2002-03 to 2008-09. Significant movements in functional categories are listed below.

- The increase in the aggregate for health tax expenditures between 2002-03 and 2008-09 is largely a result of the estimates for the medical expenses tax offset (A20) and the exemption from tax of the 30 per cent refund on the costs of private health insurance (A22).
- The total for social security and welfare tax expenditures is also estimated to increase over the reported period in Table 2.4. The main tax expenditures affecting this category are the tax offset for recipients of certain social security benefits, pensions or allowances (A28); the senior Australians tax offset (A29); the income tax exemption of Family Tax Benefit, Parts A and B (A39); and the concessional taxation of funded superannuation (C1).
- The fuel and energy tax expenditures are estimated to increase from about $1.5 billion in 2002-03 to about $1.8 billion in 2008-09. The exemption from excise

for 'alternative fuels' (F6) and the condensate excise-free status (G2) are the main tax expenditures influencing the estimates in this category.

- The agriculture, fisheries and forestry tax expenditures functional category indicates a fall from about \$800 million to \$200 million over the reporting period as shown in Table 2.4. However, the aggregates for this functional category may be misinterpreted given that for some tax expenditures in this category, estimates beyond 2005-06 are not available.
  - For example, projections beyond 2005-06 are not reported for the income tax averaging for primary producers (B78) as this tax expenditure is very sensitive to variations in primary production income, which depends on a number of external factors.

Table 2.4: Aggregate tax expenditures by function[(a)]

	Estimates ($m)			Projections ($m)			
	2002-03	**2003-04**	**2004-05**	**2005-06**	**2006-07**	**2007-08**	**2008-09**
General public services							
A. Legislative and executive affairs	3	2	2	2	2	2	2
B. Financial and fiscal affairs	0	0	2	0	0	0	0
C. Foreign affairs and economic aid	451	431	471	511	531	571	631
D. General research	0	0	0	0	0	0	0
E. General services	10	10	10	10	11	11	11
F. Government superannuation benefits	0	0	0	0	0	0	0
Defence	103	95	95	100	100	100	105
Public order and safety	0	0	0	0	0	0	0
Education	-4	-4	-4	-2	1	1	1
Health	90	60	105	385	496	511	561
Social security and welfare	18,158	22,962	23,909	25,444	26,845	28,597	30,313
Housing and community amenities	710	555	525	570	595	605	620
Recreation and culture	52	48	64	76	82	85	79
Fuel and energy	1,475	1,375	1,610	1,640	1,720	1,705	1,815
Agriculture, fisheries and forestry	777	553	495	495	181	191	191
Mining and mineral resources (other than fuels), manufacturing and construction	379	-199	-452	-555	-569	-616	-683
Transport and communications	65	70	200	250	295	360	400
Other economic affairs							
A. Tourism and area promotion	20	25	25	25	30	30	30
B. Labour and employment affairs	10	10	10	440	470	470	470
C. Other economic affairs, nec(b)	5,349	5,705	7,538	7,369	7,862	7,969	8,298
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	0	0	0	0	0	0	0
E. Contingency reserve	0	0	0	0	0	0	0
Not allocated to function	2,015	2,156	2,254	2,247	2,273	2,421	2,560
Total(c)	**29,663**	**33,854**	**36,859**	**39,007**	**40,925**	**43,013**	**45,404**

(a) Total measured tax expenditures by functional category are derived by summing individual tax expenditure estimates, excluding estimates that are rounded to zero (..) or unquantifiable (*).
(b) 'nec' means not elsewhere classified.
(c) Totals may not sum due to rounding.

2.5 Comparison with direct expenditure

The tax expenditure estimates for 2004-05 by functional category are presented alongside direct government expenditure in Table 2.5. The list of direct expenditures by function is reproduced from Table 3 of the *2004-05 Final Budget Outcome.*

Table 2.5: Aggregate tax expenditures and direct expenditures by function in 2004-05

	Tax expenditures(a)	Direct expenditures(b)
	$m	$m
General public services		
A. Legislative and executive affairs	2	728
B. Financial and fiscal affairs	2	5,189
C. Foreign affairs and economic aid	471	2,844
D. General research	0	2,157
E. General services	10	631
F. Government superannuation benefits	0	2,386
Defence	95	14,346
Public order and safety	0	2,345
Education	-4	14,362
Health	105	35,561
Social security and welfare	23,909	82,962
Housing and community amenities	525	2,012
Recreation and culture	64	2,246
Fuel and energy	1,610	4,369
Agriculture, fisheries and forestry	495	1,813
Mining and mineral resources (other than fuels), manufacturing and construction	-452	1,702
Transport and communications	200	2,769
Other economic affairs		
A. Tourism and area promotion	25	216
B. Labour and employment affairs	10	3,922
C. Other economic affairs, nec(c)	7,538	757
Other purposes		
A. Public debt interest	0	3,880
B. Nominal superannuation interest	0	5,005
C. General purpose inter-government transactions	0	3,003
D. Natural disaster relief	0	77
E. Contingency reserve	0	11
Not allocated to function	2,254	0
Total(d)	**36,859**	**195,293**

(a) Total measured tax expenditures by functional category are derived by summing individual tax expenditure estimates, excluding estimates that are rounded to zero (..) or unquantifiable (*).
(b) Direct expenses by function, as reported in the *2004-05 Final Budget Outcome*.
(c) 'nec' means not elsewhere classified.
(d) Totals may not sum due to rounding.

Comparisons between tax expenditures and direct expenditures are informative in broad terms, although the costings are not strictly comparable. For example:

- Tax expenditure estimates measure the benefit of the tax concession to the recipient, whereas direct expenditure estimates measure the impact of the expenditure on the budget in pre-tax dollars;

- A tax expenditure tends to provide a higher benefit than 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; and

- The removal of a tax expenditure or a direct expenditure of the same magnitude may have different effects on the underlying fiscal balance, owing to different behavioural responses.

The addition of tax expenditures and direct expenditures will also tend to overstate the impact on the fiscal balance. For example, in the case of the exemption of certain income support benefits, pensions or allowances (A38) the direct expenditure includes the full cost of the programme to government. However, there is also an associated tax expenditure for the value of the income tax exemption to the recipient.

Total measured tax expenditures in 2004-05 are estimated at around $37 billion. Social security and welfare tax expenditures comprise around 65 per cent of total measured tax expenditures, which largely reflects the concessional taxation of funded superannuation (C1) and the income tax exemption of the Family Tax Benefit, Parts A and B (A39).

When compared to the sum of both total measured tax expenditures and total direct expenditures, total government assistance provided through tax expenditures is estimated to be 16 per cent by 2008-09. Table 2.6 shows that this ratio is expected to be fairly steady over the projection period.

Table 2.6: Trends in tax expenditures versus direct expenditures

Year	Tax expenditures	Direct expenditures(a)	Tax expenditures as a proportion of total expenditures(b)
	$m	$m	Per cent
2001-02 (est)	30,514	166,401	15.5
2002-03 (est)	29,663	170,676	14.8
2003-04 (est)	33,854	182,005	15.7
2004-05 (est)	36,859	195,293	15.9
2005-06 (proj)	39,007	207,038	15.9
2006-07 (proj)	40,925	216,858	15.9
2007-08 (proj)	43,013	227,263	15.9
2008-09 (proj)	45,404	237,843	16.0

(a) Source: Table F5, *2005-06 Mid-Year Economic and Fiscal Outlook*.
(b) Tax expenditures as a proportion of direct expenditures *plus* tax expenditures.

CHAPTER 3: MEASURING TAX EXPENDITURES

This chapter explores approaches used to measure and evaluate tax expenditures and provides a guide to interpreting the estimates reported in this statement.

3.1 Approaches to measuring tax expenditures

Tax expenditures can be measured in three principal ways. These are the revenue forgone, revenue gain and outlay equivalence approaches.

- The *revenue forgone approach* measures how much tax revenue is reduced (relative to a benchmark) because a tax expenditure exists. It compares the current and/or prospective treatment and the benchmark treatment, assuming taxpayer behaviour is unchanged.

- The *revenue gain approach* measures how much revenue could increase if a particular tax concession were removed. Accurate estimation of this cost would require estimates of the secondary or behavioural effects associated with such a change.

- The *outlay equivalence approach* estimates how much direct expenditure would be needed to provide a benefit equivalent to the tax expenditure. This approach measures the expenditure required, in pre-tax dollars, to achieve the same after-tax dollar benefit as a tax expenditure where the direct expenditure receives the tax treatment appropriate to that type of income in the hands of the recipient.

The different methodologies used to measure tax expenditures can result in significantly different estimates of their value.

Consistent with most tax expenditure statements published in OECD countries, Australia uses the revenue forgone approach to calculate tax expenditures.[1] This is the most reliable method of estimating the level of assistance the tax system provides to taxpayers. Tax expenditures calculated by the revenue forgone approach show tax expenditures as the difference in tax paid by taxpayers who receive a particular concession relative to similar taxpayers who do not receive that concession.

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1 The approaches adopted by selected OECD countries to measure tax expenditures are reported in *Tax Expenditures — Shedding Light on Government Spending through the Tax System, Lessons from Developed and Transition Economies*, The World Bank, Washington DC (2003).

3.2 Interpretation of tax expenditure estimates

Readers should be cautious when using the estimates in this statement for wider purposes, such as estimating the budgetary impact of tax concessions and tax provisions. Tax expenditure estimates calculated by the revenue forgone approach identify the financial benefit of tax concessions to individuals receiving those concessions relative to individuals or businesses that do not. However, it does not necessarily follow that there would be an equivalent increase to government revenue from the abolition of a tax expenditure. This is because of behavioural responses by the recipients of tax expenditures and because of overlaps in the coverage of different tax expenditures.

Concessionally-taxed activities tend to expand in response to a concession's introduction. Accordingly, the same activity would be expected to contract should the related tax expenditure be abolished, with consequent implications for potential revenue flows from taxing the 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;
- under a progressive income tax system, the removal of a tax expenditure may result in some taxpayers moving into a higher marginal tax bracket, increasing tax revenue; and
- as tax concessions may alter resource allocation and direct scarce resources from one activity to another, removal of those concessions may affect economic efficiency and the overall level of economic activity. This change in activity could affect tax revenues.

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 a concession's existence, the increase in revenue from removing the 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 actually the recipients derive quite large financial benefits.

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 discount 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 since the introduction of the concession on 21 September 1999. In contrast, the revenue impact of the concession is estimated against the benchmark of the revenue already included in the budget forward estimates. The budget estimates for implementing the capital gains tax discount measures take into account the offsetting impacts on revenue of removing capital gains tax indexation and averaging and the revenue dividend arising from increased realisations which formed part of the existing revenue base.

Unless otherwise indicated, tax expenditure estimates are calculated on an individual basis and do not take account of potential overlaps between different tax expenditures. While aggregate tax expenditures can provide a guide to trends in tax expenditures over time, overlaps between the coverage of tax expenditures and likely behavioural responses to their removal mean that such aggregates are not a reliable indicator of the overall budgetary impact of tax concessions.

Tax expenditure estimates are separated into estimates (for historical years) and projections (for future years). The estimates for 2004-05 are preliminary and subject to revision upon receipt of further tax data.

3.3 Accrual estimates

Consistent with budget reporting, this statement is prepared on an accrual basis using the *tax liability method* of revenue recognition. Under the tax liability method, the government is deemed to have accrued revenue the earlier of when an assessment of a tax liability is made or cash payment is received by the Australian Taxation Office or the Australian Customs Service.

Alternative methods of revenue recognition include:

- cash accounting, where the government is deemed to have derived revenue at the time cash is exchanged; and
- the economic transaction method, where the government is deemed to have accrued revenue at the time the relevant economic or financial transaction occurs.

In principle, the economic transaction method is generally more consistent with accrual accounting principles. However, with respect to tax revenue, the Australian Government, at this stage, considers that the tax liability method provides a more robust and reliable basis for forecasting revenue.

3.4 Technical notes

TREATMENT OF IMPUTATION

The value of some concessions reported in this statement is partially offset as a result of the imputation system. For example, concessions that reduce company tax may be 'clawed back' through the subsequent taxation of dividends in the hands of shareholders. The estimates in this statement generally make no allowance for this clawback owing to the practical difficulties of doing so.

CAPITAL GAINS TAX ESTIMATES

Under the capital gains tax (CGT) benchmark, nominal capital gains are fully taxable upon realisation. (This benchmark is described in full in Chapter 4.) The most significant tax expenditure against this benchmark is the 50 per cent discount for capital gains realised by individuals and trusts (E15) which affects most capital gains realised by these entities. However, individuals and trusts may also be eligible for other CGT concessions.

The revenue forgone methodology that is generally used in this statement implies that estimates for these other CGT concessions should be calculated against the benchmark of full taxation of nominal capital gains. In effect, this would double count the value of the 50 per cent tax concession for individuals and trusts in the value of these other concessions.

The value of tax expenditures reported for particular CGT items is reduced by the CGT discount and the discount component of the tax expenditure is allocated to the tax expenditure for the CGT discount (E15). This modification to the tax expenditure methodology provides a more realistic estimate of the value of the benefit taxpayers receive from capital gains concessions and removes the significant double counting of the CGT discount from the estimate.

CHAPTER 4: BENCHMARKS

4.1 Defining benchmarks

WHAT IS A TAX EXPENDITURE BENCHMARK?

An analysis of tax expenditures must identify the regular taxation arrangements that apply to similar taxpayers or types of activity. These arrangements constitute a reference point or benchmark, against which the nature and extent of any concession can be established. Tax expenditures are deviations from this benchmark.

The framework for defining each element of the benchmark in this statement is based on two principles:

- First, the benchmark should represent the standard taxation treatment that applies to similar taxpayers or types of activity. Consequently, a benchmark taxation treatment should neither favour nor disadvantage similar taxpayers or activities.

- Second, the benchmark should incorporate *structural elements* of the tax system. Such elements could include longstanding or integral design features, such as the progressive income tax rate scale for individual taxpayers.

Reconciling these two criteria often involves an element of judgment. In particular there may be different views on which structural elements to include in the benchmark. Consequently, benchmarks vary across countries and within countries over time.

To provide a clear structure for reporting tax expenditures, the benchmark is split into two major components reflecting Australia’s taxation arrangements. The 'income tax' benchmark describes the standard taxation arrangements applying to personal and business income, income saved for retirement, fringe benefits and capital gains. The 'commodity tax' benchmark describes the standard taxation arrangements that apply either directly or indirectly to specific commodities, namely tobacco, fuel, types of alcoholic beverages, motor vehicles and natural resources.

The remainder of this chapter provides details on the key elements of the income and commodity tax benchmarks. The discussion focuses on the following elements of each benchmark:

- the tax base — the activities or transactions subject to the tax;

- the tax rate — the rate of tax that applies to the base;
- the tax unit — the entity liable to pay the tax; and
- the tax period — the period in which the activities or transactions are undertaken.

4.2 Income tax benchmark

Most Australian Government taxes are imposed on income (rather than commodities). The following sections outline the general features of the income tax benchmark. The benchmarks for income saved for retirement, fringe benefits and capital gains are discussed separately because they have distinct tax regimes that affect how tax expenditures are measured against the general income tax benchmark.

GENERAL FEATURES

Tax base

The tax base for the income tax benchmark is based on the Schanz-Haig-Simons definition of income.[1] An entity's income is defined as the increase in the entity's economic wealth (stock of assets) between two points in time, plus the entity's consumption in that period. Consumption includes all expenditures, except those incurred in earning or producing income.

The Schanz-Haig-Simons definition of income conforms to the principal criterion of benchmark design because this definition is consistent for all entities: all income is included in the base regardless of the income earning activity or the type of entity that earns the income. However, adopting a benchmark based on this definition would exclude structural elements of the tax system. Consequently, the income tax benchmark is based on the Schanz-Haig-Simons framework, then modified to accommodate structural elements.

Income derived from earning activities includes:

- wages and salaries;
- allowances;
- business receipts;

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1 Further information on the Schanz-Haig-Simons and other definitions of income can be found in *Tax Policy Handbook*, edited by Parthasarathi Shome, page 117, International Monetary Fund, Washington DC, 1995.

- capital gains;
- interest, royalties and dividends;
- partnership income; and
- distributions from trusts.

In addition, income includes government cash transfers.[2] However, non-cash government transfers such as the provision of health, education or road services are not included in the definition of income.

The income tax benchmark applies to nominal rather than real income, consistent with a longstanding feature of Australia's tax arrangements.

Expenses incurred in earning income are generally deductible under the income tax benchmark. Where an expense is incurred for both income-producing and private purposes, deductions are limited to the portion of expenses relating to income production. Some complex deductions have a specific benchmark treatment:

- depreciation deductions are made over the effective life of the asset; and
- advance expenditure (prepayments) for services are generally apportioned over the service period. These apportioned amounts are deductible.

In the 2005-06 Budget, the Australian Government announced that it will allow, under a provision of last resort, deductibility over five years for business capital expenditures not elsewhere recognised within the taxation laws. These deductions for 'blackhole' expenditures are recognised as part of the business income tax benchmark for financial years commencing 1 July 2005.

A number of tax arrangements depart from the Schanz-Haig-Simons definition of income but are integral or longstanding features of the tax system and therefore included in the benchmark. These structural features are as follow.

- Imputed rent from owner-occupied housing is not included in income, and expenditure incurred in earning imputed rent is not deductible.
- The mutuality principle excludes certain receipts of mutual associations and societies from income on the basis that a mutual society is made up of its members and cannot derive income from dealings with members.

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2 Cash transfers are payments from the Australian Government to individuals or businesses which are not for services rendered (including refundable tax offsets).

- Certain gains, such as gains received by way of compensation or damage for any wrong or injury suffered by a taxpayer (where they are not solely for the loss of income), or gains or winnings from gambling (where taxpayers are not considered to be carrying on a business of gambling), are not included in income.

- Investment income derived from income bonds, funeral policies and scholarship plans of friendly societies that were issued before 1 January 2003 is not included in income.

  – Income relating to policies issued after 1 January 2003 is included in a friendly society's assessable income.

  – To prevent double taxation of income from bonds, funeral policies and scholarship plans, friendly societies can deduct the investment component of the benefits paid out to policyholders (other than the benefits from scholarship plans that are returned to investors rather than paid to the nominated students).

- Nominal capital gains are treated as income on realisation rather than as they accrue under the capital gains tax benchmark.

- Losses are deductible against assessable income for a later income year. Losses generally cannot be transferred to other taxpayers, and some losses may only be claimed against certain types of future income (for example, the quarantining of capital losses).

Arrangements to prevent double taxation

Arrangements to reduce or eliminate double taxation are integral features of the tax system and are included in the benchmark.

- For example the imputation system, which eliminates the double taxation of company profits distributed to shareholders, is included in the income tax benchmark.

International tax arrangements

Different definitions of income apply to residents and non-residents.

Australian residents are taxed on their worldwide income under the income tax benchmark. Consequently residents are taxed on their domestic and foreign-source income. Various international tax arrangements which ensure foreign-source income is subject to appropriate Australian tax are included in the income tax benchmark. These arrangements are noted below:

- Resident taxpayers are allowed to claim foreign tax credits up to the amount of Australian tax payable on foreign income. These arrangements ensure foreign source income is not taxed twice, firstly when earned overseas, then again in Australia.

- The controlled foreign company, foreign investment fund and transferor trust rules ensure Australian residents cannot escape or defer taxation of tainted income by interposing a non-resident legal entity.
  - Tainted income is generally income derived by investments which are mobile and whose location probably was influenced primarily by tax considerations. It includes passive income such as interest, royalties and dividends, and highly mobile forms of active income.

Non-residents are taxed on their Australian-source income only. Where a distribution paid to a non-resident from Australia is a distribution of foreign income or capital gains earned by an Australian entity, the distribution is not subject to Australian taxation. This avoids taxing the non-resident on what is essentially foreign income. Hence, the exemption is part of the benchmark.

Transfer pricing and thin capitalisation rules and interest, dividend and royalty withholding taxes aim to tax appropriately Australian sourced income, and so are included in the benchmark.

The benchmark also includes the allocation of taxing rights in Australia's double tax treaties (other than tax sparing provisions) which are longstanding or integral features of the tax system. These arrangements provide greater certainty for taxpayers by determining which jurisdiction has the right to tax various categories of income.

Substantiation provisions for income-earning related expenses

A taxpayer is generally entitled to a deduction for expenses incurred in gaining or producing assessable income. In most cases, a taxpayer must substantiate work expenses by obtaining written evidence. However, in certain cases a deduction can be obtained for work expenses without the need for an exact valuation, which may result in a concessional treatment.

Tax rates and income brackets

The tax rate under the income tax benchmark is the legislated tax rate that applies to the relevant entity in each financial year.

The personal income tax system includes the progressive personal income tax rate scale, the tax-free threshold and the Medicare levy. The progressive income tax rate scale is an integral and longstanding feature of the tax system.

Non-residents are not entitled to a tax-free threshold on Australian sourced income, which results in different tax rates and thresholds for non-residents. Non-residents typically receive a tax-free threshold or some equivalent form of tax-free allowances in their home jurisdiction. As a result, the non-resident income tax scale is included in the benchmark.

Tax unit

Individuals, companies and funds are subject to tax under the income tax benchmark. Sole traders, partnerships and trusts are not separate tax units. Income these entities earn is taxable in the hands of the recipient.

For the personal income tax system in Australia, the benchmark unit is the individual.

For companies, the benchmark tax unit is the company. From 1 July 2002, the benchmark tax unit for companies also includes the head entity of a consolidated group or a multiple-entry consolidated group.

Taxation period

The taxation period adopted under the income tax benchmark is the financial year. Consequently, measures that defer taxable income to another financial year such as income averaging (B78) or the farm management deposit scheme (B79) are reported as tax expenditures. Tax deferral arrangements will generally give rise to tax expenditures in the year income is earned, offset by a negative tax expenditure when the income is taxed.

Departing from this framework, the carry-forward loss provisions are an integral feature of the tax system and are included in the benchmark. These provisions allow an entity with a loss to carry the loss forward and deduct it in a future year.

The benchmark also includes arrangements for entities whose accounting period differs from the standard financial year (for example, companies with a substituted accounting period).

General features of the income tax benchmark

The personal income tax benchmark comprises:

- a tax base including all nominal income less expenses incurred in earning income;
- a tax scale comprising tax rates and associated income tax thresholds;
- the individual as the tax unit; and
- the financial year as the tax period.

The business income tax benchmark comprises:

- a tax base including all nominal income less expenses incurred in earning income;
- a tax rate as the rate that applies to the entity;
- the individual company (or head entity of a consolidated group) as the tax unit;
- the dividend imputation system, which ensures that company profits distributed to resident shareholders are taxed at the shareholders' marginal rate of tax; and
- the financial year (or substituted accounting period) as the taxation period.

SUPERANNUATION BENCHMARK

Contributions to and earnings of superannuation funds are classified as income under the Schanz-Haig-Simons definition. While such income could be considered under the personal income and capital gains tax benchmarks, the unique (and concessional) taxation treatment of superannuation warrants further detail on how the general income tax benchmark is applied to superannuation.

Superannuation in Australia may be taxed at three stages:

- when contributions are made to a superannuation fund;
- when investments in superannuation funds earn income; and
- when superannuation benefits are paid out.

Under the benchmark taxation treatment of superannuation, contributions are taxed like any other income in the hands of the fund member, earnings are taxed like any other investment income in the hands of the investor and benefits from superannuation are untaxed. Costs associated with superannuation investments are deductible under the benchmark.

Special features of the superannuation benchmark

The superannuation benchmark comprises:

- contributions taxed in the hands of the fund member;
- earnings taxed like any other investment income in the hands of the investor; and
- benefits from superannuation untaxed.

FRINGE BENEFITS TAX BENCHMARK

Fringe benefits also are classified as individual employee income under the Schanz-Haig-Simons definition. This section defines the benchmark for the fringe benefits tax system drawing on the general features of the income tax benchmark outlined above.

The tax base for the fringe benefits tax benchmark is fringe benefits provided to an employee or an associate of an employee in respect of the employment of the employee. Fringe benefits include property rights, privileges or services. Payments of salary or wages, eligible termination payments, contributions to complying superannuation funds and certain benefits arising from employee share schemes are excluded. The benchmark value of a fringe benefit to an employee is taken to be its market value less any contribution the employee pays. Generally, employers may claim the cost of providing fringe benefits and the amount of fringe benefits tax paid as income tax deductions.

The tax rate that applies under the fringe benefits tax benchmark is equivalent to the top personal marginal income tax rate plus the Medicare levy.[3] This is a longstanding and integral feature of the fringe benefits tax system. Fringe benefits tax is calculated on the grossed up taxable value (that is, the pre-tax equivalent value) of the fringe benefit. In some cases, discount valuation methods are available to calculate the taxable value of a fringe benefit. Such methods are reported as tax expenditures.

3 The higher rate of tax on fringe benefits provided to employees who are not in the top marginal tax bracket is considered part of the benchmark.

The employer providing the benefit (rather than the employee receiving the benefit) is the tax unit under the benchmark. This is consistent with the legal incidence of fringe benefits tax, which is payable by employers. The benchmark tax period is the fringe benefits tax year (1 April to 31 March).

Special features of the fringe benefits tax benchmark

The fringe benefits tax benchmark comprises:

- a tax base including all benefits provided to an employee or an associate of an employee in respect of the employment of the employee;
- generally, a deduction to the employer for the cost of providing fringe benefits and the amount of fringe benefits tax paid;
- the tax rate equivalent to the top personal marginal income tax rate plus the Medicare levy;
- the employer as the tax unit; and
- the fringe benefits tax year as the tax period (1 April to 31 March).

CAPITAL GAINS TAX BENCHMARK

Capital gains also are treated as income under the Schanz-Haig-Simons definition. This section defines the benchmark for the capital gains tax system drawing on the general features of the income tax benchmark outlined above.

The tax base for the capital gains tax benchmark is realised nominal gains and losses. The benchmark only includes gains or losses arising from the realisation of property where the realisation is not an aspect of the carrying on of a business. This excludes gains or losses that form part of a business's normal trading activities from the capital gains tax benchmark, for instance, gains or losses on trading stock of a business and gains or losses realised in the business of trading particular assets. These gains or losses are dealt with under the general features of the income tax benchmark.

Capital gains are taxable upon realisation. While the taxation of gains on an accrual basis aligns more closely with the broad Schanz-Haig-Simons definition, taxation on a realisation basis is consistent with longstanding practice and recognises the administrative problems associated with an accrual system.

Consistent with the general features of the income tax benchmark, the benchmark for Australian residents is their worldwide capital gains. In the case of non-residents, Australia limits its domestic and treaty capital gains tax rules to the direct or indirect disposal of interests in Australian land (and similar interests such as mining rights) and branch office assets, thus recognising that it is not effective or efficient to pursue broader capital gains taxing rights.

In the 2005-06 Budget, the Australian Government announced that it will broaden the range of expenditures that can be recognised under the capital gain tax regime. These so called 'blackhole' expenditures are recognised as part of the capital gains tax benchmark for financial years commencing 1 July 2005.

The tax rate and tax unit adopted under the capital gains tax benchmark is the same as that which applies under the general benchmark outlined above.

Special features of the capital gains tax benchmark

The capital gains tax benchmark comprises:

- taxation of gains on a realisation basis (that is, at the time an asset is disposed of) rather than on accrual; and
- a tax base as nominal gains (losses) from the realisation of property where the realisation is not an aspect of the carrying on of a business.

4.3 Commodity tax benchmark

The Australian Government imposes taxes on particular commodities. The tax base for the commodity tax benchmark is made up of two components:

- The consumption tax benchmark relates to the consumption of fuel (or energy), tobacco, alcoholic beverages and motor vehicles.
- The natural resource tax benchmark relates to the extraction and production of Australia's natural resources.

