



Australian Government

The Treasury

TAX EXPENDITURES STATEMENT

2009

JANUARY 2010

TAX EXPENDITURES
STATEMENT

2009

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HIGHLIGHTS

The 2009 Tax Expenditures Statement (TES) provides details for around 340 tax expenditures provided under Australian Government taxes. It incorporates policy decisions up to and including those reported in the *Mid-Year Economic and Fiscal Outlook 2009-10*.

Highlights from this year's TES include:

- Total tax expenditures are estimated at \$102 billion in 2008-09, or around 8.5 per cent of GDP, down from \$115 billion or 10.2 per cent of GDP in 2007-08.
 - The decline in total tax expenditures between 2007-08 and 2008-09 mainly reflects lower economic growth and taxation receipts (particularly from housing and superannuation) resulting from the Global Financial Crisis (GFC).
 - Total tax expenditures are expected to decline to around 8 per cent of GDP by 2012-13 largely reflecting the ongoing effects of the GFC.
- The largest tax expenditures in the 2009 TES are for owner-occupied housing.
 - The tax concessions for superannuation account for the next largest group of tax expenditures. The size of the superannuation tax concessions fell significantly in 2008-09, reflecting the impact of the GFC on contributions and fund earnings.

In addition, the 2009 TES provides analysis of revenue gain estimates for several of the largest tax expenditures.¹

- These estimates show that revenue gain estimates are typically smaller than the revenue forgone estimates and, in some instances, there can be significant differences in the two estimates.

Other significant changes to the TES reported in this edition include:

- the inclusion of a new benchmark for externalities which reports tax expenditures associated with the Carbon Pollution Reduction Scheme from 2011-12; and
- revisions to the estimates of the fringe benefits tax concession for cars following new data and research.

1 Ranked according to the revenue forgone estimates.

CHAPTER 1: OVERVIEW

1.1 Introduction

The Tax Expenditures Statement (TES) provides details of concessions, benefits, incentives and charges provided through the tax system (tax expenditures) to taxpayers by the Australian Government. The publication of information on the Australian Government's tax expenditures is a requirement under the *Charter of Budget Honesty Act 1998*.

This statement lists 337 tax expenditures and, where possible, reports the estimated pecuniary value or order of magnitude of the benefit to taxpayers over an eight year period, from 2005-06 to 2012-13.

The tax expenditures in this statement reflect all announced policies applying up to the date of finalisation of the *Mid Year Economic and Fiscal Outlook 2009-10*.

This statement incorporates a number of changes to previous years. These include:

- a revised structure and layout of the report intended to aid use and understanding;
- *revenue gain* method estimates for several of the largest tax expenditures, in line with recommendations of the Australian National Audit Office (ANAO) 2007-08 audit of the TES;
- a change in reporting coverage to include quantified estimates for owner-occupied housing with the estimates for all other tax expenditures (in the 2008 TES these estimates were included in a separate Appendix); and
- estimates of tax expenditures relating to the Carbon Pollution Reduction Scheme (CPRS).

Under the new structure the remainder of this statement is divided into the following sections:

- Chapter 1 provides an overview of the Tax Expenditures Statement, trends and aggregates in the estimates and comparison with direct expenditures and an outline of major new or changed tax expenditures.
- Chapter 2 provides background on tax expenditures and the tax expenditure framework, including measuring tax expenditures, and the various approaches used to measure tax expenditures, including Treasury's approach.

- Chapter 3 outlines the benchmarks used to identify and measure tax expenditures, guidance on how to interpret tax expenditure estimates, and details of each tax expenditure, including an estimate (where possible) of the benefit taxpayers derive, a description of the tax expenditure, a legislative reference, and for more recent tax expenditures, the date the expenditure was introduced.
- Chapter 4 provides revenue gain estimates of several tax expenditures, guidance on how to interpret revenue gain estimates, and comparison to the estimates in Chapter 3.
- Appendix A provides an overview of the various modelling techniques used to estimate tax expenditures, detailed descriptions of the benchmarks used in Chapter 3, and technical notes on the estimates.
- Appendix B provides comprehensive information on the changes to the list of tax expenditures since the *2008 Tax Expenditures Statement* – new tax expenditures, modified tax expenditures and tax expenditures no longer reported.
- Appendix C provides a discussion and comparison of alternative approaches to quantifying the owner-occupied housing tax expenditures, including estimates of the differing approaches.
- Appendix D provides aggregated information on tax expenditures related to funded superannuation.

1.2 Coverage of this statement

This statement covers the following Australian Government ‘taxes’:

- income tax (personal and business), including capital gains tax (CGT) and income tax paid on retirement income;
- fringe benefits tax (FBT);
- the goods and services tax (GST);
- excise duties;
- customs duty (including tariffs);
- wine equalisation tax;
- luxury car tax;
- petroleum resource rent tax;

- crude oil excise; and
- the Carbon Pollution Reduction Scheme.

Revenue from Australian emissions units issued under the CPRS is treated as taxation revenue in the Government Financial Statistics. Free permits provided by the Government are not included as they are reported on the expense side of the Budget.

Taxes excluded from this statement are:

- specific purpose taxes, such as agricultural levies, which are generally levied for cost recovery purposes.

1.3 Trends in tax expenditure estimates

The following tables provide summary and aggregate information on the tax expenditure estimates prepared for the 2009 TES. Comparisons across years are made on a consistent basis within this report for individual items and the aggregates.

The TES does not compare previous years' estimates with the current estimates except in very limited circumstances. Comparisons across different editions of the TES have always required great care due to the new data available each year and the identification of new tax expenditures, deletion of old tax expenditures and modifications arising from government policies. Further discussion of these issues is provided in the box *Interpretation of trends and aggregates*.

TRENDS IN MEASURED TAX EXPENDITURES

Total measured tax expenditures are reported in Table 1.1. Measured tax expenditures as a proportion of GDP are projected to fall from 10.2 per cent in 2007-08 to 8.5 per cent in 2008-09 and 8.4 per cent in 2009-10, mainly as a result of the ongoing impact of the Global Financial Crisis on superannuation returns and Australia's housing market.

In dollar terms, total measured tax expenditures in 2008-09 are estimated at around \$102 billion. Housing tax expenditures comprise over one-third of total measured tax expenditures, followed by social security and welfare tax expenditures which comprise around a quarter of total measured tax expenditures, largely due to the superannuation tax expenditures and the income tax exemption of the Family Tax Benefit, Parts A and B (A44).

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.

- The cost of some tax expenditures are not reported owing to a lack of data or because of taxpayer confidentiality. Hence, tax expenditure aggregates underestimate the total benefit provided by tax expenditures.
- The trend in aggregates reflects changes in the extent to which individual tax expenditures are accessed, changes to the benchmarks, and changes in the number of tax expenditures being reported.
- 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. Estimates that were provided in previous editions of the Tax Expenditures Statement may not be directly comparable to estimates reported in this publication.
- 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 2.

Table 1.1: Total measured tax expenditures^(a)

Year	Housing \$m	Superannuation \$m	Other tax expenditures \$m	Total \$m	Tax expenditure as a proportion of GDP (%)
2005-06 (est)	39,500	23,305	36,424	99,229	10.3
2006-07 (est)	38,500	30,208	39,899	108,607	10.4
2007-08 (est)	40,000	30,650	44,489	115,139	10.2
2008-09 (est)	31,000	24,458	46,608	102,066	8.5
2009-10 (proj)	31,500	22,696	47,594	101,790	8.4
2010-11 (proj)	31,500	24,426	48,482	104,408	8.1
2011-12 (proj)	31,000	27,845	50,040	108,885	8.0
2012-13 (proj)	30,000	31,995	54,479	116,474	8.0

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

A change in reporting coverage makes comparison of the estimates in the 2009 TES with the estimates provided in previous editions difficult. The 2009 TES includes quantified estimates for owner-occupied housing with the estimates for all other tax expenditures. In the 2008 TES these estimates were included in a separate Appendix.

The inclusion of the quantified estimate for housing has significantly increased the magnitude of aggregate tax expenditures reported in the 2009 TES compared with earlier editions. However, this change in reporting does not represent any change in the level of concessionality (or otherwise) of the Australian tax system in this area.

Table 1.2 presents measured tax expenditures by the benchmark against which they are estimated for the period 2005-06 to 2012-13. The capital gains benchmark, containing the housing tax expenditures, is the largest benchmark classification. This is followed by the retirement savings and goods and services tax benchmark.

For all reported years, the total measured tax expenditures representing the commodity taxes benchmark give rise to a negative estimate, largely reflecting customs duty (F21) and the higher rate of excise levied on cigarettes (F7). The large reduction in the commodity taxes tax expenditure in 2009-10 and 2010-11 is due to a reduction in the customs duty tax expenditure.

Table 1.2: Measured tax expenditures by benchmark (\$m)^(a)

Benchmark	2005-06 (est)	2006-07 (est)	2007-08 (est)	2008-09 (est)	2009-10 (proj)	2010-11 (proj)	2011-12 (proj)	2012-13 (proj)
Income Tax								
Personal income	10,298	10,389	10,757	11,106	13,522	11,304	10,724	10,780
Business income	5,520	6,818	6,201	6,493	8,299	8,963	7,863	7,403
Retirement savings	25,305	32,108	32,610	27,013	24,956	26,511	29,945	34,095
Fringe Benefits Tax	3,238	3,802	3,507	3,541	3,617	3,807	4,065	4,277
Capital Gains Tax	45,270	45,315	50,730	41,820	37,905	38,955	39,480	39,765
Consumption								
Commodity taxes	-3,630	-4,083	-4,368	-4,408	-3,741	-3,470	-4,075	-4,448
Natural resource taxes	770	790	980	580	490	480	480	480
Goods and Services Tax	12,458	13,468	14,722	15,921	16,742	17,858	18,883	20,152
Externalities								
Carbon Pollution Reduction Scheme	0	0	0	0	0	0	1,520	3,970

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

LARGE TAX EXPENDITURES

Table 1.3 provides a list of the largest measured tax expenditures for 2009-10. The largest measured tax expenditures are the concessional capital gains taxation of owner-occupied housing (E4 and E5) which is estimated to provide a benefit to taxpayers of around \$31.5 billion in 2009-10. Together, these tax expenditures represent the exemption of owner-occupied housing from CGT.

After the owner-occupied housing exemption, the next largest tax expenditure is the concessional taxation of employer contributions to superannuation (C5) of around \$11.4 billion in 2009-10. This is followed by the concessional taxation of superannuation entity earnings (C6) and the GST-free status of food (H23). These tax expenditures are estimated to provide benefits to taxpayers in 2009-10 of around \$9.8 billion and \$5.6 billion respectively.

The largest negative tax expenditures in 2009-10 are customs duty (F21) and the higher rate of excise levied on cigarettes (F7). These tax expenditures are estimated to be around \$3 billion and \$1.4 billion respectively.

There are a number of tax expenditures for which an estimate is not available but which have been assigned an order of magnitude classification (for details refer to Chapter 3. The largest such tax expenditures are as follows:

- income tax exemption for religious, scientific, charitable or public educational institutions (B23);
- income tax exemption for State and Territory bodies (B110); and
- quarantining of capital losses (E28).

At present, the CPRS is not included in the list of largest tax expenditures because it does not have any revenue forgone in 2009-10. In future, it is expected that the CPRS will enter the list of largest tax expenditures when the scheme comes into force.

Table 1.3: Large measured tax expenditures in 2009-10

Tax expenditure	Estimate \$m
Large positive tax expenditures	
E5 Capital gains tax main residence exemption — discount component	17,500
E4 Capital gains tax main residence exemption	14,000
C5 Superannuation — concessional taxation of employer contributions	11,400
C6 Superannuation — concessional taxation of superannuation entity earnings	9,800
H23 GST — Food — uncooked, not prepared, not for consumption on premises of sale and some beverages	5,600
E14 Capital gains tax discount for individuals and trusts	5,380
H14 GST — Health; medical and health services	2,700
H11 GST — Education	2,550
H2 GST — Financial Supplies; input taxed treatment	2,120
A56 Exemption of Tax Bonus for Working Australians	2,070
A44 Exemption of Family Tax Benefit, Parts A and B, including expense equivalent	2,010
B13 Exemption from interest withholding tax on certain securities	1,640
C3 Concessional taxation of non-superannuation termination benefits	1,500
B99 Small business and general business tax break	1,470
A23 Exemption of 30 per cent private health insurance refund, including expense equivalent	1,110
C8 Superannuation — deduction and concessional taxation of certain personal contributions	1,100
A22 Exemption from the Medicare levy for residents with a taxable income below a threshold	1,070
D26 Application of statutory formula to value car benefits	1,050
H10 GST — Imported services	1,050
A67 Deduction for gifts to approved donees	970
A32 Senior Australians' Tax Offset	950
H3 GST — Financial Supplies; reduced input tax credits	860
B109 Income tax exemption for public and municipal authorities and other local governing bodies	830
D6 Exemption for public and not-for-profit hospitals	830
B87 Statutory effective life caps	775
D11 Exemption for public benevolent institutions (excluding public and not-for-profit hospitals)	760
F6 Exemption from excise for 'alternative fuels'	750
E31 Small business capital gains tax 50 per cent reduction	740
F3 Concessional rate of excise levied on aviation gasoline and aviation turbine fuel	720
A48 Exemption of payments made under the First Home Owners Grant Scheme	690
B96 Research and development — research and development tax concession	640
Large negative tax expenditures	
F21 Customs duty	-2,950
F7 Higher rate of excise levied on cigarettes not exceeding 0.8 grams of tobacco	-1,395

TRENDS IN TAX EXPENDITURES BY FUNCTION

Total measured tax expenditures by functional category are reported in Table 1.4 for the period 2006-07 to 2012-13. Significant changes underlying movements in functional categories are listed below.

- The changes in the aggregate for housing and community amenities largely reflect the inclusion of estimates for owner-occupied housing (E4 and E5);
- The total for transport and communication is also estimated to increase over the reported period owing to the statutory effective life caps (B87) tax expenditure.
- The increase in the general purpose inter-governmental transactions aggregate is due to the income tax exemption for municipal authorities and other local governing bodies (B109).
- The increase in the social security and welfare aggregate is mainly due to increases in the concessional taxation of superannuation entity earnings (C6) and the concessional taxation of employer contributions (C5).
- The inclusion of the CPRS in the TES (see box) has significant impacts from 2011-12 on the following aggregates:
 - increases in the agriculture, fisheries and forestry and other economic affairs, nec, aggregates due to the exemption of agriculture and deforestation from the CPRS coverage; and
 - a decrease in the fuel and energy aggregate due to the general fuel tax reductions.
- The negative tax expenditure for mining, manufacturing and construction is mainly due to customs duty (F21) which is a negative tax expenditure in respect of imported goods.

Table 1.4: Aggregate tax expenditures by function^(a)

	Estimates (\$m)				Projections (\$m)		
	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
General public services							
A. Legislative and executive affairs	2	2	2	2	2	2	2
B. Financial and fiscal affairs	2,490	2,660	2,870	2,980	3,140	3,280	3,430
C. Foreign affairs and economic aid	639	658	728	624	504	529	559
D. General research	0	0	0	0	0	0	0
E. General services	12	12	12	11	207	254	317
F. Government superannuation benefits	0	0	0	0	0	0	0
Defence	699	753	777	751	766	776	756
Public order and safety	0	0	0	0	0	0	0
Education	2,012	2,164	2,369	2,563	2,764	2,964	3,214
Health	4,601	4,850	5,180	5,630	6,015	6,215	6,790
Social security and welfare	38,806	39,107	33,729	31,562	32,718	36,135	40,220
Housing and community amenities	39,935	41,520	32,630	33,545	33,580	32,870	31,915
Recreation and culture	144	124	137	161	163	174	177
Fuel and energy	1,545	1,830	1,475	1,495	1,505	1,160	1,065
Agriculture, forestry and fishing	480	494	243	75	-24	877	2,366
Mining, manufacturing and construction	-3,164	-3,415	-3,375	-2,915	-2,618	-2,783	-2,943
Transport and communication	403	545	686	807	916	1,009	1,076
Other economic affairs							
A. Tourism and area promotion	7	1	6	6	6	6	7
B. Total labour and employment affairs	846	709	670	686	694	703	721
C. Other economic affairs, nec(b)	18,429	22,434	23,169	22,969	23,144	23,681	25,661
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-governmental transactions	710	680	750	830	920	1,030	1,140
D. Natural disaster relief	11	11	8	8	6	3	1
E. Contingency reserve	0	0	0	0	0	0	0
Total(c)	108,607	115,139	102,066	101,790	104,408	108,885	116,459

(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.

COMPARISON WITH DIRECT EXPENDITURE

The tax expenditure estimates for 2008-09 by functional category are presented alongside direct government expenditures in Table 1.5. The list of direct expenditures by function is reproduced from the *Final Budget Outcome 2008-09*.

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.
- Direct expenditures are often taxable, whereas tax expenditures are not.
- The removal of a tax expenditure or a direct expenditure of the same magnitude may have different effects on the 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, the government's direct expenditure on certain income support benefits, pensions or allowances includes the full cost of the program to government but there is also an associated tax expenditure (A40) for the value of the income tax exemption of the benefits to the recipient.

Table 1.5: Aggregate tax expenditures and direct expenditures by function in 2008-09

	Tax expenditures (\$m)(a)	Direct expenditures (\$m)(b)
General public services		
A. Legislative and executive affairs	2	728
B. Financial and fiscal affairs	2,870	6,331
C. Foreign affairs and economic aid	728	4,763
D. General research	0	2,237
E. General services	12	995
F. Government superannuation benefits	0	2,142
Defence	777	19,190
Public order and safety	0	3,558
Education	2,369	22,601
Health	5,180	49,146
Social security and welfare	33,729	124,581
Housing and community amenities	32,630	5,080
Recreation and culture	137	3,107
Fuel and energy	1,475	5,806
Agriculture, forestry and fishing	243	2,723
Mining, manufacturing and construction	-3,375	1,911
Transport and communication	686	6,941
Other economic affairs		
A. Tourism and area promotion	6	192
B. Total labour and employment affairs	670	5,040
C. Other economic affairs, nec(c)	23,169	1,275
Other purposes		
A. Public debt interest	0	3,946
B. Nominal superannuation interest	0	6,715
C. General purpose inter-governmental transactions	750	45,248
D. Natural disaster relief	8	312
E. Contingency reserve	0	0
Total(d)	102,066	324,568

(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 *Final Budget Outcome 2008-09*.

(c) 'nec' means not elsewhere classified.

(d) Totals may not sum due to rounding.

1.4 Period covered by these estimates

The 2009 *Tax Expenditures Statement* uses the publication of the *Mid-Year Economic and Fiscal Outlook 2009-10* as the cut off for policy and information relevant to the estimation of tax expenditures. It does not take account of any policy decisions made after that date.

CHAPTER 2: THE TAX EXPENDITURE FRAMEWORK

This chapter provides background on tax expenditures, outlining what they are and how they are measured, and provides guidance for interpreting the estimates reported in the Tax Expenditure Statement (TES).

2.1 What is a tax expenditure?

A tax expenditure is a provision of the tax law that provides a benefit to a specified activity or class of taxpayer that is concessional when compared to the 'normal' tax treatment that would apply. A negative tax expenditure arises when arrangements impose an additional charge rather than a benefit. Tax expenditures can be provided in many forms, including tax exemptions, tax deductions, tax offsets, concessional tax rates or deferrals of tax liability.

Tax expenditures are often an alternative to direct expenditures as a method of delivering government assistance or meeting government objectives. Tax expenditures have an impact on the budget position like direct expenditures, although the tax expenditure estimates presented in this statement are not directly comparable to budget revenue estimates.

Tax expenditures may also redistribute the tax burden between taxpayers as most tax expenditures result in less tax being collected from particular taxpayers. As a result, taxes paid by individuals and businesses not benefiting from the tax expenditure need to be higher to raise the same total revenue.

Not all concessional elements of the tax system are classified as tax expenditures. This is because some concessions 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 a structural design feature of the Australian tax system and is therefore not identified as a tax expenditure.

Tax expenditures do not include the impact of the exercise of administrative discretion or the impact of taxpayer non-compliance with the tax law. While these may result in a benefit to certain taxpayers, they do not arise from any policy intent on the part of the government. The magnitude of some tax expenditures may also be affected by factors such as interpretation of the law by the courts and tax administrators.

2.2 Why report tax expenditures?

In addition to meeting the requirements of the Charter of Budget Honesty Act, the TES is an integral component of the Australian Government's budget reporting. It serves three key functions:

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

Tax expenditure reporting in Organisation for Economic Co-operation and Development countries

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 them. Currently, almost all Organisation for Economic Co operation and Development (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 TES has a broad coverage including the majority of taxes levied by the Australian Government.

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, the Netherlands, the 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.

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: H Brixli, C Valenduc and Z Li Swift, *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 TES improves the transparency of the tax system, thereby allowing greater public scrutiny of government policies.

In Australia, direct government expenditures are generally scrutinised during the annual budget process by Parliament and parliamentary committees, the media and the general public.

Tax expenditures, like direct expenditures, affect the government's budget. It is important, therefore, that tax expenditures are reviewed on a regular basis and receive similar scrutiny to that given to direct expenditures. The publication of information on tax expenditures facilitates their review and assessment, and assists in determining whether their objectives are being met at a reasonable cost and in the interest of the community in general.

SCOPE OF GOVERNMENT ACTIVITY

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 will be understated. By reporting tax expenditures, all government assistance is transparent.

TAX SYSTEM DESIGN

Transparent reporting of tax expenditures assists the evaluation, design and development of the tax system and helps to determine whether there has been adherence to the three key principles of tax system design – efficiency, equity and simplicity. The provision of detailed information on tax expenditures allows a more thorough assessment of the tax system in respect to:

- its effect on resource allocation and incentives for taxpayer behaviour;
- the most appropriate way to administer concessions, particularly as most tax expenditures could be delivered as direct expenditures; and
- the impact on different entities within the economy, particularly as tax expenditures shift the tax burden to entities that are not treated concessionally.

2.3 Approaches to measuring tax expenditures

There are three main methods used to measure tax expenditures.

- The revenue forgone approach – this approach measures the difference in tax paid by taxpayers who receive a particular concession relative to similar taxpayers who do not receive that concession. It compares the current/prospective treatment to the benchmark treatment, assuming taxpayer behaviour is unchanged.
- The revenue gain approach – this approach measures how much revenue could increase if a particular tax concession was removed. Accurate estimation of this cost requires estimates of the behavioural effects associated with such a change. (This approach is used when preparing new policy proposal estimates for the budget.)
- The outlay equivalence approach – this approach estimates how much direct expenditure would be needed to provide a benefit equivalent to the tax expenditure. This approach measures the direct expenditure required, in before tax dollars, to achieve the same after tax dollar benefit as the tax expenditure where the direct expenditure receives the tax treatment appropriate for that type of income in the hands of the recipient.

The three methods can yield significantly different estimates of the value of a tax expenditure.

Consistent with most tax expenditures statements published in OECD countries, Australia uses the revenue forgone approach. This is the most reliable method for estimating the level of assistance the tax system provides to taxpayers.

2.4 Treasury's approach to estimating tax expenditures

REVENUE FORGONE AND COMPARISON WITH BUDGET ESTIMATES

The estimates of tax expenditures in this statement are prepared under the 'revenue forgone' approach which calculates the value of tax expenditures in terms of the benefit to the taxpayer of the tax provisions concerned, measured relative to a non-concessional tax benchmark, rather than in terms of the budgetary cost of those provisions.

Revenue forgone estimates differ from budget revenue estimates because they are estimated relative to different benchmarks. Estimates calculated by the revenue forgone approach identify the financial benefit of tax concessions to taxpayers receiving those concessions relative to taxpayers that do not. It does not necessarily

follow that there would be an equivalent increase to government revenue from the abolition of the tax expenditure.

In contrast, estimates of the cost of new policy proposals in the budget are based on the revenue that the Government expects to collect. The forward estimates and budget estimates are estimates of future tax collections and take account of factors such as taxpayer behaviour and compliance with the tax law.

The revenue forgone approach is the principal approach used to estimate tax expenditures in this statement and in the tax expenditure statements of most other countries. This approach is preferred because:

- the revenue forgone approach requires only a single consistent assumption regarding behavioural responses to removing a concession (no behavioural change) which allows the value of a tax concession to be based on the actual (or projected) level of transactions; and
- the results under the revenue forgone approach can be interpreted consistently in terms of the benefit to the taxpayer of the existence of a tax concession.

REVENUE GAIN ESTIMATES

The revenue gain approach has often been proposed as an alternative to the revenue forgone approach used in this statement as a way of producing tax expenditure estimates that are more comparable to budget revenue estimates.

This TES includes revenue gain estimates for several of the largest tax expenditure items for comparison purposes in Chapter 4.¹ These estimates show that significant differences can arise between the two sets of estimates because of the impact of behavioural assumptions and the policy specified for removing the tax concessions to bring them into alignment with the benchmark.

There are considerable practical difficulties in producing estimates of the value of tax expenditures on a revenue gain approach for all the tax expenditures identified in this statement.

- As there are no Government decisions to remove tax concessions, estimating the revenue gain from doing so requires the making of ad hoc policy assumptions. While the revenue gain estimates use a standard policy specification as far as possible, the estimates presented only represent one of a range of possible policy outcomes.

1 Ranked according to the revenue forgone estimates.

- Estimating revenue gain requires information about the behavioural responses of taxpayers to policy changes for each estimate. In most cases this information is not available and assumptions need to be made to arrive at an estimate.
- Calculating comprehensive revenue gain estimates that provide a reliable estimate of aggregate tax expenditures would require the specification of assumptions regarding the order in which tax expenditures are removed and how activity would flow to alternative concessions.

ACCRUAL ESTIMATES

The tax expenditure estimates are prepared on the same revenue recognition basis as the budget estimates. Since the 2006-07 Budget, the basis for reporting revenue in the budget has changed. The changes are outlined below and apply to estimates in the TES from 2006-07. All estimates relating to periods prior to 2006-07 are reported in the TES on the Tax Liability Method basis.

Revenue recognition methodology

Accrual accounting was introduced by the Australian Government in the 1999-2000 Budget. The Australian Accounting Standards and Government Finance Statistics standards for accrual accounting require that taxation revenue be recognised in the reporting period in which the taxpayer earns the income that is subsequently subject to taxation – this is known as the Economic Transactions Method (ETM). But the standards also permit government reporting using an alternative approach when the ETM approach would generate unreliable measures of taxation revenues.

Because ETM is an unreliable measure for several significant revenue heads – and these account for the majority of total revenue – all taxation revenue was recognised in all accrual budget related documentation from the 1999-2000 Budget to the *Mid-Year Economic and Fiscal Outlook 2005-06* using the Tax Liability Method (TLM). Under TLM, taxation revenue is accounted for at the time a taxpayer makes a self assessment or when an assessment of a taxation liability is raised by the relevant authority.

Commencing with the 2006-07 Budget, the Australian Government adopted ETM revenue recognition for all revenue heads where the measurement issues are not material, but retained TLM revenue recognition where ETM measurement issues may be material. The taxation revenues that continue to be recognised on a TLM basis are:

- individuals and other withholding taxation;
- company income taxation; and
- superannuation taxation.

RELIABILITY OF THE ESTIMATES

Where estimates of tax expenditures are quantified, Treasury also provides information on the reliability of the estimate. The reliability ratings used in the TES as well as indicators for each rating and a summary of the tax expenditures at each rating are provided in Table 3.1 of Chapter 3.

2.5 Interpreting the estimates of tax expenditures

Care should be taken when interpreting the tax expenditure estimates presented in this document. The estimates of reported tax expenditures are not necessarily reliable indicators of the budgetary impact of removing particular tax concessions. Nor are the aggregate estimates presented in Chapter 1 necessarily reliable indicators of the total value of tax expenditures.

Care should also be taken in comparing the level of tax expenditures reported in different editions of the TES, both for individual tax expenditures and in aggregate. Changes may arise without any change in the actual magnitude of tax expenditures. The 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.

Great care also needs to be taken in interpreting the revenue gain estimates as they are 'stand alone' estimates that do not take account of the impact of other policy changes. Like the revenue forgone estimates they are not additive and aggregates should only be used as indicators of broad trends in the overall value of tax concessions.

2.6 Issues surrounding interpretation of tax expenditure estimates

This section provides an overview of the main issues relating to interpretation of the estimates.

BEHAVIOURAL EFFECTS

The introduction of a tax expenditure tends to increase concessionally taxed activity. Accordingly, the same activity would be expected to contract should the related tax expenditure be abolished, with consequential implications for potential revenue flows. Other responses may follow. For example:

- 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 facing a higher average tax rate, 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 unclear. Furthermore, in cases where the level of activity is highly sensitive to a concession, 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 (that is, using the revenue gain approach) would give the impression that the tax expenditure has little material effect when actually the recipients derive quite large financial benefits.

POTENTIAL OVERLAPS

Unless otherwise indicated, tax expenditure estimates are calculated on an individual basis and do not take account of potential overlaps with other tax expenditures. While aggregate tax expenditures can provide a guide to trends in tax expenditures over time, overlaps between the coverage of different 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.

ESTIMATES AND PROJECTIONS

Tax expenditure estimates are separated into estimates (for historical years) and projections (for future years). The estimates for 2008-09 are preliminary and subject to revision upon receipt of further tax data.

2.7 Tax expenditure benchmarks

In order to identify and measure tax expenditures a benchmark must be specified. Tax expenditures are defined and measured as deviations from this benchmark.

The framework for defining the benchmarks used in this statement is based on two principles.

- 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.

- The benchmark may incorporate *structural elements* of the tax system where there are difficulties adopting the standard treatment as the benchmark. Such elements could include integral design features; for example, 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 over time and across countries and can be arbitrary.

Each benchmark will generally consist of the following elements:

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

The benchmarks used by Australia in the TES are outlined at the beginning of each set of tax expenditures in Chapter 3 and are explained in detail in Appendix A.

CHAPTER 3: TAX EXPENDITURES

3.1 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, including the reliability of those estimates (where quantified).

3.2 Notes on the estimates

Unless otherwise indicated, tax expenditure estimates are calculated on an individual basis and do not take account of potential overlaps with other tax expenditures.

Tax expenditure estimates are separated into estimates (for historical years) and projections (for future years). The estimates for 2008-09 are preliminary and subject to revision upon receipt of further tax data.

The tax expenditure estimates are prepared on the same revenue recognition basis as the budget estimates. Since the 2006-07 Budget, the basis for reporting revenue in the budget has changed. The changes apply to estimates in the TES from 2006-07. All estimates relating to periods prior to 2006-07 are reported in the TES on the Tax Liability Method basis.

Further detail on the revenue recognition basis used in the TES is provided in Chapter 2.

3.3 Benchmarks used in the TES estimates

To provide a clear structure for reporting tax expenditures, the TES benchmarks are divided into three major components reflecting Australia's taxation arrangements.

- The income tax benchmark describes the standard taxation arrangements applying to personal and business income, superannuation, fringe benefits and capital gains.
- The consumption tax benchmark describes the standard taxation arrangements that apply either directly or indirectly to consumption and commodities; namely the supply of goods and services to consumers, tobacco, fuel, types of alcoholic beverages, motor vehicles, natural resources and customs duty.

- The new externalities benchmark covers taxation or other revenue-raising arrangements imposed to recover the external costs of particular activities. This benchmark is included in this edition of the TES for the first time and reports tax expenditures arising from concessions under the Carbon Pollution Reduction Scheme (CPRS).¹
 - Further information on the new benchmark can be found in Appendix A.

3.4 Summary of tax expenditures by benchmark

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	Personal income (A)	Tax expenditures for general public services	A1-A7
		Tax expenditures for defence	A8-A16
		Tax expenditures for education	A17-A20
		Tax expenditures for health	A21-A27
		Tax expenditures for social security and welfare	A28-A30
		Tax concessions for certain taxpayers	A31-A39
		Tax exemptions for certain government income support payments	A40-A47
		Tax expenditures for housing and community amenities	A48-A49
		Tax expenditures for recreation and culture	A50-A51
		Tax expenditures for other economic affairs	A52-A59
		Concessions under the substantiation provisions for employment-related expenses	A60-A62
		Miscellaneous tax expenditures	A63-A71

¹ The CPRS is recorded in the taxation revenue section of the Government Financial Statistics.

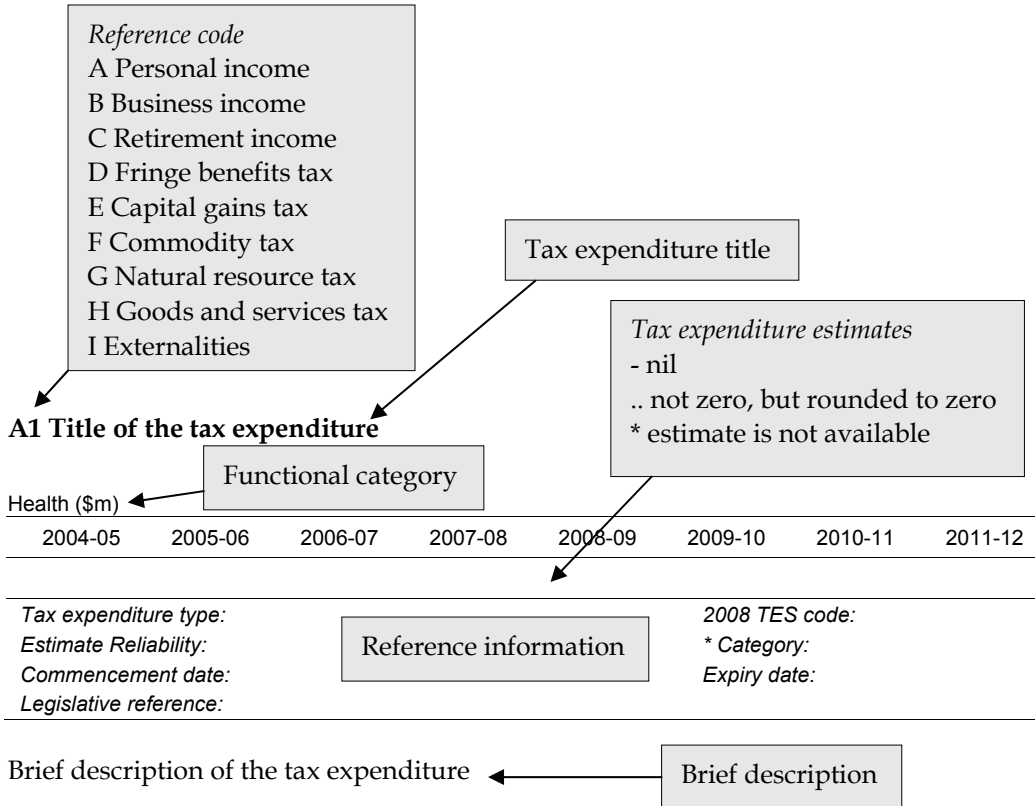
Benchmark	Specific benchmark category	Subject category	TES reference code
Income tax (continued)	Business income (B)	Tax expenditures for general public services	B1
		International tax expenditures	B2-B17
		Tax expenditures for health	B18-B19
		Tax expenditures for social security and welfare	B20-B23
		Tax concessions for certain taxpayers	B24-B27
		Tax exemptions for certain government income support payments	B28
		Tax expenditures for recreation and culture	B29-B32
		Tax expenditures relating to prepayments and advance expenditures	B33-B37
		Tax expenditures for agriculture, forestry and fishing	B38-B45
		Tax expenditures for manufacturing and mining	B46-B47
		Tax expenditures for transport and communications	B48-B49
		Tax expenditures for other economic affairs	B50-B69
		Tax expenditures relating to capital expenditure, effective life and depreciation	B70-B101
		General consumption tax expenditures	B102
		Miscellaneous tax expenditures	B103-B110
	Retirement savings (C)	Tax expenditures for social security and welfare	C1-C17
		Tax expenditures for other economic affairs	C18-C21
Fringe benefits tax (D)		Tax expenditures for general public services	D1
		Tax expenditures for defence	D2-D4
		Tax expenditures for education	D5
		Tax expenditures for health	D6-D7
		Tax expenditures for social security and welfare	D8-D13
		Tax expenditures for housing and community amenities	D14
		Tax expenditures for transport and communications	D15-D17
		Tax expenditures for other economic affairs	D18-D29
		Miscellaneous tax expenditures	D30-D50

Tax Expenditures Statement

Benchmark	Specific benchmark category	Subject category	TES reference code
Income tax (continued)	Capital gains tax (E)	Tax expenditures for defence	E1
		Tax expenditures for health	E2
		Tax expenditures for housing and community amenities	E3-E6
		Tax expenditures for recreation and culture	E7
		Tax expenditures for other economic affairs	E8-E32
Consumption	Commodity taxes (F)	Fuel	F1-F6
		Tobacco	F7-F8
		Alcohol	F9-F17
		Motor vehicles	F18
		General consumption tax expenditures	F19-F21
	Natural resource taxes (G)	Tax expenditures for manufacturing and mining	G1-G3
		Petroleum	G4
	Goods and services tax (H)	Tax expenditures for general public services	H1-H6
		International tax expenditures	H7-H10
		Tax expenditures for education	H11
		Tax expenditures for health	H12-H16
		Tax concessions for certain taxpayers	H17-H20
		Tax expenditures for manufacturing and mining	H21
		Tax expenditures for transport and communications	H22
		Tax expenditures for other economic affairs	H23
Externalities	Carbon Pollution Reduction Scheme (I)	Tax concessions for certain taxpayers	I1-I3
		Tax expenditures for agriculture, forestry and fishing	I4
		Tax expenditures for manufacturing and mining	I5

3.5 Guide to tax expenditure descriptions

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;
- the year a tax expenditure will cease to operate (if applicable);
- where to find the provisions implementing the tax expenditure in the legislation;
- the *2008 Tax Expenditures Statement* reference code for a tax expenditure that is not new;
- an assessment of the reliability of estimates for a tax expenditure where estimates are available; 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 1.5. The functional categories are based on an international standard classification of functions of government that is incorporated into the Government Finance Statistics framework.

The 'tax expenditure type' 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.

The presentation of capital gains tax expenditures

In general, the discount components of capital gains tax concessions are reported as part of the tax expenditure *Capital gains tax discount for individuals and trusts* (E14) in order to provide a clearer indication of the value of CGT concessions to taxpayers and avoid double counting. The estimate shown for each individual tax expenditure, except for E14, is the estimate of the concession in excess of the discount.

The same approach is taken for the CGT main residence exemption (E4) but, due to the significant value of the discount component of this item, the value of the CGT discount component is reported as a separate item (E5).

ORDER OF MAGNITUDE RANGE

In many cases, estimates for tax expenditures are not available because of data limitations or because of the nature of the tax expenditure itself. In such cases, 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. The category assigned to an unquantifiable tax expenditure refers to the year the tax expenditure is considered to be most significant.

Category	Order of magnitude range	
	Expected tax expenditure (\$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 a 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 that are categorised in this way are not included in the aggregate measured tax expenditures reported in Chapter 1.

The category classification also indicates whether a tax expenditure is positive or negative. A positive sign denotes a positive tax expenditure, while a negative sign denotes a negative tax expenditure. For example, reliable estimates for an exemption

from fringe benefits tax that applies to benefits provided by certain international organisations (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. For a tax expenditure where neither an estimate, nor an order of magnitude could be assigned, an 'na' classification has been adopted.

RELIABILITY OF ESTIMATES

Tax expenditure estimates in this statement aim to represent the best estimates that can be made given the available data. The estimates vary in their reliability, depending upon the quality and detail of the underlying data that is used in the estimates, the frequency of that data, the extent to which calculations are based on assumptions, the sensitivity of the results to those assumptions and whether future taxpayer behaviour is reasonably predictable. Future taxpayer behaviour is a factor in determining the reliability of tax expenditure projections, where taxpayer behaviour affects the future level of use of tax concessions. In many cases, there is insufficient data to produce a reliable estimate for a tax expenditure item, in which case the estimate will be shown as being unquantifiable.

The reliability of quantified tax expenditures is shown in Table 3.1. The table shows that of the 337 tax expenditures identified, estimates are available for 211. Of the quantified tax expenditures, 53 per cent are rated as having medium or higher reliability, accounting for 39 per cent of the total identified value of tax expenditures in 2009-10.

Table 3.1: Reliability of quantified tax expenditures

Reliability rating	Indicators for rating at this level	Number	Aggregate estimates in 2009-10 (\$m)
High	<ul style="list-style-type: none"> High quality tax data. Modelling with few or no assumptions. Well established tax expenditure with stable and predictable taxpayer behaviour. 	6	7
Medium — High	<ul style="list-style-type: none"> High quality tax data. Modelling with few or no assumptions. May involve a new or changed tax expenditure for which future taxpayer behaviour is fairly predictable. 	25	10,572
Medium	<ul style="list-style-type: none"> Incomplete data, often from other high quality secondary sources, with a number of verifiable assumptions. New or changed tax expenditure with considerable behavioural changes or dependent on factors outside of the tax system. 	81	29,347
Medium — Low	<ul style="list-style-type: none"> Basic data only, mainly from sources other than tax. Includes important reasonable assumptions that cannot be readily checked. Significant new tax expenditures or existing tax expenditures for which taxpayer behaviour is hard to predict. 	38	37,678
Low	<ul style="list-style-type: none"> Little data, much of it low quality, with important unverifiable data assumptions. Taxpayer behaviour is volatile or very dependent on factors outside the tax system. 	52	20,633
Very low	<ul style="list-style-type: none"> Very little data and of poor quality, model relying heavily on data assumptions. Almost no information on potential taxpayer behaviour. 	9	5

3.6 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.

Separate benchmarks are used for personal income, business income, superannuation, fringe benefits and capital gains because they have distinct tax regimes that affect how tax expenditures are measured against the general income tax benchmark.

Detailed descriptions of the income tax benchmarks are provided in Appendix A.

PERSONAL INCOME

General features of the personal income tax benchmark:

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

Tax expenditures for general public services

A1 Deduction for expenses incurred by election candidates

General public services — Legislative and executive affairs (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	2	2	2	2	2	2	2	2
<i>Tax expenditure type:</i>	Deduction					<i>2008 TES code:</i>		A1
<i>Estimate Reliability:</i>	Medium							
<i>Commencement date:</i>	Introduced before 1985					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Sections 25-60, 25-65 and 25-70 of the <i>Income Tax Assessment Act 1997</i>							

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.

A2 Exemption of official salaries and certain other income of the Governor-General and Governor of any State

General public services — Legislative and executive affairs (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	-
<i>Tax expenditure type:</i>	Exemption					<i>2008 TES code:</i>	A2	
<i>Estimate Reliability:</i>	High							
<i>Commencement date:</i>	Introduced before 1985					<i>Expiry date:</i>	No longer available for appointments after 28 June 2001	
<i>Legislative reference:</i>	Former section 51-15 of the <i>Income Tax Assessment Act 1997</i>							

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.

The NSW Governor is the only remaining State Governor appointed before 28 June 2001.

A3 Exemption of income earned by Australians from working on approved overseas projects

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

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	140	280	310	340	205	65	70	80
<i>Tax expenditure type:</i>	Exemption					<i>2008 TES code:</i>	A3	
<i>Estimate Reliability:</i>	Medium — High							
<i>Commencement date:</i>	Introduced before 1985					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Section 23AF of the <i>Income Tax Assessment Act 1936</i>							

Note: estimates include tax expenditures A3 and A4.

Income earned by Australians from working on certain approved overseas 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).

A4 Exemption of income earned by Australians working in a foreign country

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

2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Included in A3							
<i>Tax expenditure type:</i>		Exemption			<i>2008 TES code:</i>		A4
<i>Estimate Reliability:</i>							
<i>Commencement date:</i>		1986			<i>Expiry date:</i>		
<i>Legislative reference:</i>		Section 23AG of the <i>Income Tax Assessment Act 1936</i>					

Foreign earnings derived by an Australian individual engaged in continuous foreign service for not less than 91 days may be exempt from income tax if the foreign service is directly attributable to:

- the delivery of Australia’s overseas aid program by the individual’s employer;
- the activities of the individual’s employer in operating a developing country relief fund or a public disaster relief fund;
- the activities of the individual’s employer being a prescribed institution that is exempt from Australian income tax;
- the individual’s deployment outside Australia by an Australian government (or an authority thereof) as a member of a disciplines force; or
- an activity of a kind specified in the regulations.

This exemption does not apply where the foreign earnings are exempt from income tax in the foreign country for certain reasons.

This concession was modified in the 2009-10 Budget by replacing the previous broader exemption with the targeted concession above, with effect from 1 July 2009.

A5 Exemption of income of certain visitors to Australia

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

2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
1	1	1	1	1	1	1	1
<i>Tax expenditure type:</i>		Exemption			<i>2008 TES code:</i>		A5
<i>Estimate Reliability:</i>		Very Low					
<i>Commencement date:</i>		Introduced before 1985			<i>Expiry date:</i>		
<i>Legislative reference:</i>		Section 842-105 and Section 768-100 of the <i>Income Tax Assessment Act 1997</i>					

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

This exemption broadly applies to Australian sourced income earned by foreign residents in their official capacity:

- as a visiting foreign government representative or member of their entourage;
- as a representative of an educational, scientific, religious or philanthropic society or association;
- as a member of the foreign media reporting on proceedings relating to a visitor referred to in one of the preceding points;
- as an advisor to an Australian Government Agency or as a member of a Royal Commission; or
- in assisting the Australian Government in regards to Australia's defence where the income is non-exempt in their country of residence;

The official salary and foreign sourced income earned by visitors to Australia are also exempt from income tax where reciprocal tax exemptions are provided by their home country and the visitor is:

- a foreign Government representative or staff of the representative when the Vienna Conventions on Consular or Diplomatic Relations do not apply; or
- an officer of a British Commonwealth of Nations Country in Australia to either provide their services on behalf of their country or an Australian Government Agency in accordance with intergovernmental arrangements.

A6 Exemption of official salary and emoluments of officials of prescribed international organisations

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

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption					<i>2008 TES code:</i>	A6	
<i>Estimate Reliability:</i>	Not Applicable					<i>* Category</i>	1+	
<i>Commencement date:</i>	Introduced before 1985					<i>Expiry date:</i>		
<i>Legislative reference:</i>	<i>International Organisations (Privileges and Immunities) Act 1963</i>							

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.

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

General public services — General services (\$m)

2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
8	7	7	7	7	7	8	8
<i>Tax expenditure type:</i>	Exemption				<i>2008 TES code:</i>		A7
<i>Estimate Reliability:</i>	Medium — Low						
<i>Commencement date:</i>	Introduced before 1985				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Division 1A of Part III and sections 251T and 251U of the <i>Income Tax Assessment Act 1936</i>						

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

Tax expenditures for defence

A8 Exemption from the Medicare levy for current and veteran Australian Defence Force members and their relatives and associates

Defence (\$m)

2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
45	50	60	70	70	75	75	80
<i>Tax expenditure type:</i>	Exemption				<i>2008 TES code:</i>		A9
<i>Estimate Reliability:</i>	Medium						
<i>Commencement date:</i>	Introduced before 1985				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Sections 251T and 251U of the <i>Income Tax Assessment Act 1936</i>						

Income earned by current and veteran Australian Defence Force personnel and people who are entitled to free medical treatment because they are relatives of, or individuals otherwise associated with, Australian Defence Force personnel, such as a repatriation beneficiary, is generally exempt from the Medicare levy.

A9 Exemption of certain allowances paid to Australian Defence Force personnel

Defence (\$m)

2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
30	40	50	75	65	65	65	65
<i>Tax expenditure type:</i>	Exemption				<i>2008 TES code:</i>		A10
<i>Estimate Reliability:</i>	Medium						
<i>Commencement date:</i>	Introduced before 1985				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Section 51-5 of the <i>Income Tax Assessment Act 1997</i> Regulation 51-5.01 of the <i>Income Tax Assessment Regulations 1997</i>						

Certain allowances payable to Australian Defence Force personnel are exempt from income tax. These include the following allowances — separation allowance, disturbance allowance, rent allowance paid to a member without dependents or a

member with dependents (unaccompanied), transfer allowance, and deployment allowance.

In the case of rent allowance 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.

A10 Exemption of compensation for loss of deployment allowance paid to Australian Defence Force members

Defence (\$m)								
2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	
..	
<i>Tax expenditure type:</i>		Exemption			<i>2008 TES code:</i>		A11	
<i>Estimate Reliability:</i>		Medium						
<i>Commencement date:</i>		1996			<i>Expiry date:</i>			
<i>Legislative reference:</i>		Sections 51-5 and 51-32 of the <i>Income Tax Assessment Act 1997</i>						

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.

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

Defence (\$m)								
2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	
..	
<i>Tax expenditure type:</i>		Exemption			<i>2008 TES code:</i>		A12	
<i>Estimate Reliability:</i>		Low						
<i>Commencement date:</i>		1996			<i>Expiry date:</i>			
<i>Legislative reference:</i>		Sections 51-5 and 51-33 of the <i>Income Tax Assessment Act 1997</i>						

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.

A12 Exemption of pay and allowances earned by members of the Australian Defence Force on eligible duty

Defence (\$m)							
2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
40	55	70	60	60	60	60	65
<i>Tax expenditure type:</i>	Exemption				<i>2008 TES code:</i>		A13
<i>Estimate Reliability:</i>	Medium — Low						
<i>Commencement date:</i>	Introduced before 1985				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Sections 23AC and 23AD of the <i>Income Tax Assessment Act 1936</i>						

Base pay and allowances, which are not exempt from income tax under another provision of the income tax law, made to Australian Defence Force personnel while on eligible duty at a specified area, are exempt from income tax.

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

Defence (\$m)							
2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
..
<i>Tax expenditure type:</i>	Exemption				<i>2008 TES code:</i>		A14
<i>Estimate Reliability:</i>	Very Low						
<i>Commencement date:</i>	Introduced before 1985				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Section 842-105 of the <i>Income Tax Assessment Act 1997</i>						

Pay and allowances earned in Australia as a member of a foreign force is exempt from income tax. This does not apply if the Australian Government makes the payment.

A14 Exemption of pay and allowances for part-time Australian Defence Force Reserve personnel

Defence (\$m)							
2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
35	35	50	55	55	55	55	55
<i>Tax expenditure type:</i>	Exemption				<i>2008 TES code:</i>		A15
<i>Estimate Reliability:</i>	Medium — Low						
<i>Commencement date:</i>	Introduced before 1985				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Section 51-5 of the <i>Income Tax Assessment Act 1997</i>						

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

A15 Exemption of some payments to Australian Federal Police and civilian personnel in service with an armed force of the United Nations

Defence (\$m)							
2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
..
<i>Tax expenditure type:</i>		Exemption			<i>2008 TES code:</i>		A16
<i>Estimate Reliability:</i>		Very Low					
<i>Commencement date:</i>		Introduced before 1985			<i>Expiry date:</i>		
<i>Legislative reference:</i>		Section 23AB of the <i>Income Tax Assessment Act 1936</i>					

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. In addition, a partial income tax exemption applies to living allowances paid to civilians who died during periods of United Nations service.

A16 Tax offsets for Australian Defence Force personnel serving overseas and for Australian Federal Police and civilians serving with United Nations forces

Defence (\$m)							
2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Included in A49							
<i>Tax expenditure type:</i>		Offset			<i>2008 TES code:</i>		A17
<i>Estimate Reliability:</i>							
<i>Commencement date:</i>		Introduced before 1985			<i>Expiry date:</i>		
<i>Legislative reference:</i>		Sections 79B and 23AB(7) of the <i>Income Tax Assessment Act 1936</i>					

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.

Tax expenditures for education

A17 Education Tax Refund

General public services — General services (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	-	-	-	-	-	180	190	190
<i>Tax expenditure type:</i>	Exemption					<i>2008 TES code:</i>	A18	
<i>Estimate Reliability:</i>	Low							
<i>Commencement date:</i>	2008					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Subdivision 61-M of the <i>Income Tax Assessment Act 1997</i>							

Education Tax Refund payments are exempt from income tax.

Eligible taxpayers can claim a refundable tax offset for 50 per cent of eligible education expenses incurred in respect of a student undertaking primary or secondary school studies, up to a maximum amount. For expenses incurred in 2008-09, the maximum amount of the Education Tax Refund is \$375 for each primary school student and \$750 for each secondary school student. In later years, these maximum amounts will increase in line with increases in the Consumer Price Index.

The Education Tax Refund applies to eligible expenses incurred from 1 July 2008.

A18 Denial of deductibility for certain self-education expenses

Education (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Denial of deduction					<i>2008 TES code:</i>	A19	
<i>Estimate Reliability:</i>	Not Applicable					<i>* Category</i>	3-	
<i>Commencement date:</i>	1989					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Section 26-20 of the <i>Income Tax Assessment Act 1997</i>							

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

Self-education expenses would otherwise be deductible to the extent that the self-education is to maintain or improve skills or knowledge which the taxpayer uses in income earning activities.

A19 Exemption of income from certain educational scholarships, payments to apprentices or similar forms of assistance

Education (\$m)							
2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
18	23	24	30	24	25	25	25
<i>Tax expenditure type:</i>		Exemption			<i>2008 TES code:</i>		A20
<i>Estimate Reliability:</i>		Low					
<i>Commencement date:</i>		Introduced before 1985			<i>Expiry date:</i>		
<i>Legislative reference:</i>		Sections 51-10 and 842-105 of the <i>Income Tax Assessment Act 1997</i>					

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*.

A number of other educational assistance payments are also exempt from income tax, including grants from the Australian American Educational Foundation (that is, Fulbright Scholarships), and the early completion bonus payments for apprentices in trades suffering a skills shortage. Other eligible payments are listed in the *Income Tax Assessment Act 1997*.

A20 Threshold for the deductibility of self-education expenses

Education (\$m)							
2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
-11	-11	-10	-11	-11	-11	-11	-11
<i>Tax expenditure type:</i>		Denial of deduction			<i>2008 TES code:</i>		A21
<i>Estimate Reliability:</i>		Medium					
<i>Commencement date:</i>		Introduced before 1985			<i>Expiry date:</i>		
<i>Legislative reference:</i>		Section 82A of the <i>Income Tax Assessment Act 1936</i>					

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 income earning activities. 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

A21 Deduction for payment of United Medical Protection Limited support payments

Health (\$m)							
2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
..	1	..	-	-	-	-	-
<i>Tax expenditure type:</i>	Deduction				<i>2008 TES code:</i>		A22
<i>Estimate Reliability:</i>	Low						
<i>Commencement date:</i>	2003			<i>Expiry date:</i>			
<i>Legislative reference:</i>	Section 25-105 of the <i>Income Tax Assessment Act 1997</i>						

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.

A22 Exemption from the Medicare levy for residents with a taxable income below a threshold

Health (\$m)							
2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
830	910	990	1,050	1,070	1,100	1,150	1,200
<i>Tax expenditure type:</i>	Exemption				<i>2008 TES code:</i>		A23
<i>Estimate Reliability:</i>	Low						
<i>Commencement date:</i>	1986			<i>Expiry date:</i>			
<i>Legislative reference:</i>	Section 7 of the <i>Medicare Levy Act 1986</i>						

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.

A23 Exemption of 30 per cent private health insurance refund, including expense equivalent

Health (\$m)							
2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
900	980	1,020	1,070	1,110	1,200	930	970
<i>Tax expenditure type:</i>	Exemption				<i>2008 TES code:</i>		A24
<i>Estimate Reliability:</i>	Medium — High						
<i>Commencement date:</i>	1998			<i>Expiry date:</i>			
<i>Legislative reference:</i>	Section 52-125 of the <i>Income Tax Assessment Act 1997</i>						

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

1 April 2005, the refund 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. These payments are exempt from income tax.

From 1 July 2010 the Government will introduce three new 'Private Health Insurance Tiers' which may affect the amount of refund a taxpayer can receive:

- Tier 1: for singles earning more than \$75,000 (couples \$150,000) the refund will be reduced to 20 per cent for those aged less than 65 years, 25 per cent for those aged between 65 and 69 years and 30 per cent for those aged 70 years and over.
- Tier 2: for singles earning more than \$90,000 (couples \$180,000) the refund will be reduced to 10 per cent for those aged less than 65 years, 15 per cent for those aged between 65 and 69 years and 20 per cent for those aged 70 years and over.
- Tier 3: for singles earning more than \$120,000 (couples \$240,000) no refund will be provided.

For families with more than one dependent child the couples threshold is increased by \$1,500 for each dependent child after the first.

The singles thresholds will be indexed annually to changes in average weekly ordinary time earnings. The couples thresholds will be double the relevant singles threshold.

A24 Medical expenses tax offset

Health (\$m)							
2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
305	345	385	455	505	575	655	745
<i>Tax expenditure type:</i>		Offset			<i>2008 TES code:</i>		A25
<i>Estimate Reliability:</i>		Medium					
<i>Commencement date:</i>		Introduced before 1985			<i>Expiry date:</i>		
<i>Legislative reference:</i>		Section 159P of the <i>Income Tax Assessment Act 1936</i>					

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. The value of the offset is currently 20 per cent of the excess of net medical expenses above a threshold of \$1,500.

A25 Medicare levy exemption for non-residents, repatriation beneficiaries, blind pensioners, sickness allowance recipients and foreign government representatives

Health (\$m)							
2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
110	115	125	125	140	145	160	170
<i>Tax expenditure type:</i>		Exemption			<i>2008 TES code:</i>		A26
<i>Estimate Reliability:</i>		Medium					
<i>Commencement date:</i>		1986			<i>Expiry date:</i>		
<i>Legislative reference:</i>		Sections 251T and 251U of the <i>Income Tax Assessment Act 1936</i>					

The income of non-residents, recipients of specified payments made under the *Social Security Act 1991* and foreign government representatives is generally exempt from the Medicare levy.

A26 Medicare levy surcharge lump sum payment in arrears offset

Health (\$m)							
2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
-
<i>Tax expenditure type:</i>		Offset			<i>2008 TES code:</i>		A27
<i>Estimate Reliability:</i>		High					
<i>Commencement date:</i>		1 July 2005			<i>Expiry date:</i>		
<i>Legislative reference:</i>		Subdivision 61L of the <i>Income Tax Assessment Act 1997</i>					

From 2005-06, concessional Medicare levy surcharge treatment has been provided to eligible taxpayers who receive certain lump sum payments in arrears. This measure allows 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.

A27 Private health insurance surcharge on income earners who do not hold private health insurance

Health (\$m)							
2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
-260	-330	-400	-500	-470	-620	-690	-770
<i>Tax expenditure type:</i>		Increased rate			<i>2008 TES code:</i>		A28
<i>Estimate Reliability:</i>		Medium — High					
<i>Commencement date:</i>		1997			<i>Expiry date:</i>		
<i>Legislative reference:</i>		Sections 8B to 8D of the <i>Medicare Levy Act 1986</i> <i>A New Tax System (Medicare Levy Surcharge — Fringe Benefits) Act 1999</i>					

Individuals and couples who do not have appropriate private health insurance and whose income exceeds a threshold are subject to an increased Medicare levy. From 1 July 2009, the income for surcharge threshold purposes above which the private health insurance surcharge is payable is \$73,000 for single individuals and \$146,000 for

couples and families. For families with more than one dependent child the threshold is increased by \$1,500 for each dependent child after the first. The singles threshold is indexed annually to changes in average weekly ordinary time earnings. The couples and families threshold is double the singles threshold. The surcharge has applied since 1 July 1997 and is a negative tax expenditure.

From 1 July 2010 the Government will introduce three new 'Private Health Insurance Tiers' which may affect the amount of surcharge to which a taxpayer is subject:

- Tier 1: for singles earning more than \$75,000 (couples \$150,000) the surcharge will remain at one per cent of taxable income (these thresholds are based on the projected indexation of the current thresholds).
- Tier 2: for singles earning more than \$90,000 (couples \$180,000) the surcharge will be increased to 1.25 per cent.
- Tier 3: for singles earning more than \$120,000 (couples \$240,000) the surcharge will be increased to 1.5 per cent.

For families with more than one dependent child the couples threshold is increased by \$1,500 for each dependent child after the first.

The singles threshold will be indexed annually to changes in average weekly ordinary time earnings. The couples threshold will be double the relevant singles threshold.

Tax expenditures for social security and welfare

A28 First Home Saver Accounts — Income tax exemption for the Government contribution

General public services — General services (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	-	-	-	-	-	2	6	10
<i>Tax expenditure type:</i>	Exemption					<i>2008 TES code:</i>		A29
<i>Estimate Reliability:</i>	Very Low							
<i>Commencement date:</i>	1 October 2008					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Subsection 345-50(3) of the <i>Income Tax Assessment Act 1997</i>							

First Home Saver Account contributions made by the Government are exempt from tax. Account holders are eligible for a Government contribution of 17 per cent on the first \$5,000 of personal contributions made to their accounts each year. An individual who makes a contribution of \$5,000 to their First Home Saver Account will be eligible for a Government contribution of \$850.

A29 Exemption of the Baby Bonus

Social security and welfare (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	140	175	165	165	165	125	100	100
<i>Tax expenditure type:</i>	Exemption					<i>2008 TES code:</i>	A30	
<i>Estimate Reliability:</i>	Medium							
<i>Commencement date:</i>	1 July 2004					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Section 52-150 of the <i>Income Tax Assessment Act 1997</i>							

The Baby Bonus (previously known as the Maternity Payment) is exempt from income tax.

The Baby Bonus is available in respect of children born or adopted from 1 July 2004. Prior to 1 July 2004, taxpayers may have been eligible for the first child tax offset (also known as the Baby Bonus). See also the related tax expenditure A46 *Exemption of the first child tax offset (Baby Bonus)*.

The Maternity Immunisation Allowance is also exempt from income tax and is included in this tax expenditure.

A30 Exemption of the Child Care Tax Rebate

Social security and welfare (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	-	-	-	120	505	305	300	315
<i>Tax expenditure type:</i>	Exemption					<i>2008 TES code:</i>	A31	
<i>Estimate Reliability:</i>	Medium							
<i>Commencement date:</i>	1 July 2007					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Section 52-150 of the <i>Income Tax Assessment Act 1997</i>							

The Child Care Tax Rebate (CCTR) is exempt from income tax.

From 1 July 2007 families may receive CCTR to cover a proportion of out-of-pocket expenses on approved child care, up to a maximum amount per child. For expenses incurred in 2006-07 and 2007-08, this proportion was 30 per cent and the maximum amount per child was \$4,211 in 2006-07 and \$4,354 in 2007-08. For expenses incurred in 2008-09 and later years, this proportion is 50 per cent. The maximum amount per child is \$7,500 per child in 2008-09 and will increase in line with increases in the Consumer Price Index in later years.

For child care expenses incurred in 2004-05 and 2005-06, taxpayers may have been eligible for a tax offset in the next income year. See also the related tax expenditure A33 *Tax offset for child care*.

Tax concessions for certain taxpayers

A31 Release from particular tax liabilities in cases of serious hardship

Social security and welfare (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	12	21	29	46	*	*	*	*
<i>Tax expenditure type:</i>	Exemption					<i>2008 TES code:</i>	A33	
<i>Estimate Reliability:</i>	High					<i>* Category</i>	2+	
<i>Commencement date:</i>	Introduced before 1985					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Division 340 in Schedule 1 to the <i>Tax Administration Act 1953</i>							

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.

A32 Senior Australians' Tax Offset

Social security and welfare (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	1,730	1,330	1,170	760	950	920	870	700
<i>Tax expenditure type:</i>	Offset					<i>2008 TES code:</i>	A34	
<i>Estimate Reliability:</i>	Medium — Low							
<i>Commencement date:</i>	1996					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Sections 160AAAA and 160AAAB of the <i>Income Tax Assessment Act 1936</i>							

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).

A33 Tax offset for child care

Social security and welfare (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	-	275	365	55	-	-	-	-
<i>Tax expenditure type:</i>	Offset					<i>2008 TES code:</i>	A35	
<i>Estimate Reliability:</i>	Medium							
<i>Commencement date:</i>	1 July 2004					<i>Expiry date:</i>	30 June 2007	
<i>Legislative reference:</i>	Subdivision 61-IA of the <i>Income Tax Assessment Act 1997</i>							

For the income years 2005-06 and 2006-07, taxpayers could claim a tax offset for out-of-pocket child care expenses incurred in the previous income year. To be eligible for the tax offset, the taxpayer must have received Child Care Benefit (CCB) for approved child care and met the CCB work/training/study test (or otherwise been eligible for up to 50 hours of CCB).

Tax Expenditures Statement

The rebate covered 30 per cent of out-of-pocket expenses on approved child care, up to a maximum amount per child. This maximum amount was \$4,000 in 2005-06 and \$4,096 in 2006-07.

For child care expenses incurred in 2006-07 and later years, taxpayers may be eligible for the Child Care Tax Rebate. See also the related tax expenditure A30 *Exemption of the Child Care Tax Rebate*.

A34 Tax offset for recipients of certain social security benefits, pensions or allowances

Social security and welfare (\$m)

2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
570	390	370	240	230	210	190	150
<i>Tax expenditure type:</i>	Offset				<i>2008 TES code:</i>		A36
<i>Estimate Reliability:</i>	Medium — Low						
<i>Commencement date:</i>	Introduced before 1985				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Section 160AAA of the <i>Income Tax Assessment Act 1936</i>						

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, equine influenza wage supplement payments and exceptional circumstances relief payments).

A35 Tax offsets for dependent spouse, child-housekeeper and housekeeper who cares for a prescribed dependant

Social security and welfare (\$m)

2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
395	420	425	590	545	520	515	525
<i>Tax expenditure type:</i>		Offset			<i>2008 TES code:</i>		A37
<i>Estimate Reliability:</i>		Medium					
<i>Commencement date:</i>		Introduced before 1985			<i>Expiry date:</i>		
<i>Legislative reference:</i>		Sections 159J and 159L of the <i>Income Tax Assessment Act 1936</i>					

A taxpayer may be entitled to claim a tax offset for that part of an income year where they contribute to the maintenance of:

- a dependent spouse;
- a child-housekeeper; or
- a housekeeper, where the housekeeper cares for one or more of certain dependants of the taxpayer.

A taxpayer is not eligible to claim a tax offset for that part of an income year where the taxpayer or the taxpayer's spouse is eligible for Family Tax Benefit Part B.

From the 2008-09 income year, a taxpayer with income above a threshold will not be able to claim an offset. This threshold is \$150,000 in 2008-09 and will increase in later years in line with increases in the Consumer Price Index.

A36 Tax offsets for taxpayers supporting a parent, parent-in-law, or invalid relative

Social security and welfare (\$m)

2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
20	30	40	40	40	40	40	35
<i>Tax expenditure type:</i>		Offset			<i>2008 TES code:</i>		A38
<i>Estimate Reliability:</i>		Medium					
<i>Commencement date:</i>		Introduced before 1985			<i>Expiry date:</i>		
<i>Legislative reference:</i>		Section 159J of the <i>Income Tax Assessment Act 1936</i>					

A taxpayer may be entitled to claim a tax offset for that part of an income year where they contribute to the maintenance of a parent, parent-in-law or invalid relative.

From the 2008-09 income year, a taxpayer with income above a threshold will not be able to claim an offset. This threshold is \$150,000 in 2008-09 and will increase in line with increases in the Consumer Price Index in later years.

A37 Mature Age Worker Tax Offset

Other economic affairs — Total labour and employment affairs (\$m)

2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
425	470	455	460	460	455	450	445
<i>Tax expenditure type:</i>	Offset				<i>2008 TES code:</i>		A39
<i>Estimate Reliability:</i>	Medium — Low						
<i>Commencement date:</i>	2004				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Subdivision 61-K of the <i>Income Tax Assessment Act 1997</i>						

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.

A38 Asian Development Bank — income tax exemption for Australian staff

Other economic affairs — Other economic affairs, nec (\$m)

2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
..
<i>Tax expenditure type:</i>	Exemption				<i>2008 TES code:</i>		A40
<i>Estimate Reliability:</i>	Medium — Low						
<i>Commencement date:</i>	17 September 2005				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Regulation 6 of the <i>Asian Development Bank (Privileges and Immunities) Regulations 1967</i>						

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

A39 International taxation — foreign income exemption for temporary residents

Other economic affairs — Other economic affairs, nec (\$m)

2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
-	-	40	40	45	45	50	55
<i>Tax expenditure type:</i>	Exemption				<i>2008 TES code:</i>		A41
<i>Estimate Reliability:</i>	Low						
<i>Commencement date:</i>	1 July 2006				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Subdivision 768-R of the <i>Income Tax Assessment Act 1997</i>						

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

Tax exemptions for certain government income support payments

A40 Exemption of certain income support benefits, pensions or allowances

Social security and welfare (\$m)

2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
820	640	640	530	490	520	560	580
<i>Tax expenditure type:</i>		Exemption			<i>2008 TES code:</i>		A42
<i>Estimate Reliability:</i>		Low					
<i>Commencement date:</i>		Introduced before 1985			<i>Expiry date:</i>		
<i>Legislative reference:</i>		Subdivisions 52-A, 52-E and 52-F of the <i>Income Tax Assessment Act 1997</i>					

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.

Certain amounts of Commonwealth education or training payments and certain parts of payments under the Abstudy scheme are exempt from income tax.

A41 Exemption of certain pensions, annuities or allowances paid for persecution

Social security and welfare (\$m)

2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Included in A42							
<i>Tax expenditure type:</i>		Exemption			<i>2008 TES code:</i>		A43
<i>Estimate Reliability:</i>		Low					
<i>Commencement date:</i>		Introduced before 1985			<i>Expiry date:</i>		
<i>Legislative reference:</i>		Section 768-105 of the <i>Income Tax Assessment Act 1997</i>					

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.

Tax Expenditures Statement

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.

A42 Exemption of certain war-related payments and pensions

Social security and welfare (\$m)							
2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
290	260	250	230	220	220	230	210
<i>Tax expenditure type:</i>	Exemption				<i>2008 TES code:</i>		A44
<i>Estimate Reliability:</i>	Medium — Low						
<i>Commencement date:</i>	Introduced before 1985				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Subdivisions 52-B and 52-C of the <i>Income Tax Assessment Act 1997</i>						

Note: estimates include tax expenditures A42 and A41.

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

A43 Exemption of Child Care Benefit

Social security and welfare (\$m)							
2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
410	365	445	460	470	480	500	520
<i>Tax expenditure type:</i>	Exemption				<i>2008 TES code:</i>		A45
<i>Estimate Reliability:</i>	Medium						
<i>Commencement date:</i>	2000				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Section 52-150 of the <i>Income Tax Assessment Act 1997</i>						

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.

A44 Exemption of Family Tax Benefit, Parts A and B, including expense equivalent

Social security and welfare (\$m)							
2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
1,880	2,000	1,990	2,600	2,010	2,000	2,030	2,080
<i>Tax expenditure type:</i>	Exemption				<i>2008 TES code:</i>		A46
<i>Estimate Reliability:</i>	Medium						
<i>Commencement date:</i>	2000				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Section 52-150 of the <i>Income Tax Assessment Act 1997</i>						

Family Tax Benefit payments are exempt from income tax.

A45 Exemption of rent subsidy payments under the Commonwealth/State mortgage and rent relief schemes

Social security and welfare (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	3	3	3	-	-	-	-	-
<i>Tax expenditure type:</i>	Exemption					<i>2008 TES code:</i>	A47	
<i>Estimate Reliability:</i>	Medium — Low							
<i>Commencement date:</i>	Introduced before 1985					<i>Expiry date:</i>	2008	
<i>Legislative reference:</i>	Section 51-30 of the <i>Income Tax Assessment Act 1997</i>							

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.

A46 Exemption of the first child tax offset (Baby Bonus)

Social security and welfare (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	31	26	17	8	2	-	-	-
<i>Tax expenditure type:</i>	Exemption					<i>2008 TES code:</i>	A48	
<i>Estimate Reliability:</i>	Medium							
<i>Commencement date:</i>	2002					<i>Expiry date:</i>	Children born (or legal responsibility gained) on or before 30 June 2004	
<i>Legislative reference:</i>	Subdivision 61-I of the <i>Income Tax Assessment Act 1997</i>							

First child tax offset payments are exempt from income tax.

The first child tax offset (also known as the Baby Bonus) is available to parents who gained legal responsibility for a child between 1 July 2001 and 30 June 2004 and remains available until that child turns five.

See also the related tax expenditure A29 *Exemption of the Baby Bonus*.

A47 Exemption of Utilities Allowance and Seniors' Concession Allowance

Social security and welfare (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	14	28	38	62	114	17	-	-
<i>Tax expenditure type:</i>	Exemption					<i>2008 TES code:</i>	A49	
<i>Estimate Reliability:</i>	Medium							
<i>Commencement date:</i>	2004					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Sections 52-10 and 52-65 of the <i>Income Tax Assessment Act 1997</i>							

Utilities Allowances and Seniors' Concession Allowances payable to senior Australians up to 20 September 2009 were exempt from income tax.

Tax Expenditures Statement

From 20 September 2009 the Utilities Allowance was absorbed into the Pension Supplement and the Seniors' Concession Allowance, together with the Telephone Allowance, became part of the Seniors' Supplement.

Tax expenditures for housing and community amenities

A48 Exemption of payments made under the First Home Owners Grant Scheme

Housing and community amenities (\$m)							
2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
285	315	325	325	690	665	380	335
<i>Tax expenditure type:</i>	Exemption				<i>2008 TES code:</i>	A50	
<i>Estimate Reliability:</i>	Medium						
<i>Commencement date:</i>	2000			<i>Expiry date:</i>			
<i>Legislative reference:</i>	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 on the price of houses.

On 14 October 2008, the Australian Government announced that it would provide additional assistance to first home buyers. Eligible first home buyers would receive an additional \$7,000 for an established home (\$14,000 in total) or an additional \$14,000 for a new home (\$21,000 in total) when purchasing between 14 October and 30 June 2009 (inclusive).

In the 2009-10 Budget the Australian Government announced that the additional assistance for eligible first home buyers would be extended to 30 September 2009 (inclusive) at the previously announced levels. For eligible first home buyers entering into contracts between 1 October 2009 and 31 December 2009 (inclusive) additional assistance of \$3,500 (\$10,500 in total) will be provided for the purchase of established homes and \$7,000 for the purchase of new homes (\$14,000 in total).

A49 Zone tax offsets

Housing and community amenities (\$m)

2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
200	205	215	225	225	230	230	230
<i>Tax expenditure type:</i>		Offset			<i>2008 TES code:</i>		A51
<i>Estimate Reliability:</i>		Medium					
<i>Commencement date:</i>		Introduced before 1985			<i>Expiry date:</i>		
<i>Legislative reference:</i>		Section 79A of the <i>Income Tax Assessment Act 1936</i>					

Note: estimates include tax expenditures A49 and A16.

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

Tax expenditures for recreation and culture**A50 Exemption of certain prizes**

Recreation and culture (\$m)

2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
-	-
<i>Tax expenditure type:</i>		Exemption			<i>2008 TES code:</i>		A52
<i>Estimate Reliability:</i>		High					
<i>Commencement date:</i>		1 July 2006			<i>Expiry date:</i>		
<i>Legislative reference:</i>		Section 51-60 of the <i>Income Tax Assessment Act 1997</i> .					

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

The Prime Minister's Literary Award is exempt from income tax from 1 July 2007.

A51 Income averaging for authors, inventors, performing artists, production associates and sportspersons

Recreation and culture (\$m)

2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
7	8	10	10	10	11	11	11
<i>Tax expenditure type:</i>		Concessional rate			<i>2008 TES code:</i>		A53
<i>Estimate Reliability:</i>		Medium — High					
<i>Commencement date:</i>		1987			<i>Expiry date:</i>		
<i>Legislative reference:</i>		Division 405 of the <i>Income Tax Assessment Act 1997</i>					

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

A52 Deductibility of union dues and subscriptions to business associations

Other economic affairs — Total labour and employment affairs (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Deduction					<i>2008 TES code:</i>	A54	
<i>Estimate Reliability:</i>	Not Applicable					<i>* Category</i>	1+	
<i>Commencement date:</i>	Introduced before 1985					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Section 25-55 of the <i>Income Tax Assessment Act 1997</i>							

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

A53 Deferral of tax and exemption for discounted shares or rights provided under employee share schemes

Other economic affairs — Total labour and employment affairs (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	*	*	*	*	*	*	*	-
<i>Tax expenditure type:</i>	Exemption, Deferral					<i>2008 TES code:</i>	A55	
<i>Estimate Reliability:</i>	Not Applicable					<i>* Category</i>	3+	
<i>Commencement date:</i>	1995					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Section 26AAC and Division 13A of the <i>Income Tax Assessment Act 1936</i> Division 83A of the <i>Income Tax Assessment ACT 1997</i>							

Discounts on shares and rights acquired under an employee share scheme are generally included in a taxpayer's assessable income in the year they are acquired. However, two tax concessions may be provided – an upfront tax exemption or a deferral of tax.

Tax may be deferred in employee share schemes where there is a 'real risk of forfeiture' or the scheme is a capped salary sacrifice based scheme, and where the taxpayer and the scheme satisfy certain other conditions. The maximum period of deferral is seven years. This deferral period may be shortened by the occurrence of certain events, such as the employee ceasing employment. The deferral arrangements for salary sacrifice based schemes apply up to a cap of \$5,000 worth of shares.

For taxpayers who pay tax upfront, a \$1,000 tax exemption is available to taxpayers with an adjusted taxable income of less than \$180,000, if the taxpayer and the scheme satisfy certain other conditions.

Some shares or rights acquired under an employee share scheme prior to 1 July 2009 have different conditions for deferral of tax applying to them.

A54 Tax deferral advantage arising from return of after-tax contributions to a pension or annuity

Other economic affairs — Total labour and employment affairs (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Deferral					<i>2008 TES code:</i>	A56	
<i>Estimate Reliability:</i>	Not Applicable					<i>* Category</i>	na	
<i>Commencement date:</i>	Introduced before 1985					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Section 27H of the <i>Income Tax Assessment Act 1936</i>							

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.