This statement only reports tax expenditures that relate to Australian Government taxes. Therefore the consumption tax benchmark does not include the goods and services tax. In addition, this statement excludes tax expenditures arising from the payment of customs duty except to the extent that the duty concerned is analogous to an excise duty that applies to similar goods produced in Australia.[4]

CONSUMPTION TAX BENCHMARK

Consumption taxes are either *ad valorem* or volumetric. *Ad valorem* taxes are charged as a fixed proportion of the commodity sold. Volumetric taxes are charged as a fixed proportion of the quantity of the commodity sold. Consequently, the tax base for consumption taxes is determined either by the value or quantity of the commodity sold.

The Australian Government imposes volumetric taxes on the consumption of tobacco, fuel, beer and spirits, and *ad valorem* taxes on the consumption of wine and luxury cars. These taxes are imposed at either the retail, manufacture or importation stage. In each case the tax unit is the entity that has the legal obligation to pay the tax.

The following sections outline how the general features of the consumption tax benchmark apply to the consumption of tobacco, fuel, alcohol and motor vehicles.

General features of the consumption tax benchmark

The consumption tax benchmark comprises:

- either the value or quantity of the commodity sold as the tax base;
- the rate of tax that applies to the price or quantity of the commodity sold as the tax rate; and
- the entity that has the legal obligation to pay the tax as the tax unit.

Tobacco

The benchmark for the consumption of tobacco (such as cigarettes and cigars) is the excise rate that applies to tobacco.

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4 Estimates of the value of assistance provided to various industries, including tariff arrangements, appear in the Productivity Commission's *Trade and Assistance Review*.

Fuel (or energy)

The tax base for the consumption of all fuel (or energy) is split into two activities:

- fuels consumed in an internal combustion engine (that is, primarily for transport use); and
- fuels consumed for a purpose other than in an internal combustion engine (for example, a product that can be used as a fuel in an internal combustion engine but is used in a solvent application or for heating).

The taxation of these activities reflects longstanding and integral features of the tax system whereby excise rates are dependent on whether the fuel is used in an internal combustion engine.

The benchmark excise rates for fuels consumed in an internal combustion engine are the full energy content based rates set to apply from 1 July 2015, for the following bands:

- high-energy content fuels, with energy content of more than 30 megajoules per litre and excise rate of 38.143 cents per litre. These include fuels such as petrol, diesel, biodiesel and aviation fuel;
- medium-energy content fuels, with energy content between 20 and 30 megajoules per litre and excise rate of 25 cents per litre. These include fuels such as liquefied petroleum gas (LPG), liquefied natural gas (LNG) and ethanol; and
- low-energy content fuels, with energy content of less than 20 megajoules per litre and excise rate of 17 cents per litre. These include fuels such as methanol.

Fuels consumed other than in an internal combustion engine are exempt from excise under the benchmark.

Alcoholic beverages

The tax base for the consumption of alcoholic beverages is separated into three components based on the consumption of different types of beverage:

- the consumption of lower alcohol content beverages (beverages with less than 10 per cent alcohol content) such as beer and ready to drink beverages;
- the consumption of higher alcohol content beverages (beverages with greater than 10 per cent alcohol content) such as brandy and other spirits; and
- the consumption of wine and alcoholic cider.

The taxation of these activities reflects a longstanding feature of the tax system whereby different tax rates apply to beer, spirits and wine:

- the benchmark excise rate for lower alcohol content beverages (for example, beer) is the excise rate that applies to full-strength packaged beer (including the excise-free threshold of the first 1.15 per cent of alcohol);
- the benchmark excise rate for higher alcohol content beverages (for example, spirits) is the excise rate on spirits other than brandy; and
- the benchmark rate for wine and alcoholic cider is the wine equalisation tax rate.

Motor vehicles

Motor vehicle purchases are not taxed under the benchmark. Consequently, the luxury car tax (F19) is a negative tax expenditure.

TAXES ON NATURAL RESOURCES (PETROLEUM)

The Australian Government taxes the extraction and production of unprocessed petroleum products (for example, crude oil, natural gas, ethane and LPG condensate). Different taxation arrangements for unprocessed petroleum products apply to projects that commenced before or after the 1986-87 financial year:

- The benchmark for projects that commenced in 1986-87 or later is the petroleum resource rent tax.
- The benchmark for projects that commenced prior to 1 July 1986 is the crude oil excise.

These taxes are longstanding and integral features of the tax system and ensure the Australian community receives a return for the exploitation of non-renewable resources.

General features of the benchmark for the taxation of natural resources

The petroleum resource rent tax benchmark comprises:

- all income from offshore petroleum production less eligible project expenditures as the tax base;
- the petroleum resource rent tax rate (40 per cent) as the tax rate; and
- the entity that has the legal obligation to pay the tax as the tax unit.

The crude oil excise benchmark is comprised of the following features:

- the barrel equivalent production of crude oil from fields of greater than 30 million barrels as the tax base;
- the rate of tax that applies to crude oil as the tax rate; and
- the entity that has the legal obligation to pay the tax as the tax unit.

CHAPTER 5: NEW, MODIFIED AND DELETED TAX EXPENDITURES

This chapter provides an outline of the major changes to the list of tax expenditures since the *2004 Tax Expenditures Statement*. Since the 2004 Statement, fifteen new tax expenditures were added and eleven tax expenditures have been deleted. In addition, twenty-two tax expenditures have been modified.

5.1 New tax expenditures

Table 5.1 reports new tax expenditure items arising from measures that have been announced or legislated since the *2004 Tax Expenditures Statement* up to the date of publication of the *2005-06 Mid-Year Economic and Fiscal Outlook*. In addition, the table reports existing measures that were not previously reported as tax expenditures, but which have been recently identified as tax expenditures.

Table 5.1: New tax expenditures

TES code	Tax expenditure description	Reason for new tax expenditure
INCOME		
Personal		
A18	$250 threshold for the deductibility of self-education expenses.	Existing measure not previously recognised as a tax expenditure.
A25	From 2005-06, concessional Medicare levy surcharge treatment will be provided to eligible taxpayers who receive certain lump sum payments in arrears.	New policy measure reported in the 2005-06 Budget.
A26	Maternity payments are exempt from income tax.	New policy measure reported in the 2004-05 Budget.
A36	The income of Australian resident officers of the Asian Development Bank is exempt from tax.	New policy measure reported in the 2005-06 Budget.
A37	Temporary residents will be provided with a four-year income tax exemption on most foreign source income, including capital gains on foreign assets.	New policy measure reported in the 2005-06 Budget.
A56	Deductions are denied for expenditure to the extent it is incurred in the furtherance of, or directly in relation to, activities in respect of which the taxpayer has been convicted of an indictable offence.	New policy measure reported in the 2005-06 Budget.

Table 5.1: New tax expenditures (continued)

TES code	Tax expenditure description	Reason for new tax expenditure
Personal (continued)		
A57	Charitable funds can claim income tax exemptions where they provide money, property and benefits solely to charities based in Australia, or solely to deductible gift recipients, or to a combination of these.	New policy measure reported in the 2004-05 Budget.
A58	Non-charitable public ancillary funds and prescribed private funds that provide money, property and benefits solely to income tax exempt deductible gift recipients qualify for income tax exemptions where the Commissioner of Taxation has endorsed these funds as being eligible for tax exemptions.	New policy measure reported in the 2004-05 Budget.
A59	Non-charitable public ancillary funds and prescribed private funds that provide money, property and benefits solely to income tax exempt deductible gift recipients can claim a refund on franking credits where the Commissioner of Taxation has endorsed these funds as being eligible for tax exemptions.	New policy measure reported in the 2004-05 Budget.
Business		
B9	Off-market share buy-backs may result in a tax expenditure for some participating shareholders.	Existing measure not previously recognised as a tax expenditure.
B25	Amounts paid by investors in 2005-06 and 2006-07 for shares in the Film Licensed Investment Company are immediately deductible.	New policy measure reported in the 2005-06 Budget.
Fringe Benefits Tax		
D47	Costs associated with the engagement of a relocation consultant where an employee moves residence as part of their employment are exempt from fringe benefits tax if certain criteria are met.	New policy measure reported in the 2004-05 Budget.
D48	Eligible work related items provided by an employer to an employee are exempt from fringe benefits tax.	Existing measure not previously recognised as a tax expenditure.
Capital Gains Tax		
E21	An automatic capital gains tax (CGT) roll-over is available for the transfer of CGT assets from the Public Sector Superannuation Board to the trustee of the PSS Investments Trust.	New policy measure reported in the 2005-06 Mid-Year Economic and Fiscal Outlook.
E22	Testamentary gifts of property to deductible gift recipients are no longer required to be valued at greater than $5,000 before access to the capital gains tax exemption is available.	New policy measure reported in the 2004-05 Budget.

5.2 Modified tax expenditures

Table 5.2 reports tax expenditures that have been modified since they were last reported in the *2004 Tax Expenditures Statement* (the respective tax expenditure reference codes from this Statement and the *2004 Tax Expenditures Statement* are shown in the first two columns of the table). Modified tax expenditures refer to tax expenditures that have changed materially, for example because of a change to the benchmark, a decision to remove a tax expenditure in a certain year, an amalgamation of tax expenditures, or the inclusion of a new element to an existing tax expenditure.

Table 5.2: Modified tax expenditures

TES code		Modification to the tax expenditure	Nature of modification
2005	2004		
INCOME			
Personal			
A15	A15	Opening of Operation AZURE for taxation purposes. Closing of Operation HUSKY for taxation purposes.	Modification to an existing tax expenditure as a result of policy measures reported in the 2005-06 Mid-Year Economic and Fiscal Outlook and the 2005-06 Budget.
A17	A17	Exemption of Commonwealth Trade Learning Scholarships.	Modification to an existing tax expenditure as a result of policy measures reported in the 2005-06 Budget.
A20	A18	A tax offset is available to a taxpayer whose net medical expenses in the income year exceed a certain threshold. From 1 July 2005, purely cosmetic procedures will be excluded from eligibility for the offset.	Modification to an existing tax expenditure as a result of policy measures reported in the 2005-06 Budget.
A29	A28	Reduction in the lowest marginal tax rate announced in the 2005-06 Budget will increase the income threshold where Senior Australians may be eligible for the maximum tax offset.	Modification to an existing tax expenditure as a result of policy measures reported in the 2005-06 Budget.
A34	A34	Extending the eligibility for the Mature Age Worker Tax Offset.	Modification to an existing tax expenditure as a result of policy measures reported in the 2005-06 Budget.
A55	A50	Change to allow taxpayers who have deferred the income tax liability on a discount received on shares or rights acquired under an employee share scheme, to roll-over a taxing point that would otherwise occur because of a corporate restructure.	Reporting modification.
A64	A58	Establishment of five new general Deductible Gift Recipient categories.	Extension of an existing tax expenditure as a result of policy measure reported in the 2005-06 Budget.

Table 5.2: Modified tax expenditures (continued)

TES code 2005	TES code 2004	Modification to the tax expenditure	Nature of modification
Business			
B13	B12	Extension to allow certain large scale television series access to the film tax offset.	Modification to an existing tax expenditure as a result of policy measures reported in the 2005-06 Budget.
B62	B62	Extension of the prepayment rule until 30 June 2008, providing certainty for those investing in plantation forestry while a review is conducted into support for the plantation timber industry.	Modification to an existing tax expenditure as a result of policy measures reported in the 2005-06 Budget.
B94	B98	Simplifying the debt/equity tax rules for related party ‘at call' loans made to small companies.	Reporting modification.
Retirement savings			
C1	C1	Superannuation contributions may be split between eligible couples; Superannuation annuities split between couples on marriage breakdown will be taxed consistently with other superannuation benefits split on marriage breakdown; Removal of the superannuation surcharge.	Modification to an existing tax expenditure as a result of policy measures reported in the 2005-06 Budget.
C2	C2	Removal of the superannuation surcharge.	Modification to an existing tax expenditure as a result of policy measures reported in the 2005-06 Budget.
C3	C3	Removal of the superannuation surcharge.	Modification to an existing tax expenditure as a result of policy measures reported in the 2005-06 Budget.
Fringe Benefits Tax			
D14	D15	Removal of the requirement that the provision of remote area housing benefits be 'customary' in an industry to qualify for an FBT exemption.	Modification to an existing tax expenditure as a result of policy measures reported in the 2004-05 Budget.
D17	D18	Increase in the FBT exemption thresholds for long service awards.	Modification to an existing tax expenditure as a result of policy measures reported in the 2004-05 Budget.
D19	D20	Broadening the exemption for the purchase of a new dwelling as a result of relocation.	Modification to an existing tax expenditure as a result of policy measures reported in the 2004-05 Budget.
D46	D47	Removal of condition that contributions to approved worker entitlement funds must be required under an industrial instrument in order to be eligible for an exemption from FBT.	Modification to an existing tax expenditure as a result of policy measures reported in the 2005-06 Budget.

Table 5.2: Modified tax expenditures (continued)

TES code 2005	TES code 2004	Modification to the tax expenditure	Nature of modification
Capital Gains Tax			
E9	E9	The Government will extend the existing CGT roll over on marriage breakdown to assets transferred under a binding financial agreement or an arbitral award entered into under the Family Law Act 1975 or similar arrangements.	Modification to an existing tax expenditure as a result of policy measures reported in the 2005-06 Budget.
E12	E12	Reforms to the capital gains tax treatment of non-residents.	Modification to an existing tax expenditure as a result of policy measures reported in the 2005-06 Budget.
E17	E17	Extension of the existing CGT roll-over to where a private acquirer compulsorily acquires an asset through recourse to a statutory power.	Reporting modifications.
CONSUMPTION			
Commodity taxes			
F4	F4	The Government will not proceed with the proposed excise increase on petrol.	Modification to an existing tax expenditure as a result of policy measures reported in the 2005-06 Mid-Year Economic and Fiscal Outlook.
F16	F16	Extending the wine equalisation tax producer rebate to New Zealand wine producers.	Modification to an existing tax expenditure as a result of policy measures reported in the 2005-06 Budget.

5.3 Deleted tax expenditures

Table 5.3 reports tax expenditures that have been deleted since the *2004 Tax Expenditures Statement*. Deleted tax expenditures generally arise because the relevant tax provisions have been abolished or cease to have effect within the reported time horizon of this publication, which is from 2001-02 to 2008-09. Deleted tax expenditures do not include tax expenditures that have been abolished but are still relevant to some years within the reported time horizon.

The deleted tax expenditures in Table 5.3 also include items relating to current Government programmes that, from 2001-02, have been counted in Budget documentation as an expense. As a result, they cease to be recorded as tax expenditures from that time. These items are the tax offset for private health insurance (2004 TES item A21) and the Family Tax Benefit, Parts A and B (2004 TES item A31).

Table 5.3: Deleted tax expenditures

2004 TES code	Tax expenditure description	Reason for deletion
A21	Tax offset for private health insurance.	This no longer has an impact over the reported time horizon.
A25	Tax offset for sole parents.	This no longer has an impact over the reported time horizon.
A31	Family Tax Benefit, Parts A and B.	This no longer has an impact over the reported time horizon.
A63	Exemption from income tax of one-off payments to former civilian internees and detainees of the Japanese.	This no longer has an impact over the reported time horizon.
B15	Concessional tax rate for the life insurance business of friendly societies.	This no longer has an impact over the reported time horizon.
B25	Film Licensed Investment Companies.	This no longer has an impact over the reported time horizon.
B78	Exempt distributions of capital gains to non-resident beneficiaries by Australian fixed trusts.	This is no longer considered as a tax expenditure; it has been included in benchmark.
B79	Capital gains treatment of trust distributions of non-assessable income to non-resident beneficiaries.	This is no longer considered as a tax expenditure; it has been included in benchmark.
B80	Exemption for foreign source income of funds management trusts to which non-residents are beneficially entitled.	This is no longer considered as a tax expenditure; it has been included in benchmark.
D6	Disregard of possible application of the $250 threshold for deductibility for some self-education expenses.	Deleted as a result of new tax expenditure on $250 threshold for self-education expenses.
E22	Exempt capital gains made by non-residents who sell a substantial interest in an Australian trust.	This is no longer considered as a tax expenditure; it has been included in benchmark.

CHAPTER 6: TAX EXPENDITURES

6.1 Introduction

This chapter provides information on all Australian Government tax expenditures. Details include a description of the tax expenditure, its commencement date and (where applicable) its expiry date, legislative references for the tax expenditure and estimates of the annual benefit derived by the recipients of the tax expenditure.

Tax expenditures are grouped according to the benchmark against which they are estimated and by the broad subject category to which they relate. The table below provides details of how this chapter is organised.

Benchmark	Specific benchmark category	Subject category	TES reference code
INCOME TAX (A - E)	Personal income (A)[1]	General public services	A1 – A7
		Defence	A8 – A16
		Education	A17 – A18
		Health	A19 – A25
		Social security and welfare	A26
		Tax concessions for certain taxpayers	A27 – A37
		Certain government income support payments	A38 – A47
		Housing and community amenities	A48 – A49
		Recreation and culture	A50
		Other economic affairs	A51 – A59
		Substantiation provisions for employment-related expenses	A60 – A62
		Miscellaneous	A63 – A70

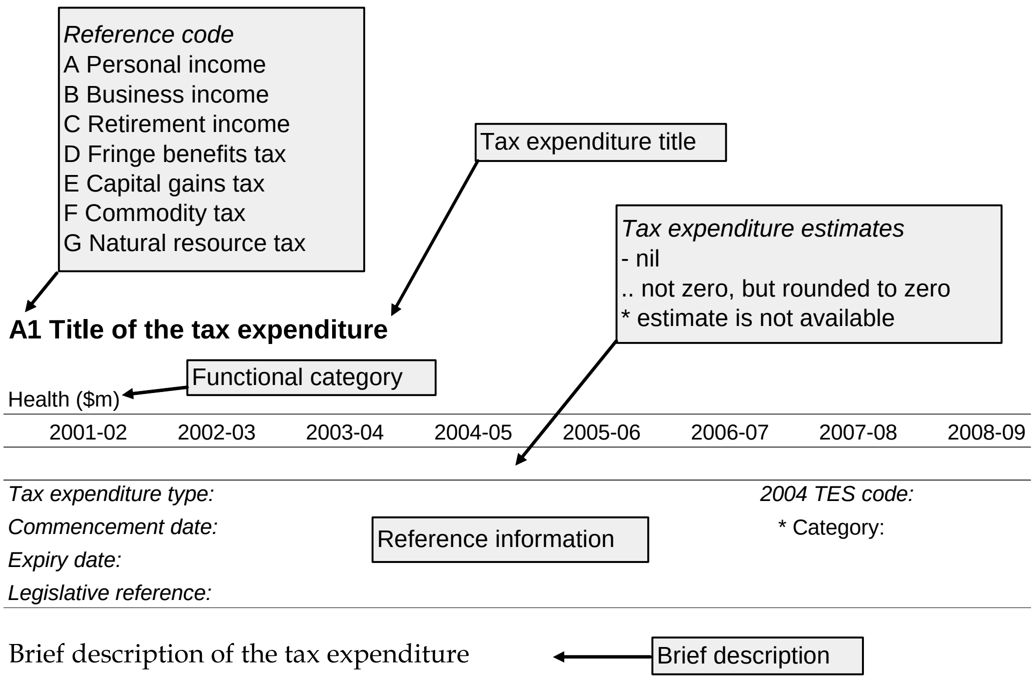
1 Personal income tax expenditures are generally grouped according to their functional group. However, tax expenditures that relate to employment-related expenses are grouped separately.

Benchmark	Specific benchmark category	Subject category	TES reference code
INCOME TAX (A - E) (continued)	Business income (B)[2]	General public services	B1
		Health	B2 – B3
		Social security and welfare	B4 – B7
		Tax concessions for certain taxpayers	B8 – B9
		Recreation and culture	B10 – B13
		Other economic affairs	B14 – B23
		Capital expenditure, effective life and depreciation	B24 – B57
		Prepayments and advance expenditures	B58 – B62
		International tax expenditures	B63 – B77
		Agriculture, forestry and fishing	B78 – B86
		Manufacturing and mining	B87 – B88
		Miscellaneous	B89 – B94
	Retirement savings (C)	Social security and welfare	C1 – C6
		Other economic affairs	C7 – C8
	Fringe benefits tax (D)	General public services	D1
		Defence	D2 – D4
		Education	D5
		Health	D6 – D7
		Social security and welfare	D8 – D13
		Housing and community amenities	D14 – D15
		Other economic affairs	D16 – D26
		Transport and communications	D27– D29
		Miscellaneous	D30 – D50
	Capital gains tax (E)	Defence	E1
		Housing and community amenities	E2 – E3
		Recreation and culture	E4
		Other economic affairs	E5 – E23

2 Business income tax expenditures are generally grouped according to their functional group. However, tax expenditures that relate to capital expenditures, prepayments and international taxation have been grouped separately. In addition, business income tax expenditures for agriculture, forestry and fishing are also reported under 'Tax expenditures relating to capital expenditure, effective life and depreciation'.

Benchmark	Specific benchmark category	Subject category	TES reference code
COMMODITY (F)	Consumption taxes	Fuel	F1 – F6
		Tobacco	F7 – F8
		Alcohol	F9 – F18
		Motor vehicles	F19
		General consumption	F20 – F21
NATURAL RESOURCE TAXES (G)		Manufacturing and mining	G1
		Petroleum	G2

The descriptions of tax expenditures included in this chapter present a range of information about each identified tax expenditure item. The following example illustrates the information included for a given tax expenditure.



The reference information provides details of:

- the type of expenditure, for instance a tax exemption, deduction or tax offset;
- the year a tax expenditure commenced (for those introduced after 1985);
- the year a tax expenditure will cease to operate (if applicable);
- where to find the provisions implementing the tax expenditure in the legislation;
- the *2004 Tax Expenditures Statement* reference code for a tax expenditure that is not new; and
- a category classification for a tax expenditure for which estimates are not available, indicating an order of magnitude range for the likely size of the tax expenditure.

Tax expenditures by functional categories are summarised in Table 2.4. The functional categories are based on an international standard classification of functions of government that is incorporated into the Government Finance Statistics framework.

The 'type of tax expenditure' in the reference information classifies tax expenditures according to the way in which they are delivered, for instance, by way of a tax exemption, tax deduction, tax offset, concessional tax rate or deferral of a tax liability.

In the case of fringe benefits tax, tax expenditures may also be delivered through a reduction in taxable value, discounted valuation or record keeping exemption. A reduction in taxable value is a tax expenditure that arises where the taxable value of the fringe benefit is reduced by some factor. A discounted valuation describes provisions where a valuation other than the actual value of the benefit is used as a basis for calculating the tax. Record keeping exemptions arise where an employer is not obliged to maintain current records of benefits to calculate the tax.

Certain tax expenditures relating to depreciation allow for the accelerated write-off of depreciable assets and these tax expenditures are identified as accelerated write-off. In the early years of an asset's life, accelerated write-offs allow larger deductions than the benchmark depreciation treatment. In the later years of an asset's life when the accelerated write-off is complete, deductions that would be allowed under the benchmark are no longer available. Thus, accelerated write-offs act like tax deferrals.

ORDER OF MAGNITUDE RANGE

In many cases, estimates for tax expenditures are not available because of data limitations. As such, the various modelling techniques used to estimate the value of tax expenditures, which are discussed in detail in Appendix A, are unable to be utilised fully to produce reliable estimates.

The following categories are used to provide an indication of the size of the expenditure for those tax expenditures for which an estimate is not available.

Category	Expected Tax Expenditures ($m)
0	0 on average
1	0-10
2	10-100
3	100–1,000
4	1,000 +
na	not available

The category classifications are provided as broad guide only and have been estimated without the benefit of detailed data. They are based on assumptions and judgment and as such they should be treated with caution. Tax expenditures which are categorised in this way are not included in the aggregate measured tax expenditures reported in Chapter 2.

The category assigned to an unquantifiable tax expenditure refers to the year the tax expenditure is considered to be most significant. The category classification also indicates whether a tax expenditure is positive or negative. For example, reliable estimates for an exemption from fringe benefits tax that applies to benefits provided by certain international organizations (D1) are not available. As such, category 1+ has been allocated to this tax expenditure to indicate the broad range of the size of the tax expenditure. It indicates that this tax expenditure is considered to be up to $10 million in the year the tax expenditure is most significant.

Where a tax expenditure for which an estimate is not available is small and is expected to average zero over the reporting period, it is classified as category 0. Lastly, for a tax expenditure where neither an estimate, nor an order of magnitude could be assigned, an ‘na’ classification has been adopted.

6.2 Income tax benchmark

PERSONAL INCOME

Tax expenditures for general public services

A1 Exemption of official salaries and certain other income of the Governor-General and Governor of any State

General public services (A) ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
..	..	..	..	-	-	-	-

Tax expenditure type:	Exemption	*2004 TES code*:	A1
Commencement date:	Introduced before 1985		
Expiry date:	No longer available for appointments after 28 June 2001		
Legislative reference:	Section 51-15 ITAA97		

The ordinary and statutory income of the Governor-General and State Governors derived from a source outside Australia, along with their official salaries, were exempt from income tax. This exemption is not available for appointments made after 28 June 2001.

A2 Deduction for expenses incurred by election candidates

General public services (A) ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
2	3	2	2	2	2	2	2

Tax expenditure type:	Deduction	*2004 TES code*:	A2
Commencement date:	Introduced before 1985 (local government provisions introduced in 1985)		
Expiry date:			
Legislative reference:	Section 25-60 ITAA97; section 74A ITAA36 (local government provisions)		

Certain expenses incurred by candidates contesting federal, state and territory government elections are deductible. Expenses of up to $1,000 per election incurred by candidates contesting local government elections are also deductible. Candidates are eligible for the deduction irrespective of whether they successfully contest the election.

A3 Exemption of official salary and emoluments of officials of prescribed international organisations

General public services (C) ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2004 TES code*:	A3
Commencement date:	Introduced before 1985	** Category:*	1+
Expiry date:			
Legislative reference:	*International Organisations (Privileges and Immunities) Act 1963*		

The official salary and emoluments of officials of prescribed international organisations may be exempt from income tax as part of the privileges and immunities required under the terms of certain international agreements. Prescribed international organisations include the United Nations organisations, the OECD, the International Court of Justice and the International Atomic Energy Agency.

A4 Exemption of income of certain visitors to Australia

General public services (C) ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
1	1	1	1	1	1	1	1

Tax expenditure type:	Exemption	*2004 TES code*:	A4
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Sections 23(b), 23(c)(iii), 23(c)(iv), 23(c)(v) and 23(v) ITAA36		

The earnings of certain non-residents and visitors to Australia are exempt from income tax.

This exemption generally includes income earned by non-residents:

- for provision of expert advice to the Australian Government or State governments;
- in an official capacity by visiting foreign government representatives;
- for conducting research or attending conferences on behalf of educational scientific or philanthropic societies;
- for overseas press coverage of events relating to the visit of a non-resident referred to in one of the preceding points; or
- for provision of advice to the Australian Government regarding Australia's defence (subject to approval by the Treasurer).

A5 Exemption of income earned by Australians from working on approved overseas projects

General public services (C) ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
370	450	430	470	510	530	570	630

Tax expenditure type:	Exemption	*2004 TES code*:	A5
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Section 23AF ITAA36		

Note: estimates include tax expenditures A5 and A6.

Income earned by Australian resident taxpayers from working on certain overseas approved projects for a continuous period of 91 days or more may be exempt from income tax. To be approved, projects must be considered to be in the national interest by the Minister for Trade (or the Minister's delegate).

A6 Exemption of income earned by Australians working in a foreign country

General public services (C) ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Included in A5							

Tax expenditure type:	Exemption	*2004 TES code*:	A6
Commencement date:	1986		
Expiry date:			
Legislative reference:	Section 23AG ITAA36		

Foreign earnings derived by Australian resident taxpayers while engaged in foreign service for a continuous period of 91 days or more may be exempt from income tax. This exemption does not apply where the foreign earnings are exempt from income tax in the foreign country for certain reasons.