A55 Denial of deductions for illegal activities

Other economic affairs — Other economic affairs, nec (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Deduction					<i>2008 TES code:</i>	A57	
<i>Estimate Reliability:</i>	Not Applicable					<i>* Category</i>	1-	
<i>Commencement date:</i>	1 July 1999					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Sections 26-52, 26-53 and 26-54 of the <i>Income Tax Assessment Act 1997</i>							

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

From 30 April 2005, deductions are also denied for expenditure to the extent it is incurred in the furtherance of, or directly in relation to, activities in respect of which the taxpayer has been convicted of an indictable offence. Indictable offences are those punishable by imprisonment for at least one year.

A56 Exemption of Tax Bonus for Working Australians

Other economic affairs — Other economic affairs, nec (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	-	-	-	-	2,070	95	-	-
<i>Tax expenditure type:</i>	Exemption					<i>2008 TES code:</i>	New	
<i>Estimate Reliability:</i>								
<i>Commencement date:</i>	18 February 2009					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Section 59-45 of the <i>Income Tax Assessment Act 1997</i>							

Payments of the Tax Bonus for Working Australians of up to \$900 to eligible taxpayers from April 2009 are exempt from income tax. The Bonus is subject to an income

threshold. A \$900 Bonus was paid to eligible taxpayers with a taxable income in 2007-08 of up to \$80,000. A \$600 Bonus was paid to eligible taxpayers with a taxable income in 2007-08 of between \$80,000 and \$90,000 and a \$250 Bonus was paid to eligible taxpayers with a taxable income in 2007-08 of between \$90,000 and \$100,000.

A57 Increased tax rates for certain minors

Other economic affairs — Other economic affairs, nec (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	-22	-19	-16	-11	-8	-6	-5	-4
<i>Tax expenditure type:</i>	Increased rate					<i>2008 TES code:</i>		A60
<i>Estimate Reliability:</i>	Medium							
<i>Commencement date:</i>	Introduced before 1985					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Part III Division 6AA of the <i>Income Tax Assessment Act 1936</i>							

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.

A58 Non-commercial losses — deductions allowed for certain taxpayers with an adjusted taxable income under \$250,000

Other economic affairs — Other economic affairs, nec (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Deduction					<i>2008 TES code:</i>		New
<i>Estimate Reliability:</i>	Not Applicable					<i>* Category</i>		3+
<i>Commencement date:</i>	1 July 2000					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Division 35 of the <i>Income Tax Assessment Act 1997</i>							

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

Individuals with adjusted taxable incomes of less than \$250,000 carrying on a business may apply losses from a business activity against their other income in an income year if they satisfy one of four statutory tests in that year. These tests apply in place of the objective tests by the Commissioner of Taxation. The four tests are designed to identify those businesses that are commercial in nature by looking at various known characteristics of businesses such as prior years' profits, assets used in carrying on the business, and revenues.

A proportion of individuals with an adjusted taxable income under \$250,000 that meet one of the four tests and apply losses from their business activity against their other income, will nonetheless be carrying on an uncommercial business activity.

Primary producers and artists earning less than \$40,000 receive an exemption from the non-commercial losses rules (A71).

A59 Part-year tax free threshold

Other economic affairs — Other economic affairs, nec (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	-40	-40	-40	-45	-45	-45	-50	-50
<i>Tax expenditure type:</i>	Increased rate					<i>2008 TES code:</i>		A61
<i>Estimate Reliability:</i>	Medium							
<i>Commencement date:</i>	1986					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Sections 16 to 20 of the <i>Income Tax Rates Act 1986</i>							

Taxpayers who become an Australian resident for the first time, or cease to be an Australian resident, receive a pro-rated tax free threshold. This corresponds to the number of months that the taxpayer is an Australian resident.

Prior to the 2006-07 income year, a student who ceased full-time education for the first time received a pro-rated tax free threshold, corresponding to the number of months that the student was not enrolled in full-time education.

Concessions under the substantiation provisions for employment-related expenses

A60 A reasonable overtime meal allowance

Other economic affairs — Total labour and employment affairs (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Deduction					<i>2008 TES code:</i>		A63
<i>Estimate Reliability:</i>	Not Applicable					<i>* Category</i>		0
<i>Commencement date:</i>	1987					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Sections 8-1 and 900-60 of the <i>Income Tax Assessment Act 1997</i>							

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

A61 Alternatives to the logbook method of substantiating car expenses

Other economic affairs — Total labour and employment affairs (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Deduction					<i>2008 TES code:</i>	A64	
<i>Estimate Reliability:</i>	Not Applicable					<i>* Category</i>	1+	
<i>Commencement date:</i>	1987					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Division 28 and Subdivision 900-C of the <i>Income Tax Assessment Act 1997</i>							

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).

A62 Certain travel expenses in and outside Australia

Other economic affairs — Total labour and employment affairs (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Deduction					<i>2008 TES code:</i>	A65	
<i>Estimate Reliability:</i>	Not Applicable					<i>* Category</i>	0	
<i>Commencement date:</i>	1987					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Sections 8-1, 900-50 and 900-55 of the <i>Income Tax Assessment Act 1997</i>							

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.

Miscellaneous tax expenditures

A63 First Home Saver Accounts — Earnings

General public services — General services (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	-	-	-	-	-1	-1	..	1
<i>Tax expenditure type:</i>	Concessional rate					<i>2008 TES code:</i>		A67
<i>Estimate Reliability:</i>	Very Low							
<i>Commencement date:</i>	1 October 2008					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Division 295 of the <i>Income Tax Assessment Act 1997</i> Division 320 of the <i>Income Tax Assessment Act 1997</i> Division 345 of the <i>Income Tax Assessment Act 1997</i>							

First Home Saver Accounts provide a vehicle for individuals to save for the purchase of their first home. The income earned by First Home Saver Accounts is taxed to the account provider at a rate of 15 per cent.

The tax expenditure reflects the extra tax in a particular year that may be collected if First Home Saver Account earnings were included in the assessable income of the account holder and taxed at their marginal rate, rather than at 15 per cent.

Where an individual withdraws money from their account, but does not use it to purchase a first home, they will be subject to a misuse tax which will effectively tax their earnings at the top marginal tax rate, plus Medicare levy. This reduces the amount of the tax expenditure.

A64 Tax offset on certain payments of income received in arrears

Other economic affairs — Total labour and employment affairs (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	5	4	5	6	6	6	6	6
<i>Tax expenditure type:</i>	Offset					<i>2008 TES code:</i>		A68
<i>Estimate Reliability:</i>	Medium — Low							
<i>Commencement date:</i>	1986					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Sections 159ZR to 159ZRD of the <i>Income Tax Assessment Act 1936</i>							

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.

A65 Deduction for contributions with an associated minor benefit

Other economic affairs — Other economic affairs, nec (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	3	3	5	9	9	9	9	9
<i>Tax expenditure type:</i>	Deduction					<i>2008 TES code:</i>		A69
<i>Estimate Reliability:</i>	Low							
<i>Commencement date:</i>	1 July 2004					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Items 7 & 8 of the table in Section 30-15 of the <i>Income Tax Assessment Act 1997</i>							

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

The minimum contribution an individual must make to be eligible for a deduction is \$150, and the value of the benefit that can be received is 20 per cent of the contribution. The maximum capped benefit allowed for each contribution is \$150.

A66 Deduction for donations to Private Ancillary Funds

Other economic affairs — Other economic affairs, nec (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	90	160	210	325	410	380	370	365
<i>Tax expenditure type:</i>	Deduction					<i>2008 TES code:</i>		A70
<i>Estimate Reliability:</i>	Medium — Low							
<i>Commencement date:</i>	1 October 2009					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Item 2 of the table in Section 30-15 of the <i>Income Tax Assessment Act 1997</i>							

Donations of \$2 or more to endorsed Private Ancillary Funds are tax deductible.

Private Ancillary Funds allow businesses, families and individuals to establish and donate to a charitable or discretionary trust, for the purpose of disbursing funds to a range of other deductible gift recipients.

A67 Deduction for gifts to approved donees

Other economic affairs — Other economic affairs, nec (\$m)

2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
730	710	810	920	970	1,070	1,080	1,170
<i>Tax expenditure type:</i>		Deduction			<i>2008 TES code:</i>		A71
<i>Estimate Reliability:</i>		Medium — Low					
<i>Commencement date:</i>		Introduced before 1985			<i>Expiry date:</i>		
<i>Legislative reference:</i>		Division 30 of the <i>Income Tax Assessment Act 1997</i>					

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 *Income Tax Assessment Act 1997*.

A68 Exemption for structured settlements and structured orders

Other economic affairs — Other economic affairs, nec (\$m)

2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
..
<i>Tax expenditure type:</i>		Exemption			<i>2008 TES code:</i>		A72
<i>Estimate Reliability:</i>		Low					
<i>Commencement date:</i>		2001			<i>Expiry date:</i>		
<i>Legislative reference:</i>		Division 54 of the <i>Income Tax Assessment Act 1997</i>					

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.

A69 Exemption of post-judgment interest awards in personal injury compensation cases

Other economic affairs — Other economic affairs, nec (\$m)

2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
2	2	2	2	2	2	2	2
<i>Tax expenditure type:</i>		Exemption			<i>2008 TES code:</i>		A73
<i>Estimate Reliability:</i>		Medium					
<i>Commencement date:</i>		1992			<i>Expiry date:</i>		
<i>Legislative reference:</i>		Section 51-57 of the <i>Income Tax Assessment Act 1997</i>					

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.

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

Other economic affairs — Other economic affairs, nec (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Deduction					<i>2008 TES code:</i>	A74	
<i>Estimate Reliability:</i>	Not Applicable					<i>* Category</i>	2+	
<i>Commencement date:</i>	2001					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Sections 40-25 and 40-80 of the <i>Income Tax Assessment Act 1997</i>							

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.

A71 Non-commercial losses — exceptions to the non-commercial losses rules for primary producers and artists

Other economic affairs — Other economic affairs, nec (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	105	105	105	105	105	105	105	105
<i>Tax expenditure type:</i>	Exemption					<i>2008 TES code:</i>	B100	
<i>Estimate Reliability:</i>	Medium							
<i>Commencement date:</i>	2000					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Division 35 of the <i>Income Tax Assessment Act 1997</i>							

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

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

Taxpayers with an income below \$250,000 also receive concessional treatment under the non-commercial losses provisions (A58).

BUSINESS INCOME

General features of the business income tax benchmark:

- 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 entity (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.

Tax expenditures for general public services

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

General public services — Financial and fiscal affairs (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	-	-	-	-	-	-	-	-
<i>Tax expenditure type:</i>	Exemption					<i>2008 TES code:</i>		B1
<i>Estimate Reliability:</i>	Low							
<i>Commencement date:</i>	2003					<i>Expiry date:</i>		
<i>Legislative reference:</i>	<i>Taxation Laws (Clearing and Settlement Facility Support) Act 2004</i>							

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.

International tax expenditures

B2 Exemptions for prescribed international organisations

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

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption					<i>2008 TES code:</i>	B2	
<i>Estimate Reliability:</i>	Not Applicable					<i>* Category</i>	2+	
<i>Commencement date:</i>	1963					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Section 6 of the <i>International Organisations (Privileges and Immunities) Act 1963</i>							

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

B3 Interest withholding tax and dividend withholding tax exemptions for overseas charitable institutions

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

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption					<i>2008 TES code:</i>	B3	
<i>Estimate Reliability:</i>	Not Applicable					<i>* Category</i>	2+	
<i>Commencement date:</i>	1936					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Paragraph 128B(3)(aa) of the <i>Income Tax Assessment Act 1936</i>							

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.

B4 Reduced withholding tax under international tax treaties

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

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	360	350	340	380	410	430	450	470
<i>Tax expenditure type:</i>	Exemption, Concessional rate					<i>2008 TES code:</i>	A8	
<i>Estimate Reliability:</i>	Low					<i>Expiry date:</i>		
<i>Commencement date:</i>	2008					<i>Expiry date:</i>		
<i>Legislative reference:</i>	<i>International Tax Agreements Act 1953</i>							

Tax treaties reduce or eliminate double taxation caused by the exercise of source and residence country taxing rights on cross border income flows. Under some of Australia's tax treaties, certain dividends, interest and royalties attract reduced

withholding tax rates. These include interest withholding tax exemptions for financial institutions and Governments and reduced dividend withholding tax rates where dividends are paid to companies with controlling interests in the companies paying the dividends, provided that certain integrity measures are satisfied.

The reductions are bilateral, thereby ensuring that withholding taxes will not result in unrelieved double taxation either for those foreign enterprises investing in Australia from treaty partner countries, or for Australian enterprises investing abroad in treaty partner countries. Prior to 2008-09 the benchmark that applied resulted in there being no tax expenditure.

B5 Income tax exemption for persons connected with certain US Government projects in Australia

Defence (\$m)							
2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>		Exemption			<i>2008 TES code:</i>		B4
<i>Estimate Reliability:</i>		Not Applicable			<i>* Category</i>		1+
<i>Commencement date:</i>		Introduced before 1985			<i>Expiry date:</i>		
<i>Legislative reference:</i>		Section 23AA of the <i>Income Tax Assessment Act 1936</i>					

The profit and remuneration of United States contractors, United States armed forces members and their associated employees, or other United States residents or foreign employees and their dependents in connection with certain approved United States Government projects in Australia are exempt from Australian income tax. The United States Government projects to which the exemption applies include the North West Cape Naval Communication Station, the Joint Defence Space Research Facility, the Sparta Project and the Joint Defence Space Communications Station programme. This exemption only applies where the income is subject to tax in the United States.

B6 Concessional tax treatment for foreign authorised deposit-taking institutions

Other economic affairs — Other economic affairs, nec (\$m)							
2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
*	*	-	-	-	-	-	-
<i>Tax expenditure type:</i>		Concessional rate			<i>2008 TES code:</i>		B5
<i>Estimate Reliability:</i>		Not Applicable			<i>* Category</i>		2+
<i>Commencement date:</i>		1993			<i>Expiry date:</i>		2006
<i>Legislative reference:</i>		<i>Financial Corporations (Transfer of Assets and Liabilities) Act 1993</i>					

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

Tax Expenditures Statement

Foreign banks were also able to transfer assets and liabilities from their subsidiaries to their branches without creating a tax liability.

B7 Concessional tax treatment of offshore banking units

Other economic affairs — Other economic affairs, nec (\$m)							
2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
90	160	320	305	305	305	305	305
<i>Tax expenditure type:</i>	Concessional rate				<i>2008 TES code:</i>		B6
<i>Estimate Reliability:</i>	Medium						
<i>Commencement date:</i>	1992			<i>Expiry date:</i>			
<i>Legislative reference:</i>	Part III, Division 9A, and section 128GB of the <i>Income Tax Assessment Act 1936</i>						

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.

B8 Deductibility of costs of setting up a regional headquarters

Other economic affairs — Other economic affairs, nec (\$m)							
2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
..
<i>Tax expenditure type:</i>	Deduction				<i>2008 TES code:</i>		B7
<i>Estimate Reliability:</i>	Very Low						
<i>Commencement date:</i>	1994			<i>Expiry date:</i>			
<i>Legislative reference:</i>	Sections 82C to CE of the <i>Income Tax Assessment Act 1936</i>						

Regional headquarter companies (RHQs), as determined by the Treasurer, are entitled to deductions in respect of specified set-up 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'.

B9 Deemed tax credits under tax sparing provisions in Australia's tax treaties

Other economic affairs — Other economic affairs, nec (\$m)							
2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
6	17	10	15	15	..	..	..
<i>Tax expenditure type:</i>	Exemption				<i>2008 TES code:</i>		B8
<i>Estimate Reliability:</i>	Medium						
<i>Commencement date:</i>	Date of effect depends on the date of effect of the tax treaty				<i>Expiry date:</i>		
<i>Legislative reference:</i>	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. Tax sparing arrangements in most tax treaties have now expired.

B10 Exemption for foreign branch profits from income tax

Other economic affairs — Other economic affairs, nec (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption					<i>2008 TES code:</i>	B9	
<i>Estimate Reliability:</i>	Not Applicable					<i>* Category</i>	3+	
<i>Commencement date:</i>	1990					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Section 23AH of the <i>Income Tax Assessment Act 1936</i>							

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

B11 Exemption from accrual taxation for certain transferor trusts

Other economic affairs — Other economic affairs, nec (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption					<i>2008 TES code:</i>	B10	
<i>Estimate Reliability:</i>	Not Applicable					<i>* Category</i>	2+	
<i>Commencement date:</i>	1990					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Sub subparagraph 102AAT(1)(a)(i)(F) and paragraph 102AAT(1)(c) of the <i>Income Tax Assessment Act 1936</i>							

Under the transferor trust rules, accrual taxation would normally be applied to the transferor. 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.

B12 Exemption from accrual taxation for controlled foreign companies

Other economic affairs — Other economic affairs, nec (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption					<i>2008 TES code:</i>	B11	
<i>Estimate Reliability:</i>	Not Applicable					<i>* Category</i>	2+	
<i>Commencement date:</i>	1990					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Section 384-5 of the <i>Income Tax Assessment Act 1936</i>							

Most tainted income derived by controlled foreign companies (CFCs) in 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.

B13 Exemption from interest withholding tax on certain securities

Other economic affairs — Other economic affairs, nec (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	1,350	1,640	1,350	1,450	1,640	1,860	2,080	2,310
<i>Tax expenditure type:</i>	Exemption					<i>2008 TES code:</i>	B12	
<i>Estimate Reliability:</i>	Low							
<i>Commencement date:</i>	Introduced before 1985					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Section 128F and 128FA of the <i>Income Tax Assessment Act 1936</i>							

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

B14 Exemption of inbound non-portfolio dividends from income tax

Other economic affairs — Other economic affairs, nec (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	190	390	300	230	210	210	230	250
<i>Tax expenditure type:</i>	Exemption					<i>2008 TES code:</i>	B13	
<i>Estimate Reliability:</i>	Medium							
<i>Commencement date:</i>	1990					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Section 23AJ of the <i>Income Tax Assessment Act 1936</i>							

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 applied only to non-portfolio dividends from a restricted list of countries or if paid out of profits that had been subject to comparable foreign tax.

B15 Interest withholding tax concession on interest payments by Australian branches to foreign banks

Other economic affairs — Other economic affairs, nec (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Concessional rate					<i>2008 TES code:</i>	B14	
<i>Estimate Reliability:</i>	Not Applicable					<i>* Category</i>	3+	
<i>Commencement date:</i>	1994					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Section 160ZZJ of the <i>Income Tax Assessment Act 1936</i>							

The notional interest paid by an Australian branch of a foreign bank or certain other financial entities attracts a reduced rate of interest withholding tax. Tax is only paid on half of the taxable amount.

B16 Threshold exemption for thin capitalisation

Other economic affairs — Other economic affairs, nec (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Deduction					<i>2008 TES code:</i>	B15	
<i>Estimate Reliability:</i>	Not Applicable					<i>* Category</i>	1+	
<i>Commencement date:</i>	2001					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Sections 820-35 and 820-37 of the <i>Income Tax Assessment Act 1997</i>							

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 are Australian assets.

B17 Unfranked dividends paid by Pooled Development Funds

Other economic affairs — Other economic affairs, nec (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	..	1	2	3	2	3	3	3
<i>Tax expenditure type:</i>	Exemption					<i>2008 TES code:</i>	B16	
<i>Estimate Reliability:</i>	Medium					<i>Expiry date:</i>		
<i>Commencement date:</i>	1992					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Sections 128B(3)(ba) and 124ZM of the <i>Income Tax Assessment Act 1936</i>							

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

Tax expenditures for health

B18 Income tax exemption for not-for-profit private health insurers

Health (\$m)							
2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
150	240	320	320	335	355	370	390
<i>Tax expenditure type:</i>		Exemption			<i>2008 TES code:</i>		B17
<i>Estimate Reliability:</i>		Low					
<i>Commencement date:</i>		Introduced before 1985			<i>Expiry date:</i>		
<i>Legislative reference:</i>		Section 50-30 of the <i>Income Tax Assessment Act 1997</i>					

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

B19 Income tax exemption for public and not-for-profit hospitals

Health (\$m)							
2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>		Exemption			<i>2008 TES code:</i>		B18
<i>Estimate Reliability:</i>		Not Applicable			<i>* Category</i>		1+
<i>Commencement date:</i>		Introduced before 1985			<i>Expiry date:</i>		
<i>Legislative reference:</i>		Section 50-30 of the <i>Income Tax Assessment Act 1997</i>					

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, for these hospitals to be eligible for the tax exemption they must incur their expenditure principally in Australia.

Tax expenditures for social security and welfare

B20 Concessional taxation of life insurance investment income

Social security and welfare (\$m)							
2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>		Exemption, Offset, Concessional rate			<i>2008 TES code:</i>		B19
<i>Estimate Reliability:</i>		Not Applicable			<i>* Category</i>		2+
<i>Commencement date:</i>		2000			<i>Expiry date:</i>		
<i>Legislative reference:</i>		Sections 26AH and 160AAB of the <i>Income Tax Assessment Act 1936</i>					

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. 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.

B21 Concessional taxation treatment of mining payments made in respect of mining and exploration activities on Aboriginal land

Social security and welfare (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption					<i>2008 TES code:</i>	B20	
<i>Estimate Reliability:</i>	Not Applicable					<i>* Category</i>	1+	
<i>Commencement date:</i>	2000					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Section 59-15 of the <i>Income Tax Assessment Act 1997</i>							

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 4 per cent include royalties for mining on Aboriginal land and payments to Aboriginal Land Councils.

B22 Deductibility of charitable entertainment

Social security and welfare (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Deduction					<i>2008 TES code:</i>	B21	
<i>Estimate Reliability:</i>	Not Applicable					<i>* Category</i>	na	
<i>Commencement date:</i>	1985					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Section 32-50 of the <i>Income Tax Assessment Act 1997</i>							

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

B23 Income tax exemption for religious, scientific, charitable or public educational institutions and funds

Social security and welfare (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption					<i>2008 TES code:</i>	B22	
<i>Estimate Reliability:</i>	Not Applicable					<i>* Category</i>	4+	
<i>Commencement date:</i>	Introduced before 1985					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Section 50-5 of the <i>Income Tax Assessment Act 1997</i>							

The income of the following organisations is exempt from tax:

- religious, scientific, charitable and public educational institutions;
- funds established by will or trust for public charitable purposes;
- funds established to enable scientific research to be conducted by or in conjunction with a public university or public hospital; and
- not-for-profit societies, associations or clubs established for the encouragement of science.

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

For exemptions for other charitable funds please see tax expenditure B62 *Income tax exemption for charitable institutions and funds*.

Tax concessions for certain taxpayers

B24 Exemption of foreign currency gains and losses from certain low balance accounts

Other economic affairs — Other economic affairs, nec (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption					<i>2008 TES code:</i>	B23	
<i>Estimate Reliability:</i>	Not Applicable					<i>* Category</i>	2+	
<i>Commencement date:</i>	1 July 2003					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Subdivision 775-D of the <i>Income Tax Assessment Act 1997</i>							

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.

B25 Income tax exemption for small not-for-profit companies

Other economic affairs — Other economic affairs, nec (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13

<i>Tax expenditure type:</i>	Exemption					<i>2008 TES code:</i>	New	
<i>Estimate Reliability:</i>								
<i>Commencement date:</i>	Introduced before 1985					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Subsection 23(6) of the <i>Income Tax Rates Act 1986</i>							

The rate of income tax payable by a not-for-profit company that has a taxable income not exceeding \$416 in a given income year is reduced to zero. Income tax is payable at a rate of 55 per cent on all income of not-for-profit companies between \$416 and \$915.

This arrangement has the effect of providing an exception from income tax for not-for-profit companies for the first \$416 of income, and then phasing in the ordinary corporate income tax rate of 30 per cent on all income, including the first \$416, when the company has income between \$416 and \$915. When a not-for-profit company has an income over \$915, the company tax rate is applied from the first dollar.

B26 Off-market share buy-backs

Other economic affairs — Other economic affairs, nec (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	510	760	90	40	*	*	*	*
<i>Tax expenditure type:</i>	Offset					<i>2008 TES code:</i>	B24	
<i>Estimate Reliability:</i>	Low					<i>* Category</i>		3+
<i>Commencement date:</i>	1990					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Division 16K of Part III and 177EA of the <i>Income Tax Assessment Act 1936</i>							

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

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 a capital loss rather than a franked dividend).

Projections beyond 2008-09 are not reported because of the likely volatility of this item.

B27 Taxation assistance for victims of Australian natural disasters

Other purposes — Natural disaster relief (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	-	11	11	8	8	6	3	1
<i>Tax expenditure type:</i>	Exemption					<i>2008 TES code:</i>		New
<i>Estimate Reliability:</i>								
<i>Commencement date:</i>	22 March 2006					<i>Expiry date:</i>		30 June 2011
<i>Legislative reference:</i>	Sections 11-55 and 59-50 of the <i>Income Tax Assessment Act 1997</i> . Schedule 2 to the <i>Tax Laws Amendment (2006 Measures No. 3) Act 2006</i> . Schedule 5 to the <i>Tax Laws Amendment (2008 Measures No. 6) Act 2009</i> . Schedule 8 to the <i>Tax Laws Amendment (2009 Measures No. 2) Act 2009</i> .							

Certain payments to victims of Australian natural disasters are exempt from income tax.

Payments from the Business Assistance Fund to businesses adversely affected by Cyclone Larry or flooding owing to the cumulative effects of Cyclones Larry and Monica are exempt from tax. Taxpayers are also exempt from tax on Government reimbursements for fuel excise paid to businesses adversely affected by Cyclone Larry.

Clean-up and Restoration Grants paid to small businesses and primary producers affected by the 2009 Victorian bushfires are exempt from tax. The amount of the grants ranges from \$5,000 to \$25,000 in cases where the applicant has suffered significant damage. The grants are defined in the income tax law as non assessable non-exempt income.

Without a specific definition, such grants would generally be treated as assessable income. Expenses related to the carrying on of a business (that is, those funded by using the grant) would generally be deductible.

Tax exemptions for certain government income support payments

B28 Exemption of Tobacco Growers Adjustment Assistance grants

Agriculture, forestry and fishing (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	-	-	2	1	-	-	-	-
<i>Tax expenditure type:</i>	Exemption					<i>2008 TES code:</i>	B25	
<i>Estimate Reliability:</i>	Medium							
<i>Commencement date:</i>	1 July 2006					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Paragraph 118-37(1)(g) of the <i>Income Tax Assessment Act 1997</i>							

Tobacco growers who receive a Restructuring Grant of up to \$150,000 under the Tobacco Growers Adjustment Assistance Program 2006 are exempt from tax if they undertake to exit all agricultural enterprises for at least five years.

Tax expenditures for recreation and culture

B29 Exemption of Refundable Film Tax Offset payments

Recreation and culture (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	7	10	3	18	40	35	40	30
<i>Tax expenditure type:</i>	Exemption					<i>2008 TES code:</i>	B28	
<i>Estimate Reliability:</i>	Medium — Low							
<i>Commencement date:</i>	2001					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Division 376 of the <i>Income Tax Assessment Act 1997</i>							

Film production companies incurring expenditure on certain productions in Australia may be eligible for refundable tax offsets. The tax offsets are the location offset, the producer offset and the post, digital and visual effects (PDV) offset. The refundable tax offsets are paid directly to the producers through the tax system and are exempt from tax. A production company can claim no more than one of the film tax offsets for each film.

Under the location offset, producers of qualifying large scale films which commenced principal photography prior to 8 May 2007 are eligible to receive a refundable tax offset of 12.5 per cent of qualifying Australian production expenditure (QAPE). Producers of qualifying large scale films which commenced principal photography on or after 8 May 2007 are eligible to receive a refundable tax offset of 15 per cent of QAPE.

The producer offset enables producers of qualifying Australian films to receive a refundable tax offset of 40 per cent of QAPE incurred on a feature film, or 20 per cent of QAPE incurred on films that are not feature films, for QAPE incurred on or after 1 July 2007.

Tax Expenditures Statement

The PDV offset is equal to 15 per cent of QAPE and is available for post, digital and visual effects production that commences on or after 1 July 2007.

B30 Income tax exemption for industry-specific not-for-profit societies

Recreation and culture (\$m)							
2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption				<i>2008 TES code:</i>	B29	
<i>Estimate Reliability:</i>	Medium				<i>* Category</i>	3+	
<i>Commencement date:</i>	Introduced before 1985				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Section 50-40 of the <i>Income Tax Assessment Act 1997</i>						

An income tax exemption applies to the income of certain industry-specific not-for-profit societies and associations, including those predominantly devoted to promoting the development of aviation or tourism, or of agricultural, pastoral, horticultural, viticultural, fishing, 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 and associations 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 A.2 of Appendix A.)

B31 Income tax exemption for recreation-type not-for-profit societies

Recreation and culture (\$m)							
2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
20	20	20	20	20	20	20	20
<i>Tax expenditure type:</i>	Exemption				<i>2008 TES code:</i>	B30	
<i>Estimate Reliability:</i>	Medium						
<i>Commencement date:</i>	Introduced before 1985				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Sections 50-10 and 50-45 of the <i>Income Tax Assessment Act 1997</i>						

Subject to certain conditions, the income of recreation-type 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 A.2 of Appendix A.)

B32 Income tax exemption for the Australian Film Finance Corporation

Recreation and culture (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	-	-	-	-	-
<i>Tax expenditure type:</i>	Exemption					<i>2008 TES code:</i>	B31	
<i>Estimate Reliability:</i>	Medium — Low							
<i>Commencement date:</i>	1988					<i>Expiry date:</i>	2008	
<i>Legislative reference:</i>	Section 50-45 of the <i>Income Tax Assessment Act 1997</i>							

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

Since 1 July 2008, the Australian Film Finance Corporation has been wound up and its functions have been performed by Screen Australia.

Tax expenditures relating to prepayments and advance expenditures**B33 Exemption from the tax shelter prepayments measure for certain passive investments**

Other economic affairs — Other economic affairs, nec (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Accelerated write-off					<i>2008 TES code:</i>	B32	
<i>Estimate Reliability:</i>	Not Applicable					<i>* Category</i>	na	
<i>Commencement date:</i>	1988					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Section 82 KZME of the <i>Income Tax Assessment Act 1936</i>							

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 the tax expenditure Prepayment rule for Simplified Tax System taxpayers and non-business expenditure by individuals. The benchmark treatment of prepayments is that they are deductible over the period of the expenditure. The tax expenditure allows deductions to be spread over a shorter period and consequently it allows greater deductions than the benchmark treatment.

From 1 July 2007, small businesses with aggregate annual turnover of less than \$2 million have been able to access this concession under the Small Business Framework.

B34 Forestry managed investments — prepayment rule

Other economic affairs — Other economic affairs, nec (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	40	-10	-5	-95	-	-	-	-
<i>Tax expenditure type:</i>	Accelerated write-off					<i>2008 TES code:</i>	B33	
<i>Estimate Reliability:</i>	Medium							
<i>Commencement date:</i>	2001					<i>Expiry date:</i>	30 June 2008	
<i>Legislative reference:</i>	Section 82KZMG of the <i>Income Tax Assessment Act 1936</i>							

Prior to 1 July 2008, prepayments on seasonally dependent agronomic operations in the establishment of a forestry plantation were immediately deductible. This was conditional upon the prepayment expenditure meeting certain requirements, including that the activities in question are completed within 12 months of the prepayment being made or the activities commencing and by the end of the following financial year. This tax expenditure was available for investors in forestry managed investment schemes. The benchmark treatment of prepayments was that they are deductible over the period of the expenditure. The tax expenditure allowed deductions to be spread over a shorter period and consequently allowed greater deductions in the year of investment than the benchmark treatment.

The prepayment rule has been replaced by a statutory deduction for investments in forestry managed investment schemes.

B35 Prepayment rule for Simplified Tax System taxpayers and non-business expenditure by individuals

Other economic affairs — Other economic affairs, nec (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Accelerated write-off					<i>2008 TES code:</i>	B34	
<i>Estimate Reliability:</i>	Not Applicable					<i>* Category</i>	2+	
<i>Commencement date:</i>	2001					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Section 82 KZM of the <i>Income Tax Assessment Act 1936</i>							

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 tax expenditure B37 *Transitional arrangements for prepayments*).

From 1 July 2007, small businesses with an aggregate annual turnover of less than \$2 million have been able to access this concession under the Small Business Framework.

B36 The 10-year rule for prepayments

Other economic affairs — Other economic affairs, nec (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Accelerated write-off					<i>2008 TES code:</i>	B35	
<i>Estimate Reliability:</i>	Not Applicable					<i>* Category</i>	na	
<i>Commencement date:</i>	1988					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Subsection 82 KZL(1) of the <i>Income Tax Assessment Act 1936</i>							

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

B37 Transitional arrangements for prepayments

Other economic affairs — Other economic affairs, nec (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	-15	-	-	-	-	-	-	-
<i>Tax expenditure type:</i>	Accelerated write-off					<i>2008 TES code:</i>	B36	
<i>Estimate Reliability:</i>	Medium							
<i>Commencement date:</i>	21 September 1999					<i>Expiry date:</i>	30 June 2003	
<i>Legislative reference:</i>	Sections 82 KZL(1), 82KZMB and 82KZMC of the <i>Income Tax Assessment Act 1936</i>							

Before 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 was subsequently removed over a five-year transitional period. 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.

Tax expenditures for agriculture, forestry and fishing

B38 Deferral of income from double wool-clips

Agriculture, forestry and fishing (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Deferral					<i>2008 TES code:</i>	B37	
<i>Estimate Reliability:</i>	Not Applicable					<i>* Category</i>	1+	
<i>Commencement date:</i>	1966					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Section 385-130 of the <i>Income Tax Assessment Act 1997</i>							

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.

B39 Deferral or spreading of income from the forced disposal or death of livestock

Agriculture, forestry and fishing (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Deferral					<i>2008 TES code:</i>	B38	
<i>Estimate Reliability:</i>	Not Applicable					<i>* Category</i>	na	
<i>Commencement date:</i>	1961					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Sections 385-90 to 385-125 of the <i>Income Tax Assessment Act 1997</i>							

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 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).

B40 Exemption of Sugar Industry Exit grants

Agriculture, forestry and fishing (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	3	6	3	-	-	-	-	-
<i>Tax expenditure type:</i>	Exemption					<i>2008 TES code:</i>	B39	
<i>Estimate Reliability:</i>	Medium							
<i>Commencement date:</i>	1 February 2003					<i>Expiry date:</i>	30 June 2007	
<i>Legislative reference:</i>	Sections 15-65 and 118-37(f) of the <i>Income Tax Assessment Act 1997</i>							

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. The grant amount is deemed as assessable income if the recipient returns to the agricultural industry within five years.

B41 Farm Management Deposit scheme

Agriculture, forestry and fishing (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	120	75	105	140	65	*	*	*
<i>Tax expenditure type:</i>	Deferral					<i>2008 TES code:</i>	B40	
<i>Estimate Reliability:</i>	Medium					<i>* Category</i>	3+	
<i>Commencement date:</i>	1999					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Schedule 2G and Division 393 of the <i>Income Tax Assessment Act 1936</i>							

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 \$400,000. 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.

Projections beyond 2009-10 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.

B42 Income tax averaging for primary producers

Agriculture, forestry and fishing (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	80	70	110	90	*	*	*	*
<i>Tax expenditure type:</i>	Concessional rate					<i>2008 TES code:</i>	B41	
<i>Estimate Reliability:</i>	Medium — Low					<i>* Category</i>	2+	
<i>Commencement date:</i>	1938					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Division 392 of the <i>Income Tax Assessment Act 1997</i>							

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 2008-09 are not reported as the tax expenditure is very sensitive to variations in primary production income, which depends on a number of external factors.

B43 Spreading of income from insurance recoveries for loss of timber or livestock

Agriculture, forestry and fishing (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Deferral					<i>2008 TES code:</i>	B42	
<i>Estimate Reliability:</i>	Not Applicable					<i>* Category</i>	na	
<i>Commencement date:</i>	1956					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Section 385-130 of the <i>Income Tax Assessment Act 1997</i>							

Insurance recoveries may be received in relation to timber lost because of 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.

B44 Tax exemption for Farm Help re-establishment grants

Agriculture, forestry and fishing (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	1	1	..	..	..	..	..	..
<i>Tax expenditure type:</i>	Exemption					<i>2008 TES code:</i>	B43	
<i>Estimate Reliability:</i>	Medium — High							
<i>Commencement date:</i>	1 December 1997					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Paragraph 118-37(1)(d) of the <i>Income Tax Assessment Act 1997</i>							

Re-establishment grants of up to \$75,000 provided to eligible farmers who choose to sell their farm and exit farming for at least five years are income tax exempt.

B45 Valuation of livestock from natural increase

Agriculture, forestry and fishing (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Deferral					<i>2008 TES code:</i>	B44	
<i>Estimate Reliability:</i>	Low							
<i>Commencement date:</i>	1951					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Section 70-55 of the <i>Income Tax Assessment Act 1997</i>							

Animals acquired by natural increase (that is, newborn animals) 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.

Tax expenditures for manufacturing and mining**B46 Infrastructure Bonds Scheme**

Mining, manufacturing and construction (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	20	15	5	5	..	..	..	..
<i>Tax expenditure type:</i>	Exemption, Offset					<i>2008 TES code:</i>	B45	
<i>Estimate Reliability:</i>	Medium — High							
<i>Commencement date:</i>	1992					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Division 16L of the <i>Income Tax Assessment Act 1936</i>							

Interest income from loans to eligible infrastructure facilities is exempt from income tax and 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. This scheme was closed to new projects from 14 February 1997, and replaced by the Land Transport Infrastructure Borrowings Tax Offset Scheme in 1998.

B47 Land Transport Infrastructure Borrowings Tax Offset Scheme

Mining, manufacturing and construction (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	10	5	5	..	-	-	-	-
<i>Tax expenditure type:</i>	Offset					<i>2008 TES code:</i>	B46	
<i>Estimate Reliability:</i>	Medium							
<i>Commencement date:</i>	1998					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Division 396 of the <i>Income Tax Assessment Act 1997</i>							

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.

Since May 2004 no new projects have been admitted to the scheme.

Tax expenditures for transport and communications

B48 Exemptions to radiocommunications taxes for not-for-profit community or government entities

General public services — General services (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	5	5	5	5	5	5	5	5
<i>Tax expenditure type:</i>	Exemption					<i>2008 TES code:</i>	B47	
<i>Estimate Reliability:</i>	Medium							
<i>Commencement date:</i>	1992					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Section 294, Part 5.7 of the <i>Radiocommunications Act 1992</i>							

The apparatus licence fee is an annual tax applicable to broadcasting licence holders to recover the indirect costs of spectrum management and provide incentives for efficient spectrum use.

Exemption of the apparatus licence fee is available to organisations or individuals who are: diplomatic and consular missions; surf life saving and remote area ambulance services; emergency services or services for the safe-guarding of human life — including rural fire fighting; search and rescue and coast guard services. These must be staffed principally by volunteers and be exempt from paying income tax.

B49 Denial of depreciation deduction for car value above the luxury car tax threshold

Transport and communication (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Denial of deduction					<i>2008 TES code:</i>	B48	
<i>Estimate Reliability:</i>	Not Applicable					<i>* Category</i>	2-	
<i>Commencement date:</i>	1 July 2001					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Section 40-230 of the <i>Income Tax Assessment Act 1997</i>							

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

The 'car limit' for 2009-10 is \$57,180. This amount is indexed annually to movements in the motor vehicle purchase sub-group of the Consumer Price Index. The 'car limit' is not changed if the index has fallen for a particular year.

Tax expenditures for other economic affairs

B50 Deductions for boat expenditure

Other economic affairs — Tourism and area promotion (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	-6	-6	-6	..	..	..	..	..
<i>Tax expenditure type:</i>	Deferral of deduction					<i>2008 TES code:</i>	B49	
<i>Estimate Reliability:</i>	Low							
<i>Commencement date:</i>	1974					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Former section 26-50 of the <i>Income Tax Assessment Act 1997</i> Section 26-47 of the <i>Income Tax Assessment Act 1997</i>							

For income years commencing on or after 1 July 2007, taxpayers can claim deductions for expenses incurred in boating activities that are not carried on as a business. However, these deductions can only offset income from the boating activities, and if the deductions are greater than the income for that income year, the excess is carried forward, for offset against future income from boating activities.

For income years commencing prior to 1 July 2007, deductions are allowable only where the taxpayer can demonstrate that they were carrying on an active business using a boat.

B51 Income tax exemption for trade unions and registered organisations

Other economic affairs — Total labour and employment affairs (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	10	10	10	10	10	10	10	10
<i>Tax expenditure type:</i>	Exemption					<i>2008 TES code:</i>	B50	
<i>Estimate Reliability:</i>	Medium — Low							
<i>Commencement date:</i>	Introduced before 1985					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Section 50-15 of the <i>Income Tax Assessment Act 1997</i>							

Subject to certain conditions, the income of trade unions and registered associations of employers and employees is exempt from income tax due to the 'mutuality principle'. 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 A.2 in Appendix A.)

B52 25 per cent entrepreneurs' tax offset

Other economic affairs — Other economic affairs, nec (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	-	135	170	210	215	190	195	190
<i>Tax expenditure type:</i>	Offset					<i>2008 TES code:</i>	B51	
<i>Estimate Reliability:</i>	Medium							
<i>Commencement date:</i>	2005					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Subdivision 61-J of the <i>Income Tax Assessment Act 1997</i>							

Small businesses that have an annual turnover of \$50,000 or less are eligible for a tax offset of 25 per cent of the income tax liability attributable to their business income. The offset phases out for annual turnover between \$50,001 and \$75,000. From 1 July 2007, this concession applies to any small business entity, whereas previously the concession only applied to taxpayers in the then Simplified Tax System.

In the 2008-09 Budget, the Government announced that eligibility to the offset would also be subject to a means test from 1 July 2008. Under the means test, the offset phases out for singles from \$70,000 and for families from \$120,000.

B53 Capital gains tax concession for carried interests paid to venture capital managers

Other economic affairs — Other economic affairs, nec (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	9	10	10	11	11	11	11	11
<i>Tax expenditure type:</i>	Denial of deduction, Deferral of deduction					<i>2008 TES code:</i>	B52	
<i>Estimate Reliability:</i>	Low							
<i>Commencement date:</i>	2002					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Sections 104-255 and 118-21 of the <i>Income Tax Assessment Act 1997</i>							

Venture capital fund managers may be paid a performance-based share of partnership profits by investors. Such performance payments are 'carried interests'. Under the benchmark, these entitlements are taxable income of the fund managers as they accrue. Instead, under the law, 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, taxation of the income is deferred until the gains are realised and individual managers are eligible for the 50 per cent discount on their carried interest.

B54 Capital protected borrowings

Other economic affairs — Other economic affairs, nec (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	15	20	25	40	35	15	-5	-20
<i>Tax expenditure type:</i>	Deduction, Discounted valuation					<i>2008 TES code:</i>	B53	
<i>Estimate Reliability:</i>	Medium — Low							
<i>Commencement date:</i>	16 April 2003					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Division 247 of the <i>Income Tax Assessment Act 1997</i>							

Taxpayers are able to claim a deduction for some or all of the cost of the capital protection associated with capital protected borrowings.

The interest cost of capital protected borrowings includes the cost of borrowing and the cost of capital protection. Under the benchmark, the cost of borrowing is deductible, however the cost of capital protection where it is considered capital in nature is not deductible but instead included in the cost base of the asset.

The concessional treatment will not apply to capital protected borrowings arrangements entered into after 13 May 2008. Arrangements entered into before that date will continue to receive the concessional treatment for a period of up to five years.

B55 Certain term subordinated notes

Other economic affairs — Other economic affairs, nec (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Deduction					<i>2008 TES code:</i>	B54	
<i>Estimate Reliability:</i>	Not Applicable					<i>* Category</i>	3+	
<i>Commencement date:</i>	1 July 2001					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Division 974 of the <i>Income Tax Assessment Act 1997</i>							

‘Solvency clauses’ do not preclude certain term subordinated notes from being classed as debt for tax purposes. A solvency clause allows the issuer to defer payment if the payment would cause insolvency. Under the benchmark, term subordinated notes with solvency clauses would typically be classified as equity under the debt-equity rules.

B56 Concessional tax treatment for Pooled Development Funds

Other economic affairs — Other economic affairs, nec (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	7	9	12	11	10	9	8	7
<i>Tax expenditure type:</i>	Exemption, Concessional rate					<i>2008 TES code:</i>	B55	
<i>Estimate Reliability:</i>	Medium — Low							
<i>Commencement date:</i>	1992					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Section 118-13 of the <i>Income Tax Assessment Act 1997</i> Division 10E of Part III of the <i>Income Tax Assessment Act 1936</i> Subsections 23(4C) and (4D) of the <i>Income Tax Rates Act 1986</i>							

Note: estimates include tax expenditures B56 and B59.

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. These concessional tax rates are designed to encourage PDFs to invest in small to medium enterprises. 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.

The PDF program was closed to applications for registration on 21 June 2007 as a result of the new tax concessions for early stage venture capital limited partnerships. The PDF program continues to operate for registered PDFs.

Information on the concessional treatment of unfranked dividends paid by PDFs can be found at tax expenditure B17 Unfranked dividends paid by Pooled Development Funds.

B57 Concessions resulting from the clarification of the debt or equity treatment of perpetual subordinated debt

Other economic affairs — Other economic affairs, nec (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Deduction					<i>2008 TES code:</i>	B56	
<i>Estimate Reliability:</i>	Not Applicable					<i>* Category</i>	2+	
<i>Commencement date:</i>	2001					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Division 974 of the <i>Income Tax Assessment Act 1997</i> Division 974 of the <i>Income Tax Assessment Regulations 1997</i>							

Perpetual subordinated debt issued by financial institutions to raise capital would typically be classified as equity under the benchmark debt-equity rules. Under certain circumstances, Upper Tier 2 perpetual subordinated debt and similar instruments may be treated as debt for tax purposes, thereby allowing the issuer of the perpetual subordinated debt to claim a deduction for interest expense.

B58 Exemption for early stage venture capital limited partnerships

Other economic affairs — Other economic affairs, nec (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	-	-	-	1	5	9	15	18
<i>Tax expenditure type:</i>	Exemption					<i>2008 TES code:</i>	B57	
<i>Estimate Reliability:</i>	Low							
<i>Commencement date:</i>	1 July 2006					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Sections 26-68, 51-52, 51-54 and Subdivision 118-F of the <i>Income Tax Assessment Act 1997</i>							

Resident and foreign partners are exempt from tax on revenue and capital gains derived in respect of their eligible investments in early stage venture capital limited partnerships.

An early stage venture capital limited partnership is a flow-through investment vehicle that is progressively replacing the Pooled Development Fund program.

To qualify as an early stage venture capital limited partnership, the size of the fund cannot exceed \$100 million and the total assets of investee companies cannot exceed \$50 million immediately prior to investment. The early stage venture capital limited partnership must divest itself of any holdings once the total assets of the investee company exceed \$250 million.

B59 Exemption for superannuation funds that invest through Pooled Development Funds in venture capital

Other economic affairs — Other economic affairs, nec (\$m)

2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Included in B56							
<i>Tax expenditure type:</i>	Exemption			<i>2008 TES code:</i>		B58	
<i>Estimate Reliability:</i>							
<i>Commencement date:</i>	1992			<i>Expiry date:</i>			
<i>Legislative reference:</i>	Section 118-13 and Division 210 <i>Income tax Assessment Act 1997</i> and Division 10E of Part III <i>Income tax Assessment Act 1936</i>						

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. 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.

B60 Immediate deduction for expenditure on core technology related to research and development activities

Other economic affairs — Other economic affairs, nec (\$m)

2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Deduction			<i>2008 TES code:</i>		B60	
<i>Estimate Reliability:</i>	Not Applicable			<i>* Category</i>		na	
<i>Commencement date:</i>	1996			<i>Expiry date:</i>			
<i>Legislative reference:</i>	Sections 73B(12) to 73B(12C) of the <i>Income Tax Assessment Act 1936</i>						

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 capped at one third of the firm's expenditure on related research and development for the income year in question, until the core technology amount has been fully deducted. 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.

Information on the other R&D-related tax expenditures can be found at B65, B66, B67, B95 and B96.

B61 Income tax exemption for certain non-charitable funds

Other economic affairs — Other economic affairs, nec (\$m)

2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Included in B62							
<i>Tax expenditure type:</i>	Exemption				<i>2008 TES code:</i>	A59	
<i>Estimate Reliability:</i>					<i>Expiry date:</i>		
<i>Commencement date:</i>	1 July 2005						
<i>Legislative reference:</i>	Section 50-20 of the <i>Income Tax Assessment Act 1997</i>						

Endorsed non-charitable Public Ancillary Funds and Private Ancillary Funds that provide money, property and benefits solely to income tax exempt deductible gift recipients qualify for an income tax exemption.

B62 Income tax exemption for charitable institutions and funds

Other economic affairs — Other economic affairs, nec (\$m)

2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
-	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption				<i>2008 TES code:</i>	A58	
<i>Estimate Reliability:</i>	Not Applicable				<i>* Category</i>	2+	
<i>Commencement date:</i>	1 July 2005				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Sections 50-5, 50-52 and 50-60 <i>Income Tax Assessment Act 1997</i>						

Note: estimates include tax expenditures B62, B61 and B64.

Endorsed charitable funds, including charitable Public and Private Ancillary Funds, can claim income tax exemptions where they provide money, property and benefits solely to charities based in Australia, or solely to charitable deductible gift recipients, or to a combination of these.

For other exemptions for charitable and not-for-profit entities see tax expenditures B18, B19, B23, B30 and B31.

B63 Income tax exemptions for foreign superannuation funds

Other economic affairs — Other economic affairs, nec (\$m)

2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption				<i>2008 TES code:</i>	B61	
<i>Estimate Reliability:</i>	Not Applicable				<i>* Category</i>	1+	
<i>Commencement date:</i>	1981				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Section 128D and paragraph 128B(jb) of the <i>Income Tax Assessment Act 1936</i>						

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.

B64 Refund of franking credits for exempt institutions

Other economic affairs — Other economic affairs, nec (\$m)

2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Included in B62							
<i>Tax expenditure type:</i>	Rebate				<i>2008 TES code:</i>	A62	
<i>Estimate Reliability:</i>							
<i>Commencement date:</i>	1 July 2000			<i>Expiry date:</i>			
<i>Legislative reference:</i>	Subdivision 207-E of the <i>Income Tax Assessment Act 1997</i>						

Endorsed charitable institutions and trust funds, non-charitable deductible gift recipients (DGRs) that distribute solely to other DGRs, resident endorsed DGRs, relief funds, and other eligible institutions can claim a refund on franking credits.

B65 Research and development — exemption of Refundable Research and Development Tax Credit

Other economic affairs — Other economic affairs, nec (\$m)

2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
-	-	-	-	-	-	-60	-80
<i>Tax expenditure type:</i>	Exemption				<i>2008 TES code:</i>	New	
<i>Estimate Reliability:</i>	Medium						
<i>Commencement date:</i>	2010			<i>Expiry date:</i>			
<i>Legislative reference:</i>	Not yet legislated						

The Refundable Research and Development (R&D) Tax Credit will be available to companies with a turnover of less than \$20 million at a rate of 45 per cent of expenditure on eligible R&D activities.

It will take the form of a 'refundable' tax offset, similar to the treatment of the former R&D Tax Offset. If a taxpayer's income tax liability is reduced to zero, the unused refundable tax offset amount can be applied to reduce other tax liabilities (such as GST). Any residual unused amounts can be refunded as cash to the company.

As the Refundable R&D Tax Credit is an expense item it does not appear as a tax expenditure in its own right. However, a tax expenditure arises because payments made under the Refundable R&D Tax Credit are exempt from tax. In addition, companies that claim the Refundable R&D Tax Credit are unable to claim deductions for the R&D expenditures concerned. The absence of these deductions constitutes a negative tax expenditure and explains why the estimates are negative.

Information on the other R&D-related tax expenditures can be found at B60, B65, B67, B95 and B96.

B66 Research and development — exemption of refundable research and development tax offset payments

Other economic affairs — Other economic affairs, nec (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	5	-25	-50	-65	-90	-110	-255	-340
<i>Tax expenditure type:</i>	Exemption					<i>2008 TES code:</i>	B59	
<i>Estimate Reliability:</i>	Medium — Low							
<i>Commencement date:</i>	2001					<i>Expiry date:</i>	2010	
<i>Legislative reference:</i>	Section 731 of the <i>Income Tax Assessment Act 1936</i>							

In the 2009-10 Budget the Government announced that it will replace the existing R&D Tax Concessions with a new R&D Tax Credit with effect from 1 July 2010. Prior to 1 July 2010 companies with an annual turnover of less than \$5 million that undertake up to \$1 million of R&D are eligible to receive a refundable tax offset equivalent to the value of the R&D tax concession (which allows a tax deduction on eligible expenditure at the rate of either 125 per cent or 175 per cent).

The refundable R&D tax offset is an expense item and accordingly does not appear as a tax expenditure in its own right. 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 after 2005-06.

Since the new R&D tax incentive does not start until 1 July 2010, as an interim measure the cap on eligible R&D has been lifted from \$1 million to \$2 million with effect from 1 July 2009. This adds \$55 million to the estimated tax expenditure in 2010-11.

Information on the other R&D-related tax expenditures can be found at B60, B65, B67, B95 and B96.

B67 Standard research and development tax incentive

Other economic affairs — Other economic affairs, nec (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	-	-	-	-	-	-	700	740
<i>Tax expenditure type:</i>	Offset					<i>2008 TES code:</i>	New	
<i>Estimate Reliability:</i>	Medium							
<i>Commencement date:</i>	2010					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Not yet legislated							

The Standard Research and Development (R&D) Tax Credit will be available at a rate of 40 per cent for eligible R&D expenditure and can be carried forward where a company's income tax liability is zero.

The Standard R&D Tax Credit will take the form of a tax offset that can be carried forward to be applied against future income tax liabilities. Carried forward amounts will result in a similar outcome to a carry forward loss arising from a tax deduction under the former R&D tax concession. If a company's income tax liability is zero, unused offset amounts cannot be applied to reduce other tax liabilities (such as GST).

Tax expenditure information on the former R&D tax scheme can be found at B60, B66, B95 and B96.

B68 Tax exemption for small and medium sized credit unions

Other economic affairs — Other economic affairs, nec (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13

<i>Tax expenditure type:</i>	Exemption					<i>2008 TES code:</i>	B62	
<i>Estimate Reliability:</i>	Medium							
<i>Commencement date:</i>	Introduced before 1985					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Sections 6H and 23G of the <i>Income Tax Assessment Act 1936</i> Section 23(7) of the <i>Income Tax Rates Act 1986</i>							

Interest income derived from loans to members by recognised 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.

Recognised medium credit unions have a notional taxable income of less than \$150,000. For recognised medium credit unions, the rate of tax payable on the first \$49,999 is reduced to zero. The rate of taxation payable on income between \$49,000 and \$150,000 is 45 per cent. When the income of a credit union exceeds \$150,000, it ceases to be a small credit union and the corporate tax rate applies.

B69 Trust loss rules — family trusts

Other economic affairs — Other economic affairs, nec (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Deduction					<i>2008 TES code:</i>	B63	
<i>Estimate Reliability:</i>	Not Applicable					<i>* Category</i>	3+	
<i>Commencement date:</i>	9 May 1995					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Subdivision 272-D of Schedule 2F to the <i>Income Tax Assessment Act 1936</i>							

The family trust rules provide a concession to the 'test individual' of a family trust, and their family group, by allowing the transfer of losses and debt deductions to members of the family trust.

The trust loss rules — the benchmark — restrict trust losses and debt deductions from being transferred to persons who did not bear the economic burden. This is achieved by imposing tests on trusts to determine if any losses and debt deductions can be claimed. The tests examine whether there has been a change in underlying ownership or control of a trust and whether certain schemes have been entered into in order to take advantage of losses or debt deductions. Family trusts have to satisfy only the income injection test. The income injection test relates to schemes where persons outside the defined family group inject income into the trust to take advantage of trust losses and debt deductions. Distributions of trust income or capital made outside the family group will generally be subject to a family trust distribution tax.

Elements of the family trust rules are also used in the franking credit trading rules to facilitate the passing through of franking credits to beneficiaries of discretionary trusts and in the company loss recoupment rules as part of the alternative conditions for the continuity of ownership test.

Tax expenditures relating to capital expenditure, effective life and depreciation**B70 Film Licensed Investment Company Scheme**

Recreation and culture (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	-	4	4	-	-	-	-	-
<i>Tax expenditure type:</i>	Deduction					<i>2008 TES code:</i>	B64	
<i>Estimate Reliability:</i>	Medium — High							
<i>Commencement date:</i>	1 July 2005					<i>Expiry date:</i>	30 June 2007	
<i>Legislative reference:</i>	Sections 375-850 to 375-880 of the <i>Income Tax Assessment Act 1997</i>							

Amounts paid by investors in 2005-06 and 2006-07 for shares in a film licensed investment company are immediately deductible. The deduction does not apply to shares issued after 30 June 2007.

B71 Tax incentives for film investment

Recreation and culture (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	-2	-13	-13	-16	-19	-18	-17	-14
<i>Tax expenditure type:</i>	Deduction, Accelerated write-off					<i>2008 TES code:</i>	B65	
<i>Estimate Reliability:</i>	Medium							
<i>Commencement date:</i>	15 November 1956					<i>Expiry date:</i>	1 July 2010	
<i>Legislative reference:</i>	Divisions 10B and 10BA of the <i>Income Tax Assessment Act 1936</i>							

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

The initial deduction under Division 10B must be made in relation to the 2008-09 year of income or an earlier year of income. A deduction under Division 10BA is not allowable in relation to the 2009-10 year of income or later year of income. The divisions will be repealed effective from 1 July 2010.

B72 Accelerated depreciation for grapevine plantings

Agriculture, forestry and fishing (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	7	3	-1	-4	-6	-7	-7	-6
<i>Tax expenditure type:</i>	Accelerated write-off					<i>2008 TES code:</i>	B66	
<i>Estimate Reliability:</i>	Medium							
<i>Commencement date:</i>	1993					<i>Expiry date:</i>	Not available for grapevines planted after 1 October 2004	
<i>Legislative reference:</i>	Subdivision 40-F of the <i>Income Tax Assessment Act 1997</i>							

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.

B73 Deduction for horse breeding stock

Agriculture, forestry and fishing (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Accelerated write-off				<i>2008 TES code:</i>		B67	
<i>Estimate Reliability:</i>	Not Applicable				<i>* Category</i>		na	
<i>Commencement date:</i>	1992				<i>Expiry date:</i>			
<i>Legislative reference:</i>	Sections 70-60 and 70-65 of the <i>Income Tax Assessment Act 1997</i>							

Taxpayers can elect to write off horse breeding stock, acquired on or after 19 August 1992, at up to 25 per cent of the cost of sires per annum and up to 33½ per cent of the cost of mares per annum, on a prime cost basis.

B74 Deduction of the capital cost of telephone lines and electricity connections

Agriculture, forestry and fishing (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	15	15	15	15	18	18	18	18
<i>Tax expenditure type:</i>	Accelerated write-off				<i>2008 TES code:</i>		B68	
<i>Estimate Reliability:</i>	Low				<i>Expiry date:</i>			
<i>Commencement date:</i>	24 June 1981				<i>Expiry date:</i>			
<i>Legislative reference:</i>	Subdivision 40-G of the <i>Income Tax Assessment Act 1997</i>							

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.

B75 Landcare and water facility offset

Agriculture, forestry and fishing (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13

<i>Tax expenditure type:</i>	Offset				<i>2008 TES code:</i>		B69	
<i>Estimate Reliability:</i>	Medium — High				<i>Expiry date:</i>		2001	
<i>Commencement date:</i>	1998				<i>Expiry date:</i>		2001	
<i>Legislative reference:</i>	Former Subdivision 388 of the <i>Income Tax Assessment Act 1997</i>							

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 was claimed as an alternative to the landcare deduction. 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.

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However, the offset will continue to apply after the 2000-01 income year to expenditure incurred in that or an earlier income year where the offset is apportioned over three years, or where taxpayers had insufficient tax payable to claim the entire offset in earlier income years.

B76 Landcare deduction for primary producers

Agriculture, forestry and fishing (\$m)

2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Included in B78							
<i>Tax expenditure type:</i>	Deduction				<i>2008 TES code:</i>	B70	
<i>Estimate Reliability:</i>							
<i>Commencement date:</i>	11 December 1973			<i>Expiry date:</i>			
<i>Legislative reference:</i>	Subdivision 40-G of the <i>Income Tax Assessment Act 1997</i>						

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.

B77 Tax write-off for horticultural plants

Agriculture, forestry and fishing (\$m)

2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
4	4	4	5	5	6	7	8
<i>Tax expenditure type:</i>	Accelerated write-off				<i>2008 TES code:</i>	B71	
<i>Estimate Reliability:</i>	Medium — Low						
<i>Commencement date:</i>	1995			<i>Expiry date:</i>			
<i>Legislative reference:</i>	Subdivision 40-F of the <i>Income Tax Assessment Act 1997</i>						

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.

B78 Three year write-off for expenditure on water facilities for primary producers

Agriculture, forestry and fishing (\$m)

2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
20	20	20	20	25	25	25	25
<i>Tax expenditure type:</i>		Accelerated write-off			<i>2008 TES code:</i>		B72
<i>Estimate Reliability:</i>		Medium					
<i>Commencement date:</i>		23 May 1980			<i>Expiry date:</i>		
<i>Legislative reference:</i>		Subdivision 40-F of the <i>Income Tax Assessment Act 1997</i>					

Note: estimates include tax expenditures B78, B76 and B79.

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.

B79 Water facilities and land care concession for irrigation water providers

Agriculture, forestry and fishing (\$m)

2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Included in B78							
<i>Tax expenditure type:</i>		Deduction			<i>2008 TES code:</i>		B73
<i>Estimate Reliability:</i>							
<i>Commencement date:</i>		1 July 2004			<i>Expiry date:</i>		
<i>Legislative reference:</i>		Subdivisions 40-F and 40-G of the <i>Income Tax Assessment Act 1997</i>					

Certain irrigation water providers can claim an immediate deduction for capital expenditure on landcare activities and can 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.

B80 Absence of depreciation recapture for certain assets

Mining, manufacturing and construction (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Deduction					<i>2008 TES code:</i>	B74	
<i>Estimate Reliability:</i>	Not Applicable					<i>* Category</i>	na	
<i>Commencement date:</i>	1982					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Division 43 and Section 110-45 of the <i>Income Tax Assessment Act 1997</i>							

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

B81 Accelerated depreciation for mining buildings

Mining, manufacturing and construction (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	260	220	170	90	..	..	..	..
<i>Tax expenditure type:</i>	Accelerated write-off					<i>2008 TES code:</i>	B75	
<i>Estimate Reliability:</i>	Medium							
<i>Commencement date:</i>	1982					<i>Expiry date:</i>	2001	
<i>Legislative reference:</i>	Former Subdivision 330-C and subdivision 40-B of the <i>Income Tax Assessment Act 1997</i> as adjusted by Section 40-35 of the <i>Income Tax (Transitional Provisions) Act 1997</i>							

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.

B82 Capital expenditure deduction for mining, quarrying and petroleum operations

Mining, manufacturing and construction (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	25	25	20	15	10	7	2	2
<i>Tax expenditure type:</i>	Accelerated write-off					<i>2008 TES code:</i>	B76	
<i>Estimate Reliability:</i>	Medium — Low							
<i>Commencement date:</i>	1921					<i>Expiry date:</i>	2001	
<i>Legislative reference:</i>	Subdivision 40-B of the <i>Income Tax Assessment Act 1997</i> as adjusted by sections 40-35, 40-40 and 40-75 of the <i>Income Tax (Transitional Provisions) Act 1997</i>							

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.

B83 Deduction for environmental protection activities

Mining, manufacturing and construction (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	9	11	15	25	25	25	25	25
<i>Tax expenditure type:</i>	Deduction					<i>2008 TES code:</i>	B77	
<i>Estimate Reliability:</i>	Medium							
<i>Commencement date:</i>	1992					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Sections 40-755 and 40-760 of the <i>Income Tax Assessment Act 1997</i>							

Note: estimates include tax expenditures B83 and B84.

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.

B84 Deduction for expenditure on environmental impact studies

Mining, manufacturing and construction (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	Included in B83							
<i>Tax expenditure type:</i>	Accelerated write-off					<i>2008 TES code:</i>	B78	
<i>Estimate Reliability:</i>								
<i>Commencement date:</i>	1991					<i>Expiry date:</i>	2001	
<i>Legislative reference:</i>	Subdivision 40-1 of the <i>Income Tax Assessment Act 1997</i> as adjusted by Section 40-55 of the <i>Income Tax (Transitional Provisions) Act 1997</i>							

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.

B85 Development allowance

Mining, manufacturing and construction (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	25	10	..	-	-	-	-	-
<i>Tax expenditure type:</i>	Deduction					<i>2008 TES code:</i>	B79	
<i>Estimate Reliability:</i>	Medium — Low							
<i>Commencement date:</i>	1 January 1992					<i>Expiry date:</i>	1996	
<i>Legislative reference:</i>	Former sections 82AAAA to 82AQ of the <i>Income Tax Assessment Act 1936</i> Former sections 15, 27 and 40 <i>Development Allowance Authority Act 1992</i>							

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.

B86 Exploration and prospecting deduction

Mining, manufacturing and construction (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Deduction					<i>2008 TES code:</i>	B80	
<i>Estimate Reliability:</i>	Not Applicable					<i>* Category</i>	3+	
<i>Commencement date:</i>	1968					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Section 40-25, subsection 40-80(1) and section 40-730 of the <i>Income Tax Assessment Act 1997</i>							

Expenditure on exploration or prospecting for the purpose of mining and quarrying is immediately deductible. In addition, the decline in value of a depreciating asset is the asset's cost if the taxpayer first uses the asset for exploration or prospecting for minerals or quarry materials obtainable by mining operations, the asset is not used for petroleum development drilling or for operations in the course of working a mining or quarrying operation, and when the taxpayer starts to use the asset, the taxpayer either carries on mining operations, or proposes to carry on such operations or carry on a business including exploration and prospecting for which the cost of the asset was necessarily incurred.

B87 Statutory effective life caps

Transport and communication (\$m)

2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
230	365	515	655	775	880	970	1,035
<i>Tax expenditure type:</i>		Accelerated write-off			<i>2008 TES code:</i>		B81
<i>Estimate Reliability:</i>		Medium — Low					
<i>Commencement date:</i>		2002		<i>Expiry date:</i>			
<i>Legislative reference:</i>		Section 40-102 of the <i>Income Tax Assessment Act 1997</i>					

'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 cap is below the effective life determined by the Commissioner.

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);
- trucks, truck trailers, buses and light commercial vehicles (effective from 1 January 2005); and
- tractors and harvesters (effective from 1 July 2007).

B88 Accelerated depreciation for software

Other economic affairs — Other economic affairs, nec (\$m)

2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
65	20	30	35	-	-45	-175	-140
<i>Tax expenditure type:</i>		Accelerated write-off			<i>2008 TES code:</i>		B82
<i>Estimate Reliability:</i>		Low					
<i>Commencement date:</i>		1998		<i>Expiry date:</i>			
<i>Legislative reference:</i>		Subdivision 40-E of the <i>Income Tax Assessment Act 1997</i>					

In-house software is essentially software that is used in-house, rather than as trading stock, and that is a capital asset, rather than fully deductible in the year of purchase. It includes software, or a right to use software, that the taxpayer has acquired, developed or has had another entity develop.

Expenditure on in-house software is depreciated over a statutory effective life, rather than an effective life that is self-assessed by the taxpayer or that is determined by the Commissioner of Taxation. Prior to 13 May 2008, the statutory effective life was 2.5 years, which gave rise to a tax expenditure in relation to software which has an effective life greater than 2.5 years. For expenditure in relation to software assets newly held after 13 May 2008 the statutory effective life is 4 years.

B89 Deduction for capital works expenditure

Other economic affairs — Other economic affairs, nec (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	555	620	485	535	595	655	725	650
<i>Tax expenditure type:</i>	Deduction					<i>2008 TES code:</i>		B83
<i>Estimate Reliability:</i>	Low							
<i>Commencement date:</i>	21 August 1979					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Division 43 of the <i>Income Tax Assessment Act 1997</i>							

A taxpayer can claim a deduction for capital works expenditure incurred in constructing capital works, including buildings and structural improvements and environment protection earthworks.

The deduction is either 2.5 per cent (over 40 years) or 4 per cent (over 25 years) of the construction expenditure, depending on when construction started and how the capital works are used.

A capital works deduction is generally available if the capital works are used for income producing purposes.

B90 Depreciation balancing adjustment roll-over relief

Other economic affairs — Other economic affairs, nec (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Deferral					<i>2008 TES code:</i>		B84
<i>Estimate Reliability:</i>	Not Applicable					<i>* Category</i>		1+
<i>Commencement date:</i>	1952					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Section 40-340 of the <i>Income Tax Assessment Act 1997</i>							

‘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 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, balancing adjustment offsets were also available when replacement items of plant and equipment were acquired. This treatment is available to businesses with turnover of less than \$1 million for assets acquired before 1 July 2001.

B91 Depreciation pooling for low value assets

Other economic affairs — Other economic affairs, nec (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	90	90	100	100	90	80	60	60
<i>Tax expenditure type:</i>	Accelerated write-off					<i>2008 TES code:</i>	B85	
<i>Estimate Reliability:</i>	Medium							
<i>Commencement date:</i>	2000					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Subdivision 40-E of the <i>Income Tax Assessment Act 1997</i>							

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.

B92 Depreciation to nil value rather than estimated scrap value

Other economic affairs — Other economic affairs, nec (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Deferral					<i>2008 TES code:</i>	B86	
<i>Estimate Reliability:</i>	Not Applicable					<i>* Category</i>	1+	
<i>Commencement date:</i>	1936					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Division 40 of the <i>Income Tax Assessment Act 1997</i>							

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.

B93 Establishment costs for carbon sink forests

Other economic affairs — Other economic affairs, nec (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	-	-	-	5	10	12	13	10
<i>Tax expenditure type:</i>	Deduction, Accelerated write-off					<i>2008 TES code:</i>	B87	
<i>Estimate Reliability:</i>	Medium							
<i>Commencement date:</i>	1 July 2007					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Subdivision 40-J of the <i>Income Tax Assessment Act 1997</i>							

The cost of establishing trees in carbon sink forests is immediately deductible in the 2007-08 to 2011-12 income years inclusive. After this initial period, establishment costs will be deductible over 14 years and 105 days at a rate of 7 per cent per annum.

To be eligible for the deduction, the taxpayer must be carrying on a business and the carbon sink forest must meet Environmental and Natural Resource Management Guidelines.

B94 Immediate deductibility for GST-related plant and software

Other economic affairs — Other economic affairs, nec (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	-10	-	-	-	-	-	-	-
<i>Tax expenditure type:</i>	Accelerated write-off					<i>2008 TES code:</i>	B88	
<i>Estimate Reliability:</i>	Medium							
<i>Commencement date:</i>	2000					<i>Expiry date:</i>	2000	
<i>Legislative reference:</i>	Sections 25-80 and 42-168 of the <i>Income Tax Assessment Act 1997</i>							

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.

The estimates for this tax expenditure reflect that it brings forward the timing of tax deductions relative to deductions available under the effective life benchmark. This tax expenditure has a transitional impact until all eligible GST-related plant and software would have otherwise been fully depreciated.

B95 Research and development — premium tax concession for additional expenditure

Other economic affairs — Other economic affairs, nec (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	130	195	320	330	380	350	100	40
<i>Tax expenditure type:</i>	Deduction, Accelerated write-off					<i>2008 TES code:</i>	B89	
<i>Estimate Reliability:</i>	Medium — Low							
<i>Commencement date:</i>	2001					<i>Expiry date:</i>	1 July 2010	
<i>Legislative reference:</i>	Section 73Q to 73Z of the <i>Income Tax Assessment Act 1936</i>							

In the 2009-10 Budget the Government announced that it will replace the existing R&D Tax Concessions with a new R&D Tax Credit with effect from 1 July 2010. Prior to 1 July 2010 companies that increase expenditure on labour related components of research and development (R&D) which are Australian-owned are eligible to receive a 175 per cent tax concession for increases above the average of the previous three years' R&D expenditure. 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.

The concession is available to the extent that total R&D expenditure has increased. Total R&D expenditure includes both the Australian-owned and foreign-owned components of the premium tax concession. This deduction has been available to companies from the first income year starting after 30 June 2001.

Companies that undertake research and development (R&D) on behalf of a grouped foreign company are eligible for a 175 per cent tax concession for increases in R&D expenditure above the average of the previous three years' of R&D expenditure. Expenditure on behalf of a grouped foreign company which contributes to the calculation of the 175 per cent tax concession must be labour related and will be subject to a specific deduction at the rate of 100 per cent.

The concession is only available to the extent that total R&D expenditure has increased. Total R&D expenditure includes both the Australian-owned and foreign-owned components of the premium tax concession. This deduction has been available to the Australian subsidiaries of multinational enterprises from 1 July 2007.

Information on the other R&D-related tax expenditures can be found at B60, B65, B66, B67 and B96.

B96 Research and development — research and development tax concession

Other economic affairs — Other economic affairs, nec (\$m)

2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
370	430	530	620	640	650	170	70
<i>Tax expenditure type:</i>	Deduction, Accelerated write-off				<i>2008 TES code:</i>	B90	
<i>Estimate Reliability:</i>	Medium — Low						
<i>Commencement date:</i>	1985				<i>Expiry date:</i>	1 July 2010	
<i>Legislative reference:</i>	Sections 73B and 73BA of the <i>Income Tax Assessment Act 1936</i>						

In the 2009-10 Budget the Government announced that it will replace the existing R&D Tax Concessions with a new R&D Tax Credit with effect from 1 July 2010. Prior to 1 July 2010, 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.

Information on the other R&D-related tax expenditures can be found at B60, B65, B66, B67 and B95.

B97 Small business — simplified depreciation rules

Other economic affairs — Other economic affairs, nec (\$m)

2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
-	-	140	120	100	60	75	90
<i>Tax expenditure type:</i>	Accelerated write-off				<i>2008 TES code:</i>	B91	
<i>Estimate Reliability:</i>	Medium						
<i>Commencement date:</i>	2007				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Division 328 of the <i>Income Tax Assessment Act 1997</i>						

Small businesses with annual turnover of less than \$2 million may choose to use a simplified capital allowances regime for depreciating assets. Small businesses may write off immediately purchases costing less than \$1,000 and depreciate assets that cost \$1,000 or more at accelerated rates under a pooled arrangement. Depreciating assets with an effective life of less than 25 years are depreciated in a general pool at a rate of 30 per cent. Depreciating assets with an effective life of 25 years or more are depreciated in a long life pool at a rate of 5 per cent.

Prior to July 2007, this concession was available only to taxpayers that were part of the former Simplified Tax System. As part of aligning small business thresholds, the turnover eligibility threshold was raised from \$1 million to \$2 million.

B98 Small business — Simplified trading stock rules

Other economic affairs — Other economic affairs, nec (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	-	-	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Deferral				<i>2008 TES code:</i>		B92	
<i>Estimate Reliability:</i>	Not Applicable				<i>* Category</i>		1+	
<i>Commencement date:</i>	2007				<i>Expiry date:</i>			
<i>Legislative reference:</i>	Division 328 of the <i>Income Tax Assessment Act 1997</i>							

Small businesses with annual turnover of less than \$2 million may choose to use a simplified trading stock regime. Under this regime, in certain circumstances, changes in the value of trading stock do not have to be accounted for and stocktaking is not required at the end of the income year.

Before July 2007, this regime was available only to taxpayers that were part of the former Simplified Tax System. As part of aligning small business thresholds, the turnover eligibility threshold was raised from \$1 million to \$2 million.

B99 Small business and general business tax break

Other economic affairs — Other economic affairs, nec (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	-	-	-	-	1,470	1,863	562	-153
<i>Tax expenditure type:</i>	Deduction				<i>2008 TES code:</i>		New	
<i>Estimate Reliability:</i>								
<i>Commencement date:</i>	13 December 2008				<i>Expiry date:</i>			
<i>Legislative reference:</i>	Division 41 of the <i>Income Tax Assessment Act 1997</i> .							

Businesses that acquire new tangible depreciating assets, for which a deduction is available under Subdivision 40 B of the *Income Tax Assessment Act 1997*, between 13 December 2008 and 31 December 2009 and start to use or have installed ready for use by 31 December 2010 can claim a bonus tax deduction in the income year that they use or install the asset.

Small businesses can claim a bonus deduction of 50 per cent of the cost of an eligible asset. Other businesses can claim a 30 per cent deduction for assets acquired between 13 December 2008 and 30 June 2009 and installed by 30 June 2010. For assets acquired by other businesses between 1 July 2009 and 31 December 2009 and installed by 31 December 2010 the rate of bonus deduction is 10 per cent.

The bonus deduction does not affect the capital allowance deductions that would normally be claimed in relation to the asset.

B100 The Simplified Tax System

Other economic affairs — Other economic affairs, nec (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	220	170	-	-	-	-	-	-
<i>Tax expenditure type:</i>	Deduction, Deferral, Accelerated write-off					<i>2008 TES code:</i>	B93	
<i>Estimate Reliability:</i>	Low							
<i>Commencement date:</i>	2001					<i>Expiry date:</i>	2007	
<i>Legislative reference:</i>	Division 328 of the <i>Income Tax Assessment Act 1997</i>							

The Simplified Tax System (STS) allowed eligible small businesses to access a range of tax concessions including simplified depreciation and trading stock rules. As part of the Government's initiative to align small business thresholds, the STS was replaced by the Small Business Framework which allows small business entities (with a turnover under \$2 million) to choose the concessions that best meet their specific needs, subject to meeting any specific criteria for each concession. The concessions within the former STS can now be selected individually.

B101 Transitional exemption of small business from abolition of accelerated depreciation, balancing adjustment offset and low value pooling

Other economic affairs — Other economic affairs, nec (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	-40	-	-	-	-	-	-	-
<i>Tax expenditure type:</i>	Accelerated write-off					<i>2008 TES code:</i>	B94	
<i>Estimate Reliability:</i>	Medium							
<i>Commencement date:</i>	21 September 1999					<i>Expiry date:</i>	30 June 2001	
<i>Legislative reference:</i>	Subdivision 42-K of the <i>Income Tax Assessment Act 1997</i>							

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. As well as accelerated depreciation, other concessions available to eligible businesses include the balancing adjustment offset, the pooling of low value depreciating assets, and the immediate deductibility of plant items costing up to \$300.