A7 Exemption from income tax and Medicare levy of residents of Norfolk Island

General public services (E) ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
9	10	10	10	10	11	11	11

Tax expenditure type:	Exemption	*2004 TES code*:	A7
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Section 24G and Section 251U ITAA36		

Income earned by residents of Norfolk Island is exempt from income tax and Medicare levy.

Tax expenditures for defence

A8 Exemption of pay and allowances for part-time Australian Defence Force Reserve personnel

Defence ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
30	30	30	30	30	30	30	30

Tax expenditure type:	Exemption	*2004 TES code*:	A8
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Section 51-5 ITAA97		

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

A9 Exemption of certain allowances and bounties and the value of certain rations and quarters to Australian Defence Force personnel

Defence ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
8	8	8	8	9	9	9	9

Tax expenditure type:	Exemption	*2004 TES code*:	A9
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Section 51-5 ITAA97		

Certain allowances and bounties payable to Australian Defence Force personnel are exempt from income tax. These include the following allowances — separation, living out, living away from home, child education, scholarship, retention of lodging, disturbance, transfer and deployment allowances — and re-engagement bounties.

In the case of living away from home allowances and living allowances paid to Australian Defence Force personnel, the benchmark treatment is compensation for the actual additional cost faced by employees in living away from their homes. Accordingly, this tax expenditure relates solely to that part of the allowance that is in excess of this compensation.

The market value of rations and quarters supplied without charge to Australian Defence Force personnel is exempt from income tax.

A10 Exemption of pay and allowances earned in Australia by foreign forces

Defence ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
..	..	..	..	..	..	..	..

Tax expenditure type:	Exemption	*2004 TES code*:	A10
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Section 23(u) ITAA36		

Pay and allowances earned in Australia by foreign forces are exempt from income tax. This does not apply if the Australian Government makes the payment.

A11 Exemption of compensation for loss of pay and allowances paid to Australian Defence Force Reserve personnel

Defence ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
-	..	..	..	..	..	..	..

Tax expenditure type:	Exemption	*2004 TES code*:	A11
Commencement date:	1996		
Expiry date:			
Legislative reference:	Section 51-33 ITAA97		

Australian Defence Force Reserve personnel who are forced to resign due to injuries sustained whilst employed by the Reserves may receive compensation for the loss of pay and allowances. Such compensation payments are exempt from income tax. This exemption, legislated in 2003, applies to assessments for the 1996-97 and later income years.

A12 Exemption of compensation for loss of deployment allowance paid to Australian Defence Force members

Defence ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
-	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2004 TES code*:	A12
Commencement date:	1996	** Category:*	1+
Expiry date:			
Legislative reference:	Section 51-32 ITAA97		

Australian Defence Force personnel may receive compensation for the loss of deployment allowance where the deployment allowance ceases to be paid upon repatriation to Australia due to injuries sustained in a warlike situation. Such compensation payments are exempt from income tax. This exemption, legislated in 2003, applies to assessments for the 1996-97 and later income years.

A13 Exemption of pay and allowances earned by members of the Australian Defence Force in operational areas

Defence ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
25	30	17	17	16	16	16	16

Tax expenditure type:	Exemption	*2004 TES code*:	A13
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Sections 23AC and 23AD ITAA36		

Pay and allowances made to Australian Defence Force personnel during a period of service in an operational area are exempt from income tax.

A14 Exemption of some payments to Australian Federal Police and civilian personnel in service with an armed force of the United Nations

Defence ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
..	..	..	..	..	..	..	..

Tax expenditure type:	Exemption	*2004 TES code*:	A14
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Sections 23AB(5), 23AB(10) and 23AB(6) ITAA36		

Australian Federal Police and civilian personnel contributed by Australia to an armed force of the United Nations may receive compensation in respect of death, impairment or incapacity resulting from their service. Such compensation payments are exempt from income tax. The estate of a deceased civilian who has performed United Nations service may also receive relief from unpaid tax in respect of pay and allowances. Furthermore, a partial income tax exemption applies to living allowances paid to civilians who died during periods of United Nations service.

A15 Tax offsets for Australian Defence Force personnel serving overseas and for Australian Federal Police and civilians serving with United Nations forces

Defence ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Included in A48							

Tax expenditure type:	Offset	*2004 TES code*:	A15
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Section 79B ITAA36 and Section 23AB(7) ITAA36		

Australian Defence Force personnel who serve overseas and civilian personnel contributed by Australia to an armed force of the United Nations may be eligible for a tax offset. Personnel or civilians qualify for the full offset amount if their total period of overseas service is more than half the income year or if they die while on service. Personnel or civilians who serve for less than half the income year receive a proportion of the full amount. The offset is made up of a base amount with additional entitlements for individuals who maintain dependants.

A16 Exemption from the Medicare levy for Australian Defence Force members and their relatives and associates

Defence ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
30	35	40	40	45	45	45	50

Tax expenditure type:	Exemption	*2004 TES code*:	A16
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Section 251U ITAA36		

Income earned by Australian Defence Force personnel (or people who are entitled to free medical treatment because they are relatives of, or individuals otherwise associated with, Australian Defence Force personnel) is generally exempt from the Medicare levy.

Tax expenditures for education

A17 Exemption of income from certain educational scholarships or similar forms of assistance

Education ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
5	6	6	6	8	11	11	11

Tax expenditure type:	Exemption	*2004 TES code*:	A17
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Section 23(ya) ITAA36 and Section 51-10 ITAA97		

Income derived by way of scholarships, bursaries or other educational allowances to a student receiving full-time education at a school, college or university may be exempt from income tax. Income derived as part of an Australian Government scheme to assist secondary education or the education of isolated children is exempt from income tax, excluding federal education or training payments or education entry payments provided under the *Social Security Act 1991*.

Income derived by way of scholarships, allowances, bursaries or other education allowances provided by the Australian Government to an overseas student may also be exempt from income tax.

Grants from the Australian American Educational Foundation (that is, Fulbright Scholarships) are exempt if they are from funds made available to the Foundation under the agreement establishing it.

Commonwealth Trade Learning Scholarships are also exempt. These are payments of $500 which are made, from 1 July 2005, to eligible New Apprentices on successful completion of the first and second years of a New Apprenticeship in a skill shortage trade.

A18 Threshold for the deductibility of self-education expenses

Education ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
-10	-10	-10	-10	-10	-10	-10	-10

Tax expenditure type:	Exemption	*2004 TES code*:	New
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Section 82A ITAA36		

Self-education expenses are deductible if the purpose of the self-education is to maintain or improve skills or knowledge which the taxpayer uses in their income earning activities. However, in certain circumstances taxpayers may have to reduce their allowable self-education expenses by $250, which may reduce the deduction that they can claim for self-education expenses. Self-education expenses that are non-deductible, such as child care costs and non-deductible travel expenses which relate to self-education, can be offset against the $250 threshold.

Tax expenditures for health

A19 Exemption from the Medicare levy for residents with a taxable income below a threshold

Health ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
340	360	390	390	390	390	390	390

Tax expenditure type:	Exemption	*2004 TES code*:	A19
Commencement date:	1986		
Expiry date:			
Legislative reference:	Section 7 of the *Medicare Levy Act 1986*		

The Medicare levy generally applies at a flat rate to a taxpayer's whole taxable income. Residents whose taxable income falls below a threshold are exempt from the Medicare levy, with the levy phased in once the taxpayer's income exceeds the threshold.

A20 Medical expenses tax offset

Health ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
150	185	220	260	300	340	400	470

Tax expenditure type:	Offset	*2004 TES code*:	A18
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Section 159P ITAA36		

A tax offset is available to a taxpayer whose net medical expenses in the income year exceed a certain threshold. Qualifying medical expenses may relate both to resident taxpayers and any resident dependants but are net of available reimbursements, such as Medicare and private health insurance refunds. From 1 July 2005, purely cosmetic procedures will be excluded from eligibility for the offset. The value of the offset is currently 20 per cent of the excess of net medical expenses above a threshold of $1,500.

A21 Medicare levy exemption for non-residents, repatriation beneficiaries and foreign government representatives

Health ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
55	60	60	65	70	80	80	85

Tax expenditure type:	Exemption	*2004 TES code*:	A20
Commencement date:	1986		
Expiry date:			
Legislative reference:	Section 251U ITAA36		

The income of non-residents, repatriation beneficiaries and foreign government representatives is exempt from the Medicare levy.

A22 Exemption of 30 per cent private health insurance refund, including expense equivalent

Health ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
590	680	740	740	890	930	910	920

Tax expenditure type:	Exemption	*2004 TES code*:	A22
Commencement date:	1998		
Expiry date:			
Legislative reference:	Section 52-125 ITAA97		

Taxpayers can receive a 30 per cent refund on the costs of private health insurance either as a refundable tax offset, a direct payment or through reduced premiums. These payments are exempt from income tax.

From 1 April 2005, the refund has been increased from 30 per cent to 35 per cent for individuals aged between 65 and 69 years, and to 40 per cent for individuals aged 70 years and over.

A23 Medicare levy surcharge on high-income earners who do not hold private health insurance

Health ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
-95	-115	-145	-180	-210	-240	-270	-310

Tax expenditure type:	Increased rate	*2004 TES code*:	A23
Commencement date:	1997		
Expiry date:			
Legislative reference:	Sections 8B-8D of the *Medicare Levy Act 1986*		

Individuals and couples who do not have private health insurance and whose income exceeds a threshold are subject to an increased Medicare levy. The Medicare levy surcharge of 1 per cent is payable by single individuals with total taxable income for surcharge purposes in excess of $50,000 and couples and families with combined taxable income for surcharge purposes in excess of $100,000. The surcharge has applied since 1 July 1997 and is treated as a negative tax expenditure.

A24 Deduction for payment of United Medical Protection Limited support payments

Health ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
-	-	-	..	..	1	1	1

Tax expenditure type:	Deduction	*2004 TES code*:	A24
Commencement date:	2003		
Expiry date:			
Legislative reference:	Section 25-105 ITAA97		

From 2003-04, a specific tax deduction is available for all medical practitioners (including retirees) who are required to pay United Medical Protection Limited (UMP) support payments, equal to the full amount of the payment. UMP support payments are required of medical practitioners to fund the Australian Government's assumption of certain medical indemnity liabilities from medical defence organisations.

A25 Medicare levy surcharge lump sum payment in arrears offset

Health ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
-	-	-	-	-	..	..	..

Tax expenditure type:	Offset	*2004 TES code*:	New
Commencement date:	1 July 2005		
Expiry date:			
Legislative reference:	Not yet legislated		

From 2005-06, concessional Medicare levy surcharge treatment will be provided to eligible taxpayers who receive certain lump sum payments in arrears. This measure will allow taxpayers who have a Medicare levy surcharge liability, or an increased liability, as a result of certain lump sum payments in arrears to receive concessional treatment in respect of their surcharge liability.

Tax expenditures for social security and welfare

A26 Exemption of the Maternity payment

Social security and welfare ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
-	-	-	80	90	115	115	150

Tax expenditure type:	Exemption	*2004 TES code*:	New
Commencement date:	1 July 2004		
Expiry date:			
Legislative reference:	Section 52-150 ITAA97		

Maternity payments are exempt from income tax. The Maternity payment is available in respect of children born or adopted from 1 July 2004.

Tax concessions for certain taxpayers

A27 Tax offsets for taxpayers supporting a parent, parent-in-law, or invalid relative

Social security and welfare ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
15	13	15	16	17	18	19	20

Tax expenditure type:	Offset	*2004 TES code*:	A26
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Section 159J ITAA36		

A taxpayer who contributes to the maintenance of one or more dependants may be entitled to a tax offset. Dependants must be Australian residents and be either an invalid relative or a parent (or parent-in-law).

A28 Tax offset for recipients of certain social security benefits, pensions or allowances

Social security and welfare ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
940	1,020	1,140	1,290	1,330	1,410	1,460	1,550

Tax expenditure type:	Offset	*2004 TES code*:	A27
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Section 160AAA ITAA36		

Taxpayers who receive certain social security benefits, pensions or allowances may be eligible for a tax offset (the beneficiary or the pensioner tax offsets). Qualifying government payments include:

- various income support payments (for example, Newstart or Sickness Allowance);
- various pensions (for example, age pension (where not eligible for the Senior Australians' Tax Offset) and carer payment);
- Australian Government education and training payments (for example, Youth Allowance); and
- various other payments (for example, payments to Community Development Employment Project (CDEP) participants and exceptional circumstances relief payments).

A29 Senior Australians' Tax Offset

Social security and welfare ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
1,480	1,620	1,800	1,880	1,840	1,970	2,100	2,250

Tax expenditure type:	Offset	*2004 TES code*:	A28
Commencement date:	1996		
Expiry date:			
Legislative reference:	Sections 160AAAA and 160AAAB ITAA36		

The Senior Australians' Tax Offset (SATO) may be available to taxpayers who are eligible to receive the age pension or a veterans' benefit, pension or allowance. This includes individuals who qualify for but do not receive a benefit (for example, because they do not meet the means testing criteria).

A30 Tax offsets for dependant spouse, child-housekeeper and housekeeper who cares for a prescribed dependant

Social security and welfare ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
350	360	370	380	390	390	400	410

Tax expenditure type:	Offset	*2004 TES code*:	A29
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Sections 159J and 159L ITAA36		

A taxpayer may be entitled to claim one of the following tax offsets:

- a tax offset for the maintenance of a dependent spouse where there are no dependent children;
- a tax offset for the maintenance of a child-housekeeper, where a dependent spouse is not maintained and neither the taxpayer nor the taxpayer's spouse is eligible for Family Tax Benefit Part B; or
- a tax offset for the maintenance of a housekeeper caring for one or more dependants, where a dependent spouse is not maintained and neither the taxpayer nor the taxpayer's spouse is eligible for Family Tax Benefit Part B.

A31 Tax offset for low income earners

Social security and welfare ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
410	410	400	670	660	640	610	590

Tax expenditure type:	Offset	*2004 TES code*:	A30
Commencement date:	1993		
Expiry date:			
Legislative reference:	Section 159N ITAA36		

A taxpayer whose taxable income falls below a threshold is eligible for the low income tax offset of $235. This amount decreases at a rate of four cents for each dollar above $21,600. Prior to 2003-04, the maximum offset was $150, and reduced at incomes above $20,700.

A32 Release from particular tax liabilities in cases of serious hardship

Social security and welfare ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2004 TES code*:	A32
Commencement date:	Introduced before 1985	** Category:*	2+
Expiry date:			
Legislative reference:	Division 340 of Schedule 1 to the *Tax Administration Act 1953* (formerly section 265 of ITAA36, which was repealed from 1 September 2003)		

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

A33 Deduction for tax agent fees for family tax benefit claims lodged through Centrelink

Social security and welfare ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
-	-	-	..	-	-	-	-

Tax expenditure type:	Deduction	*2004 TES code*:	A33
Commencement date:	2003		
Expiry date:	2004		
Legislative reference:	Section 25-8 ITAA97		

A tax deduction was available for tax agent fees for family tax benefit claims relating to the 2001-02 income year lodged through Centrelink between 1 July 2003 and 30 June 2004.

Claims made in 2003-04 relating to the 2001-02 income year could only be lodged through Centrelink, not the Australian Taxation Office.

A34 Mature Age Worker Tax Offset

Other economic affairs (B) ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
-	-	-	-	430	460	460	460

Tax expenditure type:	Offset	*2004 TES code*:	A34
Commencement date:	2004		
Expiry date:			
Legislative reference:	Sections 61-550 to 61-570 ITAA97		

Workers aged 55 years and over may be entitled to a tax offset, based on the amount of their net income from working. The offset applies from the 2004-05 income year. A maximum offset amount of $500 is payable on assessment.

A35 Tax rebate for child care

Social security and welfare ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
-	-	-	-	-	280	310	330

Tax expenditure type:	Offset	*2004 TES code*:	A35
Commencement date:	2004		
Expiry date:			
Legislative reference:	Not yet legislated – expected to be included in sections 61-460 to 61-497 of the ITAA97		

Taxpayers who receive Child Care Benefit (CCB) for approved child care and meet the CCB work/training/study test (or are otherwise eligible for up to 50 hours of CCB) may be eligible for a 30 per cent rebate for out of pocket expenses, up to a maximum of $4,000 per child per year. Taxpayers can claim the rebate in the tax return for the year after child care expenses have been incurred.

A36 Asian Development Bank – income tax exemption for Australian staff

Other economic affairs (C) ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
-	-	-	-	..	..	..	..

Tax expenditure type:	Exemption	*2004 TES code*:	New
Commencement date:	17 September 2005		
Expiry date:			
Legislative reference:	*Asian Development Bank (Privileges and Immunities) Amendment Regulations 2005 (No. 1)*		

The income of Australian resident officers of the Asian Development Bank (ADB) is exempt from tax.

A37 International taxation – foreign income exemption for temporary residents

Other economic affairs (C) ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
-	-	-	-	-	-	29	32

Tax expenditure type:	Exemption	*2004 TES code*:	New
Commencement date:	First income year after the date of Royal Assent of the enabling legislation		
Expiry date:			
Legislative reference:	Not yet legislated		

Temporary residents will be provided with a four-year income tax exemption on most foreign source income, including capital gains on foreign assets. Interest withholding tax obligations will be removed for temporary residents for four years. Temporary residents will also be exempt from the Foreign Investment Fund rules regardless of the period of residence.

Tax exemptions for certain government income support payments

A38 Exemption of certain income support benefits, pensions or allowances

Social security and welfare ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
900	930	970	980	900	940	970	1,000

Tax expenditure type:	Exemption	*2004 TES code*:	A36
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Sections 52-5 to 52-40 ITAA97		

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.

A39 Exemption of Family Tax Benefit, Parts A and B, including expense equivalent

Social security and welfare ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
1,800	1,710	2,520	2,330	2,470	2,590	2,660	2,730

Tax expenditure type:	Exemption	*2004 TES code*:	A37
Commencement date:	2000		
Expiry date:			
Legislative reference:	Section 52-150 ITAA97		

Taxpayers can receive the Family Tax Benefit either as a direct payment or as a refundable tax offset. Payments are exempt from income tax regardless of delivery method.

A40 Exemption of rent subsidy payments under the Commonwealth/State mortgage and rent relief schemes

Social security and welfare ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
13	13	13	13	12	12	13	13

Tax expenditure type:	Exemption	*2004 TES code*:	A38
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Section 51-30 ITAA97		

Rent subsidy payments received by renters and paid under the Mortgage and Rent Relief Scheme by an Australian Government agency are exempt from income tax.

A41 Exemption of Child Care Benefit

Social security and welfare ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
340	360	350	380	410	440	470	500

Tax expenditure type:	Exemption	*2004 TES code*:	A39
Commencement date:	2000		
Expiry date:			
Legislative reference:	Section 52-150 ITAA97		

Child Care Benefit paid by the Australian Government is exempt from income tax.

Child Care Benefit can be paid directly to child care service providers to reduce the fees charged. Alternatively, the payment can be made directly to parents as a lump sum at the end of the income year.

A42 Exemption of one-off payments to senior Australians

Social security and welfare ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
2	-	-	-	-	-	-	-

Tax expenditure type:	Exemption	*2004 TES code*:	A40
Commencement date:	2000, 2001		
Expiry date:	2001		
Legislative reference:	Sections 52-10 and 59-5 ITAA97		

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* were exempt from income tax. Claims had to be lodged by 30 June 2001. Also exempt from income tax was the $300 one off payment provided to people of age pension age who received income support or were outside the taxation and income support system, as announced in the 2001-02 Budget. Claims through Centrelink had to be made by 31 December 2001.

These payments and the associated tax expenditure are one-off in nature.

A43 Exemption of Utilities Allowance and Seniors Concession Allowance

Social security and welfare ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
-	-	-	-	15	25	25	25

Tax expenditure type:	Exemption	*2004 TES code*:	A41
Commencement date:	2004		
Expiry date:			
Legislative reference:	Sections 52-10 and 52-65 ITAA97		

Utilities Allowances and Seniors Concession Allowances payable to senior Australians are exempt from income tax.

A44 Exemption of the Baby Bonus

Social security and welfare ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
-	7	19	30	30	30	30	25

Tax expenditure type:	Exemption	*2004 TES code*:	A42
Commencement date:	2002		
Expiry date:	Claims can be made for children born (or for whom legal responsibility was gained) on or prior to 30 June 2004		
Legislative reference:	Subdivision 61-I ITAA97		

Baby Bonus payments are exempt from income tax. The Baby Bonus is available to parents who gained legal responsibility for a child between 1 July 2001 and 30 June 2004. Payments are expected to continue for some years at around the 2004-05 level before tapering off.

A45 Exemption of certain war-related payments and pensions

Social security and welfare ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
380	410	420	440	390	400	400	410

Tax expenditure type:	Exemption	*2004 TES code*:	A43
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Section 52-60 to 52-110 ITAA97		

Note: estimates include tax expenditures A45 and A46.

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

A46 Exemption of certain pensions, annuities or allowances paid for persecution

Social security and welfare ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Included in A45							

Tax expenditure type:	Exemption	*2004 TES code:*	A44
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Sections 23(kc), 23(kca) and 23AL ITAA36		

From 2001-02, certain foreign source World War II payments are exempt from income tax. This applies where the payment is in connection with:

- any wrong or injury;
- loss of, or damage to, property; or
- any other detriment;

suffered as a result of:

- persecution by an enemy of the Commonwealth, or enemy associated regime, during World War II;
- flight from such persecution; or
- participation in a resistance movement against such forces.

Prior to 2001-02, certain pensions, annuities and allowances paid by the Federal Republic of Germany and the Kingdom of the Netherlands, as compensation for persecution or disability arising during World War II, were exempt from income tax.

A47 Income tax exemption for certain pensions received by residents of Papua New Guinea

Social security and welfare ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2004 TES code:*	A45
Commencement date:	Introduced before 1985	** Category:*	1+
Expiry date:			
Legislative reference:	Section 23(kd) ITAA36		

Pensions received from Australia by Papua New Guinea residents are exempt from income tax providing Papua New Guinea has a reciprocal exemption in place.

Tax expenditures for housing and community amenities

A48 Zone tax offsets

Housing and community amenities ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
175	180	185	190	190	190	195	200

Tax expenditure type:	Offset	*2004 TES code*:	A46
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Section 79A ITAA36		

Note: estimates include tax expenditures A15 and A48.

Taxpayers who live in prescribed remote areas of Australia are eligible for a tax offset.

A49 Exemption of payments made under the First Home Owners Grant Scheme

Housing and community amenities ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
330	450	290	250	290	310	310	320

Tax expenditure type:	Exemption	*2004 TES code*:	A47
Commencement date:	2000		
Expiry date:			
Legislative reference:	*A New Tax System (Commonwealth-State Financial Arrangements) Act 1999*-Appendix D, Intergovernmental Agreement on Commonwealth-State Financial Relations, *Appropriation Act (No. 2) 2001-02* (for the additional grant) and relevant state legislation		

Payments made under the First Home Owners Grant Scheme are exempt from tax. Eligible applicants purchasing or building their first home from 1 July 2000 are entitled to $7,000 assistance to compensate for the impact of the GST and tax reform on the price of houses. The Australian Government announced an additional $7,000 grant where a first homeowner built their first home or purchased a new, but previously unoccupied home, between 9 March 2001 and 31 December 2001. From 1 January 2002 until 30 June 2002 inclusive, the additional grant was reduced to $3,000.

Tax expenditures for recreation and culture

A50 Income averaging for authors, inventors, performing artists, production associates and sportspersons

Recreation and culture ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
8	8	8	9	9	10	11	12

Tax expenditure type:	Concessional rate	*2004 TES code*:	A48
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Division 405 ITAA97		

Authors (including composers and artists), inventors, performing artists, production associates and sportspersons can be subject to significant fluctuations in their income. These taxpayers may be eligible for an income averaging scheme that provides concessional rates of tax for abnormal receipts above average income.

Tax expenditures for other economic affairs

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

Other economic affairs (B) ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
*	*	*	*	*	*	*	*

Tax expenditure type:	Deferral	*2004 TES code*:	A51
Commencement date:	Introduced before 1985	** Category:*	na
Expiry date:			
Legislative reference:	Section 27H ITAA36		

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

A52 Increased tax rates for certain minors

Other economic affairs (C) ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
-6	-5	-5	-5	-5	-6	-6	-7

Tax expenditure type:	Increased rate	*2004 TES code*:	A52
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Division 6AA ITAA36		

Higher rates of taxation apply to the 'unearned income' of certain minors. 'Unearned income' includes dividend, interest, rent, royalties and other income from property. The special rates do not apply to minors classed as being in a full-time occupation.

A53 Deductibility of union dues and subscriptions to business associations

Other economic affairs (B) ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
*	*	*	*	*	*	*	*

Tax expenditure type:	Deduction	*2004 TES code*:	A49
Commencement date:	Introduced before 1985	** Category:*	1+
Expiry date:			
Legislative reference:	Section 25-55 ITAA97		

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

A54 Part-year tax-free threshold

Other economic affairs (C) ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
-9	-9	-10	-10	-10	-9	-9	-9

Tax expenditure type:	Increased rate	*2004 TES code*:	A53
Commencement date:	1986		
Expiry date:			
Legislative reference:	Sections 16 to 20 of the *Income Tax Rates Act 1986*		

Students who cease full-time education for the first time receive a pro-rated tax-free threshold, corresponding to the number of months that the student is not enrolled in full-time education. Taxpayers who become an Australian resident for the first time or cease to be an Australian resident also receive a pro-rated tax-free threshold. This corresponds to the number of months that the taxpayer is an Australian resident.

A55 Deferral of tax and exemption for share discounts on qualifying employee share acquisition schemes

Other economic affairs (B) ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
*	*	*	*	*	*	*	*

Tax expenditure type:	Deferral, exemption	*2004 TES code*:	A50
Commencement date:	1995	** Category:*	3+
Expiry date:			
Legislative reference:	Section 26AAC and Division 13A ITAA36		

Discounts on shares (or rights to acquire shares) acquired under an employee share acquisition scheme are generally included in the taxpayer's assessable income in the year in which the share or right was acquired. However, a taxpayer may defer the inclusion of discounts on qualifying shares or rights for up to 10 years. Alternatively, the taxpayer may elect to bring the discount on qualifying shares or rights to assessment in the year of acquisition and benefit from an exemption on the first $1,000. These concessions only apply under certain conditions and in particular, the share or right must be acquired after 28 March 1995 (Division 13A). Certain other shares or rights acquired before 28 March 1995 were eligible for an exemption on the first $200 of the discount (Section 26AAC).

A56 Denial of deductions for illegal activities

Other economic affairs (C) ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
-	-	-	-	*	*	*	*

Tax expenditure type:	Deduction	*2004 TES code*:	New
Commencement date:	30 April 2005	** Category:*	1-
Expiry date:			
Legislative reference:	Not yet legislated		

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

A57 Distributions to charitable funds

Other economic affairs (C) ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
-	-	-	-	-	*	*	*

Tax expenditure type:	Exemption	*2004 TES code*:	New
Commencement date:	1 July 2005	** Category:*	2+
Expiry date:			
Legislative reference:	Section 50-60 ITAA97		

Note: estimates include tax expenditures A57, A58 and A59.

Charitable funds can claim income tax exemptions where they provide money, property and benefits solely to charities based in Australia, or solely to deductible gift recipients, or to a combination of these.

A58 Income tax exemption for funds distributing to certain entities

Other economic affairs (C) ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Included in A57							

Tax expenditure type:	Exemption	*2004 TES code*:	New
Commencement date:	1 July 2005		
Expiry date:			
Legislative reference:	Section 50-20 ITAA97		

Non-charitable public ancillary funds and prescribed private funds that provide money, property and benefits solely to income tax exempt deductible gift recipients qualify for income tax exemptions where the Commissioner of Taxation has endorsed these funds as being eligible for tax exemptions.