General consumption tax expenditures

B102 Exemption of tax offsets paid under the National Urban Water and Desalination Plan

General public services — General services (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	-	-	-	-	-	9	15	23
<i>Tax expenditure type:</i>	Offset					<i>2008 TES code:</i>	B95	
<i>Estimate Reliability:</i>	Very Low							
<i>Commencement date:</i>	1 July 2009					<i>Expiry date:</i>	2014	
<i>Legislative reference:</i>	Section 67-23 and Subdivision 402-W of the <i>Income Tax Assessment Act 1997</i> .							

The National Urban Water and Desalination Plan provides financial assistance to approved projects, such as desalination, water recycling and stormwater harvesting projects, which improve the security of water supplies to Australia's major cities. The financial assistance is provided as refundable tax offsets, unless the applicant receiving the assistance is outside the tax system, in which case they receive a grant. Payments made as refundable tax offsets under the plan are exempt from tax.

For stormwater harvesting projects, the amount of the offset is up to 50 per cent of eligible capital costs up to a maximum of \$20 million. For other projects the payments are capped at 10 per cent of eligible capital costs up to a maximum of \$100 million per project.

Miscellaneous tax expenditures

B103 Denial of deductions by businesses for political donations

General public services — General services (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	-	-	-	*	*	*	*	*
<i>Tax expenditure type:</i>	Denial of deduction					<i>2008 TES code:</i>	A66	
<i>Estimate Reliability:</i>	Not Applicable					<i>* Category</i>	1-	
<i>Commencement date:</i>	1 July 2008					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Not yet legislated.							

Business taxpayers are prevented from claiming general deductions for gifts or contributions to political parties, independent members and independent candidates. The changes apply from 1 July 2008.

B104 International tax — a final withholding tax on certain distributions by Australian managed investment trusts to foreign residents

General public services — General services (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	-	-	-	*	*	*	*	*
<i>Tax expenditure type:</i>	Concessional rate					<i>2008 TES code:</i>	B97	
<i>Estimate Reliability:</i>	Low					<i>* Category</i>	2+	
<i>Commencement date:</i>	1 July 2008.					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Subdivision 12-H of Schedule 1 to the <i>Taxation Administration Act 1953</i> Division 7 of the <i>Taxation Administration Regulations 1976</i>							

Distributions of Australian source net income (other than dividends, interest and royalties) by Australian managed investment trusts to foreign residents are subject to a final withholding tax. The general rate of 30 per cent is reduced for residents of countries specified in the regulations as ‘information exchange countries’.

B105 Tax exemption for incentives provided by governments under the National Rental Affordability Scheme

General public services — General services (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	-	-	-	-	-	5	30	80
<i>Tax expenditure type:</i>	Exemption					<i>2008 TES code:</i>	B98	
<i>Estimate Reliability:</i>	Very Low							
<i>Commencement date:</i>	1 July 2008					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Division 380 of the <i>Income Tax Assessment Act 1997</i>							

The National Rental Affordability Scheme provides tax and cash incentives to providers of new dwellings on the condition that they are rented to low and moderate income households at 20 per cent below market rates. In 2008, the incentives were \$6,000 from the Commonwealth Government and at least \$2,000 from State and Territory governments. The incentives are indexed over the life of the scheme.

The \$6,000 contribution from the Commonwealth Government would be paid as a refundable tax offset to taxable entities, and as a grant to charities endorsed by the Australian Taxation Office. The payment of the refundable tax offset is exempt from tax. The (minimum) \$2,000 contribution from the State and Territory governments may be paid as either a cash grant or in-kind assistance.

Both incentives are exempt from tax.

B106 Deduction for certain co-operative companies

Other economic affairs — Other economic affairs, nec (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Deduction					<i>2008 TES code:</i>	B99	
<i>Estimate Reliability:</i>	Not Applicable					<i>* Category</i>	2+	
<i>Commencement date:</i>	1973					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Sections 117 and 120 of the <i>Income Tax Assessment Act 1936</i>							

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.

B107 Forestry managed investment schemes — tax deductibility

Other economic affairs — Other economic affairs, nec (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	-	-	-	40	100	105	110	120
<i>Tax expenditure type:</i>	Accelerated write-off					<i>2008 TES code:</i>	B101	
<i>Estimate Reliability:</i>	Medium							
<i>Commencement date:</i>	2007					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Division 394 of the <i>Income Tax Assessment Act 1997</i>							

Investors in forestry managed investment schemes (MIS) are able to claim immediate upfront deductions for their expenditure on such schemes, provided that, amongst other requirements, at least 70 per cent of the expenditure is directly related to developing forestry. The statutory deduction available to investors in forestry MIS allows investors to bring forward their deductions relative to the benchmark.

Interests in forestry MIS can be traded, subject to a four-year holding period rule and a market value pricing rule for initial investors. On 21 October 2009, the Government announced that it would amend the four-year holding period rule to allow an investor's deduction to stand where the rule is failed for reasons genuinely outside the investor's control. These circumstances include the death of the investor or insolvency of the MIS manager. The proceeds on the sale or harvest of a forestry MIS interest by an initial investor are taxable income of the investor.

B108 Small business related party at call loans taken to be debt interests

Other economic affairs — Other economic affairs, nec (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Deduction					<i>2008 TES code:</i>	B102	
<i>Estimate Reliability:</i>	Not Applicable					<i>* Category</i>	2+	
<i>Commencement date:</i>	1 July 2005					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Division 974 of the <i>Income Tax Assessment Act 1997</i>							

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 benchmark 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).

From 1 July 2005, these loans are taken to be debt interests for companies that have an annual turnover of less than \$20 million.

B109 Income tax exemption for public and municipal authorities and other local governing bodies

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

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	560	710	680	750	830	920	1,030	1,140
<i>Tax expenditure type:</i>	Exemption					<i>2008 TES code:</i>	B104	
<i>Estimate Reliability:</i>	Medium							
<i>Commencement date:</i>	Introduced before 1985					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Section 50-25 <i>Income Tax Assessment Act 1997</i>							

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.

B110 Income tax exemption for State and Territory bodies

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

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption					<i>2008 TES code:</i>	B105	
<i>Estimate Reliability:</i>	Not Applicable					<i>* Category</i>	4+	
<i>Commencement date:</i>	Introduced before 1985					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Part III Division 1AB of the <i>Income Tax Assessment Act 1936</i>							

The income of an Australian State or Territory body is exempt from income tax unless it is excluded under section 24AT of the *Income Tax Assessment Act 1936*.

RETIREMENT SAVINGS

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.

Tax expenditures for social security and welfare

C1 Capital gains tax small business retirement exemption

Social security and welfare (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	190	240	410	460	460	450	470	500
<i>Tax expenditure type:</i>	Exemption					<i>2008 TES code:</i>		C1
<i>Estimate Reliability:</i>	Low							
<i>Commencement date:</i>	1997					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Subdivision 152-D of the <i>Income Tax Assessment Act 1997</i>							

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. An eligible small business is one where the net value of assets that the taxpayer and connected entities own is no more than \$6 million, or where the aggregated annual turnover is less than \$2 million.

C2 Capped taxation rates for lump sum payments for unused recreation and long service leave

Social security and welfare (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	185	130	115	180	135	120	115	110
<i>Tax expenditure type:</i>	Concessional rate					<i>2008 TES code:</i>		C2
<i>Estimate Reliability:</i>	Medium — High							
<i>Commencement date:</i>	Introduced before 1985					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Sections 26AC, 26AD, 159S and 159SA of the <i>Income Tax Assessment Act 1936</i> Subdivisions 83-A and 83-B of the <i>Income Tax Assessment Act 1997</i>							

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

Tax Expenditures Statement

respect of unused annual or long service leave which accrued after 18 August 1993 are taxed at individual marginal rates.

C3 Concessional taxation of non-superannuation termination benefits

Social security and welfare (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	1,500	1,400	1,200	1,750	1,500	1,350	1,350	1,300
<i>Tax expenditure type:</i>	Concessional rate					<i>2008 TES code:</i>		C3
<i>Estimate Reliability:</i>	Medium							
<i>Commencement date:</i>	Introduced before 1985					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Part III, Division 2, Subdivision AA of the <i>Income Tax Assessment Act 1936</i> Part III, Division 14 of the <i>Income Tax Assessment Act 1936</i> Part III, Division 17, Subdivision AAA of the <i>Income Tax Assessment Act 1936</i> Termination payments tax acts (termination payments surcharge acts) Division 82 of the <i>Income Tax Assessment Act 1997</i> Division 82 of the <i>Income Tax (Transitional Provisions) Act 1997</i>							

Non-superannuation termination payments are generally paid by employers to terminating employees. Before 1 July 2007 these amounts were taxed in the same way as superannuation lump sums from untaxed funds with the exception of bona fide redundancy payments and approved early retirement scheme payments which were tax free up to certain limits. This tax expenditure excludes the treatment of payments in lieu of leave.

From 1 July 2007, non-superannuation termination payments are taxed differently to lump sums paid from untaxed funds. Pre-June 1983 and invalidity amounts are tax free, and the residual is taxed at 15 per cent for amounts up to \$140,000 (indexed) for recipients aged above preservation age and at 30 per cent for those aged under preservation age. Amounts in excess of \$140,000 are taxed at the top marginal tax rate. The Medicare levy is payable in addition to these rates. Transitional arrangements also apply for entitlements in place as at 9 May 2006. The tax treatment of genuine redundancy payments and early retirement scheme payments has not changed.

This tax expenditure excludes the treatment of payments in lieu of leave (see the tax expenditures C2 *Capped taxation rates for lump sum payments for unused recreation and long service leave* and C16 *Taxation of five per cent of unused long service leave accumulated by 15 August 1978*).

C4 Superannuation — capital gains tax discount for funds

Social security and welfare (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	1,090	1,690	890	210	80	80	150	300
<i>Tax expenditure type:</i>	Exemption, Reduction in taxable value				<i>2008 TES code:</i>		C4	
<i>Estimate Reliability:</i>	Low							
<i>Commencement date:</i>	10 December 1999				<i>Expiry date:</i>			
<i>Legislative reference:</i>	Paragraph 115-10(b) and subparagraph 115-100(b)(i) of the <i>Income Tax Assessment Act 1997</i>							

Capital gains made by complying superannuation funds are taxed concessionally. Two-thirds of any nominal capital gain made from a capital gains tax event occurring on or after 21 September 1999 is included in the assessable income of a fund, provided the fund has held the asset for at least one year. The effect of this item is in addition to the effect of lower tax rates for superannuation investments reported in the tax expenditure *Superannuation – concessional taxation of superannuation entity earnings* (C6). 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.

C5 Superannuation — concessional taxation of employer contributions

Social security and welfare (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	9,500	11,400	13,000	12,500	11,400	12,100	13,250	14,550
<i>Tax expenditure type:</i>	Exemption, Reduction in taxable value				<i>2008 TES code:</i>		C5	
<i>Estimate Reliability:</i>	Medium							
<i>Commencement date:</i>	Introduced before 1985				<i>Expiry date:</i>			
<i>Legislative reference:</i>	Before 1 July 2007: Part III, Division 3, Subdivision AA of the <i>Income Tax Assessment Act 1936</i> Part IX of the <i>Income Tax Assessment Act 1936</i> Superannuation contributions tax acts (surcharge acts) After 1 July 2007: Divisions 290, 292 and 295 of the <i>Income Tax Assessment Act 1997</i>							

Currently, employer contributions, after certain costs of the superannuation entity are deducted, are generally taxed in the assessable income of a superannuation entity at a concessional rate of 15 per cent. Caps apply to the amount of concessional contributions which may receive this concessional taxation treatment. From the 2009-10 financial year onwards the concessional contributions cap has been reduced from \$50,000 to \$25,000 per annum. The transitional cap, which applies to persons aged 50 and over, has been reduced from \$100,000 to \$50,000. Contributions above these limits are taxed at the top marginal tax rate and Medicare Levy by applying an additional tax of 31.5 per cent on the excess contribution payable by the individual.

Before 1 July 2007, employers were not entitled to a deduction for contributions in excess of an employee's age-based limit.

Tax Expenditures Statement

The superannuation surcharge for higher income earners applied to some of these contributions in 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 to 12.5 per cent in 2004-05. The surcharge was abolished for contributions made on or after 1 July 2005.

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.

C6 Superannuation — concessional taxation of superannuation entity earnings

Social security and welfare (\$m)

2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
12,150	16,050	14,450	10,000	9,800	11,250	13,450	16,100
<i>Tax expenditure type:</i>	Exemption, Reduction in taxable value				<i>2008 TES code:</i>	C6	
<i>Estimate Reliability:</i>	Low						
<i>Commencement date:</i>	Introduced before 1985				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Before 1 July 2007: Part IX of the <i>Income Tax Assessment Act 1936</i> After 1 July 2007: Division 295 of the <i>Income Tax Assessment Act 1997</i>						

The earnings of complying superannuation entities, after certain costs of the entities are deducted, are taxed at a concessional rate. The tax rate on earnings is 15 per cent (for the accumulation phase) or nil where they are derived from assets which are used to meet current pension liabilities (drawdown phase). Complying superannuation entities are entitled to refunds of excess imputation credits attached to dividends payable to the fund.

For financial year 2007-08 and later years, this item also includes the concessional taxation of fund earnings on funded superannuation income streams (for earlier years all superannuation income stream related items are included in the tax expenditure *Superannuation – C15 tax on funded superannuation income streams*).

This tax expenditure reflects the extra tax in a particular year that would be collected if superannuation earnings of that year were held constant, but were taxed at the personal tax rates of members rather than fund rates. The effect of taxation on subsequent accumulations, earnings and tax is not taken into account.

C7 Superannuation — concessional taxation of unfunded superannuation

Social security and welfare (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	240	160	380	380	390	410	430	430
<i>Tax expenditure type:</i>	Concessional rate					<i>2008 TES code:</i>		C7
<i>Estimate Reliability:</i>	Medium							
<i>Commencement date:</i>	Introduced before 1985					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Part III, Division 2, Subdivision AA of the <i>Income Tax Assessment Act 1936</i> Part III, Division 14 of the <i>Income Tax Assessment Act 1936</i> Part III, Division 17, Subdivision AAA of the <i>Income Tax Assessment Act 1936</i> Part IX of the <i>Income Tax Assessment Act 1936</i> Superannuation contributions tax acts (surcharge acts) Part 3-30 of the <i>Income Tax Assessment Act 1997</i> Subdivision 320-D of the <i>Income Tax Assessment Act 1997</i> Part 3-30 of the <i>Income Tax (Transitional Provisions) Act 1997</i>							

In the case of unfunded superannuation, 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 superannuation lump sums are taxed in the same way as funded superannuation lump sums from untaxed funds (see the tax expenditures C13 *Superannuation – tax on funded lump sums relating to post-June 1983 service* and C14 *Superannuation – tax on funded lump sums relating to pre-July 1983 service*).

Pension payments from an unfunded source are included in the taxpayer's assessable income and are subject to tax at marginal rates. From 1 July 2007, pension payments from an unfunded source became eligible for a 10 per cent tax offset for persons aged 60 or over.

The taxation of a death benefit paid to a dependant as a reversionary pension depends on the age of the primary and reversionary beneficiary. If either was aged 60 or over at the time of death, then payments to the reversionary beneficiary will be taxed at marginal rates with a 10 per cent tax offset. If both were under age 60 at the time of death, the pension will be taxed at the reversionary beneficiary's marginal tax rate (less any tax free component and any relevant offset) unless, or until, the reversionary beneficiary is aged 60 or over, in which case it will become eligible for the 10 per cent tax offset.

Death benefit payments to non-dependants must be made as a lump sum. Lump sum death benefits paid to a non-dependent from an untaxed source are taxed at 30 per cent.

C8 Superannuation — deduction and concessional taxation of certain personal contributions

Social security and welfare (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	410	810	1,550	1,400	1,100	610	660	750
<i>Tax expenditure type:</i>	Exemption, Reduction in taxable value					<i>2008 TES code:</i>		C8
<i>Estimate Reliability:</i>	Medium — Low							
<i>Commencement date:</i>	Introduced before 1985					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Before 1 July 2007: Part III, Division 3, Subdivision AB of the <i>Income Tax Assessment Act 1936</i> Section 26-80 of the <i>Income Tax Assessment Act 1997</i> Part IX of the <i>Income Tax Assessment Act 1936</i> Superannuation contributions tax acts (surcharge acts) After 1 July 2007: Division 290 of the <i>Income Tax Assessment Act 1997</i> Division 295 of the <i>Income Tax Assessment Act 1997</i> Division 292 of the <i>Income Tax Assessment Act 1997</i>							

Currently, certain persons are entitled to a full deduction for all personal contributions they make to a superannuation fund, provided that the deduction is not greater than the amount that reduces the individual's taxable income to nil. For the purposes of this deduction, the persons entitled are those who have less than 10 per cent of their income earned as an employee. This includes many unincorporated and substantially self-employed persons and persons not in paid employment.

These personal contributions are concessional deductible contributions and subject to the 15 per cent tax rate on the first \$25,000 contributed per annum, subject to transitional arrangements for persons aged 50 and over at \$50,000 per annum. Contributions above \$25,000 (\$50,000) are taxed at the top marginal tax rate and Medicare Levy by applying an additional tax of 31.5 per cent on the excess contribution. This tax is payable by the individual.

Prior to 1 July 2009, individuals could make up to \$50,000 (\$100,000 for persons over 50) of concessional deductible contributions subject to the 15 per cent tax rate. The 2009 changes to the levels subject to 15 per cent tax are reflected in the tax expenditure estimates with a one year delay.

Prior to 1 July 2007, eligible self-employed persons received 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 limit.

Under the benchmark, contributions by these persons would not be deductible, on the basis that they are not outgoings. If the level of contributions was maintained, but the contributions were not deductible, revenue would be higher by the amounts indicated.

The superannuation surcharge for higher income earners applied to some of these contributions in 2004-05 and earlier financial years. The surcharge was abolished for contributions made on or after 1 July 2005.

C9 Superannuation — measures for low-income earners

Social security and welfare (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	90	270	550	310	310	310	190	180
<i>Tax expenditure type:</i>	Exemption, Reduction in taxable value					<i>2008 TES code:</i>	C9	
<i>Estimate Reliability:</i>	Medium							
<i>Commencement date:</i>	Introduced before 1985					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Before 1 July 2003: Part III, Division 17, Subdivision AAC of the <i>Income Tax Assessment Act 1936</i> After 30 June 2003: <i>Superannuation (Government Co-Contribution for Low Income Earners) Act 2003</i>							

The superannuation co-contribution, applying to eligible personal superannuation contributions by qualifying people, is an expense measure. As such, the co-contribution payments are not included in the TES. The amounts indicated represent the impact of the co-contributions not being taxed.

C10 Superannuation — spouse contribution offset

Social security and welfare (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	15	15	10	8	6	6	5	5
<i>Tax expenditure type:</i>	Exemption, Reduction in taxable value					<i>2008 TES code:</i>	C10	
<i>Estimate Reliability:</i>	Medium							
<i>Commencement date:</i>	Introduced before 1985					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Before 1 July 2007: Part III, Division 17, Subdivision AACA of the <i>Income Tax Assessment Act 1936</i> After 30 June 2007: Subdivision 290-D of the <i>Income Tax Assessment Act 1997</i>							

An 18 per cent offset 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). A maximum offset of \$540 applies for a contribution of \$3,000 where the spouse's income is less than \$10,800. The offset is phased out and is no longer payable where the spouse's income exceeds \$13,800.

C11 Superannuation — tax on excess concessional contributions

Social security and welfare (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Increased rate					<i>2008 TES code:</i>	New	
<i>Estimate Reliability:</i>	Medium — Low					<i>* Category</i>	3-	
<i>Commencement date:</i>	Introduced before 1985					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Before 1 July 2007: Part III, Division 3, Subdivision AA of the <i>Income Tax Assessment Act 1936</i> Part IX of the <i>Income Tax Assessment Act 1936</i> Superannuation contributions tax acts (surcharge acts) After 1 July 2007: Divisions 290, 292 and 295 of the <i>Income Tax Assessment Act 1997</i>							

Currently, employer contributions, after certain costs of the superannuation entity are deducted, are generally taxed in the assessable income of a superannuation entity at a concessional rate of 15 per cent; the tax expenditure from this is shown at C5 Superannuation – concessional taxation of employer contributions.

Caps apply to the amount of concessional contributions which receive this concessional taxation treatment. From the 2009-10 financial year onwards the concessional contributions cap has been reduced from \$50,000 to \$25,000 per annum. The transitional cap, which applies to persons aged 50 and over, has been reduced from \$100,000 to \$50,000. Contributions above these limits are taxed at the top marginal tax rate and Medicare Levy by applying an additional tax of 31.5 per cent on the excess contribution payable by the individual. A negative tax expenditure occurs where a person contributes to superannuation above the relevant cap and their marginal rate is below the top marginal rate.

C12 Superannuation — tax on excess non-concessional contributions

Social security and welfare (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption, Reduction in taxable value					<i>2008 TES code:</i>	C11	
<i>Estimate Reliability:</i>	Not Applicable					<i>* Category</i>	3-	
<i>Commencement date:</i>	10 May 2006					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Division 292 of the <i>Income Tax (Transitional Provisions) Act 1997</i> Division 292 of the <i>Income Tax Assessment Act 1997</i>							

Non-concessional contributions include those made from an individual's after tax income (generally undeducted contributions) and excess concessional contributions (that is, employer and personal deducted contributions which have exceeded the annual concessional contribution thresholds). The benchmark treatment of these contributions is that they are taxed like any other income in the hands of the individual (that is, the contributions are taxed at the individual's marginal tax rate).

Prior to 9 May 2006, the tax treatment of non-concessional (then referred to as undeducted) contributions was consistent with the benchmark. Since 10 May 2006, non-concessional contributions have been subject to a cap, with contributions in excess of the cap taxed at the top marginal tax rate, payable by the individual. The taxation of these excess contributions represents a deviation from the benchmark.

A cap of \$1 million applies to non-concessional contributions made between 10 May 2006 and 30 June 2007. From 1 July 2007, an annual cap of \$150,000 applies to non-concessional contributions, although people under age 65 will be able to bring forward up to two years worth of non-concessional contributions. Exemptions to the cap include proceeds from the disposal of assets that qualify for some small business CGT concessions, up to a lifetime limit of \$1.045 million, and proceeds arising from structured settlements or orders for personal injuries.

C13 Superannuation — tax on funded lump sums relating to post-June 1983 service

Social security and welfare (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	-160	-170	-180	-180	-180	-180	-180	-180
<i>Tax expenditure type:</i>	Exemption, Reduction in taxable value					<i>2008 TES code:</i>	C12	
<i>Estimate Reliability:</i>	Medium							
<i>Commencement date:</i>	Introduced before 1985					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Before 1 July 2007: Part III, Division 2 of the <i>Income Tax Assessment Act 1936</i> Part III, Division 14 of the <i>Income Tax Assessment Act 1936</i> Part III, Division 17 of the <i>Income Tax Assessment Act 1936</i> After 1 July 2007: Division 301 of the <i>Income Tax Assessment Act 1997</i> Division 302 of the <i>Income Tax Assessment Act 1997</i> Division 307 of the <i>Income Tax Assessment Act 1997</i> Part 3-30 of the <i>Income Tax Assessment Act 1997</i> Part 3-30 of the <i>Income Tax (Transitional Provisions) Act 1997</i>							

For taxed funds, the taxable component of lump sums is generally taxed at 20 per cent where the taxpayer is aged under 55 years.

For lump sums paid before 1 July 2007 to taxpayers aged 55 or over, or paid after 30 June 2007 to taxpayers aged 55 to 59, the element of any lump sum benefit taxed during the accumulation stage is typically taxed at zero per cent up to the low rate threshold and 15 per cent thereafter.

Untaxed funds are those where superannuation benefits are not taxed during the accumulation phase. For taxpayers under age 55 both before and from 1 July 2007, the taxation rate on these elements is typically 30 per cent. For taxpayers aged 55 or over before 1 July 2007, the element of a lump sum untaxed during the accumulation stage was typically taxed at 15 per cent up to the low rate threshold and 30 per cent

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thereafter. From 1 July 2007, lump sums received by taxpayers aged 55 to 59 are subject to tax rates ranging from 15 per cent to the top rate.

From 1 July 2007, the element of a lump sum from a taxed source relating to post-June 1983 service is tax free for persons aged 60 or over. The post-June 1983 element untaxed in a fund is typically taxed at 15 per cent up to an amount of \$1 million for persons aged 60 or over.

Special arrangements apply to lump sums paid to certain temporary residents who have departed Australia. The taxed element of these lump sum payments is taxed at 35 per cent and the untaxed element at 45 per cent (from 1 July 2002 to 1 April 2009 the tax rates were 30 per cent and 40 per cent respectively).

Lump sum payments to death benefit dependents (and non-dependents of service and police personnel killed in the line of duty) and to persons suffering from a terminal medical condition are tax free.

Death benefit payments to non-dependants must be made as a lump sum. Lump sum death benefits paid to a non-dependent from a taxed source are taxed at 15 per cent.

The amounts reported are the tax raised on these lump sums.

C14 Superannuation — tax on funded lump sums relating to pre-July 1983 service

Social security and welfare (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	-30	-17	-	-	-	-	-	-
<i>Tax expenditure type:</i>	Exemption, Reduction in taxable value					<i>2008 TES code:</i>	C13	
<i>Estimate Reliability:</i>	High							
<i>Commencement date:</i>	Introduced before 1985					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Before 1 July 2007: Section 27C of the <i>Income Tax Assessment Act 1936</i> After 1 July 2007: Sections 307-210 and 307-225 of the <i>Income Tax Assessment Act 1997</i>							

Before 1 July 2007, the part of a lump sum benefit relating to service before July 1983 was taxed at a lower rate. Only 5 per cent of the pre-July 1983 amount was included in a taxpayer's assessable income and subject to tax at marginal rates. This concessional treatment reflected the regime for taxing eligible termination payments that existed before July 1983. Applying the post-June 1983 tax rates to these funded benefits would have imposed a tax retrospectively. The amounts reported are the tax raised on these lump sums.

From 1 July 2007, the component of a lump sum benefit relating to pre-July 1983 service is tax free.

C15 Superannuation — tax on funded superannuation income streams

Social security and welfare (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption, Reduction in taxable value					<i>2008 TES code:</i>	C14	
<i>Estimate Reliability:</i>	Not Applicable					<i>* Category</i>	1-	
<i>Commencement date:</i>	Introduced before 1985					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Before 1 July 2007: Part III, Divisions 2, 14 and 17 of the <i>Income Tax Assessment Act 1936</i> After 1 July 2007: Divisions 301 and 302 and Part 3-30 of the <i>Income Tax Assessment Act 1997</i> Part 3-30 of the <i>Income Tax (Transitional Provisions) Act 1997</i>							

The taxable component of superannuation income stream payments received by a taxpayer before 1 July 2007 was included in assessable income and subject to tax at marginal rates. The taxable component of superannuation income stream payments from a taxed source to a taxpayer aged 55 or over generally attracted a tax offset of 15 per cent. The tax raised reduces the total superannuation tax expenditure, as under the benchmark withdrawals from superannuation are tax free.

From 1 July 2007, superannuation income stream payments from a taxed source are tax free for persons aged 60 or over. The taxable component of superannuation income stream payments received by a taxpayer below age 60 are included in assessable income. A tax offset of 15 per cent applies to the taxable component of superannuation income stream payments paid to taxpayers aged 55 to 59, and to disability benefits paid to taxpayers of any age.

The taxable component of pension payments from an untaxed source are eligible for a 10 per cent tax offset for persons aged 60 or over.

From 1 July 2007, this item relates to the tax on funded pensions for persons under the age of 60.

The taxation of a death benefit paid from a taxed source as a reversionary pension depends on the age of the primary and reversionary beneficiary. If either the primary or reversionary beneficiary was aged 60 or over at the time of death, then income stream payments to the reversionary beneficiary will be tax free. If both were under age 60 at the time of death, the taxable component will be taxed at the reversionary beneficiary's marginal tax rate (less a 15 per cent tax offset) unless, or until, the reversionary beneficiary is aged 60 or over, in which case it will be tax free.

C16 Taxation of five per cent of unused long service leave accumulated by 15 August 1978

Social security and welfare (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	90	75	75	65	60	55	50	50
<i>Tax expenditure type:</i>	Concessional rate					<i>2008 TES code:</i>	C15	
<i>Estimate Reliability:</i>	Medium — High							
<i>Commencement date:</i>	Introduced before 1985					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Subsection 26AD(5) of the <i>Income Tax Assessment Act 1936</i> Subsection 83-80(1) of the <i>Income Tax Assessment Act 1997</i>							

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.

C17 Trans-Tasman retirement savings portability scheme

Social security and welfare (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	-	-	-	-	*	*	*	*
<i>Tax expenditure type:</i>	Exemption					<i>2008 TES code:</i>	New	
<i>Estimate Reliability:</i>	* <i>Category</i> 1+							
<i>Commencement date:</i>	1 June 2010					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Not yet legislated							

Transfers of retirement savings from overseas countries into the Australian superannuation system are generally treated as non-concessional contributions.

Under this measure amounts transferred from a New Zealand Kiwi Saver account to an Australian APRA regulated complying superannuation fund will also be generally treated as non-concessional contributions.

As such New Zealand sourced retirement savings transferred under the scheme will be subject to the non-concessional contributions cap on initial entry into the Australian superannuation system.

Tax expenditures for other economic affairs

C18 Capital gains tax roll-over for changes to trust deeds of Approved Deposit Funds and superannuation funds

Other economic affairs — Other economic affairs, nec (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Deferral					<i>2008 TES code:</i>	C16	
<i>Estimate Reliability:</i>	Not Applicable					<i>* Category</i>	1+	
<i>Commencement date:</i>	1994					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Subdivision 126-C of the <i>Income Tax Assessment Act 1997</i>							

Capital gains tax (CGT) roll-over is provided where a complying superannuation fund or a complying Approved Deposit Fund amends or replaces its trust deed.

C19 Capital gains tax roll-over for transfer of Commonwealth Superannuation Scheme assets to the Public Sector Superannuation Investments Trust

Other economic affairs — Other economic affairs, nec (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	-	-	70	-15	-15	-15	-15	-
<i>Tax expenditure type:</i>	Deferral					<i>2008 TES code:</i>	C17	
<i>Estimate Reliability:</i>	Medium — High							
<i>Commencement date:</i>	1 July 2006					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Schedule 1, Part 3 of the <i>Superannuation Legislation Amendment (Trustee Board and Other Measures) Act 2006</i>							

An automatic capital gains tax (CGT) roll-over is available for the transfer of CGT assets from the Commonwealth Superannuation Scheme (CSS) to the Public Sector Superannuation Investments Trust as part of a restructure of the CSS.

C20 Small business capital gains tax exemption for assets held more than 15 years

Other economic affairs — Other economic affairs, nec (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	35	55	90	115	120	125	130	140
<i>Tax expenditure type:</i>	Exemption					<i>2008 TES code:</i>	C18	
<i>Estimate Reliability:</i>	Medium — Low							
<i>Commencement date:</i>	1999					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Subdivision 152-B of the <i>Income Tax Assessment Act 1997</i>							

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. An eligible small business is one where the net value of assets that the taxpayer

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and connected entities own is no more than \$6 million, or where the aggregated annual turnover is less than \$2 million.

C21 Superannuation — payment of temporary residents' superannuation to the Australian Government

Other economic affairs — Other economic affairs, nec (\$m)

2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
-	-	-	-170	-210	-160	-110	-140
<i>Tax expenditure type:</i>	Increased rate				<i>2008 TES code:</i>	C19	
<i>Estimate Reliability:</i>	Medium — Low						
<i>Commencement date:</i>	Royal Assent				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Not yet legislated						

The superannuation of a temporary resident (who is not a New Zealand citizen, retirement visa holder or applying for permanent residency) will be deemed to be 'unclaimed' after they have left Australia, ceased to hold a temporary visa, and at least six months has passed and they have not taken their superannuation. The amounts will be paid to the Australian Government commencing in the 2008-09 year.

FRINGE BENEFITS TAX

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 is the employee's 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).

Tax expenditures for general public services

D1 Exemption for benefits provided by certain international organisations

General public services — Financial and fiscal affairs (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption					<i>2008 TES code:</i>	D1	
<i>Estimate Reliability:</i>	Not Applicable					<i>* Category</i>	1+	
<i>Commencement date:</i>	1986					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Section 55 of the <i>Fringe Benefits Tax Assessment Act 1986</i>							

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

Defence (\$m)							
2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
30	25	30	55	30	30	30	35
<i>Tax expenditure type:</i>	Exemption				<i>2008 TES code:</i>		D2
<i>Estimate Reliability:</i>	Low						
<i>Commencement date:</i>	1995			<i>Expiry date:</i>			
<i>Legislative reference:</i>	Sections 6AA and 6AB of the <i>Fringe Benefits Tax (Application to the Commonwealth) Act 1986</i>						

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

D3 Exemption for health care benefits provided to members of the Defence Force

Defence (\$m)							
2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
540	490	490	460	470	480	490	455
<i>Tax expenditure type:</i>	Exemption				<i>2008 TES code:</i>		D3
<i>Estimate Reliability:</i>	Medium						
<i>Commencement date:</i>	1995			<i>Expiry date:</i>			
<i>Legislative reference:</i>	Section 6AC of the <i>Fringe Benefits Tax (Application to the Commonwealth) Act 1986</i>						

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

D4 Exemption for war service loans provided under the Defence Service Homes Act 1918

Defence (\$m)							
2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
4	4	3	2	1	1	1	1
<i>Tax expenditure type:</i>	Exemption				<i>2008 TES code:</i>		D4
<i>Estimate Reliability:</i>	Medium — High						
<i>Commencement date:</i>	1986			<i>Expiry date:</i>			
<i>Legislative reference:</i>	Section 6 of the <i>Fringe Benefits Tax (Application to the Commonwealth) Act 1986</i>						

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

Tax expenditures for education

D5 Reduction in taxable value for education costs of children of employees posted overseas

Education (\$m)								
2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	
*	*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Reduction in taxable value				<i>2008 TES code:</i>	D5		
<i>Estimate Reliability:</i>	Not Applicable				<i>* Category</i>	1+		
<i>Commencement date:</i>	1986				<i>Expiry date:</i>			
<i>Legislative reference:</i>	Section 65A of the <i>Fringe Benefits Tax Assessment Act 1986</i>							

The taxable value of fringe benefits including a car, expense payment, property or residual benefit in respect of full-time education of children of employees posted overseas for 28 days or more 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 Exemption for public and not-for-profit hospitals

Health (\$m)								
2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	
770	950	780	800	830	870	950	1,050	
<i>Tax expenditure type:</i>	Exemption				<i>2008 TES code:</i>	D6		
<i>Estimate Reliability:</i>	Medium							
<i>Commencement date:</i>	2000				<i>Expiry date:</i>			
<i>Legislative reference:</i>	Section 57A(3) and 57A(4) of the <i>Fringe Benefits Tax Assessment Act 1986</i>							

Public and not-for-profit hospitals are provided with an exemption from fringe benefits tax which is capped up to \$17,000 of the grossed-up taxable value of fringe benefits per employee.

Excluded from the \$17,000 cap are meal entertainment (such as a doctor's expenses on a restaurant meal at a social occasion), entertainment facility leasing expenses and car parking. The fringe benefits tax exemption on these items remains unlimited.

D7 Exemption for travel costs of employees and their families associated with overseas medical treatment

Health (\$m)							
2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption				<i>2008 TES code:</i>	D7	
<i>Estimate Reliability:</i>	Not Applicable				<i>* Category</i>	1+	
<i>Commencement date:</i>	1986				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Section 58L of the <i>Fringe Benefits Tax Assessment Act 1986</i>						

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

Social security and welfare (\$m)							
2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption				<i>2008 TES code:</i>	D9	
<i>Estimate Reliability:</i>	Not Applicable				<i>* Category</i>	1+	
<i>Commencement date:</i>	1986				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Sections 58 and 58U of the <i>Fringe Benefits Tax Assessment Act 1986</i>						

Certain benefits that are provided to people employed in caring for elderly or disadvantaged persons and who reside with them in their own homes are exempt from fringe benefits tax. The benefits that are exempt are accommodation, residential fuel, meals and other food and drink provided in the home to the employee.

D9 Exemption for emergency assistance

Social security and welfare (\$m)							
2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption				<i>2008 TES code:</i>	D10	
<i>Estimate Reliability:</i>	Not Applicable				<i>* Category</i>	1+	
<i>Commencement date:</i>	1986				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Section 58N of the <i>Fringe Benefits Tax Assessment Act 1986</i>						

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 benefit.

D10 Exemption for employer contributions to secure childcare places in certain centres

Social security and welfare (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption					<i>2008 TES code:</i>	D11	
<i>Estimate Reliability:</i>	Not Applicable					* <i>Category</i>	1+	
<i>Commencement date:</i>	1986					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Subsection 47(8) of the <i>Fringe Benefits Tax Assessment Act 1986</i> Section 195 of the <i>A New Tax System (Family Assistance) (Administration) Act 1999</i>							

Payments made by employers to obtain priority of access to certain childcare facilities for children of employees are exempt from fringe benefits tax. To be exempt, payments must be made to child care facilities that are eligible to receive Child Care Benefit payments from the Australian Government.

Child care facilities will be eligible for such payments if they are approved by the Secretary of the Department of Education, Employment and Workplace Relations.

D11 Exemption for public benevolent institutions (excluding public and not-for-profit hospitals)

Social security and welfare (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	500	790	710	740	760	800	860	910
<i>Tax expenditure type:</i>	Exemption					<i>2008 TES code:</i>	D8	
<i>Estimate Reliability:</i>	Low					<i>Expiry date:</i>		
<i>Commencement date:</i>	2001							
<i>Legislative reference:</i>	Subsection 57A(1) of the <i>Fringe Benefits Tax Assessment Act 1986</i>							

Public benevolent institutions (excluding hospital activities) are provided with an exemption from fringe benefits tax which is capped up to \$30,000 of the grossed-up taxable value of fringe benefits per employee.

Excluded from the \$30,000 cap are meal entertainment (such as expenses on a restaurant meal at a social occasion), entertainment facility leasing expenses and car parking. The fringe benefits tax exemption on these items remains unlimited.

For public and not-for-profit hospitals see tax expenditure D6 *Exemption for public and not-for-profit hospitals*.

D12 Exemption for recreational or childcare facilities on an employer's business premises

Social security and welfare (\$m)

2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption				<i>2008 TES code:</i>	D12	
<i>Estimate Reliability:</i>	Not Applicable				<i>* Category</i>	2+	
<i>Commencement date:</i>	1986				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Subsection 47(2) of the <i>Fringe Benefits Tax Assessment Act 1986</i>						

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.

D13 Exemption for safety award benefits up to \$200 per year per employee

Social security and welfare (\$m)

2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption				<i>2008 TES code:</i>	D13	
<i>Estimate Reliability:</i>	Not Applicable				<i>* Category</i>	1+	
<i>Commencement date:</i>	1986				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Section 58R of the <i>Fringe Benefits Tax Assessment Act 1986</i>						

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.

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)

2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
50	65	50	50	50	55	60	60
<i>Tax expenditure type:</i>	Exemption, Reduction in taxable value				<i>2008 TES code:</i>	D14	
<i>Estimate Reliability:</i>	Low						
<i>Commencement date:</i>	2000				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Sections 58ZC, 59, 60, and 65CC of the <i>Fringe Benefits Tax Assessment Act 1986</i>						

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.

Tax expenditures for transport and communications

D15 Exemption for employee taxi travel arriving at or leaving from place of work

Transport and communication (\$m)							
2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption				<i>2008 TES code:</i>	D15	
<i>Estimate Reliability:</i>	Not Applicable				<i>* Category</i>	2+	
<i>Commencement date:</i>	1997				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Section 58Z of the <i>Fringe Benefits Tax Assessment Act 1986</i>						

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.

D16 Exemption for free or discounted commuter travel for employees of public transport providers

Transport and communication (\$m)							
2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
25	33	25	26	27	29	32	34
<i>Tax expenditure type:</i>	Exemption				<i>2008 TES code:</i>	D16	
<i>Estimate Reliability:</i>	Low				<i>Expiry date:</i>		
<i>Commencement date:</i>	1986				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Subsection 47(1) of the <i>Fringe Benefits Tax Assessment Act 1986</i>						

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.

D17 Exemption for free or discounted travel to and from duty by police officers on public transport

Transport and communication (\$m)

2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
5	5	5	5	5	5	5	5
<i>Tax expenditure type:</i>	Exemption				<i>2008 TES code:</i>		D17
<i>Estimate Reliability:</i>	Very Low						
<i>Commencement date:</i>	2000				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Subsection 47(1A) of the <i>Fringe Benefits Tax Assessment Act 1986</i>						

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.

Tax expenditures for other economic affairs

D18 Discounted valuation of stand-by travel for airline employees and travel agents

Other economic affairs — Tourism and area promotion (\$m)

2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
3	13	7	6	6	6	6	7
<i>Tax expenditure type:</i>	Discounted valuation				<i>2008 TES code:</i>		D18
<i>Estimate Reliability:</i>	Low						
<i>Commencement date:</i>	1986				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Sections 32 and 33 of the <i>Fringe Benefits Tax Assessment Act 1986</i>						

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.

D19 Exemption for certain long service awards for more than 15 years of service

Other economic affairs — Total labour and employment affairs (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption					<i>2008 TES code:</i>	D19	
<i>Estimate Reliability:</i>	Not Applicable					<i>* Category</i>	1+	
<i>Commencement date:</i>	1986					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Section 58Q of the <i>Fringe Benefits Tax Assessment Act 1986</i>							

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. Also 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.

D20 Exemption for certain relocation and recruitment expenses

Other economic affairs — Total labour and employment affairs (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption					<i>2008 TES code:</i>	D20	
<i>Estimate Reliability:</i>	Not Applicable					<i>* Category</i>	2+	
<i>Commencement date:</i>	1986					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Sections 58A to 58D and 58F of the <i>Fringe Benefits Tax Assessment Act 1986</i>							

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.

Some related expenses may be subject to a reduction in fringe benefits tax payable — see the tax expenditure D25 *Reduction in taxable value of certain relocation and recruitment expenses*.

D21 Exemption for compensation-related benefits, occupational health and counselling services and some training courses

Other economic affairs — Total labour and employment affairs (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption					<i>2008 TES code:</i>	D21	
<i>Estimate Reliability:</i>	Not Applicable					<i>* Category</i>	2+	
<i>Commencement date:</i>	1986					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Sections 58J, 58K and 58M of the <i>Fringe Benefits Tax Assessment Act 1986</i>							

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 Exemption for donations to deductible gift recipients

Other economic affairs — Total labour and employment affairs (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	-	-	-	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption					<i>2008 TES code:</i>	New	
<i>Estimate Reliability:</i>						<i>* Category</i>	2+	
<i>Commencement date:</i>	1 July 2008					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Subsection 148(2) of the <i>Fringe Benefits Tax Assessment Act 1986</i>							

Donations to deductible gift recipients made under salary sacrifice arrangements will not result in an employer incurring an FBT liability.

D23 Exemptions for certain employees training under the Australian Traineeship System

Other economic affairs — Total labour and employment affairs (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption					<i>2008 TES code:</i>	New	
<i>Estimate Reliability:</i>						<i>* Category</i>	1+	
<i>Commencement date:</i>	1986					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Section 58S of the <i>Fringe Benefits Tax Assessment Act 1986</i>							

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.

D24 Reduction in taxable value for reimbursements of car expenses incurred for occupational health and counselling services and some training courses

Other economic affairs — Total labour and employment affairs (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Reduction in taxable value					<i>2008 TES code:</i>	D22	
<i>Estimate Reliability:</i>	Not Applicable					<i>* Category</i>	1+	
<i>Commencement date:</i>	1986					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Section 61F of the <i>Fringe Benefits Tax Assessment Act 1986</i>							

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.

D25 Reduction in taxable value of certain relocation and recruitment expenses

Other economic affairs — Total labour and employment affairs (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Reduction in taxable value					<i>2008 TES code:</i>	D23	
<i>Estimate Reliability:</i>	Not Applicable					<i>* Category</i>	2+	
<i>Commencement date:</i>	1986					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Sections 61B to 61E of the <i>Fringe Benefits Tax Assessment Act 1986</i>							

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.

Some related expenses may be exempt — see the tax expenditure D20 *Exemption for certain relocation and recruitment expenses*.

D26 Application of statutory formula to value car benefits

Other economic affairs — Other economic affairs, nec (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	850	865	990	1,035	1,050	1,120	1,195	1,245
<i>Tax expenditure type:</i>	Discounted valuation					<i>2008 TES code:</i>	D24	
<i>Estimate Reliability:</i>	Low							
<i>Commencement date:</i>	1986					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Section 9 of the <i>Fringe Benefits Tax Assessment Act 1986</i>							

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. 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.

These estimates have been revised significantly since the 2008 TES, reducing the estimated value of the tax expenditure. This reflects a reassessment of data and methodology for estimating this tax expenditure item.

D27 Exemption for certain loan benefits

Other economic affairs — Other economic affairs, nec (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption					<i>2008 TES code:</i>	D25	
<i>Estimate Reliability:</i>	Not Applicable					<i>* Category</i>	1+	
<i>Commencement date:</i>	1986							
<i>Legislative reference:</i>	Section 17 of the <i>Fringe Benefits Tax Assessment Act 1986</i>							

Certain in-house loan benefits and certain loans to employees to meet employment-related expenses are exempt from fringe benefits tax.

D28 Exemption for small business employee car parking

Other economic affairs — Other economic affairs, nec (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	8	10	8	8	8	8	9	10
<i>Tax expenditure type:</i>	Exemption					<i>2008 TES code:</i>	D26	
<i>Estimate Reliability:</i>	Low							
<i>Commencement date:</i>	1997					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Section 58GA of the <i>Fringe Benefits Tax Assessment Act 1986</i>							

Car parking benefits provided to employees of small business employers are exempt from fringe benefits tax if the parking is not provided in a commercial car park. The employer must be neither a government body, nor a listed public company, nor a subsidiary of a listed public company and the employer's total income must be less than \$10 million.

D29 Record keeping exemption

Other economic affairs — Other economic affairs, nec (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13

<i>Tax expenditure type:</i>	Record keeping exemption					<i>2008 TES code:</i>	D27	
<i>Estimate Reliability:</i>	Low							
<i>Commencement date:</i>	1998					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Part XIA of the <i>Fringe Benefits Tax Assessment Act 1986</i>							

Broadly, if an employer has kept and lodged required fringe benefits tax records, and provides aggregate fringe benefits below a threshold (\$6,391 in 2007) then an employer need not keep or retain full fringe benefits tax records. Those employers' liability to pay fringe benefits tax is based on their liability in their most recent base year instead of the current year.

A base year is a year after 1 April 1996 in which the employer met the conditions given above.

Miscellaneous tax expenditures

D30 Capped exemption for charities promoting the prevention or control of disease in human beings

Health (\$m)							
2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
40	65	60	60	65	65	70	75
<i>Tax expenditure type:</i>	Exemption				<i>2008 TES code:</i>		D28
<i>Estimate Reliability:</i>	Medium — High						
<i>Commencement date:</i>	2001				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Section 5B and subsection 57A(5) of the <i>Fringe Benefits Tax Assessment Act 1986</i>						

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.

D31 Exemption for certain benefits provided to live-in employees who provide domestic services and are employed by religious institutions or religious practitioners

Recreation and culture (\$m)							
2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption				<i>2008 TES code:</i>		D29
<i>Estimate Reliability:</i>	Not Applicable				<i>* Category</i>		2+
<i>Commencement date:</i>	1986				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Section 58T of the <i>Fringe Benefits Tax Assessment Act 1986</i>						

Accommodation, household heating 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.

D32 Exemption for fringe benefits provided to employees of religious institutions

Recreation and culture (\$m)							
2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
75	95	80	80	85	90	95	100
<i>Tax expenditure type:</i>	Exemption				<i>2008 TES code:</i>		D30
<i>Estimate Reliability:</i>	Low						
<i>Commencement date:</i>	1986				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Section 57 of the <i>Fringe Benefits Tax Assessment Act 1986</i>						

Benefits provided to an employee, or to a spouse or child of the employee, of a religious institution are exempt from fringe benefits tax if the employee is a religious

practitioner and only if the benefit is provided principally in respect of pastoral duties or any other duties or activities that are directly related to the practice, study, teaching or propagation of religious beliefs.

D33 Concession for holiday transport for employees and their families posted overseas or to Australia

Other economic affairs — Total labour and employment affairs (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Reduction in taxable value					<i>2008 TES code:</i>	D31	
<i>Estimate Reliability:</i>	Not Applicable					<i>* Category</i>	1+	
<i>Commencement date:</i>	1986					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Section 61A of the <i>Fringe Benefits Tax Assessment Act 1986</i>							

Employers who provide transport to employees, and their family members, to go on holiday when they are posted overseas, or when they are posted from overseas to Australia, customarily or under an award, pay a concessionary rate of fringe benefits tax.

The taxable value is the lesser of half the cost of a return fare to the employee's home location or half the cost of the holiday.

D34 Discounted valuation for board meals

Other economic affairs — Total labour and employment affairs (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	5	5	6	4	4	4	5	5
<i>Tax expenditure type:</i>	Discounted valuation					<i>2008 TES code:</i>	D32	
<i>Estimate Reliability:</i>	Low							
<i>Commencement date:</i>	1986					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Section 36 of the <i>Fringe Benefits Tax Assessment Act 1986</i>							

Where an employee is entitled under an industrial award or employment arrangement to accommodation and to at least two meals a day, eligible meals (known as 'board meals') are valued at concessional rates for the purposes of fringe benefits tax.

The taxable value of a board meal 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.

D35 Discounted valuation for car parking fringe benefits

Other economic affairs — Total labour and employment affairs (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	13	17	13	15	16	19	22	25
<i>Tax expenditure type:</i>	Discounted valuation					<i>2008 TES code:</i>	D33	
<i>Estimate Reliability:</i>	Low							
<i>Commencement date:</i>	1993					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Section 39A of the <i>Fringe Benefits Tax Assessment Act 1986</i>							

A car parking fringe benefit 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 calculated by reference to movements in the consumer price index. The threshold for the fringe benefits tax year commencing 1 April 2009 is \$7.25. For fees under the threshold no parking fringe benefit arises.

The fringe benefit only applies to cars (any motor-powered road vehicle designed to carry a load of less than one tonne and fewer than nine passengers). Motorcycles are exempt from fringe benefits tax for the purposes of this concession.

The tax expenditure also arises due to the availability of five different methods by which employers can calculate their fringe benefits tax liability for the car parking benefit. The use of these methods may result in the undervaluation of the benefit when calculating fringe benefits tax with the result that less tax is paid on car parking fringe benefits than would be if the cost of the benefit were paid by the employee out of after tax cash remuneration.

D36 Discounted valuation of arm's length transaction price for in-house property and residual fringe benefits

Other economic affairs — Total labour and employment affairs (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Discounted valuation					<i>2008 TES code:</i>	D34	
<i>Estimate Reliability:</i>	Not Applicable					<i>* Category</i>		
<i>Commencement date:</i>	1986					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Sections 42, 48 and 49 of the <i>Fringe Benefits Tax Assessment Act 1986</i>							

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.

D37 Exemption for airline employees on stand-by flights

Other economic affairs — Total labour and employment affairs (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption					<i>2008 TES code:</i>	D35	
<i>Estimate Reliability:</i>	Not Applicable					<i>* Category</i>	2+	
<i>Commencement date:</i>	1986					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Section 62 of the <i>Fringe Benefits Tax Assessment Act 1986</i>							

The employers of airline employees who travel on stand-by are entitled to concessional fringe benefits tax treatment for this benefit. The taxable value of such a benefit is the stand-by value of the recipient's transport reduced by the amount of the recipient's contribution.

D38 Exemption for benefits in relation to compassionate travel

Other economic affairs — Total labour and employment affairs (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption					<i>2008 TES code:</i>	D36	
<i>Estimate Reliability:</i>	Not Applicable					<i>* Category</i>	1+	
<i>Commencement date:</i>	1986					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Section 58LA of the <i>Fringe Benefits Tax Assessment Act 1986</i>							

The cost of transport, meals and accommodation an employer may provide to an employee, or a close relative of an employee that is for compassionate purposes (for example, serious illness or funerals) is exempt from fringe benefits tax.

D39 Exemption for certain payments to approved worker entitlement funds

Other economic affairs — Total labour and employment affairs (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	170	215	155	160	165	175	185	200
<i>Tax expenditure type:</i>	Exemption					<i>2008 TES code:</i>	D37	
<i>Estimate Reliability:</i>	Low					<i>Expiry date:</i>		
<i>Commencement date:</i>	2003					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Sections 58PA and 58PB of the <i>Fringe Benefits Tax Assessment Act 1986</i>							

Payments to approved worker entitlement funds for the purposes of providing for entitlements such as redundancy and long service leave of employees 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.

D40 Exemption for eligible work-related items

Other economic affairs — Total labour and employment affairs (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	105	125	65	15	25	25	25	30
<i>Tax expenditure type:</i>	Exemption					<i>2008 TES code:</i>	D38	
<i>Estimate Reliability:</i>	Low							
<i>Commencement date:</i>	1995					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Section 58X of the <i>Fringe Benefits Tax Assessment Act 1986</i>							

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.

The Government has tightened this exemption by ensuring that from 13 May 2008 it only applies where these items are used primarily for work purposes. In addition, the exemption will generally be limited to one item of each type per employee per year.

D41 Exemption for employer-provided motor vehicle parking

Other economic affairs — Total labour and employment affairs (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption					<i>2008 TES code:</i>	D39	
<i>Estimate Reliability:</i>	Not Applicable					<i>* Category</i>	2+	
<i>Commencement date:</i>	1986, 1993					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Section 58G of the <i>Fringe Benefits Tax Assessment Act 1986</i> Regulation 13A of the <i>Fringe Benefits Tax Regulations 1992</i>							

Parking for disabled employees, and parking for employees of scientific, religious, charitable or other public educational institutions, is exempt from fringe benefits tax.

D42 Exemption for engagement of a relocation consultant

Other economic affairs — Total labour and employment affairs (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption					<i>2008 TES code:</i>	D40	
<i>Estimate Reliability:</i>	Not Applicable					<i>* Category</i>	1+	
<i>Commencement date:</i>	2006					<i>Expiry date:</i>		
<i>Legislative reference:</i>	58AA of the <i>Fringe Benefits Tax Assessment Act 1986</i>							

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.

The criteria to be met are that the benefit is at arm's length, and documentary evidence of the expenditure is provided to the employer.

D43 Exemption for minor benefits

Other economic affairs — Total labour and employment affairs (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption					<i>2008 TES code:</i>	D41	
<i>Estimate Reliability:</i>	Not Applicable					<i>* Category</i>	2+	
<i>Commencement date:</i>	1986					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Section 58P of the <i>Fringe Benefits Tax Assessment Act 1986</i>							

Minor benefits may be exempt from fringe benefits tax. Minor benefits are currently benefits that are less than \$300 in value, infrequently provided and/or are difficult to record and value. It must also be unreasonable to treat the minor benefit as a fringe benefit.

D44 Exemption for minor private use of company motor vehicle

Other economic affairs — Total labour and employment affairs (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption					<i>2008 TES code:</i>	D42	
<i>Estimate Reliability:</i>	Not Applicable					<i>* Category</i>	1+	
<i>Commencement date:</i>	1986					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Subsection 47(6) of the <i>Fringe Benefits Tax Assessment Act 1986</i>							

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 Exemption for private use of business property

Other economic affairs — Total labour and employment affairs (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption					<i>2008 TES code:</i>	D43	
<i>Estimate Reliability:</i>	Not Applicable					<i>* Category</i>	3+	
<i>Commencement date:</i>	1986					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Sections 41 and 47(3) of the <i>Fringe Benefits Tax Assessment Act 1986</i>							

The personal use of property (other than a motor vehicle) by an employee that is ordinarily located on the employer's business premises and is principally used directly in connection with business operations is exempt from fringe benefits tax.

Tax Expenditures Statement

In the 2008-09 Budget the Government amended this exemption by excluding meals under a salary sacrifice arrangement, with effect from 7:30 pm (AEST) on 13 May 2008.

The previous FBT exemption allowed employees with a meal card arrangement to purchase meals out of their pre-tax income. The change will ensure equity with other employees who have to purchase meals out of their after-tax income.

The changes do not affect subsidised canteens that are provided to all staff and that are not part of a salary sacrifice arrangement.

D46 Exemption for the provision of food and drink in certain circumstances

Other economic affairs — Total labour and employment affairs (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption					<i>2008 TES code:</i>	D44	
<i>Estimate Reliability:</i>	Not Applicable					<i>* Category</i>	1+	
<i>Commencement date:</i>	1986					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Sections 54 and 58V of the <i>Fringe Benefits Tax Assessment Act 1986</i>							

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 the tax expenditure D34 *Discounted valuation for board meals* for the description of board fringe benefits.

D47 Exemption for transport for oil rig and remote area employees in certain circumstances

Other economic affairs — Total labour and employment affairs (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption					<i>2008 TES code:</i>	D45	
<i>Estimate Reliability:</i>	Not Applicable					<i>* Category</i>	1+	
<i>Commencement date:</i>	1986					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Subsection 47(7) of the <i>Fringe Benefits Tax Assessment Act 1986</i>							

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.

D48 Exemptions for employees living away from home

Other economic affairs — Total labour and employment affairs (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption					<i>2008 TES code:</i>	D46	
<i>Estimate Reliability:</i>	Not Applicable					<i>* Category</i>	2+	
<i>Commencement date:</i>	1986					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Sections 21, 31, 47(5), 58E, 58ZD and 63 of the <i>Fringe Benefits Tax Assessment Act 1986</i>							

Accommodation, household goods, worktime meals and payments for extra expenses provided to employees living away from their usual place of residence (in order to perform their duties of employment) are exempt from fringe benefits tax.

D49 Reduction in taxable value for remote area holiday benefits

Other economic affairs — Total labour and employment affairs (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Reduction in taxable value					<i>2008 TES code:</i>	D47	
<i>Estimate Reliability:</i>	Not Applicable					<i>* Category</i>	1+	
<i>Commencement date:</i>	1986					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Sections 60A and 61 of the <i>Fringe Benefits Tax Assessment Act 1986</i>							

The value of holiday related transport benefits (including the cost of appropriate meals and accommodation en route) provided to employees working in a remote area (and any family members living with them in the remote area) are generally reduced by 50 per cent.

D50 Partial rebate for certain not-for-profit, non-government bodies

Other economic affairs — Other economic affairs, nec (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	45	30	30	20	20	25	25	30
<i>Tax expenditure type:</i>	Rebate					<i>2008 TES code:</i>	D48	
<i>Estimate Reliability:</i>	Medium — Low							
<i>Commencement date:</i>	1994					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Section 65J of the <i>Fringe Benefits Tax Assessment Act 1986</i>							

Certain not-for-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.

In general, the rebate applies to religious institutions, not-for-profit scientific or educational institutions, charitable institutions, schools, trade unions and associations

Tax Expenditures Statement

of employers or employees. The rebate also applies to a range of not-for-profit societies, associations or clubs that are entitled to be exempt from income tax.

Public benevolent institutions and public hospitals receive different treatment (see tax expenditures D8 and D6).

CAPITAL GAINS TAX

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;
- a tax base of nominal gains or losses from the realisation of property where the realisation is not an aspect of the carrying on of a business; and
- the limitation of Australian taxation of the capital gains of foreign residents to gains on the direct or indirect disposal of interests in Australian land (and similar assets such as mining rights) and branch office assets.

Tax expenditures for defence

E1 Capital gains tax exemption for valour or brave conduct decorations

Defence (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13

<i>Tax expenditure type:</i>	Exemption					<i>2008 TES code:</i>		E1
<i>Estimate Reliability:</i>	Low							
<i>Commencement date:</i>	1985					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Paragraph 118-5(b) of the <i>Income Tax Assessment Act 1997</i>							

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 available unless the owner of the decoration had paid money or given any other property for it.

Tax expenditures for health

E2 Capital gains tax roll-over for membership interests in medical defence organisations

Health (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	
	-	-	*	*	*	*	*	*	
<i>Tax expenditure type:</i>	Deferral					<i>2008 TES code:</i>		E2	
<i>Estimate Reliability:</i>	Not Applicable							* <i>Category</i>	1+
<i>Commencement date:</i>	2007					<i>Expiry date:</i>			1 July 2010
<i>Legislative reference:</i>	Subdivision 124-P of the <i>Income Tax Assessment Act 1997</i>								

A capital gains tax roll-over is available for capital gains arising from the exchange of a membership interest in a medical defence organisation for a similar interest in another

Tax Expenditures Statement

medical defence organisation where both organisations are companies limited by guarantee. The roll-over allows a member who exchanges their membership interest for the replacement interest to defer a capital gains tax liability arising from the exchange until the ultimate disposal of the replacement membership interest.

Tax expenditures for housing and community amenities

E3 Capital gains tax concessions for conservation covenants

Housing and community amenities (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13

<i>Tax expenditure type:</i>	Exemption					<i>2008 TES code:</i>		E3
<i>Estimate Reliability:</i>	Low							
<i>Commencement date:</i>	2000					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Section 104-47 of the <i>Income Tax Assessment Act 1997</i>							

For capital gains tax purposes, perpetual conservation covenants are treated as a part disposal of land, rather than the creation of a right. This treatment results in a reduced capital gain because a portion of the cost base of the land is taken into account. Previously the capital gain equalled the amount received for the covenant less incidental costs.

Landowners can also benefit from any capital gains tax 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.

E4 Capital gains tax main residence exemption

Housing and community amenities (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	17,500	17,000	18,000	14,000	14,000	14,500	14,000	13,500
<i>Tax expenditure type:</i>	Exemption					<i>2008 TES code:</i>		E4
<i>Estimate Reliability:</i>	Medium — Low							
<i>Commencement date:</i>	1985					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Subdivision 118-B of the <i>Income Tax Assessment Act 1997</i>							

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.

- A taxpayer is entitled to treat a dwelling as their main residence from the time they acquire it until the time when they first occupy it provided they occupy it as soon as practicable.

- A taxpayer is entitled to treat a dwelling as their main residence indefinitely if it was the main residence and then ceases to be their main residence provided it is not used to produce assessable income.
- A taxpayer is entitled to acquire a dwelling that is to become their main residence, whilst still owning an existing dwelling and treat both dwellings as their main residence for up to six months or until their ownership of the existing dwelling ends, whichever occurs first.
- A taxpayer is entitled to treat a block of land as their main residence, if the land was acquired for the purposes of building a dwelling, the dwelling is completed within four years of acquiring the land, the taxpayer moves into the dwelling as soon as practicable and the dwelling continues to be their main residence for at least three months.

See tax expenditure E5 for the 50 per cent concession component of the main residence exemption. Appendix C also provides further discussion of various estimates of the main residence exemption.

E5 Capital gains tax main residence exemption — discount component

Housing and community amenities (\$m)

2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
22,000	21,500	22,000	17,000	17,500	17,000	17,000	16,500
<i>Tax expenditure type:</i>		Exemption			<i>2008 TES code:</i>		New
<i>Estimate Reliability:</i>		Medium — Low					
<i>Commencement date:</i>		15 September 1999			<i>Expiry date:</i>		
<i>Legislative reference:</i>		Division 115 of the <i>Income Tax Assessment Act 1997</i>					

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. Disposals of other assets by individuals or trusts receive a capital gains tax exemption applying to 50 per cent of any nominal gain where the asset has been owned for at least 12 months.

The capital gains tax treatment of the main residence effectively provides a 100 per cent exemption. Conceptually, this can be split into a component reflecting the discount provided to disposals of non-main residence assets and a 'top up' component that brings the concession up to 100 per cent.

The remainder of the value of the CGT main residence exemption, representing the value of the concession relative to the normal CGT rules, is reported in tax expenditure E4. Appendix C provides further discussion of various estimates of the main residence exemption. Tax expenditure E14 provides further detail on the 50 per cent concession applying to other assets.

E6 Extensions to the capital gains tax main residence exemption

Housing and community amenities (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption					<i>2008 TES code:</i>	E5	
<i>Estimate Reliability:</i>	Not Applicable					<i>* Category</i>	3+	
<i>Commencement date:</i>	1985 and 1997					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Sections 118-145, 118-190 and 118-200 of the <i>Income Tax Assessment Act 1997</i>							

A taxpayer's dwelling may continue to be treated as their main residence for up to six years (the six year rule) even if the dwelling ceases to be their main residence and is used to produce assessable income. This is provided that no other dwelling is treated as the taxpayer's main residence during this time.

In addition, from 20 August 1996, a taxpayer who receives a dwelling as beneficiary of a deceased estate, or who owns the dwelling as the trustee of a deceased estate, may be able to ignore for capital gains tax purposes, any use of the dwelling to produce assessable income by the deceased prior to their death if:

- the dwelling was the deceased's main residence before their death; and
- it was not being used to produce assessable income at the time of the deceased's death or, if the dwelling was used to produce assessable income, that use was ignored under the six year rule.

Tax expenditures for recreation and culture

E7 Capital gains tax exemption for the disposal of assets under the Cultural Bequests and Cultural Gifts programs

Recreation and culture (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption					<i>2008 TES code:</i>	E6	
<i>Estimate Reliability:</i>	Not Applicable					<i>* Category</i>	1+	
<i>Commencement date:</i>	1994, expanded in 1999					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Section 118-60 of the <i>Income Tax Assessment Act 1997</i>							

Capital gains or losses arising from testamentary gifts made under the Cultural Bequests and Cultural Gifts programs are exempt from capital gains tax. The Cultural Bequests and Cultural Gifts programs encourage donations of significant cultural items from private collections to public art galleries, museums and libraries by offering tax benefits to the donor or the donor's estate.

Tax expenditures for other economic affairs

E8 Capital gains tax roll-over for worker entitlement funds

Other economic affairs — Total labour and employment affairs (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Deferral					<i>2008 TES code:</i>	E7	
<i>Estimate Reliability:</i>	Not Applicable					<i>* Category</i>	2+	
<i>Commencement date:</i>	2003					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Subdivision 126-C of the <i>Income Tax Assessment Act 1997</i>							

A capital gains tax roll-over is available for a fund that amends or replaces its trust deed in order to become an approved worker entitlement fund for fringe benefits tax purposes.

E9 Capital gains tax — demutualisation of mutual entities

Other economic affairs — Other economic affairs, nec (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	-	-	-	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption					<i>2008 TES code:</i>	E8 and B96	
<i>Estimate Reliability:</i>	Medium					<i>* Category</i>	1+	
<i>Commencement date:</i>	5 May 1995					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Division 9AA and Schedule 2H of the <i>Income Tax Assessment Act 1936</i> Division 315 of the <i>Income Tax Assessment Act 1997</i>							

Capital gains and capital losses arising under the demutualisation of a mutual entity, including a life insurer, general insurer or health insurer are disregarded for members and/or policyholders that receive shares in the demutualised entity.

In addition:

- members and policyholders of a demutualising life insurer receive a cost base for their shares based on the embedded value of the life insurer;
- members and policyholders of a demutualising general insurer receive a cost base for their shares based on the net tangible assets value of the general insurer;
- policyholders of a demutualising private health insurer receive a cost base for their shares based on the market value of the private health insurer; and
- policyholders and members of a demutualising friendly society that is a life insurer and/or a private health insurer receive a cost base for their shares that is based on the market value of the private health insurance business (if any) and the embedded value of any other businesses of the friendly society.

E10 Capital gains tax — indexation of cost base

Other economic affairs — Other economic affairs, nec (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Reduction in taxable value					<i>2008 TES code:</i>	E9	
<i>Estimate Reliability:</i>	Not Applicable					<i>* Category</i>	3+	
<i>Commencement date:</i>	20 September 1985					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Division 114 of the <i>Income Tax Assessment Act 1997</i> Section 110-36 of the <i>Income Tax Assessment Act 1997</i>							

For assets acquired at or before 11:45 am EST on 21 September 1999, taxpayers may choose to calculate the capital gain on the asset by reference to its indexed cost base. Taxpayers that choose to use the indexed cost base cannot access the capital gains tax discount. The indexed cost base for these assets was frozen as at 30 September 1999.

E11 Capital gains tax — limited roll-over for fixed trusts

Other economic affairs — Other economic affairs, nec (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	-	-	-	-	*	*	*	*
<i>Tax expenditure type:</i>	Deferral					<i>2008 TES code:</i>	New	
<i>Estimate Reliability:</i>						<i>* Category</i>	1+	
<i>Commencement date:</i>	1 November 2008					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Not yet legislated							

A capital gains tax roll-over will be available for capital gains arising from the transfer of assets between two trusts with no material discretionary elements (sometimes referred to as fixed trusts) and with the same beneficiaries with the same proportional interests.

E12 Capital gains tax — optional roll-over of capital losses for complying superannuation funds

Other economic affairs — Other economic affairs, nec (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	-	-	-	-	*	*	*	*
<i>Tax expenditure type:</i>	Deferral					<i>2008 TES code:</i>	New	
<i>Estimate Reliability:</i>						<i>* Category</i>	2+	
<i>Commencement date:</i>	24 December 2008					<i>Expiry date:</i>	30 June 2011	
<i>Legislative reference:</i>	Not yet legislated							

A roll-over will be available for capital losses and the transfer of revenue losses arising on the merger of a complying superannuation fund with another complying superannuation fund with at least five members. The measure will also allow the transfer of previously realised capital losses and revenue losses from the original fund to the continuing fund.

E13 Capital gains tax deferral of liability when taxpayer dies

Other economic affairs — Other economic affairs, nec (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Deferral					<i>2008 TES code:</i>	E10	
<i>Estimate Reliability:</i>	Not Applicable					<i>* Category</i>	3+	
<i>Commencement date:</i>	1985					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Division 128 of the <i>Income Tax Assessment Act 1997</i>							

Generally, there are no capital gains consequences when a taxpayer dies. Recognition of the gains or losses accruing during the life of the deceased is deferred for post-CGT assets 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.

E14 Capital gains tax discount for individuals and trusts

Other economic affairs — Other economic affairs, nec (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	5,160	6,140	9,720	8,690	5,380	6,410	7,390	8,640
<i>Tax expenditure type:</i>	Exemption					<i>2008 TES code:</i>	E11	
<i>Estimate Reliability:</i>	Medium							
<i>Commencement date:</i>	15 September 1999					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Division 115 of the <i>Income Tax Assessment Act 1997</i>							

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 before 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 indexed cost base frozen as at 30 September 1999.

This item includes the CGT discount component of the value of all capital gains tax expenditures except the CGT discount associated with the main residence exemption, which is reported separately at E5.

E15 Capital gains tax discount for investors in listed investment companies

Other economic affairs — Other economic affairs, nec (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	25	25	40	35	20	20	20	25
<i>Tax expenditure type:</i>	Deduction					<i>2008 TES code:</i>	E12	
<i>Estimate Reliability:</i>	Medium — Low							
<i>Commencement date:</i>	1 July 2001					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Subdivision 115-D of the <i>Income Tax Assessment Act 1997</i>							

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 12 months.

E16 Capital gains tax exemption for assets acquired before 20 September 1985

Other economic affairs — Other economic affairs, nec (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption					<i>2008 TES code:</i>	E13	
<i>Estimate Reliability:</i>	Not Applicable							
<i>Commencement date:</i>	1985					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Division 104 of the <i>Income Tax Assessment Act 1997</i>							

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.

E17 Capital gains tax exemption of non-portfolio interests in foreign companies with active businesses

Other economic affairs — Other economic affairs, nec (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption					<i>2008 TES code:</i>	E14	
<i>Estimate Reliability:</i>	Not Applicable							
<i>Commencement date:</i>	1 April 2004					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Subdivision 768-G of the <i>Income Tax Assessment Act 1997</i>							

Capital gains and losses by Australian companies and controlled foreign companies arising from certain capital gains tax events related to non-portfolio interests in foreign companies with active business assets are reduced.

E18 Capital gains tax roll-over and exemption and related taxation relief for demergers

Other economic affairs — Other economic affairs, nec (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption, Deferral					<i>2008 TES code:</i>	E17	
<i>Estimate Reliability:</i>	Not Applicable					<i>* Category</i>	3+	
<i>Commencement date:</i>	2002					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Division 125 of the <i>Income Tax Assessment Act 1997</i> Subsection 44(4) of the <i>Income Tax Assessment Act 1936</i>							

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:

- CGT roll-over at the shareholder or trust membership interest level for interests such as shares that are exchanged during the demerger process;
- a CGT exemption for certain capital gains and losses at the entity level; and
- an income tax exemption for certain 'demerger dividends'.

These concessions are available to demergers that occur on or after 1 July 2002.

E19 Capital gains tax roll-over for financial service providers on transition to the Financial Services Reform regime

Other economic affairs — Other economic affairs, nec (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Deferral					<i>2008 TES code:</i>	E19	
<i>Estimate Reliability:</i>	Not Applicable					<i>* Category</i>	1-	
<i>Commencement date:</i>	2002					<i>Expiry date:</i>	2004	
<i>Legislative reference:</i>	Subdivision 124-O of the <i>Income Tax Assessment Act 1997</i>							

An automatic capital gains tax (CGT) roll-over is available to eligible financial service providers on transition to the Financial Services Reform regime. Financial service providers were provided the roll-over 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 CGT asset.

E20 Capital gains tax roll-over for small business

Other economic affairs — Other economic affairs, nec (\$m)

2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
110	130	170	270	280	280	290	300
<i>Tax expenditure type:</i>	Deferral				<i>2008 TES code:</i>		E15
<i>Estimate Reliability:</i>	Medium — High						
<i>Commencement date:</i>	1997				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Subdivision 152-E of the <i>Income Tax Assessment Act 1997</i>						

A capital gains tax roll-over 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 the taxpayer and connected entities own is no more than \$6 million, or where the aggregated annual turnover is less than \$2 million.

E21 Capital gains tax roll-over for statutory licenses

Other economic affairs — Other economic affairs, nec (\$m)

2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
*	20	90	*	*	*	*	*
<i>Tax expenditure type:</i>	Deferral				<i>2008 TES code:</i>		E20
<i>Estimate Reliability:</i>	Low				<i>* Category</i>		1+
<i>Commencement date:</i>	2006				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Subdivision 124-C of the <i>Income Tax Assessment Act 1997</i>						

A capital gains tax roll-over is available where a statutory licence ends and is replaced with a new licence that authorises substantially similar activity to the original licence. From the 2006-07 income year, a partial capital gains tax roll-over is available where a statutory licence ends and the licence holder receives a new licence and non-licence capital proceeds. The part of a capital gain or capital loss on the ending of the original licence referable to the non-licence capital proceeds is subject to tax at that time, whereas the part referable to the extent the new licence replaces the original licence is rolled over.

E22 Capital gains tax roll-over for superannuation entities on transition to the new superannuation safety arrangements

Other economic affairs — Other economic affairs, nec (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Deferral					<i>2008 TES code:</i>	E21	
<i>Estimate Reliability:</i>	Not Applicable					<i>* Category</i>	2+	
<i>Commencement date:</i>	1 July 2004					<i>Expiry date:</i>	30 June 2006	
<i>Legislative reference:</i>	Subdivision 126-F of the <i>Income Tax Assessment Act 1997</i>							

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 from 1 July 2004 to 30 June 2006.

E23 Capital gains tax roll-over for transfer of assets on marriage breakdown

Other economic affairs — Other economic affairs, nec (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Deferral					<i>2008 TES code:</i>	E22	
<i>Estimate Reliability:</i>	Not Applicable					<i>* Category</i>	2+	
<i>Commencement date:</i>	and 12 December 2006					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Subdivision 126-A of the <i>Income Tax Assessment Act 1997</i>							

An automatic roll-over is available where a capital gains tax asset is transferred to a spouse or former spouse because of a marriage breakdown.

The roll-over also applies 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.

This also includes roll-over where there is a transfer of a capital gains tax asset from a small superannuation fund to another complying superannuation fund following marriage breakdown but only where such transfers meet specific conditions.

E24 Capital gains tax roll-over for transfer of Public Sector Superannuation Fund assets to pooled superannuation trust

Other economic affairs — Other economic affairs, nec (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	-	50	-15	-15	-15	-15	-	-
<i>Tax expenditure type:</i>	Deferral				2008 TES code:		E16	
<i>Estimate Reliability:</i>	Medium							
<i>Commencement date:</i>	1 July 2005				<i>Expiry date:</i>			
<i>Legislative reference:</i>	Item 3 of Schedule 7 to the <i>Superannuation (Consequential Amendments) Act 2005</i>							

An automatic capital gains tax roll-over will occur for the transfer of capital gains assets from the Public Sector Superannuation Board to the trustee of a pooled superannuation trust to establish the Public Sector Superannuation Accumulation Plan.

E25 Capital gains tax roll-over relief for assets compulsorily acquired, lost or destroyed

Other economic affairs — Other economic affairs, nec (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Deferral				2008 TES code:		E18	
<i>Estimate Reliability:</i>	Not Applicable				* Category		2+	
<i>Commencement date:</i>	1985				<i>Expiry date:</i>			
<i>Legislative reference:</i>	Subdivision 124-B of the <i>Income Tax Assessment Act 1997</i>							

A capital gains tax roll-over is available for capital gains where an asset is compulsorily acquired, lost or destroyed and the taxpayer purchases a replacement asset. In recognition that the disposal was not initiated by the taxpayer, the capital gains liability is deferred from the time of the compulsory acquisition, loss or destruction until the ultimate disposal of the replacement asset.

This measure has been extended to establish the same treatment for a compulsory acquisition whether by a private or public acquirer and to provide greater flexibility for landowners whose land is compulsorily subject to a mining lease.