A59 Refund on franking credits

Other economic affairs (C) ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Included in A57							

Tax expenditure type:	Rebate	*2004 TES code*:	New
Commencement date:	1 July 2005		
Expiry date:			
Legislative reference:	Section 207-115 ITAA97		

Non-charitable public ancillary funds and prescribed private funds that provide money, property and benefits solely to income tax exempt deductible gift recipients can claim a refund on franking credits where the Commissioner of Taxation has endorsed these funds as being eligible for tax exemptions.

Concessions under the substantiation provisions for employment-related expenses

A60 A reasonable overtime meal allowance

Not allocated to function ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
*	*	*	*	*	*	*	*

Tax expenditure type:	Deduction	*2004 TES code*:	A54
Commencement date:	1987	** Category:*	0
Expiry date:			
Legislative reference:	Section 900-60 ITAA97		

A taxpayer is able to claim a deduction for a 'reasonable' overtime meal allowance expense payable under an industrial instrument.

A61 Certain travel expenses in and outside Australia

Not allocated to function ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
*	*	*	*	*	*	*	*

Tax expenditure type:	Deduction	*2004 TES code*:	A55
Commencement date:	1987	** Category:*	0
Expiry date:			
Legislative reference:	Sections 900-50 and 900-55 ITAA97		

A taxpayer is able to claim a deduction in relation to a travel allowance for reasonable expenses on accommodation, meals and incidental costs of travel in Australia, and meals and incidental costs of travel outside Australia.

A62 Alternatives to the logbook method of substantiating car expenses

Not allocated to function ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
*	*	*	*	*	*	*	*

Tax expenditure type:	Deduction	*2004 TES code*:	A56
Commencement date:	1987	** Category:*	na
Expiry date:			
Legislative reference:	Sections 900-70 and 900-75 ITAA97		

Three alternative methods to the logbook method (which is based on actual expenditure) are available to value car expense deductions:

- the one third of actual expenses method (only available if business use exceeds 5,000 kilometres);

- the 12 per cent of original value method (only available if business use exceeds 5,000 kilometres); and
- the cents per kilometre method (only available up to a maximum of 5,000 business kilometres).

Miscellaneous tax expenditures

A63 Tax offset on certain payments of income received in arrears

Not allocated to function ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
3	3	5	4	4	3	3	3

Tax expenditure type:	Offset	*2004 TES code*:	A57
Commencement date:	1986		
Expiry date:			
Legislative reference:	Sections 159ZR-159ZRD ITAA36		

Individual taxpayers that receive lump sum payments of certain income that accrued in earlier income years may be entitled to a tax offset. Income that qualifies for the tax offset includes certain back payments of salary or wages, lump sum payments of workers or accident compensation, and social security and other benefits, received on or after 1 July 1986.

A64 Deduction for gifts to approved donees

Not allocated to function ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
440	480	560	630	800	720	770	830

Tax expenditure type:	Deduction	*2004 TES code*:	A58
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Division 30 ITAA97		

Note: estimates include tax expenditures A64 and A66.

Gifts of cash and property (subject to certain conditions) of a value of $2 or more to certain approved recipients are tax deductible. Eligible recipients are listed in tables in Subdivision 30-B of the ITAA97.

From 1 July 2006, five new categories of approved recipients will be established to cover war memorials, disaster relief, animal welfare, charitable services and educational scholarships.

A65 Deduction for contributions with an associated minor benefit

Not allocated to function ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
-	-	-	-	3	3	3	3

Tax expenditure type:	Deduction	*2004 TES code*:	A59
Commencement date:	July 2004		
Expiry date:			
Legislative reference:	Division 30 ITAA97		

Individual taxpayers may claim an income tax deduction for the net amount of contributions made to a deductible gift recipient where the taxpayer receives an associated minor benefit (subject to certain conditions). The deduction available is the contribution less the market value of the minor benefit.

A66 Deduction for contributions to prescribed private funds

Not allocated to function ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Included in A64							

Tax expenditure type:	Deduction	*2004 TES code*:	A60
Commencement date:	2001		
Expiry date:			
Legislative reference:	Division 30 ITAA97 and Regulations to the ITAA97		

Prescribed private funds allow businesses, families and individuals to establish and donate to a charitable trust of their own, for the purposes of disbursing funds to a range of other deductible gift recipients. Complying funds are prescribed in regulations under the *Income Tax Assessment Act 1997*.

Donations of $2 or more to approved prescribed private funds are tax deductible.

A67 Exemption of post-judgment interest awards in personal injury compensation cases

Not allocated to function ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
2	2	2	2	2	2	2	2

Tax expenditure type:	Exemption	*2004 TES code*:	A61
Commencement date:	1992		
Expiry date:			
Legislative reference:	Section 51-57 ITAA97		

Interest may accrue on a judgment debt arising in personal injury compensation cases relating to the period between the original judgment and when the judgment is finalised. Such interest is exempt from tax.

The provisions, introduced in 1999-00, apply to compensation paid in the 1992-93 and later income years.

A68 Tax offset of interest on certain government securities

Not allocated to function ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
..	..	..	..	-	-	-	-

Tax expenditure type:	Offset	*2004 TES code*:	A62
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Section 160AB ITAA36		

Taxpayers are entitled to a tax offset equal to 10 cents for each dollar of interest on certain government or semi-government securities issued before 1 November 1968.

A69 Exemption for structured settlements and structured orders

Not allocated to function ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
-	1	3	4	5	6	7	8

Tax expenditure type:	Exemption	*2004 TES code*:	A64
Commencement date:	2001		
Expiry date:			
Legislative reference:	Section 54 ITAA97		

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

A70 Immediate deduction for low-value depreciating assets not used in business

Not allocated to function ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
*	*	*	*	*	*	*	*

Tax expenditure type:	Deduction	*2004 TES code*:	A65
Commencement date:	2001	** Category:*	3+
Expiry date:			
Legislative reference:	Subsection 40-80(2) ITAA97		

An immediate deduction is available for depreciating assets costing $300 or less where those assets are used predominantly for the purpose of producing assessable income and where that income is not income from carrying on a business.

BUSINESS INCOME

Tax expenditures for general public services

B1 Exemption for certain payments made out of the National Guarantee Fund

General public services (B) ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
-	-	-	2	-	-	-	-

Tax expenditure type:	Exemption	*2004 TES code*:	B1
Commencement date:	2003		
Expiry date:			
Legislative reference:	*Taxation Laws (Clearing and Settlement Facility Support) Act 2004*		

No income tax consequences arise when certain payments are made out of the National Guarantee Fund.

Up until 31 March 2005 the National Guarantee Fund undertook the dual roles of investor protection and clearing support for the Australian Stock Exchange. The *Corporations Act 2001* provides for the splitting of these functions by allowing the transfer of funds for clearing and settlement system support to another entity. A tax expenditure arises because these transfers are permitted free of tax consequences.

Tax expenditures for health

B2 Income tax exemption for registered health benefit organisations

Health ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
220	30	45	105	110	115	120	125

Tax expenditure type:	Exemption	*2004 TES code*:	B2
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Section 50-30 ITAA97		

The income of health benefit organisations registered under the *National Health Act 1953* is exempt from income tax. This exemption is only available where the organisations are not operated for the gain or profit of their individual members.

B3 Income tax exemption for public and non-profit hospitals

Health ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2004 TES code*:	B3
Commencement date:	Introduced before 1985	** Category:*	1+
Expiry date:			
Legislative reference:	Section 50-30 ITAA97		

The income of public hospitals as well as hospitals operated by a society or association, provided they are not operated for gain or profit of their individual members, is exempt from income tax. Furthermore, these hospitals must incur expenditure principally in Australia.

Tax expenditures for social security and welfare

B4 Income tax exemption for religious, scientific, charitable or public educational institutions

Social security and welfare ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2004 TES code*:	B4
Commencement date:	Introduced before 1985	** Category:*	3+
Expiry date:			
Legislative reference:	Section 50-5 ITAA97		

The income of the following organisations is exempt from tax:

- religious, scientific, charitable and public educational institutions;

- a fund established by will or trust for public charitable purposes;
- a fund established to enable scientific research to be conducted by or in conjunction with a public university or public hospital; and
- a non-profit society, association or club established for the encouragement of science.

These funds, societies, associations or clubs must satisfy certain conditions to qualify for this exemption.

B5 Concessional taxation treatment of mining payments made in respect of mining and exploration activities on Aboriginal land

Social security and welfare ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2004 TES code*:	B5
Commencement date:	2000	** Category:*	1+
Expiry date:			
Legislative reference:	Section 59-15 ITAA97		

Certain mining payments to Aboriginal and Torres Strait Islander persons or certain distributing bodies are exempt from income tax where those payments have already attracted mining withholding tax. Payments that are subject to the mining withholding tax of four per cent include royalties for mining on Aboriginal land and payments to Aboriginal Land Councils.

B6 Concessional taxation of life insurance investment income

Social security and welfare ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
*	*	*	*	*	*	*	*

Tax expenditure type:	Concessional rate, offset, exemption	*2004 TES code*:	B6
Commencement date:	2000	** Category:*	2+
Expiry date:			
Legislative reference:	Sections 26AH and 160AAB ITAA36		

Some life insurance investment policyholders receive a concessional rate of tax because the policyholders' undistributed income is taxed at the company rate.

When a life insurance policy matures, is forfeited or is surrendered, the income distributed is known as a reversionary bonus. Reversionary bonuses that are distributed to policyholders more than 10 years after the commencement of the policy are exempt from further tax. If the bonuses are distributed in the ninth or tenth year after commencement of the policy, then only a fraction (two-thirds or one-third respectively) of the bonuses are taxable. If the bonuses are distributed within eight years of the commencement of the policy, they are fully taxable. However, to the extent that reversionary bonuses are taxable, then policyholders are allowed a rebate at the company rate of tax.

This tax expenditure ensures that reversionary bonuses, on which a life insurance company has paid tax, are not subject to a form of double taxation when paid to policyholders during the taxable period of a policy.

B7 Deductibility of charitable entertainment

Social security and welfare ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
*	*	*	*	*	*	*	*

Tax expenditure type:	Deduction	*2004 TES code*:	B7
Commencement date:	1985	** Category:*	na
Expiry date:			
Legislative reference:	Section 32-50 ITAA97		

The cost of gratuitous entertainment provided to members of the public who are sick, disabled, poor or otherwise disadvantaged is tax deductible.

Tax concessions for certain taxpayers

B8 Exemption of foreign currency gains and losses from certain low balance accounts

Other economic affairs (C) ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
-	-	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2004 TES code*:	B8
Commencement date:	July 2003	** Category:*	2+
Expiry date:			
Legislative reference:	Subdivision 775-D ITAA97		

Taxpayers with low balance bank accounts or credit card accounts denominated in a foreign currency may elect to disregard gains and losses attributable to changes in exchange rates (made in respect of the account). This option is available to all taxpayers other than authorised deposit-taking institutions (ADIs) and non-ADI financial institutions. Accounts with a combined credit or debit balance that does not exceed the foreign currency equivalent of A$250,000 will generally be eligible.

B9 Off-market share buy-backs

Other economic affairs (C) ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
15	15	195	530	*	*	*	*

Tax expenditure type:	Offset	*2004 TES code*:	New
Commencement date:	1990	** Category:*	3+
Expiry date:			
Legislative reference:	Common law and Sections 159GZZZP; 159GZZZQ ITAA36 and 177EA ITAA36		

The proceeds paid to shareholders who participate in an off-market share buy-back are split into a dividend component and a capital component. The dividend component of the buy-back proceeds may be fully franked. This allows companies that undertake off-market share buy-backs to distribute franking credits to participating shareholders beyond the level that would normally be available.

Allowing shareholders to elect whether or not to participate in a share buy-back facilitates streaming of franking credits to those shareholders that can obtain the most benefit, that is, shareholders on lower tax rates, particularly superannuation funds, resident tax exempt bodies and low income individual taxpayers. This results in a tax expenditure equal to the difference between the tax actually payable and that payable had those franking credits been distributed uniformly to all shareholders.

The tax expenditure from off-market share buy-backs may be partly offset by the anti-streaming provisions in the income tax law that operate to ensure that part of the buy-back proceeds are treated as capital (and therefore give rise to a capital gain or loss rather than a franked dividend).

Tax expenditures for recreation and culture

B10 Income tax exemption for certain non-profit societies

Recreation and culture ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
15	15	10	15	15	15	15	15

Tax expenditure type:	Exemption	*2004 TES code*:	B9
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Sections 50-45 and 50-10 ITAA97		

Subject to certain conditions, the income of not-for-profit societies, associations or clubs established for the encouragement of sport or games, music, art, animal racing literature, or for community service purposes is exempt from income tax.

For those not-for-profit societies, associations or clubs to which the 'mutuality principle' applies, this tax expenditure exempts from income tax those amounts that are not already excluded by the 'mutuality principle'. (For a brief explanation of the mutuality principle, refer to section 4.2 of the Benchmarks chapter.)

B11 Income tax exemption for the Australian Film Finance Corporation

Recreation and culture ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
..	..	..	..	..	..	..	..

Tax expenditure type:	Exemption	*2004 TES code*:	B10
Commencement date:	1988		
Expiry date:			
Legislative reference:	Section 50-45 ITAA97		

An income tax exemption applies to income earned by the Australian Film Finance Corporation. This exemption is consistent with the exemption provided to cultural organisations generally.

B12 Income tax exemption for certain promotion and development not-for-profit societies

Recreation and culture ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
25	25	25	25	25	30	30	25

Tax expenditure type:	Exemption	*2004 TES code*:	B11
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Section 50-40 ITAA97		

An income tax exemption applies to the income of not-for-profit societies or associations predominantly devoted to promoting the development of aviation or tourism, or of agricultural, pastoral, horticultural, viticultural, manufacturing or industrial resources of Australia. This expenditure includes the income tax exemption applying to not-for-profit societies or associations established for the purpose of promoting the development of Australian information and communication technology resources.

For those not-for-profit societies, associations or clubs to which the 'mutuality principle' applies, this tax expenditure exempts from income tax those amounts that are not already excluded by the 'mutuality principle'. (For a brief explanation of the mutuality principle, refer to section 4.2 of the Benchmarks chapter.)

B13 Exemption of Refundable Film Tax Offset payments

Recreation and culture ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
-	1	3	15	30	30	35	40

Tax expenditure type:	Exemption	*2004 TES code*:	B12
Commencement date:	2001		
Expiry date:			
Legislative reference:	Division 376 ITAA97		

Payments made under the refundable tax offset for large scale film production are exempt from tax. Producers of qualifying large scale films are eligible to receive a refundable tax offset equivalent to 12.5 per cent of qualifying Australian production expenditure on a film. The offset is paid through the tax system directly to producers.

Tax expenditures for other economic affairs

B14 Income tax exemption for trade unions and registered organisations

Other economic affairs (B) ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
10	10	10	10	10	10	10	10

Tax expenditure type:	Exemption	*2004 TES code*:	B13
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Section 50-15 ITAA97		

Subject to certain conditions, the income of trade unions and registered associations of employers and employees is exempt from income tax. For those trade unions and registered associations of employers and employees to which the 'mutuality principle' applies, this tax expenditure exempts from income tax those amounts that are not already excluded by the 'mutuality principle'. (For a brief explanation of the mutuality principle, refer to section 4.2 of the Benchmarks chapter.)

B15 Income tax exemption for Commonwealth Rebate for Apprentice Full-time Training (CRAFT)

Other economic affairs (B) ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
4	-	-	-	-	-	-	-

Tax expenditure type:	Exemption	*2004 TES code*:	B14
Commencement date:	Introduced before 1985		
Expiry date:	No longer available for apprentices starting after 1997		
Legislative reference:	Section 51-10 Item 2.2 ITAA97		

Payments made to employers who take on apprentices under the Commonwealth Rebate for Apprentice Full-time Training (CRAFT) scheme are exempt from income tax. This was converted into a grants program on 1 January 1998 and therefore this tax exemption only applies to apprentices who commenced work before that date.

B16 Income tax exemptions for foreign superannuation funds

Other economic affairs (C) ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2004 TES code*:	B16
Commencement date:	Introduced before 1985	** Category:*	na
Expiry date:			
Legislative reference:	Paragraphs 23(jb) and 128B (3)(a) ITAA36		

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

B17 Concessional tax treatment for Pooled Development Funds

Other economic affairs (C) ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
6	6	6	7	7	7	7	8

Tax expenditure type:	Concessional rate, exemption	*2004 TES code*:	B17
Commencement date:	1992		
Expiry date:			
Legislative reference:	Sections 46(1), (2), (7), (7A); 46A(1), (5), (9), (10); Division 10E of Part III and Division 12A of Part IIIA ITAA36; and Sections 3(1); 23(4C), (4D) of the *Income Tax Rates Act 1986*		

Note: estimates include tax expenditures B17 and B18.

Concessional taxation treatment is available to investment companies that are established and registered as Pooled Development Funds (PDFs). Income arising from investments in small to medium enterprises is taxed at 15 per cent and other income is taxed at 25 per cent. In addition, investors who invest in PDFs are not liable for tax either on dividends paid by the PDF or on capital gains made on the sale of their shares in the PDF.

B18 Exemption for superannuation funds that invest through Pooled Development Funds in venture capital

Other economic affairs (C) ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Included in B17							

Tax expenditure type:	Exemption	*2004 TES code*:	B18
Commencement date:	1992		
Expiry date:			
Legislative reference:	Sections 46(1), (2), (7), (7A); 46A(1), (5), (9), (10); Division 10E of Part III and Division 12A of Part IIIA ITAA36; and Sections 3(1); 23(4C), (4D) of the *Income Tax Rates Act 1986*		

Australian superannuation funds and related entities that invest in venture capital through Pooled Development Funds (PDFs) are eligible for a tax exemption on certain franked dividends. Specifically, capital gains and dividends paid to superannuation funds by PDFs are exempt from tax. Superannuation funds that invest in venture capital through PDFs are also entitled to a refundable imputation credit for the tax paid by the PDF.

B19 Tax exemption for small credit unions

Other economic affairs (C) ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
..	..	..	..	..	..	..	..

Tax expenditure type:	Exemption	*2004 TES code*:	B19
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Section 23G ITAA 1936 and Section 23(6) of the *Income Tax Rates Act 1986*		

Interest income derived from loans to members by small credit unions is exempt from income tax. Small credit unions have a notional taxable income less than $50,000. This exemption does not extend to other income. A credit union that is treated in this way is not eligible for assessment as a co-operative company.

B20 Concessions resulting from the clarification of the debt or equity treatment of perpetual subordinated debt

Other economic affairs (C) ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
-	-	*	*	*	*	*	*

Tax expenditure type:	Deduction	*2004 TES code*:	B20
Commencement date:	2001	** Category:*	2+
Expiry date:			
Legislative reference:	Division 974 ITAA 1997		

Banks issue financial instruments such as equity or debt in order to raise capital. The benchmark treatment of these financial instruments depends on whether they are classified as debt or equity according to certain tests. Perpetual subordinated debt (PSD) is a form of financial instrument that, according to these tests, would typically be classified as equity. However, under certain circumstances, PSD instruments may be treated as debt for tax purposes, thereby allowing the issuer of the PSD to claim a deduction.

B21 Exemption of refundable research and development tax offset payments

Other economic affairs (C) ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
40	60	30	-10	-40	-60	-80	-100

Tax expenditure type:	Exemption	*2004 TES code*:	B21
Commencement date:	2001		
Expiry date:			
Legislative reference:	Section 73I ITAA36		

Companies with an annual turnover of less than $5 million that undertake up to $1 million of research and development (R&D) are eligible to receive a refundable tax offset equivalent to the value of the R&D tax concession, that is, at the rate of either 125 per cent or 175 per cent. The tax offset enables small companies to receive support for undertaking R&D.

The refundable R&D tax offset is treated as an expense item and accordingly does not appear as a tax expenditure in its own right. However, payments made under the refundable R&D offset are exempt from tax.

In addition, companies that claim the refundable R&D tax offset are unable to claim deductions for the R&D expenditures concerned. This is because the refundable R&D tax offset has already provided these companies with a benefit equivalent to the value of these deductions. The absence of these deductions constitutes a negative tax expenditure and explains why the estimates become negative from 2004-05.

B22 Immediate deduction for expenditure on core technology related to research and development activities

Other economic affairs (C) ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Included in B53							

Tax expenditure type:	Deduction	*2004 TES code*:	B22
Commencement date:	1996		
Expiry date:			
Legislative reference:	Sections 73B(12) to 73B(12C) ITAA36		

Expenditure on core technology, except where incurred by companies in partnerships, is deductible at a rate of 100 per cent over the period of related research and development activities. This deduction is only available if the deduction is not greater than one third of the firm's expenditure on related research and development. The benchmark treatment for such expenditure is that it is deductible over its effective life and consequently the scope for the 100 per cent rate potentially allows a greater rate of deduction than the benchmark.

B23 25 per cent entrepreneurs' tax offset

Other economic affairs (C) ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
-	-	-	-	-	380	370	350

Tax expenditure type:	Offset	*2004 TES code*:	B23
Commencement date:	2005		
Expiry date:			
Legislative reference:	Subdivision 61J ITAA97		

Small businesses in the Simplified Tax System that have an annual turnover of $50,000 or less are eligible for a tax offset of 25 per cent of their income tax liability attributable to their business income. The offset phases out for annual turnover between $50,001 and $75,000.

Tax expenditures relating to capital expenditure, effective life and depreciation

B24 Tax incentives for film investment

Recreation and culture ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
-4	3	2	..	-3	-7	-10	-13

Tax expenditure type:	Deduction, accelerated write-off	*2004 TES code*:	B24
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Divisions 10B and 10BA ITAA36		

Capital expenditure incurred in acquiring an interest in the initial copyright of a new Australian film can be either deducted immediately (for certain types of film) or written off over two years.

B25 Film Licensed Investment Company Scheme – two year extension

Recreation and culture ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
-	-	-	-	-	4	4	-

Tax expenditure type:	Deduction	*2004 TES code*:	New
Commencement date:	1 July 2005		
Expiry date:	30 June 2007		
Legislative reference:	Sections 375-850 to 375-880 ITAA97		

Amounts paid by investors in 2005-06 and 2006-07 for shares in a Film Licensed Investment Company are immediately deductible.

B26 Three year write-off for expenditure on water facilities for primary producers

Agriculture, forestry and fishing ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
20	25	25	25	30	30	35	35

Tax expenditure type:	Accelerated write-off	*2004 TES code*:	B26
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Subdivision 40F ITAA97		

Note: estimates include tax expenditures B26, B27 and B28.

Primary producers can claim a deduction for capital expenditure on water facilities over three years. Water facilities include dams, earth tanks, underground tanks, concrete or metal tanks, tank stands, bores, wells, irrigation channels or similar improvements, pipes, pumps, water towers, and windmills. One-third of the expenditure is deductible in the income year in which it is incurred, and one-third is deductible in each of the following two years. The expenditure must be incurred primarily for conserving and conveying water for use in primary production.

B27 Landcare deduction for primary producers

Agriculture, forestry and fishing ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Included in B26							

Tax expenditure type:	Deduction	*2004 TES code*:	B27
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Sections 40-630 to 40-640 ITAA97		

Primary producers and users of rural land can claim a deduction for capital expenditure on a landcare operation in the year that it is incurred. Landcare operations may include soil conservation, prevention of land degradation or other related measures.

B28 Water facilities and land care concession for irrigation water providers

Agriculture, forestry and fishing ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Included in B26							

Tax expenditure type:	Deduction	*2004 TES code*:	B28
Commencement date:	July 2004		
Expiry date:			
Legislative reference:	Subdivision 40F and 40G of the ITAA97		

Certain irrigation water providers can claim an immediate deduction for capital expenditure on landcare activities and claim a deduction for capital expenditure on water facilities over three years. The measure aligns the deductions available to primary producers and businesses using rural land with deductions available to irrigation water providers which supply those primary producers and businesses with water.

B29 Landcare and water facility offset

Agriculture, forestry and fishing ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
..	..	..	..	..	..	..	..

Tax expenditure type:	Offset	*2004 TES code*:	B29
Commencement date:	1998		
Expiry date:	2001		
Legislative reference:	Former Subdivision 388 ITAA97		

Primary producers and users of rural land with taxable incomes of up to $20,000 a year were able to claim a 30 per cent tax offset for capital expenditure on soil conservation, prevention of land degradation and related measures incurred until the end of the 2000-01 income year. This concession could be claimed as an alternative to the landcare deduction (B27). The tax offset was based on one third of the eligible expenditure and was available in the year the expenditure was incurred and in each of the subsequent two years.

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.

B30 Deduction for horse breeding stock

Agriculture, forestry and fishing ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
*	*	*	*	*	*	*	*

Tax expenditure type:	Accelerated write-off	*2004 TES code*:	B30
Commencement date:	1992	** Category:*	na
Expiry date:			
Legislative reference:	Sections 70-60, 70-65 ITAA97		

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 ⅓ per cent of the cost of mares can be written off per annum.

B31 Deduction of the capital cost of telephone lines and electricity connections

Agriculture, forestry and fishing ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
8	8	8	8	8	8	8	8

Tax expenditure type:	Accelerated write-off	*2004 TES code*:	B31
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Sections 40-645 to 40-655 ITAA97		

Capital expenditure incurred in connecting a telephone line to a primary production property and capital expenditure incurred in connecting or upgrading mains electricity to a property on which a business is conducted can be deducted in equal instalments over ten years.

B32 Tax write-off for horticultural plants

Agriculture, forestry and fishing ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
4	5	5	5	5	4	6	7

Tax expenditure type:	Accelerated write-off	*2004 TES code*:	B32
Commencement date:	1995		
Expiry date:			
Legislative reference:	Subdivision 40-F ITAA97		

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

B33 Accelerated depreciation for grapevine plantings

Agriculture, forestry and fishing ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
7	8	10	10	9	5	-	-4

Tax expenditure type:	Accelerated write-off	*2004 TES code*:	B33
Commencement date:	1993		
Expiry date:	Not available for grapevines planted after 1 October 2004		
Legislative reference:	Subdivision 40-F ITAA97		

Prior to 1 October 2004, capital expenditure incurred in acquiring and establishing grapevines could be written off on a prime cost basis over four years, with the deductions being available from the time the vines were planted. Since 1 October 2004, new grapevine plantings are subject to the capital allowances regime applicable to horticultural plants. That is, the establishment costs of the grapevine may be written off at 13 per cent per annum (the write-off rate applicable to a plant with an effective life of 13 years to fewer than 30 years) with deductions available from the income year in which the grapevine's first commercial season starts.

B34 Drought investment allowance

Agriculture, forestry and fishing ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
1	-	-	-	-	-	-	-

Tax expenditure type:	Deduction	*2004 TES code*:	B34
Commencement date:	1995		
Expiry date:	2000		
Legislative reference:	Part XII of the ITAA36		

Taxpayers were entitled to an immediate deduction of 10 per cent of capital expenditure incurred on drought preparedness assets up to 1 July 2000 (up to a maximum deduction of $5,000). This allowance was in addition to depreciation deductions that can be claimed for the assets.

B35 Development allowance

Manufacturing and mining ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
220	115	60	35	25	10	2	-

Tax expenditure type:	Deduction	*2004 TES code*:	B35
Commencement date:	1992		
Expiry date:	1996		
Legislative reference:	Sections 82AAAA to 82AQ ITAA36 and Sections 15, 27 and 40 *Development Allowance Authority Act 1992*		

For major projects approved by the Development Allowance Authority, 10 per cent of capital expenditure on plant and equipment, including motor vehicles and primary production, was immediately deductible. Registrations for projects closed on 31 July 1996 for plant and equipment that was first used or installed ready for use before 1 July 2002.

B36 Capital expenditure deduction for mining, quarrying and petroleum operations

Manufacturing and mining ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
30	30	20	20	20	20	20	10

Tax expenditure type:	Accelerated write-off	*2004 TES code*:	B36
Commencement date:	Introduced before 1985		
Expiry date:	2001		
Legislative reference:	Subdivision 40-B ITAA97 as adjusted by sections 40-35, 40-40 and 40-75 Income Tax (Transitional Provisions) Act 1997		

Certain capital expenditure incurred 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). The deduction is available for expenditure incurred before 1 July 2001 or expenditure relating to a depreciating asset acquired before 1 July 2001 (excluding plant and equipment).

Expenditure incurred on or after 1 July 2001 can be deducted over the life of the project.

B37 Deduction for patents, designs and copyrights

Other economic affairs (C) ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
30	-	-	-	-	-	-	-

Tax expenditure type:	Deduction	*2004 TES code*:	B37
Commencement date:	Introduced before 1985		
Expiry date:	2001		
Legislative reference:	Former Division 373 ITAA97		

Expenditure incurred in obtaining, or seeking to obtain, the registration or extension of a patent, design or copyright was immediately deductible. This deduction is available for expenditure incurred before 1 July 2001.

Expenditure incurred on or after 1 July 2001 can be deducted over the life of the underlying intellectual property.

B38 Exploration and prospecting deduction

Manufacturing and mining ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
*	*	*	*	*	*	*	*

Tax expenditure type:	Deduction	*2004 TES code*:	B38
Commencement date:	Introduced before 1985	** Category:*	na
Expiry date:			
Legislative reference:	Subsection 40-80(1) and Section 40-730 ITAA97		

Expenditure on exploration or prospecting for the purpose of mining and quarrying is immediately deductible. The immediate deduction does not extend to capital expenditure on depreciating assets.

B39 Deduction for expenditure on environmental impact studies

Manufacturing and mining ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Included in B40							

Tax expenditure type:	Accelerated write-off	*2004 TES code*:	B39
Commencement date:	1991		
Expiry date:	2001		
Legislative reference:	Subdivision 40-B ITAA97 as adjusted by Section 40-55 *Income Tax (Transitional Provisions) Act 1997*		

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 deduction applies to expenditure incurred before 1 July 2001. Expenditure incurred on or after 1 July 2001 can be deducted over the life of the project.

B40 Deduction for environmental protection activities

Manufacturing and mining ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
5	11	10	9	9	9	9	9

Tax expenditure type:	Deduction	*2004 TES code*:	B40
Commencement date:	1992		
Expiry date:			
Legislative reference:	Sections 40-75 and 40-760 ITAA97		

Note: estimates include tax expenditures B39 and B40.

Expenditure used to control pollution or manage waste is immediately deductible if the pollution or waste is a result of the taxpayer's business or is on the site of the taxpayer's business. Expenditure to prevent pollution that is likely to occur is also immediately deductible.

B41 Balancing charge roll-over relief for exploration, mining and quarrying activities

Manufacturing and mining ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
*	-	-	-	-	-	-	-

Tax expenditure type:	Deferral	*2004 TES code*:	B41
Commencement date:	Introduced before 1985	** Category:*	na
Expiry date:	2001		
Legislative reference:	Sections 330-540 to 330-552 ITAA97		

Balancing adjustments arising from certain changes in ownership interests in property (including depreciating assets) used for exploration or prospecting for minerals or quarry materials can be rolled over. Such changes include the disposal of an asset within a wholly owned group or as a result of a marriage breakdown. This roll-over relief results in a deferral of tax.

With the introduction of the uniform capital allowance system on 1 July 2001 this specific treatment is no longer available. The general balancing adjustment roll-over relief (see B49) will provide some of the treatment previously provided by this tax expenditure for depreciable assets.

B42 Absence of depreciation recapture for certain assets

Manufacturing and mining ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
*	*	*	*	*	*	*	*

Tax expenditure type:	Deduction	*2004 TES code*:	B42
Commencement date:	Introduced before 1985	** Category:*	na
Expiry date:			
Legislative reference:	Division 43 and Section 110-45 ITAA97		

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

B43 Accelerated depreciation allowance for plant and equipment

Manufacturing and mining ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
620	-200	-680	-850	-890	-840	-800	-750

Tax expenditure type:	Accelerated write-off	*2004 TES code*:	B43
Commencement date:	1992		
Expiry date:	2001		
Legislative reference:	Former Division 42 and Subdivision 40-B ITAA97 as adjusted by Sections 40-10 and 40-12 *Income Tax (Transitional Provisions) Act 1997*		

Note: estimates include tax expenditures B43 and B44.

Accelerated depreciation allows a taxpayer depreciation deductions at a higher rate than the expected decline in value of the asset.

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 an annual turnover of $1 million or more on 21 September 1999. This treatment was removed for individuals and businesses with annual turnovers under $1 million from 1 July 2001, when they could elect to enter the Simplified Taxation System and use the simplified capital allowances system (see B51).

The estimates for this tax expenditure stem from the fact that accelerated depreciation allows greater deductions early in an asset's effective life, offset by smaller deductions later in its effective life. With the removal of accelerated depreciation, the tax expenditure estimates become negative from 2002-03. This is because, from that date, deductions for assets acquired before accelerated depreciation was abolished are lower than they would have been if depreciation were calculated over the effective life of the asset.

B44 Accelerated depreciation for employees' amenities

Manufacturing and mining ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Included in B43							

Tax expenditure type:	Accelerated write-off	*2004 TES code*:	B44
Commencement date:	1994		
Expiry date:	2001		
Legislative reference:	Former Section 42-150 and Subdivision 40-B ITAA97 as adjusted by Sections 40-10 and 40-12 *Income Tax (Transitional Provisions) Act 1997*		

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, was deductible 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 removed for individuals and businesses with turnovers of less than $1 million per annum from 1 July 2001. These businesses can elect to enter the simplified tax system from this time and use the simplified capital allowances system (see B51). This tax expenditure will have a transitional impact until all eligible plant expenditure has been fully depreciated.

B45 Accelerated depreciation for mining buildings

Manufacturing and mining ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
450	400	360	310	260	220	150	50

Tax expenditure type:	Accelerated write-off	*2004 TES code*:	B45
Commencement date:	1982		
Expiry date:	2001		
Legislative reference:	Former Subdivision 330-C and subdivision 40-B ITAA97 as adjusted by Section 40-35 of the *Income Tax (Transitional Provisions) Act 1997*		

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 10 years (20 years for quarrying). This concession was removed from 1 July 2001 for buildings constructed or acquired on or after this date. This tax expenditure will have a transitional impact until all eligible capital expenditure incurred before 1 July 2001 has been fully depreciated.

B46 Accelerated depreciation for Australian trading ships

Manufacturing and mining ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
-25	-17	-14	-11	-9	-8	-7	-7

Tax expenditure type:	Accelerated write-off	*2004 TES code*:	B46
Commencement date:	Introduced before 1985		
Expiry date:	1997		
Legislative reference:	Section 53I(2), 57AM ITAA36		

Australian trading ships, commissioned between 29 July 1977 and 1 July 1997, can be depreciated on a prime cost basis over five years. The estimates for this tax expenditure reflect the fact that it brings forward the timing of tax deductions relative to deductions available under the effective life benchmark. This tax expenditure will have a transitional impact until all trading ships that utilised this concession have been fully depreciated.

B47 Statutory effective life caps

Transport and communications ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
-	*	*	130	175	220	280	320

Tax expenditure type:	Accelerated write-off	*2004 TES code:*	B47
Commencement date:	2002, 2004	** Category:*	na
Expiry date:			
Legislative reference:	Section 40-102 ITAA97		

'Statutory effective life caps' act to override the Commissioner of Taxation's determinations of the 'safe harbour' effective life of assets in certain cases. This provides a shorter write-off period for those assets subject to a statutory cap where the effective life determined by the Commissioner exceeds the cap.

Statutory caps exist for a range of assets, including:

- aircraft and certain assets used in the oil and gas industries (effective from 1 July 2002); and
- trucks, truck trailers, buses and light commercial vehicles (effective from 1 January 2005).

B48 Depreciation to nil value rather than estimated scrap value

Other economic affairs (C) ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
*	*	*	*	*	*	*	*

Tax expenditure type:	Deferral	*2004 TES code:*	B48
Commencement date:	Introduced before 1985	** Category:*	1+
Expiry date:			
Legislative reference:	Division 40 ITAA97		

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

B49 Depreciation balancing adjustment roll-over relief

Other economic affairs (C) ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
*	*	*	*	*	*	*	*

Tax expenditure type:	Deferral	*2004 TES code*:	B49
Commencement date:	Introduced before 1985	** Category:*	1+
Expiry date:			
Legislative reference:	Section 40-340 ITAA97		

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

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 B52).

B50 Depreciation pooling for low value assets

Other economic affairs (C) ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
50	80	100	100	100	90	90	80

Tax expenditure type:	Accelerated write-off	*2004 TES code*:	B50
Commencement date:	2000		
Expiry date:			
Legislative reference:	Subdivision 40-E ITAA97		

Assets costing less than $1,000 can be written off at the declining balance rate of 37.5 per cent through a low value asset pool. Once a taxpayer elects to create a low value pool, all assets that cost less than $1,000 are subject to the declining balance rate treatment. A low value asset pool is available to taxpayers who choose not to, or are ineligible to, enter the Simplified Tax System.

A low value pool mechanism for the depreciation of assets was introduced to reduce taxpayers' compliance costs by removing the need to track individual items for depreciation purposes.

B51 The Simplified Tax System

Other economic affairs (C) ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
10	420	420	250	250	200	200	190

Tax expenditure type:	Deduction, deferral, accelerated write-off	*2004 TES code*:	B51
Commencement date:	2001		
Expiry date:			
Legislative reference:	Division 328 ITAA97		

The Simplified Tax System (STS) is available for eligible small businesses, allowing them access to the following concessions:

- A simplified trading stock regime where, in certain circumstances, changes in the value of trading stock do not have to be accounted for and stocktaking is not required at the end of the income year.
- A simplified capital allowances regime which allows small businesses to write off purchases costing less than $1,000 immediately and depreciate assets that cost $1,000 or more at accelerated rates under a pooled arrangement.
- STS eligible taxpayers may also be eligible for the Entrepreneurs' Tax Offset (B23).

To enter the STS, businesses must have an average annual turnover of less than $1 million and depreciating assets with a written down value of less than $3 million. Fuel retailers can exclude sales of petrol, diesel and liquefied petroleum gas from the calculation of turnover.

B52 Transitional exemption of small business from abolition of accelerated depreciation, balancing charge offset and low value pooling

Other economic affairs (C) ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
470	-260	-90	-60	-40	-	-	-

Tax expenditure type:	Accelerated write-off	*2004 TES code*:	B52
Commencement date:	1999		
Expiry date:	2001		
Legislative reference:	Subdivision 42-K ITAA97		

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

The estimates for this tax expenditure reflect the fact that it brings forward the timing of tax deductions relative to deductions available under the effective life benchmark. This tax expenditure will have a transitional impact until all eligible assets acquired between September 1999 and July 2001, by eligible businesses, have been fully depreciated.

B53 Research and development tax concession

Other economic affairs (C) ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
480	360	440	460	490	520	550	580

Tax expenditure type:	Deduction, accelerated write-off	*2004 TES code*:	B53
Commencement date:	1985		
Expiry date:			
Legislative reference:	Sections 73B and 73BA ITAA36		

Note: estimates include tax expenditures B22 and B53.

Certain taxpayers are entitled to a deduction at the rate of 125 per cent of their eligible expenditure on research and development (R&D) activities. Until 29 January 2001, eligible expenditure on R&D plant was deductible at 125 per cent over three years. Expenditure on plant used in R&D activities after 29 January 2001 is deductible at 125 per cent over its effective life.

B54 Premium tax concession for additional research and development expenditure

Other economic affairs (C) ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
20	55	90	85	90	95	100	110

Tax expenditure type:	Deduction	*2004 TES code*:	B54
Commencement date:	2001		
Expiry date:			
Legislative reference:	Section 73Q to 73Y ITAA36		

Companies that increase certain labour related components of research and development (R&D) expenditure are eligible to receive an incremental 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 deduction has been available since the first income year starting after 30 June 2001.

B55 Accelerated depreciation for software

Not allocated to function ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
400	360	270	90	15	35	75	90

Tax expenditure type:	Accelerated write-off	*2004 TES code*:	B55
Commencement date:	1998		
Expiry date:			
Legislative reference:	Subdivision 40-E ITAA97		

Expenditure incurred in acquiring, developing or commissioning software that is mainly used in performing the functions for which the software was developed can be depreciated over 2.5 years instead of the effective life of the software. This gives rise to a tax expenditure in relation to software which has an effective life greater than 2.5 years.

B56 Immediate deduction relating to year 2000 upgrades

Not allocated to function ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
*	*	*	*	-	-	-	-

Tax expenditure type:	Accelerated write-off	*2004 TES code*:	B56
Commencement date:	1998	** Category:*	2-
Expiry date:	1999		
Legislative reference:	Sections 46-1 to 46-110 ITAA97		

Expenditure on software related to Year 2000 upgrades was immediately deductible if it was incurred between 11 May 1998 and 1 July 1999. This tax expenditure brings forward the timing of tax deductions relative to deductions available under the effective life benchmark. It has a transitional impact until all eligible software acquired between 11 May 1998 and 1 July 1999 is fully depreciated.

B57 Immediate deductibility for GST-related plant and software

Not allocated to function ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
-50	-50	-40	-35	-10	-	-	-

Tax expenditure type:	Accelerated write-off	*2004 TES code*:	B57
Commencement date:	2000		
Expiry date:	2000		
Legislative reference:	Sections 25-80, 42-168 ITAA97		

Expenditure incurred by small and medium size businesses on acquiring plant or software (including upgrades) for the purpose of implementing the GST was immediately deductible. This deduction was available for the year ending 30 June 2000, provided that the equipment was ordered by 30 June 2000 and installed by 30 June 2001.

This tax expenditure brings forward the timing of tax deductions relative to deductions available under the effective life benchmark. It has a transitional impact until all eligible GST-related plant and software is fully depreciated.

Tax expenditures relating to prepayments and advance expenditures

B58 Prepayment rule for Simplified Tax System taxpayers and non-business expenditure by individuals

Other economic affairs (C) ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
*	*	*	*	*	*	*	*

Tax expenditure type:	Accelerated write-off	*2004 TES code*:	B58
Commencement date:	2001	** Category:*	2+
Expiry date:			
Legislative reference:	Section 82 KZM ITAA36		

Prepayments by Simplified Tax System taxpayers and non-business prepayments by individual taxpayers are immediately deductible. This is conditional upon the service being provided over a period not exceeding 12 months and ending at the end of the income year following the income year in which the prepayment expenditure is incurred. This provision replaced the remaining applications of the '13 month rule' (described in B59), which was removed on 21 September 1999 for businesses with a turnover of $1 million or more per annum.

B59 Transitional arrangements for prepayments

Other economic affairs (C) ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
-210	-220	-160	-40	-15	-	-	-

Tax expenditure type:	Accelerated write-off	*2004 TES code*:	B59
Commencement date:	1999		
Expiry date:			
Legislative reference:	Division 3 Part III Sections 82 KZMB, KZMC, 82 KZL(1) ITAA36		

Prior to 21 September 1999, an immediate prepayment deduction was available for expenditure for services provided within 13 months after the prepayment expenditure was incurred. This immediate deduction subsequently was removed and a five-year transitional rule was introduced to phase in the impact of its removal. The benchmark treatment of prepayments is that they are deductible over the period of the expenditure. The negative tax expenditure in the transitional period reflects the phasing in of the removal of the immediate prepayment deduction.

B60 The 10-year rule for prepayments

Other economic affairs (C) ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
*	*	*	*	*	*	*	*

Tax expenditure type:	Accelerated write-off	*2004 TES code*:	B60
Commencement date:	1988	** Category:*	na
Expiry date:			
Legislative reference:	Subsection 82 KZL(1) ITAA36		

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

B61 Exemption from the tax shelter prepayments measure for passive investments

Other economic affairs (C) ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
*	*	*	*	*	*	*	*

Tax expenditure type:	Accelerated write-off	*2004 TES code*:	B61
Commencement date:	1988	** Category:*	na
Expiry date:			
Legislative reference:	Section 82 KZME ITAA36		

A prepayment in relation to investments in infrastructure bonds, shares, units, rental property and arrangements entered into before 1 July 2000, to which product rulings apply, continues to be immediately deductible. This is conditional upon the prepayment expenditure meeting the requirements described in B58. The benchmark treatment of prepayments is that they are deductible over the period of the expenditure. This tax expenditure allows deductions to be spread over a shorter period and consequently it allows greater deductions than the benchmark treatment.

B62 Prepayment rule for forestry managed investments

Other economic affairs (C) ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
-	55	-15	40	40	25	30	35

Tax expenditure type:	Accelerated write-off	*2004 TES code*:	B62
Commencement date:	2001		
Expiry date:			
Legislative reference:	Section 82KZMG ITAA36		

Prepayments on seasonally dependent agronomic operations in the establishment of a forestry plantation are immediately deductible. This is conditional upon the prepayment expenditure meeting the requirement described in B59. This tax expenditure is available for investors in forestry managed investment schemes. The benchmark treatment of prepayments is that they are deductible over the period of the expenditure. This tax expenditure allows deductions to be spread over a shorter period and consequently it allows greater deductions than the benchmark treatment.

In the 2005-06 Budget, the Government announced an extension of the prepayment rule until 30 June 2008, while a review is conducted into support for the plantation timber industry.

International tax expenditures

B63 Exemptions for prescribed international organisations

General public services (C) ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2004 TES code*:	B63
Commencement date:	1963	** Category:*	2+
Expiry date:			
Legislative reference:	Section 6, *International Organisations (Privileges and Immunities) Act 1963*		

The income of certain international organisations is exempt from income tax. Furthermore, interest and dividends received by these organisations are exempt from the interest and dividend withholding tax, respectively. Prescribed international organisations include the United Nations, the World Trade Organisation, the Organisation for Economic Cooperation and Development and various United Nations specialised agencies.

B64 Interest withholding tax and dividend withholding tax exemptions for overseas charitable institutions

General public services (C) ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2004 TES code*:	B64
Commencement date:	1936	** Category:*	2+
Expiry date:			
Legislative reference:	Paragraph 128B(3)(aa) ITAA36		

Interest and dividends received by certain overseas charitable institutions are exempt from the interest and dividend withholding tax, respectively. This exemption only applies where the institutions are exempt from tax in their home country. Tax exempt organisations generally cannot claim credit for foreign taxes paid.

B65 Deemed tax credits under tax sparing provisions in Australia's tax treaties

Other economic affairs (C) ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
10	15	5	..	..	..	..	..

Tax expenditure type:	Exemption	*2004 TES code*:	B65
Commencement date:	Date of effect depends on the date of effect of the tax treaty		
Expiry date:			
Legislative reference:	Provided for in Australia’s tax treaties		

The tax sparing provisions in Australia’s tax treaties apply to tax incentives (for example, tax holidays) offered by developing countries to foreign investors. The effect of these tax sparing provisions is that income earned by Australian taxpayers who invest in certain developing countries is effectively subject to a tax exemption. Under tax sparing, the tax forgone by the country providing the tax concession to Australian resident investors is deemed to have been paid for the purposes of Australia’s foreign tax credit system. This enables Australian residents to claim a tax credit in relation to their investments despite receiving a tax concession by the foreign country. The Australian Government has announced that tax sparing will generally not be provided or renewed in future agreements. Tax sparing arrangements in most tax treaties have now expired.

B66 Exemption for foreign branch profits from income tax

Other economic affairs (C) ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2004 TES code*:	B66
Commencement date:	1990	** Category:*	2+
Expiry date:			
Legislative reference:	Section 23AH ITAA36		

In general, income from a business carried on by an Australian company through a permanent establishment (branch) in a foreign country is exempt from income tax. For income years starting before 1 July 2004, the exemption was only available for branches in listed countries. The exempt income broadly comprises operating profits and capital gains but does not include passive or other tainted income where the branch fails an active income test.

B67 Income tax exemption for certain US projects in Australia

Defence ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2004 TES code*:	B67
Commencement date:	Introduced before 1985	** Category:*	1+
Expiry date:			
Legislative reference:	Section 23AA ITAA36		

The profits and remuneration of United States contractors, United States armed forces members, or other United States residents or citizens in connection with certain United States Government projects in Australia are exempt from Australian income tax. This exemption only applies where the income is subject to tax in the United States.

B68 Interest withholding tax concession on interest payments by Australian branches to foreign banks

Other economic affairs (C) ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Included in B77							

Tax expenditure type:	Concessional rate	*2004 TES code*:	B68
Commencement date:	1994		
Expiry date:			
Legislative reference:	Section 160ZZZJ ITAA36		

The notional interest paid to a foreign bank from its Australian branch attracts a reduced interest withholding tax rate. Tax is paid on only half of the taxable amount. For amounts of interest paid to, and derived by, a foreign bank during an income year that began before 1 July 2001, tax was paid on half of the taxable amount less notional equity requirement. The notional equity requirement was removed with effect from the 2001-02 income year when the new thin capitalisation rules commenced to apply.

B69 Deductibility of costs of setting up a regional headquarters

Other economic affairs (C) ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
..	..	..	..	..	..	..	..

Tax expenditure type:	Deduction	*2004 TES code*:	B69
Commencement date:	1994		
Expiry date:			
Legislative reference:	Sections 82C to CE ITAA36		

Eligible regional headquarters (RHQs) are entitled to deductions in respect of set-up costs. Set-up costs include relocation and incorporation costs. 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'.

B70 Concessional tax treatment of income of offshore banking units

Other economic affairs (C) ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
45	45	50	75	75	75	75	75

Tax expenditure type:	Concessional rate	*2004 TES code*:	B70
Commencement date:	1992		
Expiry date:			
Legislative reference:	Division 9A ITAA36		

Income (other than capital gains) derived by an offshore banking unit (OBU) from offshore banking activities is taxed at a concessional rate of 10 per cent. Interest paid by an OBU on qualifying offshore borrowings, and gold fees paid by an OBU on certain offshore gold borrowings, are exempt from withholding tax.

B71 Unfranked dividends paid to foreign shareholders by Pooled Development Funds

Other economic affairs (C) ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
1	1	1	1	1	1	1	1

Tax expenditure type:	Exemption	*2004 TES code*:	B71
Commencement date:	1992		
Expiry date:			
Legislative reference:	Sections 128B(3)(ba), 124ZM ITAA36		

The unfranked portion of a dividend paid by a Pooled Development Fund to a foreign shareholder is exempt from withholding tax.

B72 Threshold exemption for thin capitalisation

Other economic affairs (C) ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
*	*	*	*	*	*	*	*

Tax expenditure type:	Deduction	*2004 TES code*:	B72
Commencement date:	2001	** Category:*	1+
Expiry date:			
Legislative reference:	Sections 820-35 and 820-37 of ITAA 1997		

A taxpayer may claim debt deductions of up to $250,000 in any income year without being subject to thin capitalisation rules. An additional rule excludes outward investing entities from the thin capitalisation regime if at least 90 per cent of their assets (excluding those of a private or domestic nature) are Australian assets.

B73 Concessional tax treatment for foreign authorised deposit-taking institutions

Other economic affairs (C) ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
*	*	*	*	*	*	-	-

Tax expenditure type:	Concessional rate	*2004 TES code*:	B73
Commencement date:	1993	** Category:*	na
Expiry date:	2006		
Legislative reference:	Part IIIB ITAA 1936, Sections 7(6)(c), 20(2)(bb)(ii)(B) and 24(2)(bb)(ii)(B), Schedules 1 and 2, Sections 170-33(2) and 170-133(2) Financial Corporations (Transfer of Assets and Liabilities) Act 1993		

Foreign banks can transfer a tax loss or a net capital loss from locally incorporated subsidiaries to their Australian branches. A similar regime applies to other non-bank financial entities. As a result, such banks and financial entities can benefit from a reduced tax liability.

Foreign banks are also able to transfer assets and liabilities from their subsidiaries to their branches without creating a tax liability. The deadline to effect any such transfer was extended from 30 June 2004 to 30 June 2006.

B74 Exemption of inbound non-portfolio dividends from income tax

Other economic affairs (C) ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
60	50	60	80	110	110	120	130

Tax expenditure type:	Exemption	*2004 TES code*:	B74
Commencement date:	1990		
Expiry date:			
Legislative reference:	Section 23AJ ITAA36		

Non-portfolio dividends are exempt from income tax where they are paid to an Australian resident company by a company resident in a foreign country. For dividends paid on or before 30 June 2004, the exemption only applied for non-portfolio dividends paid from a listed country.

B75 Exemption from accrual taxation for controlled foreign companies

Not allocated to function ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2004 TES code*:	B75
Commencement date:	1990	** Category:*	2+
Expiry date:			
Legislative reference:	Sections 384-5 ITAA36		

Most tainted income derived by controlled foreign companies (CFCs) in broad exemption listed countries is exempt from accrual taxation (applied to the attributable taxpayer) as it is generally comparably taxed. An exemption also applies to CFCs that derive more than 95 per cent of their income from genuine business activities.

B76 Exemption from accrual taxation for transferor trusts

Other economic affairs (C) ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2004 TES code*:	B76
Commencement date:	1990	** Category:*	2+
Expiry date:			
Legislative reference:	Sub subparagraph 102AAT(1)(a)(i)(F) and paragraph 102AAT(1)(c) ITAA36		

The transferor trust rules are intended to prevent Australian residents from deferring tax on income earned in offshore trusts. Transfers made to an offshore discretionary trust are not subject to the rules if the transfer was made before the transferor came to Australia or before the original trust measures were announced, provided the transferor does not control the trust. Accruals taxation would normally be applied to the transferor.

B77 Exemption from interest withholding tax on widely held debentures

Other economic affairs (C) ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
750	700	560	470	520	570	620	680

Tax expenditure type:	Exemption	*2004 TES code*:	B77
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Section 128F and 128FA ITAA36		

Note: estimates include tax expenditures B68 and B77.

Certain widely held debentures are exempt from interest withholding tax. This exemption was 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. The exemption is available where it will not be exploited by a group of associated companies seeking to move profits offshore through a series of intra-group loans.

Tax expenditures for agriculture, forestry and fishing

B78 Income tax averaging for primary producers

Agriculture, forestry and fishing ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
260	230	145	120	120	*	*	*

Tax expenditure type:	Concessional rate	*2004 TES code*:	B81
Commencement date:	Introduced before 1985	** Category:*	3+
Expiry date:			
Legislative reference:	Division 392 ITAA97		

Primary producers can elect to pay tax at a tax rate based on their 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 provides a concession because, on balance, the saving from paying less tax in high income years outweighs additional tax paid in low income years.

Projections beyond 2005-06 are not reported as the tax expenditure is very sensitive to variations in primary production income, which depends on a number of external factors.

B79 Farm Management Deposit scheme

Agriculture, forestry and fishing ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
150	410	250	95	110(p)	*	*	*

Tax expenditure type:	Deferral	*2004 TES code*:	B82
Commencement date:	1999	** Category:*	na
Expiry date:			
Legislative reference:	Schedule 2G, Division 393 ITAA36		

(p) Preliminary estimate only for 2005-06 due to data limitations.

The Farm Management Deposit (FMD) scheme allows primary producers (with a limited amount of non primary production income) to defer their income tax liability. Primary producers are able to claim deductions for their FMD made in the year of deposit, with subsequent withdrawals being subject to assessment in the year of withdrawal. The FMD has a maximum limit on deposits of $300,000. Primary producers in exceptional circumstance areas are able to withdraw their deposits within 12 months while maintaining the concessional tax treatment of the scheme. The FMD scheme replaced the Income Equalisation Deposits and Farm Management Bonds schemes on 2 January 1999.