E26 Capital gains tax scrip-for-scrip roll-over

Other economic affairs — Other economic affairs, nec (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	95	60	125	1,110	*	*	*	*
<i>Tax expenditure type:</i>	Deferral					<i>2008 TES code:</i>	E23	
<i>Estimate Reliability:</i>	Medium — Low					<i>* Category</i>	3+	
<i>Commencement date:</i>	1999					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Subdivision 124-M of the <i>Income Tax Assessment Act 1997</i>							

A capital gains tax roll-over is available for capital gains arising from an exchange of interests in companies or fixed trusts. The roll-over ensures that an equity holder who exchanges original shares or other equity for new equity in a takeover or merger can defer a capital gains tax liability arising from the exchange until the ultimate disposal of the replacement asset. The roll-over ensures that capital gains tax does not impede takeovers and similar arrangements. 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.

E27 Exemption from the market value substitution rule in relation to the cancellation or surrender of interests in widely held entities

Other economic affairs — Other economic affairs, nec (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption					<i>2008 TES code:</i>	E24	
<i>Estimate Reliability:</i>	Not Applicable					<i>* Category</i>	1+	
<i>Commencement date:</i>	For CGT events that occur during the 2006-07 income year and after					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Section 116-30 of the <i>Income Tax Assessment Act 1997</i>							

The capital gains tax market value substitution rule deems assets that are disposed of for less than their market value to have been disposed of for a consideration equal to their market value. This measure exempts membership interests in widely-held entities that are disposed of by way of a redemption, cancellation or surrender (capital gains tax event C2) of the interest from the market value substitution rule, with effect from the 2006-07 income year.

E28 Quarantining of capital losses

Other economic affairs — Other economic affairs, nec (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Denial of deduction					<i>2008 TES code:</i>	E25	
<i>Estimate Reliability:</i>	Not Applicable					<i>* Category</i>	4-	
<i>Commencement date:</i>	20 September 1985					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Section 100-50 of the <i>Income Tax Assessment Act 1997</i>							

Capital losses may only be offset against capital gains, which means they are quarantined from ordinary income.

E29 Removal of capital gains tax threshold for testamentary gifts

Other economic affairs — Other economic affairs, nec (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	-	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption					<i>2008 TES code:</i>	E26	
<i>Estimate Reliability:</i>	Not Applicable					<i>* Category</i>	1+	
<i>Commencement date:</i>	1 July 2005					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Section 118-60 of the <i>Income Tax Assessment Act 1997</i>							

Testamentary gifts (that is, gifts made under a will) of certain property to deductible gift recipients are no longer required to be valued at greater than \$5,000 to access the capital gains tax exemption.

E30 Removal of taxation of certain financial instruments at point of conversion or exchange

Other economic affairs — Other economic affairs, nec (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Deferral					<i>2008 TES code:</i>	E27	
<i>Estimate Reliability:</i>	Not Applicable					<i>* Category</i>	2+	
<i>Commencement date:</i>	2002					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Sections 26BB and 70B of the <i>Income Tax Assessment Act 1936</i>							

Gains or losses from conversion or exchange of convertible or exchangeable interests issued after 14 May 2002 are not subject to taxation at the point of conversion or exchange, but, instead, taxation is deferred until the ultimate disposal of the shares.

Convertible interests are financial instruments that may convert into shares in the company that issued the convertible interest. Exchangeable interests are instruments that may convert into shares in a company other than the issuer.

E31 Small business capital gains tax 50 per cent reduction

Other economic affairs — Other economic affairs, nec (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	380	390	600	730	740	760	780	800
<i>Tax expenditure type:</i>	Exemption					<i>2008 TES code:</i>	E28	
<i>Estimate Reliability:</i>	Medium — High							
<i>Commencement date:</i>	1999					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Subdivision 152-C of the <i>Income Tax Assessment Act 1997</i>							

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. This applies in addition to any capital gains tax 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 the taxpayer and connected entities own is no more than \$6 million, or where the aggregated annual turnover is less than \$2 million.

E32 Tax exemption for certain foreign investment in venture capital

Other economic affairs — Other economic affairs, nec (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	-	-	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption					<i>2008 TES code:</i>	E29	
<i>Estimate Reliability:</i>	Not Applicable							
<i>Commencement date:</i>	1999					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Sections 51-54 and 51-55 and Subdivisions 118-F and 118-G of the of the <i>Income Tax Assessment Act 1997</i>							

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 from tax 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.

As foreshadowed in the 2006-07 Budget, the venture capital limited partnerships regime has been enhanced by:

- removing a range of restrictions including allowing investment in unit trusts and convertible notes as well as shares;
- relaxing the requirement that 50 per cent of assets and employees must be in Australia for 12 months after making the investment; and
- removing restrictions on the country of residence of investors.

3.7 Consumption tax benchmark

The Australian Government imposes taxes on consumption of particular goods, services or activities and on particular commodities. The tax base for the consumption tax benchmark is made up of four components.

- The commodity tax benchmark relates to the consumption of fuel (or energy), tobacco, types of alcoholic beverages and motor vehicles.
- The customs duty benchmark relates to the importation of goods into Australia.
- The natural resource tax benchmark relates to the extraction and production of Australia's natural resources.
- The goods and services tax benchmark relates to the final consumption of goods and services by households.

COMMODITY TAXES

Commodity taxes include volumetric taxes on the consumption of tobacco, fuel, beer, spirits (and equivalent imports), and *ad valorem* taxes on the consumption of wine and luxury cars. These taxes are imposed at either the retail, manufacture or importation stage.

For these taxes, the commodity 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.

Commodity taxes also include customs duties on goods imported into Australia. The commodity tax benchmark for customs duties comprises goods imported into Australia are free from customs duty, except to the extent that the customs duty imposed is equivalent to taxes imposed on domestically produced goods, such as excise equivalent customs duties.

Fuel

F1 Higher rate of excise levied on high sulphur diesel

Health (\$m)							
2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
-90	-	-	-	-	-	-	-
<i>Tax expenditure type:</i>	Increased rate				<i>2008 TES code:</i>	F1	
<i>Estimate Reliability:</i>	Medium						
<i>Commencement date:</i>	1 July 2003				<i>Expiry date:</i>	1 January 2006	
<i>Legislative reference:</i>	<i>Excise Tariff Act 1921</i>						

Before 1 July 2006, diesel with a sulphur content higher than 50 parts per million was subject to a higher rate of excise than the benchmark rate. The benchmark rate is the rate that applies to unleaded petrol and ultra low sulphur diesel. An 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 no longer meets fuel standards, and is no longer able to be sold unless a waiver is obtained from the Minister for the Environment, Heritage and the Arts.

F2 Higher rate of excise levied on leaded petrol

Health (\$m)							
2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
..	-	-	-	-	-	-	-
<i>Tax expenditure type:</i>	Increased rate				<i>2008 TES code:</i>	F2	
<i>Estimate Reliability:</i>	Medium — High						
<i>Commencement date:</i>	1 January 1994				<i>Expiry date:</i>	1 July 2006	
<i>Legislative reference:</i>	<i>Excise Tariff Act 1921</i>						

Before 1 July 2006, leaded petrol was subject to a higher rate of excise than the benchmark rate. The benchmark rate is the rate that applies to unleaded petrol and ultra low sulphur diesel. The excise differential, which equated 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 2002-03 reflected 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. The excise differential was removed on 1 July 2006.

F3 Concessional rate of excise levied on aviation gasoline and aviation turbine fuel

Fuel and energy (\$m)							
2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
570	600	670	680	720	750	740	680
<i>Tax expenditure type:</i>	Concessional rate				<i>2008 TES code:</i>	F3	
<i>Estimate Reliability:</i>	Low						
<i>Commencement date:</i>	15 March 1956				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Item 10 of the Schedule to the <i>Excise Tariff Act 1921</i>						

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 fuel, 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.

F4 Excise levied on fuel oil, heating oil and kerosene

Fuel and energy (\$m)

2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
-90	-415	-435	-440	-410	-440	-455	-470
<i>Tax expenditure type:</i>	Increased rate				<i>2008 TES code:</i>		F4
<i>Estimate Reliability:</i>	Medium						
<i>Commencement date:</i>	1983			<i>Expiry date:</i>			
<i>Legislative reference:</i>	Item 10 of the Schedule to the <i>Excise Tariff Act 1921</i>						

Before 1 July 2006, fuel oil, heating oil and kerosene that were used as a fuel but not used as a fuel in internal combustion engines were subject to an excise of 7.557 cents per litre. The benchmark excise for fuels consumed for a purpose other than in an internal combustion engine is zero.

Since 1 July 2006, these products have been subject to an excise of 38.143 cents per litre. Users of these products are eligible for a fuel tax credit of 38.143 cents per litre, that effectively removes the incidence of excise.

F5 Excise levied on fuel products used for purposes other than as fuel

Fuel and energy (\$m)

2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
-	-60	-65	-55	-55	-55	-55	-45
<i>Tax expenditure type:</i>	Increased rate				<i>2008 TES code:</i>		F5
<i>Estimate Reliability:</i>	Medium — Low						
<i>Commencement date:</i>	1 July 2006			<i>Expiry date:</i>			
<i>Legislative reference:</i>	Item 10 of the Schedule to the <i>Excise Tariff Act 1921</i>						

Before 1 July 2006, fuels consumed for a purpose other than in an internal combustion engine were excise-free through other mechanisms.

Since 1 July 2006, fuels consumed for a purpose other than in an internal combustion engine (such as toluene used as a solvent) are subject to excise of 38.143 cents per litre. Business users of these products are eligible for a fuel tax credit of 38.143 cents per litre that effectively removes the incidence of excise. The tax expenditure estimates do not include the impact of fuel tax credits which are reported as an expenditure program for budget purposes.

F6 Exemption from excise for 'alternative fuels'

Fuel and energy (\$m)

2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
600	630	680	710	750	770	450	420
<i>Tax expenditure type:</i>		Exemption			<i>2008 TES code:</i>		F6
<i>Estimate Reliability:</i>		Low					
<i>Commencement date:</i>		1985			<i>Expiry date:</i>		
<i>Legislative reference:</i>		Excise Tariff Act 1921					

The benchmark rates for alternative fuels vary depending on energy content but currently the bio-fuels (ethanol and biodiesel) fuel tax rate is based upon the fossil fuel rate. This gives rise to a negative tax expenditure for ethanol which is taxed at a higher rate than its benchmark. The gaseous fuels (liquefied petroleum gas, liquefied natural gas and compressed natural gas) are exempt from fuel tax.

The estimates do not include the Energy Grants Cleaner Fuels Scheme (EGCFS) and Ethanol Production Subsidy as they are expenditure programs. These programs currently reduce the effective rate of fuel tax on bio-fuels to zero. The EGCFS will expand to progressively introduce effective fuel tax on the bio-fuels and gaseous fuels from 2011.

Tobacco

F7 Higher rate of excise levied on cigarettes not exceeding 0.8 grams of tobacco

Health (\$m)

2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
-1,290	-1,315	-1,375	-1,380	-1,395	-1,420	-1,440	-1,475
<i>Tax expenditure type:</i>		Increased rate			<i>2008 TES code:</i>		F7
<i>Estimate Reliability:</i>		Medium					
<i>Commencement date:</i>		1999			<i>Expiry date:</i>		
<i>Legislative reference:</i>		Item 5 of the Schedule to 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 and applies to loose tobacco and to cigarettes and cigars with more than 0.8 grams of tobacco. 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

Agriculture, forestry and fishing (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	..	-	-	-	-	-	-	-
<i>Tax expenditure type:</i>	Concessional rate					<i>2008 TES code:</i>	F8	
<i>Estimate Reliability:</i>	Medium							
<i>Commencement date:</i>	12 February 1902					<i>Expiry date:</i>	30 June 2006	
<i>Legislative reference:</i>	Item 5 of the Schedule to the <i>Excise Tariff Act 1921</i>							

Before 1 July 2006, snuff (a type of smokeless tobacco) was excised at a highly concessional rate compared to other tobacco. Snuff is now excised at the same rate as other tobacco.

Alcohol**F9 Concessional rate of excise levied on brandy**

Agriculture, forestry and fishing (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	4	5	5	5	5	5	5	5
<i>Tax expenditure type:</i>	Concessional rate					<i>2008 TES code:</i>	F9	
<i>Estimate Reliability:</i>	Medium							
<i>Commencement date:</i>	9 November 1979					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Item 3 of the Schedule to the <i>Excise Tariff Act 1921</i>							

Brandy is subject to a lower rate of excise than other spirits (\$64.96 per litre of alcohol, compared to \$69.57 at 1 August 2009). The excise rate on brandy is indexed to the consumer price index biannually.

F10 Concessional rate of excise levied on brew-on-premise beer

Agriculture, forestry and fishing (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	3	3	3	3	4	4	4	5
<i>Tax expenditure type:</i>	Concessional rate					<i>2008 TES code:</i>	F10	
<i>Estimate Reliability:</i>	Medium							
<i>Commencement date:</i>	1993					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Item 1 of the Schedule to the <i>Excise Tariff Act 1921</i>							

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.

F11 Concessional rate of excise levied on draught beer

Agriculture, forestry and fishing (\$m)

2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
155	160	160	160	160	160	160	165
<i>Tax expenditure type:</i>		Concessional rate			<i>2008 TES code:</i>		F11
<i>Estimate Reliability:</i>		Medium					
<i>Commencement date:</i>		2001			<i>Expiry date:</i>		
<i>Legislative reference:</i>		Item 1 of the Schedule to the <i>Excise Tariff Act 1921</i>					

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 on low-strength packaged beer

Agriculture, forestry and fishing (\$m)

2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
14	13	12	11	11	11	10	10
<i>Tax expenditure type:</i>		Concessional rate			<i>2008 TES code:</i>		F12
<i>Estimate Reliability:</i>		Medium					
<i>Commencement date:</i>		21 August 1984			<i>Expiry date:</i>		
<i>Legislative reference:</i>		Item 1 of the Schedule to the <i>Excise Tariff Act 1921</i>					

Low-strength beer with an alcohol content of no more than 3 per cent packaged in containers not exceeding 48 litres is taxed at a concessional excise rate relative to similarly packaged higher strength beer.

F13 Consumption tax exemptions for privately produced beer

Agriculture, forestry and fishing (\$m)

2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
40	40	40	45	45	45	45	50
<i>Tax expenditure type:</i>		Exemption			<i>2008 TES code:</i>		F13
<i>Estimate Reliability:</i>		Medium					
<i>Commencement date:</i>		18 April 1973			<i>Expiry date:</i>		
<i>Legislative reference:</i>		Schedule to the <i>Excise Tariff Act 1921</i>					

Beer made for personal use by private individuals is exempt from the payment of excise.

F14 Consumption tax exemptions for privately produced wine

Agriculture, forestry and fishing (\$m)

2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
17	20	21	22	23	24	25	26
<i>Tax expenditure type:</i>		Exemption			<i>2008 TES code:</i>		F14
<i>Estimate Reliability:</i>		Medium					
<i>Commencement date:</i>		19 August 1970			<i>Expiry date:</i>		
<i>Legislative reference:</i>		A New Tax System (Wine Equalisation Tax) Act 1999					

Wine made for personal use by private individuals is exempt from the wine equalisation tax.

F15 Excise concession for microbreweries

Agriculture, forestry and fishing (\$m)

2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
..
<i>Tax expenditure type:</i>		Concessional rate			<i>2008 TES code:</i>		F15
<i>Estimate Reliability:</i>		Medium					
<i>Commencement date:</i>		2000			<i>Expiry date:</i>		
<i>Legislative reference:</i>		Paragraph 50(1)(zzd) of the Excise Regulations 1925					

Microbreweries producing not more 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.

F16 No excise-free threshold for excisable alcoholic beverages (other than beer) not exceeding 10 per cent alcohol

Agriculture, forestry and fishing (\$m)

2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
-130	-150	-200	-470	-490	-540	-580	-640
<i>Tax expenditure type:</i>		Increased rate			<i>2008 TES code:</i>		F16
<i>Estimate Reliability:</i>		Medium					
<i>Commencement date:</i>		2000			<i>Expiry date:</i>		
<i>Legislative reference:</i>		Item 1 of the Schedule to 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. The benchmark is the tax treatment of full strength beer sold in containers not exceeding 48 litres. Under the benchmark alcohol equivalent to the first 1.15 per cent of a beverage's volume is not excisable where the alcohol content does not exceed 10 per cent. 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.

Tax Expenditures Statement

From 27 April 2008 the excise on these ready to drink products increased to the same level as applies to spirits.

F17 Wine equalisation tax producer rebate

Agriculture, forestry and fishing (\$m)

2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
115	195	195	200	210	225	235	250
<i>Tax expenditure type:</i>	Rebate				<i>2008 TES code:</i>		F18
<i>Estimate Reliability:</i>	Medium						
<i>Commencement date:</i>	1 October 2004				<i>Expiry date:</i>		
<i>Legislative reference:</i>	A New Tax System (Wine Equalisation Tax) Act 1999						

Wine producers receive a rebate up to \$500,000 of wine equalisation tax (WET) paid per annum. The producer rebate was introduced on 1 October 2004 and until 1 July 2006 wine producers received a rebate up to \$290,000 of WET paid per annum. The rebate also extends to cider, mead, perry and sake.

Motor vehicles

F18 Luxury car tax

Other economic affairs — Other economic affairs, nec (\$m)

2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
-320	-360	-450	-390	-370	-360	-400	-430
<i>Tax expenditure type:</i>	Increased rate				<i>2008 TES code:</i>		F19
<i>Estimate Reliability:</i>	Medium						
<i>Commencement date:</i>	1 July 2000				<i>Expiry date:</i>		
<i>Legislative reference:</i>	A New Tax System (Luxury Car Tax) Act 2000						

The luxury car tax currently applies to cars that have a GST inclusive price over \$57,180 (for the 2009-10 financial year) However, the tax applies only on the GST exclusive value of the car that exceeds \$57,180.

On 1 July 2008 the luxury car tax rate increased from 25 per cent to 33 per cent. Since 3 October 2008, eligible fuel efficient cars have been subject to a threshold of \$75,000 for luxury car tax purposes and from 1 July 2008 a tax refund of up to \$3,000 of the amount of luxury car tax paid has been available for 'primary producers' or certain tourism businesses that acquire a 'refund-eligible car'.

As motor vehicle purchases are not taxed under the benchmark, the luxury car tax is a negative tax expenditure.

General consumption tax expenditures

F19 Certain exemptions for diplomatic missions and foreign diplomats

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

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	1	1	1	1	1	1	1	1
<i>Tax expenditure type:</i>	Concessional rate					<i>2008 TES code:</i>		F20
<i>Estimate Reliability:</i>	Medium — High							
<i>Commencement date:</i>	21 August 1940					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Regulation 50 of the <i>Excise Regulations 1925</i> Section 10 of the <i>Diplomatic Privileges and Immunities Act 1967</i> Section 10 of the <i>Consular Privileges and Immunities Act 1972</i> Section 11 of the <i>International Organisations (Privileges and Immunities) Act 1963</i> Section 12 of the <i>Overseas Missions (Privileges and Immunities) Act 1995</i>							

Note: estimates represent excise duty only.

Excise, luxury car tax and wine equalisation tax are not payable (or an equivalent amount of that paid is claimable) for alcohol, fuel, motor vehicles and tobacco used for official purposes by diplomatic missions or for personal use by persons identified in the *Diplomatic Privileges and Immunities Act 1967*.

F20 Certain exemptions for Australian military sea vessels

Defence (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	1	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Concessional rate					<i>2008 TES code:</i>		F21
<i>Estimate Reliability:</i>	Low							
<i>Commencement date:</i>	2 August 1934					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Schedule 1 to the <i>Excise Regulations 1925</i>							

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.

Tax Expenditures Statement

F21 Customs duty

Mining, manufacturing and construction (\$m)

2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
-3,230	-3,450	-3,630	-3,510	-2,950	-2,650	-2,820	-3,000
<i>Tax expenditure type:</i>	Increased rate				<i>2008 TES code:</i>	F22	
<i>Estimate Reliability:</i>	Medium — High						
<i>Commencement date:</i>	4 October 1901				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Customs Act 1901 Customs Tariff Act 1995						

Customs duty is collected on certain goods imported into Australia. Under the benchmark, goods imported into Australia are free from customs duty (except for excise-equivalent customs duty).

NATURAL RESOURCES TAXES

The Australian Government taxes profits from the extraction and production of unprocessed petroleum (for example, crude oil, LPG and condensate) and, in certain cases, natural gas. Different taxation arrangements for unprocessed petroleum products applied to projects that commenced before the 1986-87 financial year.

The benchmark for petroleum projects that commenced on or after 1 July 1986 is based on the petroleum resource rent tax (PRRT).

- The tax base includes receipts from offshore petroleum production (excluding projects located in the North West Shelf) less eligible project expenditures.
 - Under the PRRT any eligible expenditure which is not offset against revenue in the current year can be compounded and offset against future PRRT income. The rate at which expenditure is compounded and carried forward depends on the category of expenditure and when it was incurred. The benchmark uplift rate for exploration expenditure is the long term bond rate plus 15 percentage points and for general project expenditure is the long term bond rate plus 5 percentage points.
- The benchmark tax rate is 40 per cent of the project's profits.
- The benchmark tax unit is the petroleum project.

The benchmark for petroleum projects that commenced before 1 July 1986 (for example, the North West Shelf) is the crude oil excise and 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, with applicable rates determined by the date that the field was discovered (that is, new, intermediate or other); and
- the entity that has the legal obligation to pay the tax as the tax unit.

Tax expenditures for manufacturing and mining

G1 Gas transfer price regulations

Fuel and energy (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Deduction					<i>2008 TES code:</i>	G1	
<i>Estimate Reliability:</i>	Not Applicable					<i>* Category</i>	2+	
<i>Commencement date:</i>	20 December 2005					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Petroleum Resource Rent Tax Assessment Regulations 2005							

For petroleum resource rent tax purposes, the gas transfer price regulations stipulate rules for calculating the gas transfer price where there is no arm's length transaction. The regulations provide an allowance for capital expenditure which is based on the long term bond rate plus 7 percentage points rather than the benchmark rate (long term bond rate plus 5 percentage points).

G2 Increased deduction for petroleum exploration expenditure in designated offshore frontier areas

Fuel and energy (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Deduction					<i>2008 TES code:</i>	G2	
<i>Estimate Reliability:</i>	Not Applicable					<i>* Category</i>	1+	
<i>Commencement date:</i>	29 March 2004					<i>Expiry date:</i>	2009	
<i>Legislative reference:</i>	Section 36C of the Petroleum Resource Rent Tax Assessment Act 1987							

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.

G3 Transfer of exploration expenditure between petroleum resource rent tax projects

Fuel and energy (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Deduction					<i>2008 TES code:</i>	G3	
<i>Estimate Reliability:</i>	Not Applicable					<i>* Category</i>	2+	
<i>Commencement date:</i>	1 July 1990					<i>Expiry date:</i>		
<i>Legislative reference:</i>	<i>Petroleum Resource Rent Tax Assessment Act 1987</i>							

Exploration expenditure can be transferred, under certain circumstances, between projects for petroleum resource rent tax (PRRT) purposes. Under the benchmark, the taxable entity is the project and undeducted expenditure is compounded and applied against future PRRT assessable receipts.

Petroleum

G4 Crude Oil Excise — Condensate

Fuel and energy (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	770	790	980	580	490	480	480	480
<i>Tax expenditure type:</i>	Exemption					<i>2008 TES code:</i>	G4	
<i>Estimate Reliability:</i>	Medium					<i>Expiry date:</i>		
<i>Commencement date:</i>	1977					<i>Expiry date:</i>		
<i>Legislative reference:</i>	<i>Schedule to the Excise Tariff Act 1921</i>							

Prior to midnight (Canberra time), 13 May 2008, 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, or in the North West Shelf project area was exempt from the crude oil excise. Condensate is light oil extracted from 'wet' gas and primarily processed for use in motor vehicles (commonly known as petrol).

As announced in the 2008-09 Budget, the tax exemption for condensate was abolished with effect from midnight (Canberra time) 13 May 2008. From this date, condensate production from petroleum fields located in the North West Shelf project area and onshore Australia have been subject to the same excise rates as those applicable to petroleum fields discovered after 18 September 1975.

However, the benchmark for condensate produced from fields discovered prior to 18 September 1975 are the higher excise rates applied to production from fields discovered prior to 18 September 1975.

GOODS AND SERVICES TAX BENCHMARK

The goods and services tax benchmark comprises:

- the value of the final supply of all goods and services privately consumed and investment in residential housing in Australia as the tax base;
- the entity making a supply (or receiving a supply in the case of reverse charges) as the tax unit;
- the existing GST rate as the tax rate; and
- the financial year as the taxation period.

Tax expenditures for general public services

H1 GST — Financial Supplies; financial acquisitions threshold

General public services — Financial and fiscal affairs (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Concessional rate					<i>2008 TES code:</i>	H1	
<i>Estimate Reliability:</i>	Not Applicable					<i>* Category</i>	3+	
<i>Commencement date:</i>	1 July 2000					<i>Expiry date:</i>		
<i>Legislative reference:</i>	A New Tax System (Goods and Services Tax) Act 1999							

Generally, financial supplies are input taxed, meaning that an entity is not entitled to input tax credits for acquisitions relating to the financial supplies made by the entity. However, an entity can be entitled to input tax credits for its financial acquisitions if it does not exceed the financial acquisitions threshold. The entitlement to input tax credits for financial acquisitions in these circumstances is regarded as a positive tax expenditure.

An entity does not exceed the financial acquisitions threshold if the input tax credits it would have been entitled to, had the acquisitions been for a creditable purpose, do not exceed \$50,000 or 10 per cent of their total input tax credits for the year.

H2 GST — Financial Supplies; input taxed treatment

General public services — Financial and fiscal affairs (\$m)

2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
1,640	1,760	1,880	2,040	2,120	2,230	2,330	2,430
<i>Tax expenditure type:</i>	Exemption, Concessional rate				<i>2008 TES code:</i>	H2	
<i>Estimate Reliability:</i>	Medium						
<i>Commencement date:</i>	1 July 2000				<i>Expiry date:</i>		
<i>Legislative reference:</i>	A New Tax System (Goods and Services Tax) Act 1999						

Financial supplies and acquisitions of financial supplies are input taxed. This means financial supplies are not subject to GST, but input tax credits cannot be claimed on inputs to either the supply or to the acquisition of the supply. When input taxed supplies are made to consumers, a tax expenditure arises as less than 10 per cent of the total value added is remitted to the Australian Taxation Office. When input taxed supplies are made to other registered businesses a negative tax expenditure arises as input tax credits cannot be claimed for this supply.

H3 GST — Financial Supplies; reduced input tax credits

General public services — Financial and fiscal affairs (\$m)

2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
670	730	780	830	860	910	950	1,000
<i>Tax expenditure type:</i>	Exemption, Concessional rate				<i>2008 TES code:</i>	H3	
<i>Estimate Reliability:</i>	Low						
<i>Commencement date:</i>	1 July 2000				<i>Expiry date:</i>		
<i>Legislative reference:</i>	A New Tax System (Goods and Services Tax) Act 1999						

Financial supplies are generally input taxed. However, the acquisition of certain supplies (known as reduced credit acquisitions) allows financial service suppliers to claim a credit of 75 per cent of the standard input tax credit entitlement. The entitlement to the 75 per cent credit in these instances is a tax expenditure.

H4 GST — Supplies by charitable institutions and non-profit bodies

General public services — General services (\$m)

2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption				<i>2008 TES code:</i>	H5	
<i>Estimate Reliability:</i>	Not Applicable				* <i>Category</i>	3+	
<i>Commencement date:</i>	1 July 2000				<i>Expiry date:</i>		
<i>Legislative reference:</i>	A New Tax System (Goods and Services Tax) Act 1999						

Charities and other gift deductible bodies are entitled to a higher registration threshold of \$150,000. They are entitled to GST free treatment on non-commercial activities, certain retirement village services, bingo, and sale of second hand goods. Charities can elect to have fund raising treated as input taxed. This option is also available to gift

Tax Expenditures Statement

deductible entities and government schools. Simplified accounting methods may be available and a range of other concessions apply.

Certain entities have the option of separately identifying some or all of their operations and treating each as a separate entity for GST purposes.

H5 GST — Child Care Services

Housing and community amenities (\$m)							
2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
360	390	440	470	510	550	600	660
<i>Tax expenditure type:</i>	Exemption				<i>2008 TES code:</i>	H6	
<i>Estimate Reliability:</i>	Medium						
<i>Commencement date:</i>	1 July 2000				<i>Expiry date:</i>		
<i>Legislative reference:</i>	A New Tax System (Goods and Services Tax) Act 1999						

Generally, child care will be GST free if the provider is a registered carer or approved child care service as specified under the relevant Commonwealth legislation. In addition, child care supplied at facilities eligible to receive Commonwealth government funding under the guidelines made by the Child Care Minister is also GST free. All supplies that are directly related to child care are also GST free.

H6 GST — Water, sewerage and drainage

Housing and community amenities (\$m)							
2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
420	460	490	560	570	580	600	630
<i>Tax expenditure type:</i>	Exemption				<i>2008 TES code:</i>	H7	
<i>Estimate Reliability:</i>	Medium						
<i>Commencement date:</i>	1 July 2000				<i>Expiry date:</i>		
<i>Legislative reference:</i>	A New Tax System (Goods and Services Tax) Act 1999						

A supply of water is GST free unless it is supplied in, or transferred into a container with a capacity of less than 100 litres. The draining of storm water, the emptying of a septic tank and sewerage and sewerage-like services are also GST free.

International tax expenditures

H7 GST — GST free status to diplomats, diplomatic missions and approved international organisations

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

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	6	7	6	6	7	7	7	7
<i>Tax expenditure type:</i>	Exemption					<i>2008 TES code:</i>		H8
<i>Estimate Reliability:</i>	High							
<i>Commencement date:</i>	1 July 2000					<i>Expiry date:</i>		
<i>Legislative reference:</i>	A New Tax System (Goods and Services Tax) Act 1999							

Diplomatic missions, consulates and certain international organisations may be reimbursed the GST included in their purchases of certain goods and services, where the purchase is for the official use of the organisation. The GST included in purchases by diplomatic and consular staff, or certain staff of the international organisation for the private use of the person may also be refundable. The refund must be within the scope of the *Diplomatic Privileges and Immunities Act 1967*, the *Consular Privileges and Immunities Act 1972*, or the *International Organisations (Privileges and Immunities) Act 1963*.

H8 GST — Tourism

Other economic affairs — Tourism and area promotion (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption					<i>2008 TES code:</i>		H9
<i>Estimate Reliability:</i>	Not Applicable					<i>* Category</i>		3+
<i>Commencement date:</i>	1 July 2000					<i>Expiry date:</i>		
<i>Legislative reference:</i>	A New Tax System (Goods and Services Tax) Act 1999							

Travel agents in Australia arranging overseas supplies (for example holidays) where the effective use or enjoyment of which is to take place outside Australia are not subject to GST on this supply.

Domestic air or sea travel within Australia by residents or non-residents as part of a wider international arrangement is not subject to GST. Domestic air travel within Australia by non-residents is also GST free if the ticket is purchased outside Australia. Transport insurance for the above supplies is also GST free.

Supplies made through an inwards duty free shop to relevant travellers are also not subject to GST.

International travellers visiting Australia and Australians travelling overseas may be able to claim a refund of GST paid on certain goods bought in Australia if the total

Tax Expenditures Statement

value of the goods is \$300 or more, they are purchased within 30 days of departure, and the goods are taken with the traveller when they depart Australia.

H9 GST — Importation Threshold

Other economic affairs — Other economic affairs, nec (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption					<i>2008 TES code:</i>	H10	
<i>Estimate Reliability:</i>	Not Applicable					<i>* Category</i>	2+	
<i>Commencement date:</i>	1 July 2000					<i>Expiry date:</i>		
<i>Legislative reference:</i>	A New Tax System (Goods and Services Tax) Act 1999							

With the exception of consignments containing tobacco, tobacco products or alcoholic beverages a GST and customs duty exemption applies to goods with a customs value of no more than \$1,000.

H10 GST — Imported services

Other economic affairs — Other economic affairs, nec (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	700	750	900	950	1,050	1,150	1,250	1,350
<i>Tax expenditure type:</i>	Exemption					<i>2008 TES code:</i>	H11	
<i>Estimate Reliability:</i>	Low							
<i>Commencement date:</i>	1 July 2000					<i>Expiry date:</i>		
<i>Legislative reference:</i>	A New Tax System (Goods and Services Tax) Act 1999							

Imported services (those that are not done in Australia as specified in s9-25 of A *New Tax System (GST) Act 1999*) which are not part of a reverse charge importation are not subject to GST.

Tax expenditures for education

H11 GST — Education

Education (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	1,850	2,000	2,150	2,350	2,550	2,750	2,950	3,200
<i>Tax expenditure type:</i>	Exemption					<i>2008 TES code:</i>	H12	
<i>Estimate Reliability:</i>	Medium — High							
<i>Commencement date:</i>	1 July 2000					<i>Expiry date:</i>		
<i>Legislative reference:</i>	A New Tax System (Goods and Services Tax) Act 1999							

Certain education supplies are GST free. These include education courses, administrative services, curriculum related goods, student accommodation for students attending a primary, secondary or special education course, excursions and

field trips and supplies related to the recognition of prior learning. In addition, school tuckshops and canteens can elect to be input taxed.

Tax expenditures for health

H12 GST — Health; drugs and medicinal preparations

Health (\$m)							
2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
270	300	330	360	400	430	470	510
<i>Tax expenditure type:</i>	Exemption				<i>2008 TES code:</i>		H13
<i>Estimate Reliability:</i>	Medium — High						
<i>Commencement date:</i>	1 July 2000				<i>Expiry date:</i>		
<i>Legislative reference:</i>	A New Tax System (Goods and Services Tax) Act 1999						

Most medicines for human use are GST free. GST free medicines include: medicines that can only be supplied on prescription; medicines listed on the Pharmaceutical Benefits Scheme (PBS); medicines listed on the Repatriation Pharmaceutical Benefits Scheme (RPBS); non prescription drugs that can only be supplied by a doctor, dentist, pharmacist or other prescribed person as described by relevant State or Territory law; medicines supplied under the Special Access Scheme; and medicines covered by a written determination by the Federal Health Minister.

H13 GST — Health; medical aids and appliances

Health (\$m)							
2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
30	30	35	40	40	45	50	55
<i>Tax expenditure type:</i>	Exemption				<i>2008 TES code:</i>		H14
<i>Estimate Reliability:</i>	Medium — High						
<i>Commencement date:</i>	1 July 2000				<i>Expiry date:</i>		
<i>Legislative reference:</i>	A New Tax System (Goods and Services Tax) Act 1999						

A medical aid or appliance is GST free if the medical aid or appliance is listed in Schedule 3 to the *A New Tax System (Goods and Services Tax) Act 1999*, or specified in the regulations and specifically designed for people with an illness or disability and not widely used by others.

The supply of cars for use by disabled persons, spare parts for medical aids and appliances and the services related to the provision of the medical aid or appliance are GST free. Goods that are the subject of a written determination by the Federal Health Minister are also GST free.

H14 GST — Health; medical and health services

Health (\$m)							
2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
1,850	2,050	2,300	2,500	2,700	2,950	3,200	3,500
<i>Tax expenditure type:</i>		Exemption			<i>2008 TES code:</i>		H15
<i>Estimate Reliability:</i>		Medium — High					
<i>Commencement date:</i>		1 July 2000			<i>Expiry date:</i>		
<i>Legislative reference:</i>		A New Tax System (Goods and Services Tax) Act 1999					

Medical services are GST free if: they are a service for which a Medicare benefit is payable under the *Health Insurance Act 1973*; they are supplied by, or on behalf of, a medical practitioner; and they constitute a service that is generally accepted in the medical profession as being necessary for the treatment of the patient.

Health services rendered by a recognised professional, as well as hospital treatment are also GST free. Goods supplied in the course of making GST free health care services are generally GST free.

H15 GST — Health; Private Health Insurance

Health (\$m)							
2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
160	180	190	180	190	200	210	230
<i>Tax expenditure type:</i>		Exemption			<i>2008 TES code:</i>		H16
<i>Estimate Reliability:</i>		Medium					
<i>Commencement date:</i>		1 July 2000			<i>Expiry date:</i>		
<i>Legislative reference:</i>		A New Tax System (Goods and Services Tax) Act 1999					

A supply of private health insurance by a private health insurer (within the meaning of the *Private Health Insurance Act 2007*) is GST free. In line with the GST treatment of general insurance, the tax expenditure for this item is based on the difference between the premium income of private health insurers and the value of benefits paid out.

H16 GST — Health; residential care, community care and other care services

Health (\$m)							
2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
70	80	90	100	110	120	130	140
<i>Tax expenditure type:</i>		Concessional rate			<i>2008 TES code:</i>		H17
<i>Estimate Reliability:</i>		Medium — High					
<i>Commencement date:</i>		1 July 2000			<i>Expiry date:</i>		
<i>Legislative reference:</i>		A New Tax System (Goods and Services Tax) Act 1999					

Some services provided by care and specialist disability providers are GST free. The quality of care principles found in the *Aged Care Act 1997* apply in determining the tax status of specific care services. In general, publicly funded aged or disability care

services are GST free, as are privately funded aged care services which meet the quality of care principles found in the *Aged Care Act 1997* and are provided to those needing daily living activities assistance or nursing services.

Tax concessions for certain taxpayers

H17 GST — Religious services

Recreation and culture (\$m)

2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
20	20	20	25	25	25	25	30
<i>Tax expenditure type:</i>	Exemption				<i>2008 TES code:</i>		H18
<i>Estimate Reliability:</i>	Low						
<i>Commencement date:</i>	1 July 2000				<i>Expiry date:</i>		
<i>Legislative reference:</i>	<i>A New Tax System (Goods and Services Tax) Act 1999</i>						

Supplies of religious services are GST free if supplied by a religious institution and the supplied service is integral to the practise of that religion. Certain religious bodies can form a 'GST religious group' which will effectively be treated as a single entity. The broad effect is that supplies made within the group are not subject to GST and acquisitions made within the group do not give rise to input tax credits.

H18 GST — Supplies of farm land

Agriculture, forestry and fishing (\$m)

2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption				<i>2008 TES code:</i>		H19
<i>Estimate Reliability:</i>	Not Applicable				<i>* Category</i>		2+
<i>Commencement date:</i>	1 July 2000				<i>Expiry date:</i>		
<i>Legislative reference:</i>	<i>A New Tax System (Goods and Services Tax) Act 1999</i>						

Specific supplies of farm land are GST free. This includes: farm land supplied for farming on which a farming business has been carried on for at least five years and upon which a farming business is intended to continue to be carried on, on the land; and subdivided farm land that is potential residential land that is supplied to associates.

Under the GST benchmark, farm land supplied to an unregistered purchaser for farming; or farm land that is potential residential land supplied to an unregistered associate for nil or inadequate consideration; gives rise to a tax expenditure under this item.

No net GST would be collected under the benchmark from farm land supplied for farming to a registered business purchaser.

From 1 July 2010, farm land supplied for farming will no longer be GST free, instead GST may be reverse charged to the recipient. The reverse charge mechanism can only be used by registered recipients. As a result, farm land supplied for farming to an unregistered recipient will no longer be GST free.