The estimates for 2002-03 reflect increased investment by primary producers. The declines after 2002-03 reflect falling deposits and an increase in withdrawals relative to 2002-03. Projections beyond 2005-06 are not reported as the tax expenditure is very sensitive to variations in the amounts deposited and withdrawn in any year, which are dependent on a number of external factors.

B80 Deferral of income from double wool-clips

Agriculture, forestry and fishing ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
*	*	*	*	*	*	*	*

Tax expenditure type:	Deferral	*2004 TES code*:	B83
Commencement date:	Introduced before 1985	** Category:*	na
Expiry date:			
Legislative reference:	Section 385-130 ITAA97		

As a consequence of drought, fire or flood, primary producers carrying on a sheep grazing business in Australia may conduct advanced shearing. In these circumstances, a woolgrower may elect to have the assessment of the profit from advanced shearing deferred to the succeeding income year.

B81 Spreading of income from insurance recoveries for loss of timber or livestock

Agriculture, forestry and fishing ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
*	*	*	*	*	*	*	*

Tax expenditure type:	Deferral	*2004 TES code*:	B84
Commencement date:	Introduced before 1985	** Category:*	na
Expiry date:			
Legislative reference:	Section 385-130 ITAA97		

Insurance recoveries may be received in relation to timber lost to fire or livestock lost due to disasters (for example, drought, fire, flood or disease). Primary producers who receive such insurance recoveries can elect to spread the income equally over five income years, resulting in a tax deferral. This concession only applies where the livestock are assets of a primary production business carried on in Australia.

B82 Deferral or spreading of income from the forced disposal or death of livestock

Agriculture, forestry and fishing ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
*	*	*	*	*	*	*	*

Tax expenditure type:	Deferral	*2004 TES code*:	B85
Commencement date:	Introduced before 1985	** Category:*	na
Expiry date:			
Legislative reference:	Sections 385-90 to 385-125 ITAA97		

Primary producers are eligible for a tax concession on the forced disposal or death of livestock resulting from certain events. These events include:

- the compulsory acquisition of land;
- destruction of pasture by drought, flood or fire;
- compulsory destruction of livestock for disease control; or
- notification of contamination of property or a cattle tick eradication campaign.

Primary producers who receive income from such disposals or deaths can elect to defer this income and to use it to reduce the cost of replacement livestock in the disposal year or in any of the next five income years. Alternatively, primary producers can elect to spread profits between the income year of the disposal or death and the next four income years (or 10 years if the forced disposal was in relation to the control of bovine tuberculosis).

B83 Valuation of livestock from natural increase

Agriculture, forestry and fishing ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
190	85	105	150	90	*	*	*

Tax expenditure type:	Deferral	*2004 TES code*:	B86
Commencement date:	Introduced before 1985	** Category:*	2+
Expiry date:			
Legislative reference:	Section 70-55 ITAA97		

Animals acquired by natural increase (that is, newborn animals) as livestock may be valued at cost, market selling value or replacement value. If valued at cost, the taxpayer can use actual cost or costs prescribed by the regulations. These prescribed costs may be lower than the actual cost of production, giving a concessional tax treatment.

B84 Transitional trading stock rules for oyster farmers

Agriculture, forestry and fishing ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
..	-	-	-	-	-	-	-

Tax expenditure type:	Concessional rate	*2004 TES code*:	B87
Commencement date:	2001		
Expiry date:	2002		
Legislative reference:	Section 70-41 of the *Income Tax (Transitional Provisions) Act 1997*		

Oyster farmers are required to account for oysters on hand as trading stock. This includes oysters held on sticks or in trays, or harvested and held ready for sale. A transitional arrangement in 2001-02 allowed such farmers to apply an opening stock valuation based on the 'per stick' designated value. This provided a concession relative to the benchmark valuation – the closing stock value of the previous year. Normal trading stock rules applied after the 2001-02 income year.

B85 Income tax exemption for Dairy Exit Program payments

Agriculture, forestry and fishing ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
1	1	..	-	-	-	-	-

Tax expenditure type:	Exemption	*2004 TES code*:	B88
Commencement date:	2000		
Expiry date:	2002		
Legislative reference:	Paragraph 118-37(1)(e) ITAA97		

Payments made under the Dairy Exit Program (DEP) were exempt from income tax. Between 2000 and 2002, the DEP provided a grant of up to $45,000 to farmers in the dairy industry who decided to leave farming. The DEP also provided a retraining grant to eligible farmers to assist them in finding an alternative career after they exited farming. The DEP is part of the Dairy Industry Adjustment Package.

B86 Exemption of Sugar Industry Exit grants

Agriculture, forestry and fishing ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
-	-	..	2	3	4	2	-

Tax expenditure type:	Exemption	*2004 TES code*:	B89
Commencement date:	1 February 2003		
Expiry date:			
Legislative reference:	Section 15-65 and paragraph 118-37(f) ITAA97		

Grants to individuals who exit the sugar industry under the Sugar Industry Reform Program are exempt from tax if the recipient remains out of the agricultural industry for at least five years.

Tax expenditures for manufacturing and mining

B87 Infrastructure Bonds Scheme

Manufacturing and mining ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
25	20	20	20	20	15	5	5

Tax expenditure type:	Exemption, offset	*2004 TES code*:	B90
Commencement date:	1992		
Expiry date:	1997		
Legislative reference:	Division 16L ITAA36		

Interest income from loans to eligible infrastructure facilities is exempt from income tax but 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. This scheme was closed to new projects from

14 February 1997, and replaced by the Land Transport Infrastructure Borrowings Tax Offset Scheme in 1998.

B88 Land Transport Infrastructure Borrowings Tax Offset Scheme

Manufacturing and mining ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
20	20	25	15	10	5	5	..

Tax expenditure type:	Offset	*2004 TES code*:	B91
Commencement date:	1998		
Expiry date:			
Legislative reference:	Section 396-5 to 396-110 ITAA97		

A tax offset at the company tax rate is available to resident lenders who receive interest income from loans given for approved land transport infrastructure projects. This offset is available for the first five years of interest payments. The interest paid by the borrower is not deductible. The cost of the scheme is capped at $75 million per annum.

In the 2004-05 Budget the Australian Government announced that the scheme would be phased down. All projects that were receiving assistance, or which were subject to an ongoing approval process, will continue to receive assistance. No new projects will be considered.

Miscellaneous tax expenditures

B89 Exemption from non-commercial losses provisions (primary producers and artists)

Not allocated to function ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
150	90	100	105	105	105	105	105

Tax expenditure type:	Exemption	*2004 TES code*:	B93
Commencement date:	2000		
Expiry date:			
Legislative reference:	Subsections 35-10(4) and (5) ITAA97		

Primary producers and artists with other assessable income of less than $40,000 are exempt from the non-commercial losses provisions. Under the non-commercial loss provisions, losses from a 'non-commercial' business activity may be prevented from being offset against other assessable income, even though the activity qualifies as carrying on a business under the income tax law.

B90 Deduction for certain co-operative companies

Other economic affairs (C) ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
*	*	*	*	*	*	*	*

Tax expenditure type:	Deduction	*2004 TES code:*	B94
Commencement date:	Introduced before 1985	** Category:*	1+
Expiry date:			
Legislative reference:	Sections 117, 120 ITAA36		

Deductions are provided to certain co-operative companies for the repayment of principal of Australian and State Government loans provided for the purchase of assets required for the purpose of carrying on the business of the co-operative.

B91 Transitional tax exemption for certain life insurance management fees

Not allocated to function ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
270	200	200	200	-	-	-	-

Tax expenditure type:	Exemption	*2004 TES code:*	B95
Commencement date:	2000		
Expiry date:	2005		
Legislative reference:	Section 320-40 ITAA97		

A tax exemption applies to life insurance companies on one third of specified management fees received on certain life insurance policies taken out before 1 July 2000. Specified management fees do not apply on all life insurance policies. For example, there are no specified management fees on policies where amounts would be paid only on death or disability of a person. This exemption ceases to apply to amounts that become specified management fees after 30 June 2005.

B92 Income tax exemption for State and Territory bodies

Not allocated to function ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2004 TES code:*	B96
Commencement date:	Introduced before 1985	** Category:*	4+
Expiry date:			
Legislative reference:	Part III Division 1AB ITAA36		

The income of a State and Territory body is exempt from income tax unless it is excluded under section 24AT of the *Income Tax Assessment Act 1936*.

B93 Income tax exemption for municipal authorities and other local governing bodies

Not allocated to function ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
280	370	450	460	470	480	490	500

Tax expenditure type:	Exemption	*2004 TES code*:	B97
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Section 50-25 ITAA97		

The income of municipal corporations as well as those local governing bodies and public authorities which are constituted under a Commonwealth, State or Territory law is exempt from income tax. This exemption includes the local governing bodies in Norfolk, Cocos (Keeling) and Christmas Islands.

B94 Small business related party at call loans taken to be debt interests

Other economic affairs (C) ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
-	-	-	*	*	*	*	*

Tax expenditure type:	Deduction	*2004 TES code*:	B98
Commencement date:	1 July 2005	** Category:*	2+
Expiry date:			
Legislative reference:	Tax Laws Amendment (2005 Measures No. 5) Bill 2005		

A related party at call loan is typically a loan made to a company by a related entity, has no fixed term and is repayable on demand. Under the debt/equity rules, such a loan would generally give rise to an equity interest rather than a debt interest. This means that interest payable on the loan would be frankable (but not deductible by the company).

Under a transitional provision in the debt/equity rules, all related party at call loans were taken to be debt interests until 30 June 2005.

From 1 July 2005, these loans are taken to be debt interests for companies that have an annual turnover of less than $20 million.

RETIREMENT SAVINGS

Tax expenditures for social security and welfare

C1 Concessional taxation of funded superannuation

Social security and welfare ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
10,650	9,945	13,580	14,005	15,520	16,235	17,665	18,965

Tax expenditure type:	Exemption, reduction in taxable value	*2004 TES code*:	C1
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Part III, Division 2, Subdivision AA ITAA36 Part III, Division 3, Subdivisions AA and AB ITAA36 Part III, Division 14 ITAA36 Part III, Division 17, Subdivisions AAA, AAB, AAC and AACA ITAA36 Part IX ITAA36 Section 26-80 ITAA97 Section 115-10 and Paragraph 115-100(b) ITAA97 Section 320-135 ITAA97 Superannuation contributions tax acts (surcharge acts)		

The concessional treatment of superannuation is the largest single tax expenditure. This treatment of superannuation comprises several related components. These components are described in Appendix B, along with estimates of their contribution to the concessional taxation of superannuation.

C2 Concessional taxation of unfunded superannuation lump sums

Social security and welfare ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
490	450	420	400	370	350	340	320

Tax expenditure type:	Concessional rate	*2004 TES code*:	C2
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Part III, Division 2, Subdivision AA ITAA36 Part III, Division 14 ITAA36 Part III, Division 17, Subdivision AAA ITAA36 Part IX ITAA36 Superannuation contributions tax acts (surcharge acts)		

In the case of an unfunded superannuation lump sum, no employer contribution is made until the actual benefit is provided on the member's retirement. The appropriate benchmark treatment for these amounts is therefore taxation at personal rates on receipt by the member. Unfunded lump sums are taxed in the same way as superannuation lump sums from untaxed funds (the tax treatment of these payments is outlined in Appendix B).

C3 Concessional taxation of non-superannuation termination benefits

Social security and welfare ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
410	350	340	340	340	360	370	380

Tax expenditure type:	Concessional rate	*2004 TES code*:	C3
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Part III, Division 2, Subdivision AA ITAA36 Part III, Division 14 ITAA36 Part III, Division 17, Subdivision AAA ITAA36 Termination payments tax acts (termination payments surcharge acts)		

Non-superannuation termination payments are generally paid by employers to terminating employees. These amounts are taxed in the same way as superannuation lump sums from untaxed funds (the tax treatment of these payments is outlined in Appendix B) with the exception of bona fide redundancy payments and approved early retirement scheme payments which are tax free up to certain limits. This tax expenditure excludes the treatment of payments in lieu of leave (see C4 and C5).

C4 Capped taxation rates for lump sum payments for unused recreation and long service leave

Social security and welfare ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
230	210	190	175	160	145	140	130

Tax expenditure type:	Concessional rate	*2004 TES code*:	C4
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Sections 26AC, 26AD, 159S and 159SA ITAA36		

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

C5 Taxation of five per cent of unused long service leave accumulated by 15 August 1978

Social security and welfare ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
115	100	85	75	60	50	40	35

Tax expenditure type:	Concessional rate	*2004 TES code*:	C5
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Subsection 26AD(5) ITAA36		

A reduced tax rate applies to lump sum payments for unused long service leave which accrued prior to 15 August 1978. Five per cent of such payments is included in the taxpayer's assessable income and is subject to tax at marginal rates.

C6 Capital gains tax exemption on the sale of a small business at retirement

Social security and welfare ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
55	85	120	185	190	185	190	200

Tax expenditure type:	Exemption	*2004 TES code*:	C6
Commencement date:	1997		
Expiry date:			
Legislative reference:	Subdivision 152-D ITAA97		

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.

Tax expenditures for other economic affairs

C7 Small business 15 year capital gains tax exemption

Other economic affairs (C) ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
5	10	16	13	14	14	15	15

Tax expenditure type:	Exemption	*2004 TES code*:	C7
Commencement date:	1999		
Expiry date:			
Legislative reference:	Subdivision 152-B ITAA97		

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 available only if the taxpayer is permanently incapacitated or reaches the age of 55 and retires.

C8 Capital gains tax roll-over relief for changes to trust deeds of Approved Deposit Funds and superannuation funds

Other economic affairs (C) ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
*	*	*	*	*	*	*	*

Tax expenditure type:	Deferral	*2004 TES code*:	C8
Commencement date:	1994	** Category:*	1+
Expiry date:			
Legislative reference:	Subdivision 126-C ITAA97		

Capital gains tax (CGT) roll-over relief is provided where a complying superannuation fund or a complying Approved Deposit Fund amends or replaces its trust deed. In the absence of the roll-over, either CGT event E1 (creating a trust over an asset) or CGT event E2 (transferring an asset to a trust) would give rise to a CGT taxing point if the amendment or replacement of the trust deed resulted in a resettlement of the fund.

FRINGE BENEFITS TAX

Tax expenditures for general public services

D1 Exemption for benefits provided by certain international organisations

General public services (B) ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2004 TES code*:	D1
Commencement date:	1986	** Category:*	1+
Expiry date:			
Legislative reference:	Sections 55 of the *Fringe Benefits Tax Assessment Act 1986*		

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

Tax expenditures for defence

D2 Exemption for certain benefits provided under the Defence Service Homes Act

Defence ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2004 TES code*:	D2
Commencement date:	1986	** Category:*	1+
Expiry date:			
Legislative reference:	Section 6 of the *Fringe Benefits Tax (Application to the Commonwealth) Act 1986*		

Certain benefits that are provided to certain eligible employees under the *Defence Service Homes Act 1918* are exempt from fringe benefits tax.

D3 Exemption for health care benefits provided to members of the Defence Force

Defence ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2004 TES code*:	D3
Commencement date:	1995	** Category:*	3+
Expiry date:			
Legislative reference:	Section 6AC of the *Fringe Benefits Tax (Application to the Commonwealth) Act 1986*		

Certain health care benefits provided to Australian Government employees are exempt from fringe benefits tax. The exemption applies where the benefit is provided because the employee is a member of the Defence Force.

D4 Exemption for certain benefits received by Australian Government employees in receipt of military compensation payments

Defence ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2004 TES code*:	D4
Commencement date:	1995	** Category:*	na
Expiry date:			
Legislative reference:	Sections 6AA and 6AB of the *Fringe Benefits Tax (Application to the Commonwealth) Act 1986*		

Certain benefits provided to Australian Government employees are exempt from fringe benefits tax. The exemption applies where the benefit is provided because the employee is a recipient of certain military compensation payments.

Tax expenditures for education

D5 Reduction in taxable value for certain education costs of children of employees posted overseas

Education ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
*	*	*	*	*	*	*	*

Tax expenditure type:	Reduction in taxable value	*2004 TES code*:	D5
Commencement date:	1986	** Category:*	1+
Expiry date:			
Legislative reference:	Section 65A of the *Fringe Benefits Tax Assessment Act 1986*		

The taxable value of fringe benefits associated with certain education costs for children of employees posted overseas for not less than 28 days may be reduced. The extent of the amount of the reduction relates to the period of the employee's service overseas.

Tax expenditures for health

D6 Capped exemption for certain public and non-profit hospitals

Health ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
130	200	220	230	240	250	260	270

Tax expenditure type:	Exemption	*2004 TES code*:	D7
Commencement date:	2000		
Expiry date:			
Legislative reference:	Section 57A of the *Fringe Benefits Tax Assessment Act 1986*		

Certain public and non-profit hospitals are provided with an exemption from fringe benefits tax on up to $17,000 of the grossed-up taxable value of fringe benefits per employee.

D7 Exemption for travel costs of employees and their families associated with overseas medical treatment

Health ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2004 TES code*:	D8
Commencement date:	1986	** Category:*	1+
Expiry date:			
Legislative reference:	Section 58L of the *Fringe Benefits Tax Assessment Act 1986*		

Benefits that meet the costs of travel away from a work place located in a foreign country in order to obtain medical treatment are exempt from fringe benefits tax. Accommodation and meals are also exempt if provided en route.

Tax expenditures for social security and welfare

D8 Exemption for safety award benefits up to $200 per year per employee

Social security and welfare ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2004 TES code*:	D9
Commencement date:	1986	** Category:*	1+
Expiry date:			
Legislative reference:	Section 58R of the *Fringe Benefits Tax Assessment Act 1986*		

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

D9 Exemption for recreational or childcare facilities on an employer's business premises

Social security and welfare ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2004 TES code*:	D10
Commencement date:	1986	** Category:*	2+
Expiry date:			
Legislative reference:	Subsection 47(2) of the *Fringe Benefits Tax Assessment Act 1986*		

Recreational or childcare facilities are exempt from fringe benefits tax if the facilities are provided on an employer's business premises for the benefit of employees.

D10 Exemption for employer contributions to secure childcare places in certain centres

Social security and welfare ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2004 TES code*:	D11
Commencement date:	1986	** Category:*	1+
Expiry date:			
Legislative reference:	Subsection 47(8) of the *Fringe Benefits Tax Assessment Act 1986*		

Payments made by employers to obtain priority of access to certain childcare facilities for children of employees are exempt from fringe benefits tax if made under certain programs administered by the Australian Government.

D11 Capped exemption for public benevolent institutions (excluding public hospitals)

Social security and welfare ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
230	165	210	240	250	260	270	280

Tax expenditure type:	Exemption	*2004 TES code*:	D12
Commencement date:	2001		
Expiry date:			
Legislative reference:	Subsection 57A(1) of the *Fringe Benefits Tax Assessment Act 1986*		

Public benevolent institutions are provided with an exemption from fringe benefits tax on up to $30,000 of the grossed-up taxable value of fringe benefits per employee. Before 1 April 2001, the exemption was not capped.

D12 Exemption for accommodation, fuel and meals for live-in employees caring for the elderly or disadvantaged

Social security and welfare ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2004 TES code*:	D13
Commencement date:	1986	** Category:*	1+
Expiry date:			
Legislative reference:	Sections 58 and 58U of the *Fringe Benefits Tax Assessment Act 1986*		

An exemption from fringe benefits tax applies to certain benefits that are provided to people employed in caring for elderly or disadvantaged persons and who reside with them in their own homes. The benefits that are exempt are accommodation, residential fuel, meals and other food and drink provided in the home to the employee.

D13 Exemption for emergency assistance

Social security and welfare ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2004 TES code*:	D14
Commencement date:	1986	** Category:*	1+
Expiry date:			
Legislative reference:	Section 58N of the *Fringe Benefits Tax Assessment Act 1986*		

Benefits provided by way of emergency assistance are exempt from fringe benefits tax. Emergency assistance includes certain first aid or other emergency health care; emergency meals, food supplies, clothing, accommodation, transport, or use of household goods; temporary repairs; and any other similar matter.

Tax expenditures for housing and community amenities

D14 Exemption for remote area housing and reduction in taxable value for remote area housing assistance

Housing and community amenities ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
70	80	80	85	90	95	100	100

Tax expenditure type:	Exemption, reduction in taxable value	*2004 TES code*:	D15
Commencement date:	2000		
Expiry date:			
Legislative reference:	Sections 58ZC, 59, 60, and 65CC of the *Fringe Benefits Tax Assessment Act 1986*		

Housing benefits arise where an employer grants an employee the right to occupy or use a unit of accommodation as a usual place of residence. Such benefits provided to employees in remote areas are exempt from fringe benefits tax.

The taxable value of housing assistance provided to employees in remote areas is generally reduced by 50 per cent. Housing assistance includes benefits such as housing loans, provision of residential fuel, provision of a discounted house and land, provision of a residential housing ownership scheme, and the payment or reimbursement of rent, the interest accrued on a housing loan and the cost of acquiring a house and land.

D15 Exemption for housing provided by certain employers in regional areas

Housing and community amenities ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2004 TES code*:	D16
Commencement date:	2000	** Category:*	2+
Expiry date:			
Legislative reference:	Section 58ZC of the *Fringe Benefits Tax Assessment Act 1986*		

Housing benefits provided to employees by police, charities and certain public and non-profit hospitals in 'regional' areas are exempt from fringe benefits tax.

Tax expenditures for other economic affairs

D16 Discounted valuation of stand-by travel for airline employees and travel agents

Other economic affairs (A) ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
45	20	25	25	25	30	30	30

Tax expenditure type:	Discounted valuation	*2004 TES code*:	D17
Commencement date:	1986		
Expiry date:			
Legislative reference:	Sections 32 and 33 of the *Fringe Benefits Tax Assessment Act 1986*		

The taxable value of an airline transport fringe benefit for airline employees and travel agents is the stand by value less the employee contribution. For domestic travel, the stand by value is 37.5 per cent of the lowest publicly advertised, economy airfare charged by the provider, at or about the time of travel, over that route. For international travel, the stand by value is 37.5 per cent of the lowest fare published in Australia as charged by the carrier for travel over that route in the 12 months preceding the end of the year of tax.

D17 Exemption for certain long service awards for more than 15 years of service

Other economic affairs (B) ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2004 TES code*:	D18
Commencement date:	1986	** Category:*	1+
Expiry date:			
Legislative reference:	Section 58Q of the *Fringe Benefits Tax Assessment Act 1986*		

Long service awards granted in recognition of 15 years or more service, up to a specified maximum amount, are exempt from fringe benefits tax.

From 1 April 2005, the specified maximum amount increased from $500 to $1,000 where the period of service being recognised by the award is 15 years. From 1 April 2005, the maximum additional amount increased from $50 to $100 for each additional year served where an award recognises a period of service greater than 15 years.

D18 Exemption for certain benefits provided to employees training under the Australian Traineeship System

Other economic affairs (B) ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2004 TES code*:	D19
Commencement date:	1986	** Category:*	1+
Expiry date:			
Legislative reference:	Section 58S of the *Fringe Benefits Tax Assessment Act 1986*		

Food, drink and accommodation provided to people training under the Australian Traineeship System may be exempt from fringe benefits tax. To be exempt, the benefits must be provided in accordance with an award or an industry custom and must not be provided at a party, reception or other social function.

D19 Exemption for certain relocation and recruitment expenses

Other economic affairs (B) ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2004 TES code*:	D20
Commencement date:	1986	** Category:*	2+
Expiry date:			
Legislative reference:	Sections 58A-D and 58F of the *Fringe Benefits Tax Assessment Act 1986*		

Certain benefits associated with relocation and recruitment expenses are exempt from fringe benefits tax. The exemption applies to benefits associated with the cost of travelling to attend an interview or selection test, the cost of removal and storage of household effects, costs associated with the sale and/or purchase of a dwelling, costs associated with connecting or reconnecting certain utilities and the costs of providing relocation transport and any meals and accommodation en route.

D20 Reduction in taxable value of certain relocation and recruitment expenses

Other economic affairs (B) ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
*	*	*	*	*	*	*	*

Tax expenditure type:	Reduction in taxable value	*2004 TES code*:	D21
Commencement date:	1986	** Category:*	2+
Expiry date:			
Legislative reference:	Sections 61B-E of the *Fringe Benefits Tax Assessment Act 1986*		

Reductions in taxable value are provided for fringe benefits associated with certain relocation and recruitment expenses. This includes benefits associated with cents per kilometre reimbursements for transport in an employee's car for relocation travel or travel to attend an interview or selection test, the provision of temporary accommodation, and meals provided to an employee (or family member) while staying in a hotel, motel, hostel or guesthouse which is used for temporary accommodation while relocating.

D21 Exemption for compensation-related benefits, occupational health and counselling services and some training courses

Other economic affairs (B) ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2004 TES code*:	D22
Commencement date:	1986	** Category:*	2+
Expiry date:			
Legislative reference:	Sections 58J, 58K and 58M of the *Fringe Benefits Tax Assessment Act 1986*		

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

D22 Reduction in taxable value for reimbursements of car expenses incurred for occupational health and counselling services and some training courses

Other economic affairs (B) ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
*	*	*	*	*	*	*	*

Tax expenditure type:	Reduction in taxable value	*2004 TES code*:	D23
Commencement date:	1986	** Category:*	1+
Expiry date:			
Legislative reference:	Section 61F of the *Fringe Benefits Tax Assessment Act 1986*		

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

D23 Exemption for certain loan benefits

Other economic affairs (C) ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2004 TES code*:	D24
Commencement date:	1986	** Category:*	na
Expiry date:			
Legislative reference:	Section 17 of the *Fringe Benefits Tax Assessment Act 1986*		

Certain in-house loan benefits and certain loans to employees to meet employment-related expenses are exempt from fringe benefits tax.

D24 Application of statutory formula to value car benefits

Other economic affairs (C) ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
1,000	1,030	1,070	1,100	1,140	1,180	1,220	1,270

Tax expenditure type:	Discounted valuation	*2004 TES code*:	D25
Commencement date:	1986		
Expiry date:			
Legislative reference:	Section 9 of the *Fringe Benefits Tax Assessment Act 1986*		

Under the fringe benefits tax benchmark, the value of a car fringe benefit is the cost of providing the vehicle (for instance, where the vehicle is provided under a lease, the value of the lease payments) plus the associated vehicle running costs. However, the statutory formula method for valuing car fringe benefits values the benefit as a proportion of the acquisition cost of the vehicle, which declines as distance travelled by the vehicle each year increases. This approach may result in the undervaluation of the benefit when calculating fringe benefits tax with the result that less tax is paid on car fringe benefits than would be if the cost of the benefit were paid by the employee out of after tax cash remuneration.

D25 Record keeping exemption

Other economic affairs (C) ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
..	..	..	..	..	..	..	..

Tax expenditure type:	Record keeping valuation	*2004 TES code*:	D26
Commencement date:	1998		
Expiry date:			
Legislative reference:	Section 135A of the *Fringe Benefits Tax Assessment Act 1986*		

If certain conditions are satisfied, an employer need not keep or retain full fringe benefits tax records. Employers' liability to pay tax is based on their liability in their most recent base year instead of the current year.

D26 Exemption for small business employee car parking

Other economic affairs (C) ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
11	11	12	12	13	13	14	14

Tax expenditure type:	Exemption	*2004 TES code*:	D27
Commencement date:	1997		
Expiry date:			
Legislative reference:	Section 58GA of the *Fringe Benefits Tax Assessment Act 1986*		

Car parking benefits provided by small business employers are exempt from fringe benefits tax if the parking is not provided in a commercial car park, the employer is neither a government body, nor a listed public company, nor a subsidiary of a listed public company and the employer's total income is less than $10 million.

Tax expenditures for transport and communications

D27 Exemption for free or discounted commuter travel for employees of public transport providers

Transport and communications ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
60	60	65	65	70	70	75	75

Tax expenditure type:	Exemption	*2004 TES code*:	D28
Commencement date:	1986		
Expiry date:			
Legislative reference:	Subsection 47(1) of the *Fringe Benefits Tax Assessment Act 1986*		

Where an employer operates a business of providing transport to the public, the provision of free or discounted travel (other than in an aircraft) to employees of that business for the purpose of their travelling to and from work is exempt from fringe benefits tax. Where an employee's place of work is in a metropolitan area, free or discounted travel on a scheduled service within that area is also exempt from fringe benefits tax.

D28 Exemption for employee taxi travel arriving at or leaving from place of work

Transport and communications ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2004 TES code*:	D29
Commencement date:	1997	** Category:*	2+
Expiry date:			
Legislative reference:	Section 58Z of the *Fringe Benefits Tax Assessment Act 1986*		

Any benefit arising from taxi travel by an employee is exempt from fringe benefits tax if the travel is a single trip beginning or ending at the employee's place of work.

D29 Exemption for free or discounted travel to and from duty by police officers on public transport

Transport and communications ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
5	5	5	5	5	5	5	5

Tax expenditure type:	Exemption	*2004 TES code*:	D30
Commencement date:	2000		
Expiry date:			
Legislative reference:	Subsection 47(1A) of the *Fringe Benefits Tax Assessment Act 1986*		

The provision of travel on public transport to police officers for the purpose of travel between the officer's place of residence and their primary place of employment is exempt from fringe benefits tax.

Miscellaneous tax expenditures

D30 Partial rebate for certain non-profit, non-government bodies

Not allocated to function ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
15	25	30	30	30	30	35	35

Tax expenditure type:	Rebate	*2004 TES code*:	D31
Commencement date:	1994		
Expiry date:			
Legislative reference:	Section 65J of the *Fringe Benefits Tax Assessment Act 1986*		

Certain non-profit, non-government bodies are eligible for a 48 per cent rebate of the fringe benefits tax that would otherwise be payable on up to $30,000 of the grossed-up taxable value of fringe benefits per employee. Prior to 1 April 2001, the rebate was not subject to the $30,000 cap.

D31 Exemption for benefits in relation to certain compassionate travel

Not allocated to function ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2004 TES code*:	D32
Commencement date:	1986	** Category:*	1+
Expiry date:			
Legislative reference:	Section 58LA of the *Fringe Benefits Tax Assessment Act 1986*		

Certain benefits provided in connection with compassionate travel are exempt from fringe benefits tax. The exemption applies to the cost of transport, meals and accommodation for the person travelling.

D32 Exemption for certain fringe benefits provided to religious practitioners

Not allocated to function ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
175	180	185	185	185	190	195	200

Tax expenditure type:	Exemption	*2004 TES code*:	D33
Commencement date:	1986		
Expiry date:			
Legislative reference:	Section 57 of the *Fringe Benefits Tax Assessment Act 1986*		

Benefits provided to an employee of a religious institution are exempt from fringe benefits tax if the employee is a religious practitioner and the benefit is provided principally in respect of pastoral duties or any other duties that are directly related to the practice, study, teaching or propagation of religious beliefs.

D33 Exemption for certain benefits provided to live-in employees who provide domestic services and are employed by religious institutions or religious practitioners

Not allocated to function ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2004 TES code*:	D34
Commencement date:	1986	** Category:*	2+
Expiry date:			
Legislative reference:	Section 58T of the *Fringe Benefits Tax Assessment Act 1986*		

Accommodation, household fuel, meals and other food and drink provided to live-in employees who provide domestic services and are employed by religious institutions or religious practitioners are exempt from fringe benefits tax.

D34 Discounted valuation of arm's length transaction price for in-house property and residual fringe benefits

Not allocated to function ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
*	*	*	*	*	*	*	*

Tax expenditure type:	Discounted valuation	*2004 TES code*:	D35
Commencement date:	1986	** Category:*	na
Expiry date:			
Legislative reference:	Sections 42, 48 and 49 of the *Fringe Benefits Tax Assessment Act 1986*		

The taxable value of in-house property fringe benefits and in-house residual fringe benefits is 75 per cent of the lowest retail price charged to the public in the ordinary course of business.

D35 Exemption for airline transport fringe benefits and certain in-house benefits up to $500 per employee

Not allocated to function ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2004 TES code*:	D36
Commencement date:	1986	** Category:*	2+
Expiry date:			
Legislative reference:	Section 62 of the *Fringe Benefits Tax Assessment Act 1986*		

A rule applies to certain in-house and airline transport fringe benefits to reduce the taxable value by up to $500 per employee.

D36 Discounted valuation for car parking fringe benefits

Not allocated to function ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
13	17	18	19	20	25	25	30

Tax expenditure type:	Discounted valuation	*2004 TES code*:	D37
Commencement date:	1993		
Expiry date:			
Legislative reference:	Section 39A of the *Fringe Benefits Tax Assessment Act 1986*		

A car parking fringe benefit only arises if within a one kilometre radius of the premises on which the car is parked there is a commercial parking station that charges a fee for all day parking that is more than a specified car parking threshold. The taxable value of the car parking fringe benefit can be calculated by one of five methods.

D37 Exemption for motor vehicle parking and car parking fringe benefits provided by certain employers

Not allocated to function ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2004 TES code*:	D38
Commencement date:	1986, 1993	** Category:*	2+
Expiry date:			
Legislative reference:	Section 58G of the *Fringe Benefits Tax Assessment Act 1986* Regulation 13A of the *Fringe Benefits Tax Regulations 1992*		

Motor vehicle parking, which is employer-provided parking that is not a car parking fringe benefit, is exempt from fringe benefits tax. Car parking fringe benefits provided by scientific, religious, charitable or public education institutions and car parking fringe benefits provided for certain disabled employees are also exempt from fringe benefits tax.

D38 Reduction in taxable value for holiday transport for employees posted overseas

Not allocated to function ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
*	*	*	*	*	*	*	*

Tax expenditure type:	Reduction in taxable value	*2004 TES code*:	D39
Commencement date:	1986	** Category:*	1+
Expiry date:			
Legislative reference:	Section 61A of the *Fringe Benefits Tax Assessment Act 1986*		

The taxable value of certain fringe benefits in relation to holiday transport for employees posted overseas may be reduced. The reduction in taxable value depends on whether the travel is to the employee's home country or to some other destination.

D39 Exemption for transport for oil rig and remote area employees in certain circumstances

Not allocated to function ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2004 TES code*:	D40
Commencement date:	1986	** Category:*	1+
Expiry date:			
Legislative reference:	Subsection 47(7) of the *Fringe Benefits Tax Assessment Act 1986*		

Transport provided to employees in remote areas or who work on oil rigs or other installations at sea may be exempt from fringe benefits tax. The exemption applies where the employees are provided with accommodation at or near the work site on working days and it would be unreasonable to expect the employees to travel to and from work on a daily basis.

D40 Reduction in taxable value for remote area holiday benefits

Not allocated to function ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
*	*	*	*	*	*	*	*

Tax expenditure type:	Reduction in taxable value	*2004 TES code*:	D41
Commencement date:	1986	** Category:*	1+
Expiry date:			
Legislative reference:	Sections 60A and 61 of the *Fringe Benefits Tax Assessment Act 1986*		

The taxable value of holiday related transport benefits (including the cost of appropriate meals and accommodation en route) provided to employees working in a remote area (and any family members living with them in the remote area) are generally reduced by 50 per cent.

D41 Exemption for minor benefits

Not allocated to function ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2004 TES code*:	D42
Commencement date:	1986	** Category:*	2+
Expiry date:			
Legislative reference:	Section 58P of the of the *Fringe Benefits Tax Assessment Act 1986*		

Minor benefits may be exempt from fringe benefits tax. Minor benefits are benefits that are less than $100 in value, infrequently provided and/or are difficult to record and value. It also must be concluded that it would be unreasonable to treat the minor benefit as a fringe benefit.

D42 Exemption for private use of business property

Not allocated to function ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2004 TES code*:	D43
Commencement date:	1986	** Category:*	3+
Expiry date:			
Legislative reference:	Sections 41 and 47(3) of the of the *Fringe Benefits Tax Assessment Act 1986*		

Property provided on the employer's business premises and consumed by the employee on a working day may be exempt from fringe benefits tax. The use of property (other than a motor vehicle) that is ordinarily located on the employer's business premises and is principally used directly in connection with business operations is also exempt from fringe benefits tax.

D43 Exemption for certain allowances and accommodation and food benefits

Not allocated to function ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2004 TES code*:	D44
Commencement date:	1986	** Category:*	2+
Expiry date:			
Legislative reference:	Sections 21, 31, 47(5), 58E, 58ZD and 63 of the of the *Fringe Benefits Tax Assessment Act 1986*		

Certain allowances, accommodation and food benefits provided to employees living away from their usual place of residence in order to perform their duties of employment are exempt from fringe benefits tax.

D44 Exemption for minor private use of company motor vehicle

Not allocated to function ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2004 TES code*:	D45
Commencement date:	1986	** Category:*	na
Expiry date:			
Legislative reference:	Subsection 47(6) of the of the *Fringe Benefits Tax Assessment Act 1986*		

Where an employee is provided with the use of a motor vehicle that is not a car, such use is exempt from fringe benefits tax if any private use is restricted to travel to and from work, use which is incidental to travel in the course of duties of employment, and non-work related use that is minor, infrequent and irregular.

D45 Capped exemption for charities promoting the prevention or control of disease in human beings

Not allocated to function ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
5	8	13	16	17	17	18	19

Tax expenditure type:	Exemption	*2004 TES code*:	D46
Commencement date:	2001		
Expiry date:			
Legislative reference:	Subsection 57A(5) of the of the *Fringe Benefits Tax Assessment Act 1986*		

Charitable institutions whose principal activity is to promote the prevention or control of diseases in human beings are provided with an exemption from fringe benefits tax on up to $30,000 of the grossed-up taxable value of fringe benefits per employee. These institutions were provided with an uncapped exemption from 1 April 1998 to 1 April 2001 and a capped exemption thereafter.

D46 Exemption for certain payments to approved worker entitlement funds

Not allocated to function ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
-	-	-	220	230	250	260	270

Tax expenditure type:	Exemption	*2004 TES code*:	D47
Commencement date:	2003		
Expiry date:			
Legislative reference:	Sections 58PA, 58PB and 58PC of the of the *Fringe Benefits Tax Assessment Act 1986*		

Payments to approved worker entitlement funds for the purposes of providing for entitlements such as redundancy and long service leave, are exempt from fringe benefits tax. The funds must be either prescribed by regulation or be a long service leave fund established under a Commonwealth, State or Territory law.

D47 Exemption for engagement of a relocation consultant

Not allocated to function ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
-	-	-	-	-	*	*	*

Tax expenditure type:	Exemption	*2004 TES code*:	New
Commencement date:	2006	** Category:*	1+
Expiry date:			
Legislative reference:	58AA of the *Fringe Benefits Tax Assessment Act 1986*		

Costs associated with the engagement of a relocation consultant where an employee moves residence as part of their employment are exempt from fringe benefits tax if certain criteria are met. A relocation consultant is a person who assists an employee, or his or her family members, to move and settle into a new location.

D48 Exemption for eligible work-related items

Not allocated to function ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
170	190	220	240	280	310	350	400

Tax expenditure type:	Exemption	*2004 TES code*:	New
Commencement date:	1995		
Expiry date:			
Legislative reference:	Section 58X of the *Fringe Benefits Tax Assessment Act 1986*		

Eligible work-related items (such as mobile phones, laptop computers, protective clothing and tools of trade) provided by an employer to an employee are exempt from fringe benefits tax.

D49 Discounted valuation for board fringe benefits

Not allocated to function ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
13	11	11	11	12	12	13	13

Tax expenditure type:	Discounted valuation	*2004 TES code*:	D48
Commencement date:	1986		
Expiry date:			
Legislative reference:	Section 36 of the *Fringe Benefits Tax Assessment Act 1986*		

Certain meals provided to employees under an industrial award or employment arrangement (known as board fringe benefits) are valued at concessional rates for the purposes of fringe benefits tax.

The taxable value of a board fringe benefit is $2 per meal per person, or $1 per meal per person if the person is under the age of 12. Any amount paid for the meal is deducted.

D50 Exemption for the provision of food and drink in certain circumstances

Not allocated to function ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2004 TES code*:	D49
Commencement date:	1986	** Category:*	1+
Expiry date:			
Legislative reference:	Sections 54 and 58V of the *Fringe Benefits Tax Assessment Act 1986*		

Where employees receive meals that are board fringe benefits, any additional food and drink supplied to them, such as morning and afternoon teas, is exempt from fringe benefits tax. Food and drink provided to domestic employees who do not 'live-in' may be exempt from fringe benefits tax if consumed by the employee at the place of employment and the employer is a religious institution or natural person. See D49 for a description of the board fringe benefits tax expenditure.

CAPITAL GAINS TAX

Tax expenditures for defence

E1 Capital gains tax exemption for valour or brave conduct decorations

Defence ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
..	..	..	..	..	..	..	..

Tax expenditure type:	Exemption	*2004 TES code*:	E1
Commencement date:	1985		
Expiry date:			
Legislative reference:	Paragraph 118-5(b) ITAA97		

Capital gains or losses arising from the disposal of a decoration awarded for valour or brave conduct are exempt from capital gains tax. This exemption is not available if the owner of the decoration had paid money or given any other property for it.

Tax expenditures for housing and community amenities

E2 Capital gains tax concessions for conservation covenants

Housing and community amenities ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
..	..	..	..	..	..	..	..

Tax expenditure type:	Exemption	*2004 TES code*:	E2
Commencement date:	2000		
Expiry date:			
Legislative reference:	Section 104-47 ITAA97		

For capital gains tax (CGT) purposes, perpetual conservation covenants are treated as a part disposal of the land, rather than the creation of a right. This treatment results in a reduced capital gain because a portion of the cost base of the land is taken into account. Previously the capital gain equalled the amount received for the covenant less incidental costs.

Landowners can also benefit from any CGT concession or exemption that may apply to the capital gain. For example, a capital gain from a covenant granted in respect of land owned before 20 September 1985 is exempt. In addition, the capital gains tax discount may now apply if the land has been owned for at least 12 months.

E3 Capital gains tax main residence exemption

Housing and community amenities ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2004 TES code*:	E3
Commencement date:	1985	** Category:*	4+
Expiry date:			
Legislative reference:	Subdivision 118-B ITAA97		

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

Tax expenditures for recreation and culture

E4 Capital gains tax exemption for the disposal of assets under the Cultural Bequests and Cultural Gifts programmes

Recreation and culture ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2004 TES code*:	E4
Commencement date:	1994, extended in 1998	** Category:*	1+
Expiry date:			
Legislative reference:	Section 118-60 ITAA97		

Capital gains or losses arising from testamentary gifts made under the Cultural Bequests and Cultural Gifts programmes are exempt from capital gains tax.

Tax expenditures for other economic affairs

E5 Capital gains tax roll-over relief for worker entitlement funds

Other economic affairs (B) ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
-	-	*	*	*	*	*	*

Tax expenditure type:	Deferral	*2004 TES code*:	E5
Commencement date:	2003	** Category:*	2+
Expiry date:			
Legislative reference:	Subdivision 126-C ITAA97		

Capital gains tax roll-over relief is available for a fund that amends or replaces its trust deed in order to become an approved worker entitlement fund for fringe benefits tax purposes.

E6 Capital gains tax concession for carried interests paid to venture capital managers

Other economic affairs (C) ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
-	-	1	6	9	12	13	14

Tax expenditure type:	Concessional rate	*2004 TES code*:	E6
Commencement date:	2002		
Expiry date:			
Legislative reference:	Sections 104-255 and 118-21 ITAA97		

Venture capital fund managers may be paid a performance-based share of partnership profits by investors. Such performance payments are 'carried interests'. An entitlement to receive a carried interest is a capital gains tax event in the hands of venture capital fund managers and is not treated as income. Consequently, individual managers are eligible for the 50 per cent discount on their carried interest.

E7 Capital gains tax roll-over relief for financial service providers on transition to the Financial Services Reform regime

Other economic affairs (C) ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
-	*	*	*	*	*	*	*

Tax expenditure type:	Deferral	*2004 TES code*:	E7
Commencement date:	2002	** Category:*	2+
Expiry date:	2004		
Legislative reference:	Subdivision 124-O ITAA97		

Capital gains tax (CGT) roll-over relief is automatically applied to eligible financial service providers on transition to the Financial Services Reform regime. Financial service providers were provided the relief when, during the Financial Services Reform transitional period:

- an existing statutory licence, registration or authority was replaced with an Australian financial services licence;
- a qualified Australian financial services licence was replaced with an Australian financial services licence; or
- an intangible CGT asset was replaced with another intangible capital gains tax asset.

E8 Capital gains tax exemption for assets acquired before 20 September 1985

Other economic affairs (C) ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2004 TES code*:	E8
Commencement date:	1985	** Category:*	na
Expiry date:			
Legislative reference:	Subdivision 104-A ITAA97		

Capital gains or losses on assets acquired before 20 September 1985 (the commencement date of the capital gains tax regime) are generally exempt from capital gains tax.

E9 Capital gains tax roll-over relief for transfer of assets on marriage breakdown

Other economic affairs (C) ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
*	*	*	*	*	*	*	*

Tax expenditure type:	Deferral	*2004 TES code*:	E9
Commencement date:	1985	** Category:*	2+
Expiry date:			
Legislative reference:	Subdivision 126-A ITAA97		

An automatic roll-over relief is available where a capital gains tax (CGT) asset is transferred to a spouse or former spouse because of a marriage breakdown.

The Government announced in the 2005-06 Budget that it will extend the existing CGT roll-over on marriage breakdown to assets transferred under a binding financial agreement or an arbitral award entered into under the *Family Law Act 1975* or similar arrangements under state, territory or foreign legislation, with effect after the date of Royal Assent. This legislation is pending.

E10 Capital gains tax deferral of liability when taxpayer dies

Other economic affairs (C) ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
*	*	*	*	*	*	*	*

Tax expenditure type:	Deferral	*2004 TES code*:	E10
Commencement date:	1985	** Category:*	na
Expiry date:			
Legislative reference:	Division 128 ITAA97		

Generally, there is no capital gains tax taxing point when a taxpayer dies. Recognition of the gains or losses accruing during the life of the deceased is deferred until the person inheriting the asset later disposes of it. An exception applies if the capital gains tax asset passes to an exempt entity, the trustee of a complying superannuation entity, or a non-resident of Australia.

E11 Capital gains tax exemption of non-portfolio interests in foreign companies with active businesses

Other economic affairs (C) ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
-	-	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2004 TES code*:	E11
Commencement date:	April 2004	** Category:*	2+
Expiry date:			
Legislative reference:	Subdivision 768-G ITAA97		

Capital gains and losses by Australian companies and controlled foreign companies arising from certain CGT events related to non-portfolio interests in foreign companies with active business interests are reduced.

E12 Tax exemption for certain foreign investment in venture capital

Other economic affairs (C) ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
-	-	20	25	30	30	*	*

Tax expenditure type:	Exemption	*2004 TES code*:	E12
Commencement date:	1999, extended in 2002	** Category:*	2+
Expiry date:			
Legislative reference:	Sections 51 54, 51 55 and Subdivisions 118-F, 118-G ITAA97		

Certain non-resident investors are exempt from tax on profits and gains in respect of their eligible venture capital investments.

The concession introduced in 1999 provides an exemption from tax on the disposal of investments in new equity in eligible venture capital investments to non-resident pension funds that are tax exempt in their home jurisdiction (being either Canada, France, Germany, Japan, the United Kingdom, the United States or other approved jurisdictions).

The concession introduced in 2002 provides an exemption on the profits and gains in equity investments made by a venture capital limited partnership to certain non-resident partners in the partnership. The exemption is available to a partner who is a tax exempt resident of Canada, France, Germany, Japan, the United Kingdom, the United States or other approved jurisdictions, a venture capital fund of funds established and maintained in those countries, or a taxable resident of Canada, Finland, France, Germany, Italy, Japan, the Netherlands (excluding the Netherlands Antilles), New Zealand, Norway, Sweden, Taiwan, the United Kingdom, the United

States or other approved jurisdictions, that holds less than 10 per cent of the committed capital of a venture capital limited partnership.

E13 50 per cent capital gains tax exemption for small business active asset sales

Other economic affairs (C) ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
130	160	220	300	310	300	310	320

Tax expenditure type:	Exemption	*2004 TES code*:	E13
Commencement date:	1999		
Expiry date:			
Legislative reference:	Subdivision 152-C ITAA97		

Fifty per cent of the capital gains arising from the sale of active assets in an eligible small business are exempt from capital gains tax (CGT). This applies in addition to any CGT discount entitlement of the taxpayer. Active assets include assets used in carrying on a business and intangible assets inherently connected with a business (for example, goodwill). An eligible small business is one where the net value of assets that taxpayer and connected entities own is no more than $5 million.

E14 Capital gains tax roll-over relief for small business

Other economic affairs (C) ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
40	75	85	125	130	125	130	135

Tax expenditure type:	Deferral	*2004 TES code*:	E14
Commencement date:	1997		
Expiry date:			
Legislative reference:	Subdivision 152-E ITAA97		

Capital gains tax roll-over relief is available for capital gains arising from the disposal of active small business assets if the proceeds of the sale are used to purchase other active small business assets. Active assets include assets used in carrying on a business and intangible assets inherently connected with a business (for example, goodwill). An eligible small business is one where the net value of assets that taxpayer and connected entities own is no more than $5 million.

E15 Capital gains tax discount for individuals and trusts

Other economic affairs (C) ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
2,130	2,740	2,920	4,260	4,390	4,370	4,500	4,720

Tax expenditure type:	Exemption	*2004 TES code*:	E15
Commencement date:	1999		
Expiry date:			
Legislative reference:	Division 115 ITAA97		

A capital gains tax exemption applies to 50 per cent of any nominal capital gain made by an individual or trust where the asset has been owned for at least one year. For assets acquired prior to 21 September 1999 and held for at least one year, an individual or trust may instead choose to be taxed on the difference between the disposal price and the frozen indexed cost base as at 30 September 1999.

E16 Capital gains tax scrip-for-scrip roll-over relief

Other economic affairs (C) ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
120	195	-1	4	50	45	35	30

Tax expenditure type:	Deferral	*2004 TES code*:	E16
Commencement date:	1999		
Expiry date:			
Legislative reference:	Subdivision 124-M ITAA97		

Capital gains tax roll-over relief is available for capital gains arising from an exchange of interests in companies or fixed trusts. The roll-over relief allows an equity holder who exchanges original shares or other equity for new equity in a takeover or merger to defer a capital gains tax liability arising from the exchange until the ultimate disposal of the replacement asset. This tax expenditure is likely to vary considerably depending upon actual takeover and merger activity. Estimates for the projection years are based on the average activity in preceding periods.

E17 Capital gains tax roll-over relief for assets compulsorily acquired, lost or destroyed

Other economic affairs (C) ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
*	*	*	*	*	*	*	*

Tax expenditure type:	Deferral	*2004 TES code*:	E17
Commencement date:	1985	** Category:*	na
Expiry date:			
Legislative reference:	Subdivision 124-B ITAA97		

Capital gains tax roll-over relief is available for capital gains where an asset is compulsorily acquired by the Commonwealth, a State or a Territory or an authority of such a government, or where the asset is lost or destroyed, provided the taxpayer purchases a replacement asset.

This roll-over relief will also be extended to certain situations involving private acquirers, with effect to disposals on or after 11 November 1999. The most important of these is where a private acquirer compulsorily acquires an asset from the taxpayer through recourse to a statutory power.

E18 Capital gains tax discount for investors in listed investment companies

Other economic affairs (C) ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
5	20	20	20	20	20	20	20

Tax expenditure type:	Deduction	*2004 TES code*:	E18
Commencement date:	2001		
Expiry date:			
Legislative reference:	Subdivision 115D ITAA97		

The shareholders of a listed investment company (LIC) who receive dividends that represent a distribution of capital gains made by that company are entitled to a deduction in respect of those dividends equivalent to the capital gains tax discount they would have received if they had realised the capital gains themselves. This concession applies in respect of gains realised by a LIC on or after 1 July 2001, provided the assets have been held by the LIC for at least twelve months.

E19 Capital gains tax roll-over relief and exemption and related taxation relief for demergers

Other economic affairs (C) ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
-	*	*	*	*	*	*	*

Tax expenditure type:	Deferral, exemption	*2004 TES code*:	E19
Commencement date:	2002	** Category:*	3+
Expiry date:			
Legislative reference:	Division 125 ITAA97, Section 45B ITAA36		

Capital gains tax (CGT) concessions are available to defer or exempt the CGT payable in respect of the restructuring of a corporate or trust group, where the group is split into two or more entities or groups (that is, by demerging). There are three elements to demerger relief:

- CGT roll-over relief at the shareholder or trust membership interest level for interests such as shares that are exchanged during the demerger process;
- a CGT exemption for certain capital gains and losses at the entity level; and

- an income tax exemption for certain 'demerger dividends'.

These concessions are available to demergers that occur on or after 1 July 2002.

E20 Removal of taxation of certain financial instruments at point of conversion or exchange

Other economic affairs (C) ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
-	*	*	*	*	*	*	*

Tax expenditure type:	Deferral	*2004 TES code*:	E20
Commencement date:	2002	** Category:*	2+
Expiry date:			
Legislative reference:	Sections 26BB and 70B ITAA36		

Gains or losses from conversion or exchange of convertible or exchangeable interests issued after 14 May 2002 are not subject to taxation at the point of conversion or exchange, but instead, taxation is deferred until the ultimate disposal of the shares acquired on conversion or exchange.

Convertible interests are financial instruments that convert into shares in the company that issued the convertible interest. Exchangeable interests are instruments that convert into shares in a company other than the issuer.

E21 Capital gains tax roll-over for transfer of Public Sector Superannuation Fund assets to pooled superannuation trust

Other economic affairs (C) ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
-	-	-	-	-	95	-25	-25

Tax expenditure type:	Deferral	*2004 TES code*:	New
Commencement date:	1 July 2005		
Expiry date:			
Legislative reference:	Schedule 7, item 3 of the *Superannuation (Consequential Amendments) Act 2005*		

An automatic capital gains tax (CGT) roll-over is available for the transfer of CGT assets from the Public Sector Superannuation Board to the trustee of the PSS Investments Trust.

E22 Removal of capital gains tax threshold for testamentary gifts

Other economic affairs (C) ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
-	-	-	-	-	..	..	..

Tax expenditure type:	Exemption	*2004 TES code*:	New
Commencement date:	1 July 2005		
Expiry date:			
Legislative reference:	Section 118-60 ITAA97		

Testamentary gifts (that is, gifts made under a will) of property to deductible gift recipients are no longer required to be valued at greater than $5,000 before access to the capital gains tax exemption is available.

E23 Capital gains tax roll-over relief for superannuation entities on transition to the new superannuation safety arrangements

Other economic affairs (C) ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
-	-	-	*	*	*	*	*

Tax expenditure type:	Deferral	*2004 TES code*:	E21
Commencement date:	1 July 2004	** Category:*	1+
Expiry date:	30 June 2006		
Legislative reference:	Subdivision 126-F ITAA97		

Superannuation entities that merge to meet the requirements of the new superannuation safety requirements (commencing 1 July 2004) will not incur a capital gains tax liability as a result of the merger.

The roll-over will be available for the transfer of an asset of a superannuation entity to another superannuation entity that is made between 30 June 2004 and 1 July 2006.

6.3 Commodity tax benchmark

COMMODITY TAXES

Fuel

F1 Higher rate of excise levied on leaded petrol

Health ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
..	..	..	-	-	-	-	-

Tax expenditure type:	Increased rate	*2004 TES code*:	F1
Commencement date:	1994		
Expiry date:	2001		
Legislative reference:	Item 11 of Schedule of the *Excise Tariff Act 1921*		

Leaded petrol is subject to a higher rate of excise than the benchmark rate, which is the rate that applies to unleaded petrol and ultra low sulphur diesel. The excise differential, which currently equates to around two cents per litre was originally introduced in 1994 to address health concerns associated with the use of leaded fuels.

The minimal nature of this tax expenditure from 2001-02 reflects the introduction of lead replacement petrol, which is subject to excise at the benchmark rate, and restricted access to leaded petrol (under the *Fuel Quality Standards Act 2000*) from 1 January 2002.

F2 Higher rate of excise levied on high sulphur diesel

Health ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
-	-	-165	-180	-50	-	-	-

Tax expenditure type:	Increased rate	*2004 TES code*:	F2
Commencement date:	2003		
Expiry date:	1 January 2006		
Legislative reference:	Item 11 of Schedule of the *Excise Tariff Act 1921*		

Diesel with a sulphur content higher than 50 parts per million is subject to a higher rate of excise than the benchmark rate, which is the rate that applies to unleaded petrol and ultra low sulphur diesel. The excise differential of one cent per litre was implemented from 1 July 2003 and was increased to two cents per litre from 1 January 2004.

From 1 January 2006, diesel with more than 50 parts per million of sulphur will no longer meet fuel standards, and will no longer be able to be sold unless a waiver is obtained from the Minister for the Environment and Heritage.

F3 Excise levied on fuel oil, heating oil and kerosene

Fuel and energy ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
-60	-65	-90	-85	-100	-	-	-

Tax expenditure type:	Increased rate	*2004 TES code*:	F3
Commencement date:	Introduced before 1985		
Expiry date:	1 July 2006		
Legislative reference:	Item 11 of Schedule of the *Excise Tariff Act 1921*		

The benchmark excise for fuels consumed for a purpose other than in an internal combustion engine is zero. Fuel oil, heating oil and kerosene that are used as a fuel but not used as a fuel in internal combustion engines are currently subject to an excise of 7.557 cents per litre. Excise on these products will be effectively removed from 1 July 2006.

F4 Increased excise rate on diesel

Fuel and energy ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
-	-	-	-	-	-60	-125	-65

Tax expenditure type:	Increased rate	*2004 TES code*:	F4
Commencement date:	2006		
Expiry date:	2009		
Legislative reference:	Not yet legislated		

The excise rate for all diesel will be increased from 1 January 2007 for two years (subject to review in the second half of 2006). This increase will be used to fund grants for the production or importation of diesel with 10 parts per million and less sulphur.

F5 Concessional rate of excise levied on aviation gasoline and aviation turbine fuel

Fuel and energy ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
770	740	745	765	780	790	800	810

Tax expenditure type:	Concessional rate	*2004 TES code*:	F5
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Item 11 of Schedule of the *Excise Tariff Act 1921*		

Aviation gasoline and aviation turbine fuel are subject to a lower rate of excise than the benchmark rate. Aviation gasoline and aviation turbine fuel are currently excised at 2.854 cents per litre. Excise on aviation fuels, at various times since 1957, has been used to fund the provision of air services by the Australian Government. Excise on aviation fuel is currently directed to the funding of the Civil Aviation Safety Authority.

F6 Exemption from excise for 'alternative fuels'

Fuel and energy ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
530	620	570	600	630	660	700	740

Tax expenditure type:	Exemption	*2004 TES code*:	F6
Commencement date:	1985		
Expiry date:			
Legislative reference:	*Excise Tariff Act 1921*		

Alternative transport fuels (that is, alternative fuels that are used in internal combustion engines), including liquefied petroleum gas (LPG) and compressed natural gas (CNG), are currently exempt from excise duty. Starting from 1 July 2011, excise on these fuels will be introduced in five equal annual steps to a final rate on 1 July 2015. A discount of 50 per cent to the energy content excise rate will apply to these fuels.

Tobacco

F7 Higher rate of excise levied on cigarettes with less than 0.8 grams of tobacco

Health ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
-1,220	-1,310	-1,305	-1,325	-1,355	-1,370	-1,380	-1,390

Tax expenditure type:	Increased rate	*2004 TES code*:	F7
Commencement date:	1999		
Expiry date:			
Legislative reference:	Item 8 of Schedule of the *Excise Tariff Act 1921*		

Cigarettes and cigars with less than 0.8 grams of tobacco are subject to excise at a higher rate than the benchmark. The benchmark excise treatment for the consumption of tobacco products is applied per kilogram of tobacco. This treatment applies to loose tobacco and to cigarettes and cigars with more than 0.8 grams of tobacco. However, cigarettes and cigars with less than 0.8 grams of tobacco are subject to excise on a per stick basis. The effect of per stick excise is to tax the tobacco in these cigarettes and cigars more heavily than the benchmark.

F8 Concessional excise for snuff

Not allocated to function ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
..	..	..	..	..	..	..	..

Tax expenditure type:	Concessional rate	*2004 TES code*:	F8
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	*Excise Tariff Act 1921*		

Snuff is excised at a rate of $2.33 per kilogram, while other tobacco products are excised at $286.44 per kilogram (and at a higher rate for cigarettes containing less than 0.8 grams of tobacco per stick – see F7).

Alcohol

F9 Concessional rate of excise on low-strength packaged beer

Not allocated to function ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
-45	10	15	15	15	15	15	15

Tax expenditure type:	Concessional rate	*2004 TES code*:	F9
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Item 1 of the Schedule to the *Excise Tariff Act 1921*		

Low strength beer that is packaged in containers not exceeding 48 litres and which has an alcohol content of no more than 3 per cent is taxed at a concessional excise rate relative to higher strength beer. The first 1.15 per cent of alcohol remains free of excise.

From July 2002, earlier State subsidies for low alcohol beer, and concessions for mid-strength beer, were withdrawn and replaced by a uniform Australian Government excise concession. This accounts for the change in the size of the tax expenditure from 2002-03.

F10 No excise-free threshold for excisable alcoholic beverages (other than beer) not exceeding 10 per cent alcohol

Not allocated to function ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
-70	-90	-100	-145	-150	-165	-180	-200

Tax expenditure type:	Increased rate	*2004 TES code*:	F10
Commencement date:	2000		
Expiry date:			
Legislative reference:	Item 1 of Schedule of the *Excise Tariff Act 1921*		

Alcoholic beverages (other than beer) with an alcohol content not exceeding 10 per cent are subject to a higher effective rate of excise than applies under the benchmark. Under the benchmark, which is based on the tax treatment of full strength beer sold in containers less than 48 litres, the first 1.15 per cent of alcoholic content of an alcoholic beverage whose alcohol content does not exceed 10 per cent is not excisable. This excise-free threshold is not available to alcoholic beverages other than beer (mainly 'ready to drink' beverages) giving rise to a negative tax expenditure.

F11 Concessional rate of excise levied on draught beer

Not allocated to function ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
130	150	150	150	160	170	170	170

Tax expenditure type:	Concessional rate	*2004 TES code*:	F11
Commencement date:	2001		
Expiry date:			
Legislative reference:	Item 1 of Schedule of the *Excise Tariff Act 1921*		

Draught beer (that is, beer packaged in individual containers exceeding 48 litres) is subject to a lower rate of excise than beer packaged in individual containers not exceeding 48 litres.

F12 Concessional rate of excise levied on brew on premise beer

Not allocated to function ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
..	..	..	..	..	..	..	..

Tax expenditure type:	Concessional rate	*2004 TES code*:	F12
Commencement date:	1993		
Expiry date:			
Legislative reference:	Item 1 of Schedule of the Excise Tariff Act 1921		

Brew on premise beer (that is, beer produced for non-commercial purposes using commercial facilities or equipment) is subject to a lower rate of excise than other beer. This tax expenditure provides concessional excise arrangements to own use brewers hiring commercial facilities.

F13 Excise concession for microbreweries

Not allocated to function ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
..	..	..	..	..	..	..	..

Tax expenditure type:	Concessional rate	*2004 TES code*:	F13
Commencement date:	2000		
Expiry date:			
Legislative reference:	Regulation 50(1)(zzd) of the *Excise Act 1901*		

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.

F14 Consumption tax exemptions for privately produced beer

Not allocated to function ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
25	25	30	30	35	40	40	45

Tax expenditure type:	Exemption	*2004 TES code*:	F14
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Schedule to the *Excise Tariff Act 1921*		

Beer made for personal use by private individuals is exempt from the payment of excise.

F15 Wine equalisation tax cellar door rebate

Not allocated to function ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
14	16	16	4	-	-	-	-

Tax expenditure type:	Offset	*2004 TES code*:	F15
Commencement date:	2000		
Expiry date:	2004		
Legislative reference:	Schedule 9A of the *Indirect Tax Legislation Amendment Act 2000*		

A partial rebate of wine equalisation tax was available for certain cellar door, mail order and internet sales of wine. The maximum rebate of 14 per cent of the taxable value was available for all eligible sales of wine up to $300,000 per annum (wholesale value). The rebate tapered to zero for sales between $300,000 and $580,000.

The rebate complemented similar State production subsidies of 15 per cent, to support cellar door and mail order sales by smaller winemakers.

The rebate was replaced, from 1 October 2004, by the new wine equalisation tax producer rebate (see F16).

F16 Wine equalisation tax producer rebate

Agriculture, forestry and fishing ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
-	-	-	75	115	125	135	140

Tax expenditure type:	Rebate	*2004 TES code*:	F16
Commencement date:	2004		
Expiry date:			
Legislative reference:	*Tax Laws Amendment (Wine Producer Rebate and Other Measures) Act 2004*		

Wine producers receive a rebate of the first $290,000 of wine equalisation tax (WET) paid by each producer per annum. The rebate also extends to cider, perry and sake. The WET producer rebate replaced the earlier WET cellar door rebate scheme (see F15) from 1 October 2004.

F17 Consumption tax exemptions for privately produced wine

Not allocated to function ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
10	10	10	10	10	15	15	15

Tax expenditure type:	Exemption	*2004 TES code*:	F17
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	*A New Tax System (Wine Equalisation Tax) Act 1999*		

Wine made for personal use by private individuals is exempt from the wine equalisation tax.

F18 Concessional rate of excise levied on brandy

Agriculture, forestry and fishing ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
5	5	5	5	5	5	5	5

Tax expenditure type:	Concessional rate	*2004 TES code*:	F18
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Item 2A of the *Excise Tariff Act 1921*		

Brandy is subject to a lower rate of excise than other spirits ($57.62 per litre of pure alcohol, compared to $61.71 at 1 August 2005). The excise rates on brandy and other spirits are indexed to the consumer price index biannually.

Motor vehicles

F19 Luxury car tax

Other economic affairs (C) ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
-220	-260	-335	-300	-310	-340	-360	-370

Tax expenditure type:	Increased rate	*2004 TES code*:	F19
Commencement date:	2000		
Expiry date:			
Legislative reference:	*A New Tax System (Luxury Car Tax) Act 2000*		

The luxury car tax imposes a tax on the value of car sales and importations that exceed the luxury car tax threshold. As motor vehicle purchases are not taxed under the benchmark, the luxury car tax is a negative tax expenditure. The tax does not apply to specified emergency vehicles.

General consumption tax expenditures

F20 Certain exemptions for diplomatic missions and foreign diplomats

Not allocated to function ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
5	5	6	7	7	8	8	5

Tax expenditure type:	Concessional rate	*2004 TES code*:	F20
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Regulation 50 of the *Excise Act 1901* Section 10 of the *Diplomatic Privileges and Immunities Act 1967* Section 10 of the *Consular Privileges and Immunities Act 1972* Section 11 of the *International Organisations (Privileges and Immunities) Act 1963* Section 12 of the *Overseas Missions (Privileges and Immunities) Act 1995*		

Note: estimates represent excise duty only.

Excise, wine equalisation tax and luxury car tax are not payable (or an equivalent amount of that paid is claimable) for alcohol, fuel, tobacco and luxury cars used for official purposes by diplomatic missions or for personal use by persons identified in the *Diplomatic Privileges and Immunities Act 1967*.

F21 Certain exemptions for Australian military sea vessels

Not allocated to function ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
2	2	2	2	2	2	2	2

Tax expenditure type:	Concessional rate	*2004 TES code*:	F21
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Item 18 of the Schedule to the *Excise Tariff Act 1921*		

Note: estimates represent excise duty only.

Excise on tobacco and certain alcoholic products is not payable by Australian military seagoing vessels in full commission when the products are consumed on board.

NATURAL RESOURCE TAXES

Tax expenditures for manufacturing and mining

G1 Increased deduction for petroleum exploration expenditure in designated offshore frontier areas

Fuel and energy ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
-	-	-	-	*	*	*	*

Tax expenditure type:	Deduction	*2004 TES code*:	B92
Commencement date:	29 March 2004	** Category:*	1+
Expiry date:	2008		
Legislative reference:	Schedule to the *Petroleum Resource Rent Tax Assessment Act*		

For petroleum resource rent tax purposes, petroleum exploration companies receive a 150 per cent uplift on pre-appraisal exploration expenditure conducted in the first term of an exploration permit in a designated frontier area.

Petroleum

G2 Condensate excise-free status

Fuel and energy ($m)

2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
150	180	150	330	330	330	330	330

Tax expenditure type:	Exemption	*2004 TES code*:	G1
Commencement date:	1977		
Expiry date:			
Legislative reference:	Schedule 17(B) of the *Excise Tariff Act 1921*		

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 exempt from the crude oil excise. Condensate is a light oil extracted from 'wet' gas and primarily processed for use in refineries as an input to fuel production.

APPENDIX A: MODELLING TAX EXPENDITURES

This appendix provides an overview of the various modelling techniques used in this statement to estimate the value of tax expenditures.

The methods used to calculate the estimates of individual tax expenditures in this statement vary between tax expenditures. The approach taken depends on the nature of the tax benchmark, the particular tax concession examined and the availability of data. Data availability is also a major factor in determining the reliability of the estimates, and in many cases estimates are not provided because of data limitations.

The approaches used to estimate tax expenditures include aggregate modelling, distributional modelling and microsimulation. The most commonly used approach is distributional modelling, utilising data derived from microsimulation analysis.

A.1 AGGREGATE MODELLING

This approach involves using information on the aggregate volume of transactions to calculate the value of a particular tax concession. This is appropriate for a concession with a simple proportional value of the total transactions concerned and for tax exemptions. Data sources suitable for aggregate modelling include national accounts data, aggregates derived from administrative databases (such as taxation records), and trade and production statistics.

Aggregate modelling typically is used to estimate tax expenditures in fuel excise, where exemptions or reduced rates of excise for particular fuels can be estimated from statistics on the volume of those fuels produced.

A.2 DISTRIBUTIONAL MODELLING

This approach involves using discrete aggregate data to calculate the impact of tax concessions on particular segments of the economy. It is appropriate for concessions directed towards a particular group of taxpayers and for assistance that changes according to the variables used to analyse the data. Data sources suitable for distributional modelling include survey data and data derived from administrative databases.

Distributional modelling is used to estimate tax expenditures in personal income tax concessions when the cost is related to a taxpayer's taxable income. For these concessions, data on income distribution and tax concessions by grade of taxable income can be used to estimate the cost of tax expenditures on those concessions.

A.3 MICROSIMULATION

This approach involves examining detailed datasets, such as taxpayer records, to determine the value of taxable transactions for each taxpayer and the amount of tax paid on them. This information is used to calculate how much tax would apply to those transactions under the benchmark tax treatment. The value of the tax expenditure is calculated by subtracting the actual tax collected from the benchmark amount. This approach requires either a comprehensive database for all taxpayers or a detailed sample that can represent the population. It must sufficiently detail the value of transactions affecting the calculation of tax liabilities to allow the required calculations.

Microsimulation modelling is especially useful for calculating concessions that closely target particular taxpayer groups (for instance benefits subject to detailed eligibility tests) and for which the payment rate varies considerably according to taxpayer behaviour or circumstance.

Microsimulation modelling can also be used to derive data for use as an input to calculate tax expenditures using an aggregate or distributional modelling approach. This approach uses the microsimulation model to derive key information, such as the average effective tax rates to use in other models. It is suitable for situations where detailed datasets are not available for all data items.

APPENDIX B: CONCESSIONAL TAXATION OF FUNDED SUPERANNUATION

B.1 SCOPE

This appendix sets out the estimated tax expenditures related to the superannuation system for 2001-02 to 2004-05 and forward projections for the following four years. It also briefly examines some conceptual issues relating to the interpretation of these estimates.

The key features of the taxation of superannuation relate to the treatment of contributions, earnings and benefits. As outlined in the retirement benefits benchmark, funded superannuation in Australia is taxed at three stages:

- when contributions are made to a superannuation fund;
- when investments in superannuation funds earn income; and
- when superannuation benefits are paid out.

The benchmark treatment of superannuation is that *contributions* are taxed like any other income in the hands of the fund member, *earnings* are taxed like any other investments in the hands of the investor and *benefits* from superannuation are untaxed. Any costs associated with superannuation investments are deductible under the benchmark.

Australia's taxation treatment of funded superannuation varies from the benchmark. Contributions and earnings are taxed concessionally relative to the benchmark but partially offsetting these concessions is the taxation of superannuation benefits. Consequently, the tax concessions identified individually in Table B1 should be understood as part of an integrated system. This system is significantly concessional taken as a whole.

The calculation of the estimates 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

1 RIMGROUP is the model used by Treasury to project superannuation fund contributions, earnings and payouts as well as related retirement income, social security and taxation aggregates.

assume that tax is collected from superannuation funds in the year in which the contributions and earnings occur.

B.2 INTERPRETATION

The estimates of the tax expenditure in the forward projections are not necessarily indicative of the cost of the superannuation concessions over the long term. In particular, 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. More generally, the current tax concessions will help to reduce budgetary expenses in future years, particularly age pension payments, through encouraging private provision for retirement.

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 2003-04 had been taxed according to the retirement benefits benchmark, superannuation fund assets, and hence fund earnings, would be lower in 2004-05 than if the concessional tax treatment had applied in the previous year. The increase in tax due to taxation under the benchmark in 2004-05 would, in these circumstances, be lower than if the superannuation concessions had applied in 2003-04.

In addition, changes to the taxation of superannuation could be expected to have behavioural impacts, to the extent that people may alter their savings behaviour as a result. However, the estimated cost of the superannuation tax expenditure assumes no behavioural change involving either the portfolio composition of people's savings or the saving rate more generally. To the extent that this is an unrealistic assumption, the budgetary cost of these concessions will be overestimated.

B.3 ESTIMATES

The separate components of the overall superannuation tax expenditure which are listed in Table B1 are explained further below.

1 CONCESSIONAL TAXATION OF EMPLOYER CONTRIBUTIONS

The benchmark treatment for contributions by employers to superannuation funds is that they are taxed like any other income in the hands of the employee (that is, contributions are taxed at the employee's marginal tax rate) and are deductible to the employer. However, employer contributions, after certain costs of the superannuation fund are deducted, are taxed at a concessional rate of 15 per cent. The superannuation surcharge for higher income earners also applied to some contributions in the 2004-05 and earlier financial years. The maximum surcharge rates were reduced from the original 15 per cent to 14.5 per cent in 2003-04 and 12.5 per cent in 2004-05.

In any particular year, the application of the benchmark treatment rather than the concessional tax rates to these contributions would increase tax revenue by the amounts indicated.

2 DEDUCTION FOR NON-EMPLOYER SPONSORED CONTRIBUTIONS

Contributions to complying superannuation funds are fully tax deductible to employers up to the employee's age-based deduction limit. Eligible self-employed persons receive a full tax deduction for the first $5,000 of contributions plus 75 per cent of any remaining contributions up to a maximum deduction equal to their age-based deduction limit. For the purposes of this deduction, self-employed persons are those who generally have little or no employer superannuation support. Under the benchmark, contributions by the self-employed to superannuation funds are not deductible on the basis that the contributions are not outgoings.

If the level of contributions made by the self-employed was maintained, but the contributions were not deductible, revenue would be higher by the amounts indicated.

3 CONCESSIONAL TAXATION OF FUND EARNINGS

The benchmark treatment for the earnings of superannuation funds is that they are taxed like any other income in the hands of an investor (that is, earnings are taxed at the investor's marginal tax rate). However, the earnings of complying superannuation funds, after certain costs of the funds are deducted, are taxed at a concessional rate. The tax rate is 15 per cent, however earnings on investments that are supporting pensions or annuities are not taxed. Complying superannuation funds are also entitled to refunds of excess imputation credits attached to dividends payable to the fund.

Item three reflects the extra tax that would be collected if superannuation earnings were held constant, but were taxed at members' personal tax rates rather than fund rates.

4 MEASURES FOR LOW-INCOME EARNERS

Low-income earners receiving superannuation support were eligible for a tax rebate on personal superannuation contributions made to a superannuation fund before 1 July 2003. The low-income earners rebate was based on the annual contribution made by the low-income earner. Specifically, the rebate was 10 per cent of the lesser of:

- the annual contribution made; and
- $1,000 (where the taxpayer's annual income was $27,000 or less, phasing out at $31,000).

This rebate has been repealed and replaced with a much more extensive government superannuation co-contribution applying to eligible personal superannuation contributions made on or after 1 July 2003.

For 2003-04, a maximum annual co-contribution of $1,000 was payable for qualifying low-income earners on incomes[2] of $27,500 or less making eligible personal superannuation contributions of $1,000 (that is, a matching rate of 100 per cent). The maximum co-contribution was reduced by 8 cents for each dollar of income over $27,500, phasing out completely at an income of $40,000.

From 2004-05, a maximum co-contribution of $1,500 is payable for qualifying low-income earners on incomes[2] of $28,000 or less making eligible personal superannuation contributions of $1,000 (that is, a matching rate of 150 per cent). The maximum co-contribution reduces by 5 cents for each dollar of income over $28,000, phasing out completely at an income of $58,000. The lower threshold will be indexed (with the upper threshold adjusted to maintain the taper range) from 2007-08 onwards.

The government co-contribution is an expense measure. As such, the co-contribution payments are not included in the Tax Expenditures Statement. The amounts indicated represent the impact of the co-contribution not being taxed, and the value of the rebate prior to 2003-04.

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2 Income is defined as assessable income plus reportable fringe benefits.

5 SPOUSE CONTRIBUTIONS AND REBATES

An 18 per cent rebate is available for post-tax contributions to the superannuation account of a spouse (where the total of assessable income and reportable fringe benefits for the spouse is less than $13,800). The rebate applies up to a maximum annual contribution of $3,000 where the spouse income is $10,800 or less, with the eligible contribution limit reducing dollar for dollar for each dollar of spouse income above that amount. The amounts reported are the value of the rebate.

6 CAPITAL GAINS TAX DISCOUNTS FOR FUNDS

Capital gains on superannuation investments are taxed. However, only two-thirds of any nominal capital gain is included in the assessable income of a fund when it disposes of an asset that it has held for at least one year. This measure was introduced in 1999 together with the freezing of indexation in capital gains tax calculations. The effect of this item is in addition to the effect of lower tax rates for superannuation investments reported in item three. The amounts reported reflect the additional tax that would be raised at fund rates on the same investments if total nominal capital gains were taxed instead of discounted gains or gains with frozen indexation.

7 TAX ON FUNDED PENSIONS

Pension and annuity payments received by a taxpayer are included in their assessable income and are subject to tax at marginal rates. However, annuities or pensions paid from a taxed fund to a taxpayer aged 55 or over generally attract a tax rebate of 15 per cent. The tax raised on pensions and annuities reduces the total superannuation tax expenditure, because under the benchmark withdrawals from superannuation are tax-free.

8 TAX ON FUNDED LUMP SUMS RELATING TO PRE-JULY 1983 SERVICE

The part of a lump sum benefit relating to service prior to July 1983 is taxed at a lower rate. Only 5 per cent of these amounts is included in a taxpayer's assessable income and subjected to tax at marginal rates. This more concessional treatment reflects the fact that the current regime for taxing eligible termination payments did not exist before this time and applying the current tax rates to these funded benefits would impose a tax retrospectively. The amounts reported are the tax raised on these lump sums.

9 TAX ON FUNDED LUMP SUMS RELATING TO POST-JUNE 1983 SERVICE

Funded lump sums are generally taxed at 20 per cent (plus Medicare levy) where the taxpayer is aged under 55 years. For taxpayers aged 55 or over, the elements of any lump sum benefit taxed during the accumulation stage are typically taxed at zero per cent up to the lump sum threshold and 15 per cent (plus Medicare levy) thereafter. Some superannuation benefits are not taxed during the accumulation phase, for example because the fund is protected from any taxation by the Constitution. For elements untaxed during accumulation, the corresponding taxation rates are typically 15 per cent (plus Medicare levy) and 30 per cent (plus Medicare levy) respectively for taxpayers aged 55 or over, and 30 per cent (plus Medicare levy) where the taxpayer is under age 55. The amounts reported are the tax raised on these lump sums.

COMPARABILITY OF ESTIMATES WITH THOSE PUBLISHED PREVIOUSLY

These estimates are broadly comparable with those published in the *2004 Tax Expenditures Statement*. To obtain a comprehensive estimate of the superannuation tax expenditure (that is comparable to the estimates in the *2002 Tax Expenditures Statement* and earlier), C1 and C2 should be added.

New policy measures, such as the abolition of the surcharge and changes to the personal income tax rate scale have been incorporated into the estimates. Changes to the personal income tax rate scale affect the concessionality of superannuation by changing the benchmark level of taxation against which the tax expenditure is measured.

Each year there are also variations arising from the revision of earnings and contributions estimates. In particular, 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.

Table B1: Concessional taxation of funded superannuation[a][b]

	2001-02 $m	2002-03 $m	2003-04 $m	2004-05 $m	2005-06 $m	2006-07 $m	2007-08 $m	2008-09 $m
Costs								
1 Under taxation of employer contributions(c)	6,100	5,950	8,050	7,800	8,750	9,100	9,750	10,300
2 Deduction for non-employer sponsored contributions	270	320	340	430	410	420	460	510
3 Under taxation of fund earnings	4,150	3,650	5,300	5,750	6,100	6,400	7,100	7,750
4 Measures for low-income earners(d)	9	8	6	75	220	250	260	280
5 Spouse contributions and rebates	13	14	12	14	13	13	14	14
6 Capital gains tax discounts for funds	350	210	70	110	190	210	230	250
Sub-total	10,890	10,150	13,780	14,180	15,685	16,395	17,815	19,105
Less offsets								
7 Tax on funded pensions(e)	*	*	*	*	*	*	*	*
8 Tax on funded lump sums relating to pre-july 1983 service	-20	-18	-17	-16	-15	-14	-13	-13
9 Tax on funded lump sums relating to post-june 1983 service	-220	-190	-180	-160	-150	-145	-135	-125
Sub-total	-240	-208	-197	-176	-165	-159	-148	-138
Total tax expenditures	**10,650**	**9,945**	**13,580**	**14,005**	**15,520**	**16,235**	**17,665**	**18,965**

(a) The concessional treatment of unfunded superannuation (C2) and the concessional treatment of non-superannuation benefits (C3) are reported as separate tax expenditures and are not included in this table.
(b) Totals may not sum due to rounding.
(c) Includes the revenue impact of the surcharge on superannuation contributions for high income earners which applied to some contributions for 2004-05 and earlier years.
(d) For years up to 2002-03 this line shows the level of the tax offset available to low income earners who made personal contributions. From 2003-04 the line shows the impact of the government co-contribution being untaxed.
(e) Indeterminate, but likely to be insignificant.

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