H19 GST — Registration thresholds (Small Business concessions)

Other economic affairs — Other economic affairs, nec (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption					<i>2008 TES code:</i>	H20	
<i>Estimate Reliability:</i>	Not Applicable					<i>* Category</i>	3+	
<i>Commencement date:</i>	1 July 2000					<i>Expiry date:</i>		
<i>Legislative reference:</i>	A New Tax System (Goods and Services Tax) Act 1999							

Entities with a GST turnover less than \$75,000 (\$150,000 for non profit entities), are not required to register for GST. Supplies made by non-registered entities are not subject to GST.

H20 GST — Simplified Accounting Methods

Other economic affairs — Other economic affairs, nec (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	12	11	11	10	10	9	9	8
<i>Tax expenditure type:</i>	Concessional rate					<i>2008 TES code:</i>	H4	
<i>Estimate Reliability:</i>	Low							
<i>Commencement date:</i>	1 July 2000					<i>Expiry date:</i>		
<i>Legislative reference:</i>	A New Tax System (Goods and Services Tax) Act 1999							

The Commissioner of Taxation can create simplified accounting methods (SAMs) that some small businesses can choose to apply with a view to reducing their GST compliance costs. SAMs allow taxpayers to apply simple ratios to calculate their GST liabilities (or components of them) rather than accounting for each supply to determine if it is taxable or non-taxable. Being ratios, SAMs will benefit some taxpayers by reducing their GST liabilities while increasing the GST liabilities of others, relative to the amounts calculated using a full GST calculation.

While SAMs are designed to reduce compliance costs rather than provide a tax concession, entities that expect to receive a tax benefit from applying SAMs are more likely to adopt this methodology than those that do not. This would be expected to result in a net tax concession.

Tax expenditures for manufacturing and mining

H21 GST — Supply of precious metal

Mining, manufacturing and construction (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption					<i>2008 TES code:</i>	H21	
<i>Estimate Reliability:</i>	Not Applicable					<i>* Category</i>	2+	
<i>Commencement date:</i>	1 July 2000					<i>Expiry date:</i>		
<i>Legislative reference:</i>	A New Tax System (Goods and Services Tax) Act 1999							

The first supply of a precious metal by or on behalf of a refiner after the refining process to a precious metal dealer is GST free. Subsequent supplies of precious metals are input taxed. The importation of precious metals is a non taxable importation and as such GST will not be charged on the importation. The tax expenditure here is the loss of tax on the GST free and input taxed supplies and imports (where this would not be offset by input tax credits) reduced by any input tax credits denied for acquisitions related to the input taxed activities.

Tax expenditures for transport and communications

H22 GST — Cross-border transport supplies

Transport and communication (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	-	-	-	-	-	2	2	2
<i>Tax expenditure type:</i>	Exemption					<i>2008 TES code:</i>	New	
<i>Estimate Reliability:</i>	Low							
<i>Commencement date:</i>	1 July 2010					<i>Expiry date:</i>		
<i>Legislative reference:</i>	A New Tax System (Goods and Services Tax) Act 1999							

From 1 July 2010, the total transport cost of imported goods will be included in the value of taxable importation calculation. If the imported good is not a taxable importation, any domestic transport component of the transportation supply will not be taxed.

Tax expenditures for other economic affairs

H23 GST — Food — uncooked, not prepared, not for consumption on premises of sale and some beverages

Other economic affairs — Other economic affairs, nec (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	4,400	4,700	5,100	5,500	5,600	5,900	6,100	6,400
<i>Tax expenditure type:</i>	Exemption					<i>2008 TES code:</i>	H22	
<i>Estimate Reliability:</i>	Medium — High							
<i>Commencement date:</i>	1 July 2000					<i>Expiry date:</i>		
<i>Legislative reference:</i>	A New Tax System (Goods and Services Tax) Act 1999							

Most food items for human consumption that are prepared and/or consumed at home are GST free. Examples of GST free food include fresh fruit and vegetables, fish, dairy products, bread and meat. Examples of GST free beverages include milk products, tea, coffee, water and fruit juices. In addition, generally the packaging used in the supply of GST free food will itself be GST free.

3.8 Externalities benchmark

The externalities benchmark is included in this edition of the TES for the first time. This benchmark deals with taxes (or other revenue raising arrangements) that are imposed to ensure that the private costs of certain activities align with the social costs of those activities.

Tax expenditures reported under this benchmark have a different purpose to the taxation of income or consumption, although they may involve changes to income or consumption behaviours.

Further information on the externalities benchmark is provided in Appendix A.

CARBON POLLUTION REDUCTION SCHEME

The Carbon Pollution Reduction Scheme benchmark comprises:

- the tax rate set by the value of the Australian emissions units in each year;
- a tax base equal to the carbon dioxide equivalent volume of all relevant emissions by entities in Australia; and
- the financial year as the period for liability.

Tax concessions for certain taxpayers

I1 CPRS thresholds for obligations

Other economic affairs — Other economic affairs, nec (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	-	-	-	-	-	-	*	*
<i>Tax expenditure type:</i>	Exemption					<i>2008 TES code:</i>	New	
<i>Estimate Reliability:</i>	Not Applicable					<i>* Category</i>	2+	
<i>Commencement date:</i>	1 July 2011					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Not yet legislated							

In most covered sectors under the CPRS, only entities producing above 25,000 tonnes of emissions per year are liable. This is largely for practical reasons — participation thresholds are designed to balance the benefits of increased CPRS coverage against the costs of scheme compliance. In the interests of competitive neutrality, emissions from landfill sites that are operating in proximity to another operating landfill will be subject a lower threshold of 10,000 tonnes of emissions a year, returning to 25,000 tonnes 10 years after the landfill closes.

Below threshold emissions from deforestation, agriculture and decommissioned mines are incorporated in tax expenditures I2, I4 and I5, respectively.

I2 CPRS uncovered sectors — deforestation

Other economic affairs — Other economic affairs, nec (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	-	-	-	-	-	-	480	1,240
<i>Tax expenditure type:</i>	Exemption					<i>2008 TES code:</i>	New	
<i>Estimate Reliability:</i>	Medium — Low							
<i>Commencement date:</i>	1 July 2011					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Not yet legislated							

Emissions from deforestation will be excluded from the CPRS. Including deforestation in the CPRS would create incentives to pre-emptively clear land before the Scheme starts.

I3 CPRS uncovered sectors — legacy landfill emissions

Other economic affairs — Other economic affairs, nec (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	-	-	-	-	-	-	100	250
<i>Tax expenditure type:</i>	Exemption					<i>2008 TES code:</i>	New	
<i>Estimate Reliability:</i>	Medium — Low							
<i>Commencement date:</i>	1 July 2011					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Not yet legislated							

Emissions from landfill sites that closed prior to 30 June 2008 will be excluded from the CPRS since operators of sites that have already closed will have no opportunity to pass on costs. Similarly, emissions from waste deposited at landfills prior to the start of the CPRS on 1 July 2011 will be considered to be legacy emissions and will not incur a liability. However, these legacy emissions will continue to count towards a landfill facility's threshold in order to ensure broad coverage of new waste emissions.

Emissions from waste deposited at landfills above the applicable threshold (25,000 tonnes per year, or 10,000 tonnes per year for landfills in proximity to another operating landfill) after 1 July 2011 will be covered by the CPRS. The corresponding below threshold emissions are incorporated into the tax expenditure I1 *CPRS thresholds for obligations*.

Tax expenditures for agriculture, forestry and fishing

I4 CPRS uncovered sectors — agriculture

Agriculture, forestry and fishing (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	-	-	-	-	-	-	930	2,450
<i>Tax expenditure type:</i>	Exemption					<i>2008 TES code:</i>	New	
<i>Estimate Reliability:</i>	Medium — Low							
<i>Commencement date:</i>	1 July 2011					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Not yet legislated							

Emissions from agricultural activities are to be excluded from the CPRS.

Tax expenditures for manufacturing and mining

I5 CPRS uncovered sectors — decommissioned mines

Mining, manufacturing and construction (\$m)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	-	-	-	-	-	-	10	30
<i>Tax expenditure type:</i>	Exemption					<i>2008 TES code:</i>	New	
<i>Estimate Reliability:</i>	Medium — Low							
<i>Commencement date:</i>	1 July 2011					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Not yet legislated							

Fugitive emissions from decommissioned coal mines will be excluded from the CPRS. This is partly because of measurement difficulties caused by sealing a mine, but also because fugitive emissions from most decommissioned mines are expected to be below the 25,000 tonne emissions threshold. Decommissioned mines that may initially exceed the threshold are expected to fall below it within a few years.

CHAPTER 4: REVENUE GAIN ESTIMATES OF TAX EXPENDITURES

4.1 Introduction

The revenue gain approach has often been proposed as an alternative to the revenue forgone approach used to produce the tax expenditure estimates in Chapter 3. This is because the revenue gain estimates for individual tax expenditure items are thought to be comparable to estimates of the revenue impact of budget measures.

The *2008 Tax Expenditures Statement* (TES) incorporated, for the first time, estimates of six tax expenditures based on the revenue gain approach. Those six tax expenditures were chosen in order to highlight the effect of the difference in approaches on the tax expenditures estimates.

The publication of revenue gain estimates has been undertaken in response to a recommendation by the Australian National Audit Office (ANAO) audit report *Performance Audit Report No. 32 2007-08 – Preparation of the Tax Expenditures Statement*. The ANAO recommended that Treasury and the Australian Taxation Office ‘identify opportunities to develop estimates of large or otherwise significant tax expenditures using the revenue gain approach’¹. More recently, the Joint Committee of Public Accounts and Audit (JCPAA) recommended, in its report on the ANAO audit of the TES, that ‘Treasury publish a paper for inclusion in the Tax Expenditures Statement calculating the twenty largest tax expenditures using both the revenue foregone and revenue gained methods to allow comparison with the Budget Papers’². Treasury’s response to these reports has been that, notwithstanding that there are significant practical difficulties in making revenue gain estimates (including estimating behavioural responses and the need for a policy specification for the removal of each tax expenditure examined), it would prepare revenue gain estimates for selected tax expenditures to illustrate the differences between the revenue gain and revenue forgone methods. In its response to the JCPAA report, Treasury noted that it is also intended that the 2009 TES include a limited number of estimates of tax expenditures using the revenue gain approach. This time it is intended to focus on the largest tax expenditures (on a revenue foregone basis).

1 Australian National Audit Office, *Performance Audit Report No. 32 2007-08 – Preparation of the Tax Expenditures Statement*. Recommendation 5, p 22.

2 Australian Parliament, Joint Committee of Public Accounts and Audit, *Review of Auditor-General’s Reports tabled between August 2007 and August 2008*, Chapter 4. Recommendation 7.

This statement presents Treasury estimates of the revenue gain from eight of the largest tax expenditure items. Estimates for the revenue gain from the CGT concessions for housing and the CGT discount for individuals and trusts have not been quantified because those estimates are either very small and uncertain (housing) or because the significant uncertainty regarding the magnitude of response effects to a change (CGT discount).

There are considerable practical difficulties in producing estimates of the value of tax expenditures on a revenue gain approach for all 337 tax expenditures identified in this statement.

- As there are no Government decisions to remove tax concessions, estimating the revenue gain from doing so requires the making of ad hoc policy assumptions. While the revenue gain estimates use a standard policy specification as far as possible, the estimates presented only represent one of a range of possible policy outcomes.
- Estimating revenue gain requires information about existing taxpayer behaviour and the behavioural responses of taxpayers to policy changes for each estimate. In most cases this information is not available and assumptions need to be made to arrive at an estimate.
- Calculating comprehensive revenue gain estimates that provide a reliable estimate of aggregate tax expenditures would require the specification of assumptions regarding the order in which tax expenditures are removed and how activity would flow to alternative concessions.

In this statement, revenue gain estimates are being provided for several of the largest tax expenditures.³ This year, these tax expenditures have been chosen because they best illustrate the considerable differences that can arise between estimates calculated on the revenue forgone basis and those prepared on the revenue gain basis, and how those differences can vary between tax expenditure items.

4.2 Standard assumptions for the revenue gain estimates

The tax expenditures listed below have been estimated using both the revenue gain and revenue forgone approaches. The revenue gain estimates all assume that the tax expenditures concerned:

- are removed with effect from 1 July 2009;

³ Ranked according to their revenue forgone estimates.

- apply prospectively to transactions entered into after that date; and
- other specific assumptions concerning likely policy specifications for the removal of each concession as set out in the description.

4.3 Guide to revenue gain estimate descriptions

The descriptions of the revenue gain estimates included in this chapter present the revenue forgone and revenue gain estimates for a four year period for comparison. A brief outline of the reasons for any difference in the estimates is then provided.

<div style="display: flex; justify-content: space-between;"> <div style="border: 1px solid black; padding: 5px; width: 30%;"> <p><i>Reference code</i></p> <p>A Personal income B Business income C Retirement income D Fringe benefits tax E Capital gains tax F Commodity tax G Natural resource tax H Goods and services tax I Externalities</p> </div> <div style="border: 1px solid black; padding: 5px; width: 20%;"> <p>Tax expenditure title</p> </div> <div style="border: 1px solid black; padding: 5px; width: 30%;"> <p><i>Tax expenditure estimates</i></p> <p>- nil .. not zero, but rounded to zero * estimate is not available</p> </div> </div>								
A1: Title of the tax expenditure								
Estimates	Revenue Forgone Estimate (\$m)				Revenue Gain Estimate (\$m)			
	2008-09	2009-10	2010-11	2011-12	2008-09	2009-10	2010-11	2011-12
Reason for difference	Brief reasons including assumptions							

4.4 Tax expenditures based on revenue gain approach

C5: Superannuation — concessional taxation of employer contributions								
Estimates	Revenue Forgone Estimate (\$m)				Revenue Gain Estimate (\$m)			
	2009-10	2010-11	2011-12	2012-13	2009-10	2010-11	2011-12	2012-13
	11,400	12,100	13,250	14,550	8,250	9,250	10,150	11,150
Reason for difference	It is assumed that the Superannuation Guarantee remains and therefore compulsory contributions continue. Voluntary contributions are assumed to be directed to alternative tax preferred investments involving negative gearing. Because more voluntary contributions come from those with higher marginal tax rates, the average tax rate for residual compulsory contributions is lower.							
C6: Superannuation — concessional taxation of superannuation entity earnings								
Estimates	Revenue Forgone Estimate (\$m)				Revenue Gain Estimate (\$m)			
	2009-10	2010-11	2011-12	2012-13	2009-10	2010-11	2011-12	2012-13
	9,800	11,250	13,450	16,100	8,650	9,450	10,750	12,250
Reason for difference	It is assumed current preservation rules remain. In the accumulation phase voluntary concessional contribution are assumed to cease (as in C5) and most non concessional contributions are also not invested in superannuation after the start date. Over time this reduces the superannuation asset base and thus the revenue gain on withdrawing the earnings tax concession. Additionally, a significant proportion of funds in the retirement phase (not preserved) are withdrawn. Because of other tax concessions for older Australians (particularly the Senior Australians Tax Offset), the funds withdrawn attract minimal tax in the new investments chosen.							
H23: GST — Food — uncooked, not prepared, not for consumption on premises of sale and some beverages								
Estimates	Revenue Forgone Estimate (\$m)				Revenue Gain Estimate (\$m)			
	2009-10	2010-11	2011-12	2012-13	2009-10	2010-11	2011-12	2012-13
	5,600	5,900	6,100	6,400	5,500	5,700	6,000	6,300
Reason for difference	Removing the GST exemption applicable to certain types of food would be expected to decrease demand for those items. However, the impact of this behavioural response is expected to be small as demand for GST-free food is likely to be relatively inelastic to changes in price.							
F21: Customs duty								
Estimates	Revenue Forgone Estimate (\$m)				Revenue Gain Estimate (\$m)			
	2009-10	2010-11	2011-12	2012-13	2009-10	2010-11	2011-12	2012-13
	-2,950	-2,650	-2,820	-3,000	-2,950	-2,650	-2,820	-3,000
Reason for difference	Under the customs duty benchmark, goods imported into Australia are free from customs duty except to the extent that the duty is equivalent to taxes imposed on domestically produced goods. Bringing the customs duty tax expenditure into line with the benchmark would remove the revenue currently collected from tariffs on imports (which is reported as a negative tax expenditure). While the change may increase demand for imported goods, this would have no impact on customs duty revenue once the tax rate has been reduced to zero.							

H14: GST — Health; medical and health services								
Estimates	Revenue Forgone Estimate (\$m)				Revenue Gain Estimate (\$m)			
	2009-10	2010-11	2011-12	2012-13	2009-10	2010-11	2011-12	2012-13
	2,700	2,950	3,200	3,500	2,650	2,900	3,150	3,400
Reason for difference	Removing the GST exemption for medical and health services would be expected to decrease demand for those services. However, the impact of this behavioural response is expected to be small as demand for medical and health services is likely to be relatively unresponsive to changes in price.							
H11: GST — Education								
Estimates	Revenue Forgone Estimate (\$m)				Revenue Gain Estimate (\$m)			
	2009-10	2010-11	2011-12	2012-13	2009-10	2010-11	2011-12	2012-13
	2,550	2,750	2,950	3,200	2,300	2,450	2,700	2,900
Reason for difference	Removing the GST exemption for education would be expected to decrease demand for education services. This is primarily due to an expected fall in demand for private education and 'discretionary courses'.							
H2: GST — Financial Supplies; input taxed treatment								
Estimates	Revenue Forgone Estimate (\$m)				Revenue Gain Estimate (\$m)			
	2009-10	2010-11	2011-12	2012-13	2009-10	2010-11	2011-12	2012-13
	2,120	2,230	2,330	2,430	2,120	2,230	2,330	2,430
Reason for difference	Removing the input taxed treatment of financial services is not expected to materially impact the demand for these services. This is because of the relatively small increase in the price of financial services that would result from applying the normal GST rules and the lack of substitutable services that are available.							
A56: Exemption of Tax Bonus for Working Australians								
Estimates	Revenue Forgone Estimate (\$m)				Revenue Gain Estimate (\$m)			
	2009-10	2010-11	2011-12	2012-13	2009-10	2010-11	2011-12	2012-13
	2,070	95	0	0	2,882	134	-	-
Reason for difference	If the tax bonus were to be made taxable, the payment rate would have to be grossed up by an amount sufficient to offset the tax payable, in order for the tax bonus to have the intended impact. This would result in a larger revenue gain than indicated by the revenue forgone estimate. The fiscal impact of this revenue gain would be wholly offset by the increased expenditure necessary to gross up the payments, with the increased expenditure incurred in advance of the increased tax revenue.							

APPENDIX A: TAX EXPENDITURE BENCHMARKS AND METHODOLOGIES

A.1 BENCHMARKS

A.1.1 WHAT IS A TAX EXPENDITURE BENCHMARK?

In order to identify and measure tax expenditures a benchmark must be specified. Tax expenditures are defined and measured as deviations from this benchmark.

The framework for defining the benchmarks used in this statement is based on two principles.

- 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.
- The benchmark may incorporate structural elements of the tax system where there are difficulties adopting the standard treatment as the benchmark. Such elements could include integral design features; for example, 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 over time and across countries and can be arbitrary.

A.1.2 BENCHMARKS USED IN THE TAX EXPENDITURES STATEMENT

To provide a clear structure for reporting tax expenditures, the benchmark is split into three major components reflecting Australia's taxation arrangements.

- The income tax benchmark describes the standard taxation arrangements applying to personal and business income, superannuation, fringe benefits and capital gains.
- The consumption tax benchmark describes the standard taxation arrangements that apply either directly or indirectly to consumption and commodities; namely the supply of goods and services to consumers, tobacco, fuel, types of alcoholic beverages, motor vehicles, natural resources and customs duty.

- The externalities taxation benchmark covers taxation arrangements imposed to recover the external costs of particular activities. This benchmark reports tax expenditures arising from concessions under the Carbon Pollution Reduction Scheme (CPRS).

The remainder of this appendix provides details of the key elements of the income and consumption 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.

A.2 EXPENDITURES RELATED TO TAXES ON INCOME

Australian Government taxes are primarily imposed on income rather than commodities. The following sections outline the general features of the benchmark for income tax (both personal and business), superannuation, fringe benefits and capital gains. These different taxes are discussed separately because they have distinct tax regimes that affect how tax expenditures are measured.

A.2.1 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. 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: all income is included in the base regardless of the income earning activity. The income tax benchmark is based on the Schanz-Haig-Simons framework, but modified to accommodate structural elements.

Under the income tax benchmark, income includes:

- wages and salaries;
- allowances;
- business receipts;
- capital gains;
- interest, royalties and dividends;
- partnership income;
- government cash transfers; and
- distributions from trusts.

Where an expense is incurred for both income producing and private purposes, deductions are limited to the portion of expenses relating to income production.

A number of tax arrangements depart from the Schanz-Haig-Simons definition of income but are structural features of the tax system and therefore included in the benchmark. These elements are outlined below.

- Assessment applies to nominal rather than real income. Expenses incurred in earning income are deductible at historical cost.
- Some taxpayers (typically individuals) recognise income when it is actually received (cash basis) and other taxpayers (typically businesses) recognise income when there is a right to receive benefits or, in the case of financial arrangements, in the period to which it relates (accrual basis).
- Deductions for expenses related to economic benefits that extend beyond the income year in which the expenditure is incurred are spread over the period of the benefits. This treatment also applies to expenditure in advance (prepayments) for services.
- Imputed rent from owner occupied housing is not included in income. Expenditure incurred in earning imputed rent is not deductible.
- The mutuality principle excludes income from dealings with oneself or members of mutual associations and societies. For instance, goods produced by taxpayers for their own consumption, or services performed by taxpayers for their own benefit are generally not included in the tax base.

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- Certain gains, such as gains received by way of compensation for damage or any wrong or injury suffered by a taxpayer (where they are not solely responsible for the loss of income), or gains or winnings from gambling (where taxpayers are not considered to be carrying on a business of gambling), are not included in income.
- 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).
- Losses are deductible against assessable income for a later income year. Losses generally cannot be transferred to other taxpayers, and some losses may only be claimed against certain types of future income.
 - Non-commercial loss rules prevent individuals carrying on unprofitable business activities from claiming deductions for losses arising from such activities against their other income. Losses from non-commercial activities are treated as personal consumption under the benchmark and denial of such losses is therefore part of the benchmark treatment. The Commissioner of Taxation's objective determination of whether a business is commercial in nature, despite making a loss in a given income year, is the basis of the non-commercial losses benchmark.
- Depreciation deductions are made over the effective life of the asset.
- From 1 July 2005, under a provision of last resort, business capital expenditures not elsewhere recognised within the taxation laws (blackhole expenditures) are deductible over five years.

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 resident shareholders, is included in the income tax benchmark.

International tax arrangements

Australian residents are taxed on their worldwide income under the income tax benchmark. Consequently, residents are taxed on their Australian source and foreign source income. The various international tax arrangements that ensure foreign source income is subject to the appropriate level of Australian tax are included as structural elements of the income tax benchmark.

Features of the international tax arrangements that are incorporated into the benchmark are:

- Resident taxpayers are allowed to claim foreign income tax offsets up to the amount of Australian tax payable on their foreign income. These arrangements ensure foreign source income is not excessively taxed.
- The controlled foreign company, foreign investment fund and transferor trust rules ensure Australian residents cannot escape or defer taxation of tainted income by interposing a foreign resident legal entity.
 - Tainted income is generally income derived by investments which are mobile and whose location probably was influenced primarily by tax considerations, or certain related party transactions. It includes passive income such as interest, royalties and dividends and highly mobile forms of active income.
- Transfer pricing and thin capitalisation rules and interest, dividend and royalty withholding taxes aim to tax appropriately Australian sourced income and are included in the benchmark.
- Foreign residents are taxed on their Australian source income only. As part of this benchmark, where foreign income (or foreign capital gains) earned by an Australian entity is subsequently distributed to a foreign resident, the distribution attracts no Australian tax.
 - Persons in Australia on temporary visas are taxed essentially the same as foreign residents.
- Taxation treaties operate to allocate taxing rights over income between the source country of income and the taxpayer's country of residence. For distributions of Australian source income to foreign residents, the basic rates of withholding tax prescribed in these treaties in respect of specified classes of income, such as interest, dividend and royalty income, are included in the benchmark as the applicable tax rates.
 - Under this approach, the benchmark rate of interest, dividend and royalty withholding rates will vary depending on whether the country in question has a tax treaty with Australia.

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- If a tax treaty exists, the benchmark rates of withholding tax for a class of income will be the 'basic rate', where the basic rate is the highest rate specified in the treaty for each withholding tax.
- Exemptions or reductions relative to the basic rates prescribed in a particular tax treaty will give rise to tax expenditures.
- If a tax treaty does not apply, any exemptions or reductions from the standard domestic statutory rates will give rise to tax expenditures.

Tax rates 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 tax free threshold, the progressive personal income tax rate scale, low income tax offset and the Medicare levy. The progressive income tax rate scale is an integral and longstanding feature of the tax system.

Foreign residents are not entitled to a tax free threshold on Australian sourced income, as they typically receive a tax free threshold in their home jurisdiction. As a result, the foreign resident income tax scale is included in the benchmark.

Tax unit

Individuals and companies are subject to tax under the income tax benchmark. Sole traders, partnerships and trusts are not separate tax units. Income earned by these entities 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 (1 July to 30 June). Consequently, measures that defer taxable income to another financial year such as income averaging for primary producers (B42) or the farm management deposit scheme (B41) 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 the future.

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

A.2.2 SUPERANNUATION BENCHMARK

Income contributed to superannuation funds (contributions) 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.

The income tax 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.

A.2.3 FRINGE BENEFITS TAX BENCHMARK

Fringe benefits 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 the value of 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 the employee's personal marginal income tax rate. In all cases, fringe benefits tax is calculated on the grossed up taxable value (that is, the pre tax equivalent value) of the fringe benefit. In some cases, discount valuation methods are available to calculate the taxable value of a fringe benefit. Such methods are reported as tax expenditures.

The employer providing the fringe 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).

A.2.4 CAPITAL GAINS TAX BENCHMARK

Capital gains are classified 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 foreign residents, Australia has limited 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 from 12 December 2006. In respect of both the foreign capital gains of residents and the Australian capital gains of foreign residents, the allocation of taxing rights in the domestic laws and tax treaties is part of the benchmark.

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

A.3 TAXES ON CONSUMPTION

The Australian Government imposes taxes on consumption of particular goods, services or activities and on particular commodities. The tax base for the consumption tax benchmark is made up of three components.

- The commodity tax benchmark relates to the consumption of fuel (or energy), tobacco, types of alcoholic beverages and motor vehicles, and customs duty on the importation of goods into Australia.
- The natural resource tax benchmark relates to the extraction and production of Australia's natural resources.
- The goods and services tax benchmark relates to the final consumption of goods and services by households.

A.3.1 COMMODITY TAX BENCHMARK

Commodity taxes are either ad valorem or volumetric. Ad valorem taxes are charged as a fixed proportion of the value of the commodity sold. Volumetric taxes are charged as a fixed proportion of the quantity of the commodity sold. Consequently, the tax base for commodity 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, spirits and certain imports, and imposes 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.

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).

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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 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.

Tobacco

The benchmark for the consumption of tobacco and tobacco products is the excise rate that applies to tobacco by weight of tobacco content.

Alcoholic beverages

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

- the consumption of lower alcohol content beverages (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 volumetric excise rate that applies to full strength packaged beer (including the excise free threshold of the first 1.15 per cent of alcohol);

- the benchmark excise rate for higher alcohol content beverages (for example, spirits) is the volumetric excise rate on spirits other than brandy; and
- the benchmark rate for wine and alcoholic cider is the ad valorem wine equalisation tax rate.

Review of the taxation treatment of alcohol and the alcohol benchmark

The Australian National Audit Office noted in its report *Preparation of the Tax Expenditures* that:

The adoption of a uniform benchmark for alcohol (beer, spirits and wine) would be consistent with the principle that a tax benchmark should represent a consistent treatment of similar activities or classes of taxpayers. It would also provide useful information by better reflecting the preferential taxation treatment (such as lower tax rates for low alcohol products) of some categories of alcoholic beverages compared to others.

The benchmark for alcoholic beverages outlined above has not changed from the previous edition of the TES.

Motor vehicles

Motor vehicle purchases are not taxed under the benchmark. Consequently, the luxury car tax (F18) is a negative tax expenditure.

Customs duty benchmark

Under the commodities benchmark it is the consumption of goods by consumers that is subject to tax and like goods should be subject to like rates of tax, regardless of their source. Under the benchmark, goods imported into Australia are subject to the same taxes on consumption as domestically produced goods. The benchmark treatment is that goods imported into Australia are free from customs duty, except to the extent that the customs duty imposed is equivalent to taxes imposed on domestically produced goods, such as excise equivalent customs duties.

Customs duty, other than excise equivalent duty, collected on certain goods imported into Australia is reported as a negative tax expenditure in this statement.

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

A.3.2 NATURAL RESOURCES TAX BENCHMARK (PETROLEUM)

The Australian Government taxes profits from the extraction and production of unprocessed petroleum (for example, crude oil, LPG and condensate) and, in certain cases, natural gas. Different taxation arrangements for unprocessed petroleum products applied to projects that commenced before the 1986-87 financial year.

The benchmark for petroleum projects that commenced on or after 1 July 1986 is based on the petroleum resource rent tax (PRRT).

- The tax base includes receipts from offshore petroleum production (excluding projects located in the North West Shelf) less eligible project expenditures.
 - Under the PRRT any eligible expenditure which is not offset against revenue in the current year can be compounded and offset against future PRRT income. The rate at which expenditure is compounded and carried forward depends on the category of expenditure and when it was incurred. The benchmark uplift rate for exploration expenditure is the long term bond rate plus 15 percentage points and for general project expenditure is the long term bond rate plus 5 percentage points.
- The benchmark tax rate is 40 per cent of the project's profits.
- The benchmark tax unit is the petroleum project.

The benchmark for petroleum projects that commenced before 1 July 1986 (for example, the North West Shelf) is the crude oil excise and 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, with applicable rates determined by the date that the field was discovered (that is, new, intermediate or other); and
- the entity that has the legal obligation to pay the tax as the tax unit.

A.3.3 GOODS AND SERVICES TAX BENCHMARK

The goods and services tax is an indirect, broad based consumption tax charged at the rate of 10 per cent. While the economic incidence of the GST is on the final supply provided to private consumers, the legal incidence is at each step in the supply chain, with registered entities (that is, businesses) including GST in the price of goods and services they sell. If the recipient of the supply is a registered entity, it will normally be

able to claim a credit for the amount of GST in the price. Therefore, the ultimate burden of the tax falls on the private consumer of the supply, as this person gets no credit for the GST component of the price.

The tax expenditures relating to GST are generally connected to supplies which are GST free or input taxed (the latter case includes the expenditure associated with allowing reduced credit acquisitions). If a supply is GST free, there is no GST payable on the supply and the supplier is entitled to claim credits for the GST payable on its related business inputs. If a supply is input taxed, no GST is payable on the supply, but the supplier generally cannot claim input tax credits on its related business inputs. In the case of reduced credit acquisitions, however, the supplier may be entitled to claim reduced input tax credits on its related business inputs.

Tax base

Under the GST benchmark, the tax base for the GST is the value of household final consumption expenditure plus the value of private dwelling investment.

There are structural elements of the GST system that are included in the benchmark. These elements are:

- GST applies to payments of Australian taxes, fees and charges, except those taxes, fees and charges that are exempted from GST by a determination made by the Treasurer. The exclusion from GST of those taxes, fees and charges included in the determination is included in the benchmark and is not treated as a tax expenditure.
- Exports and other supplies for consumption outside Australia are not consumed domestically and therefore are not subject to GST. The GST free treatment of exports is a fundamental element of the benchmark and is not treated as a tax expenditure.
- Goods and services supplied to oneself are not subject to GST. This treatment is included in the benchmark and is not treated as a tax expenditure.
- Input tax credits (ITCs) are provided to registered entities in respect of the GST they pay on business inputs. The provision of input tax credits to businesses is a fundamental design feature of the GST and is not treated as a tax expenditure.
- Imputed rent from owner occupied housing is not subject to GST. Owner occupied housing is effectively treated as input taxed. To ensure neutrality between owner occupiers and investors, the supply of residential accommodation and long-term commercial residential accommodation by landlords are also generally treated as an input taxed supply, meaning landlords are not entitled to claim ITCs and do not charge GST on the rent paid by tenants. The input taxation of supplies of residential accommodation is included as a structural element of the benchmark.

- The sale of new residential premises and the value of alterations, additions and improvements to residential premises are subject to GST. The subsequent resale of residential premises is an input taxed supply. These features of the GST system are included as structural elements of the benchmark.

Tax unit

While the economic incidence of the GST is on the final recipient of a supply (generally the final private consumer or an input taxed business), the tax unit responsible for remitting GST is the supplier of the goods or services concerned. The principal exception to this is in the case of ‘reverse charging’, where the recipient is liable to pay GST.

- Reverse charging occurs in certain situations where the importation of a supply from overseas can be taxable. This may apply, for example, where an overseas registered supplier itself imports goods into Australia and installs them in Australia. The overseas supplier and an Australian recipient may agree that the GST should be paid by the recipient, not the supplier.

Taxation period

The taxation period adopted under the goods and services tax benchmark is the financial year (1 July to 30 June).

A.4 MEASURES TO CORRECT EXTERNALITIES

The externalities benchmark appears for the first time in this edition of the Tax Expenditures Statement. This benchmark deals with taxes that are imposed for the purpose of ensuring that the private costs of certain activities align with the social costs of those activities.

The New Palgrave Dictionary of Economics defines externalities as:

... indirect effects of consumption or production activity, that is, effects on agents other than the originator of such activity which do not work through the price system. In a private competitive economy, equilibria will not be in general Pareto optimal since they will reflect only private (direct) effects and not social (direct plus indirect) effects of economic activity.¹

Accordingly, it is possible to improve overall welfare by taxing or otherwise charging for the consumption of particular commodities or particular activities that cause social

1 JJ Laffont, ‘externalities’ *The New Palgrave Dictionary of Economics*, Second Edition, Eds, Steven N Durlauf and Lawrence E Blume, Palgrave Macmillan, 2008.

harm or impose costs on others that are not fully reflected in the price of the commodity or activity. The purpose of the tax in this case is to correct the externality and bring consumption or production to a more socially optimal level.

Taxes and other revenue-generating measures used in this way have a significantly different aim to the general revenue collection purpose of taxes on income or consumption. However, like other tax measures, there may be concessions granted or additional obligations imposed in the measure intended to correct the externality. These may be done to exclude certain activities from coverage of the measure, on administrative and compliance cost grounds, or for other reasons. These concessions and additional obligations constitute tax expenditures.

A.4.1 THE EMISSIONS TRADING BENCHMARK AND THE CARBON POLLUTION REDUCTION SCHEME

Key features of a benchmark 'cap and trade' emissions trading scheme are:

- full coverage of the emissions covered by the *Kyoto Protocol to the United Nations Framework Convention on Climate Change*; and,
- a carbon price set by a well functioning, competitive market.

The Australian Government will implement an emissions trading scheme through the CPRS.

Tax expenditures relating to the CPRS are related to exclusions from coverage. Certain sectors of the economy are not covered by the CPRS and, consequently, entities in these sectors are not required to buy emissions units to cover their emissions. This can be either for policy purposes, or for practical reasons such as measurement difficulties.

In addition, some aspects of the CPRS are included in the benchmark as integral design features. These include:

- the transitional phase in which the emissions unit price is fixed at \$10 for the first year; and
- ongoing emissions unit price caps beyond the first year.

Measures reported as expenses in the Budget that relate to the CPRS, such as allocation of free emissions units to assist emissions-intensive trade-exposed activities or the electricity sector, are not included as tax expenditures in the TES. Direct expenditures are accounted for separately in the Government's budget statements.

Note that estimates in the 2009 TES are provided based on the Australian Government's climate change policy and emissions projections as at the date of the

Mid-Year Economic and Fiscal Outlook 2009-10. They do not reflect the measures announced on 24 November 2009. New and modified tax expenditures arising from Government policy announced after this time will be included in the 2010 TES.

Tax rate

A 'cap and trade' emissions trading mechanism limits greenhouse gas emissions by setting a cap on emissions. This means that the right to emit greenhouse gases becomes scarce. This scarcity entails a price for the Australian emissions units which must be purchased by entities to cover their emissions.

The tax rate for the benchmark is equivalent to the price of Australian emissions units sold by the Australian Government in the market. Subsequent resales of Australian emissions units in secondary markets do not increase revenue and do not affect the equivalent tax rate. In the first year of operation of the CPRS, the price of units will be fixed at \$10 per tonne of carbon dioxide equivalent (CO₂-e). This transitional pricing arrangement is treated as an integral feature of the benchmark.

Tax base

The tax base for the benchmark ETS is the total CO₂-e emissions produced by entities in Australia of the six greenhouse gases covered under the Kyoto Protocol: carbon dioxide, methane, nitrous oxide, sulphur hexafluoride, hydrofluorocarbons and perfluorocarbons.

Tax unit

While the economic incidence of the carbon price under emissions trading is generally on the final recipient of goods and services, the entity producing the emission of the greenhouse gas is the tax unit under the benchmark.

Some emissions under the benchmark are covered indirectly with liability falling on entities upstream from the point of final emission. Examples of these arrangements include electricity and liquid transport fuels. In these cases, the upstream entity is the tax unit.

Taxation period

The period for liability under the CPRS is the financial year (1 July to 30 June).

A.5 MODELLING TAX EXPENDITURES

This section provides an overview of the various modelling techniques used in the TES to estimate the value of tax expenditures.

The methods used to calculate the estimates of individual tax expenditures in this statement vary. The appropriate approach is determined by the nature of the tax benchmark, the particular tax concession examined and the availability of data. Data availability is a major factor influencing the reliability of the estimates, and in many cases estimates are not provided owing to data limitations.

The approaches used to estimate tax expenditures include aggregate modelling, distributional modelling and microsimulation. The approach most commonly used is distributional modelling, utilising data derived from microsimulation analysis.

A.5.1 AGGREGATE MODELLING

This approach involves using information on the aggregate volume of transactions to calculate the value of a particular tax concession. Aggregate modelling is an appropriate approach for measuring tax exemptions or concessions where the impact can be represented as a simple proportion of the total transactions concerned. Data sources suitable for aggregate modelling include national accounts data, trade and production statistics, and aggregates derived from administrative databases (such as taxation records).

Aggregate modelling is used to estimate tax expenditures for fuel excise. Tax expenditures for exemptions or reduced excise rates can be estimated from statistics on the aggregate volume of fuels produced.

A.5.2 DISTRIBUTIONAL MODELLING

This approach involves using discrete aggregate data to calculate the impact of tax concessions on particular segments of the economy. Distributional modelling is an appropriate approach for measuring concessions that vary according to the characteristics of the taxpayer. Data sources suitable for distributional modelling include survey data and data derived from administrative databases.

Distributional modelling is used to estimate tax expenditures for personal income tax concessions when the cost is related to a taxpayer's taxable income. For these concessions, data on income distribution and tax concessions by grade of taxable income can be used to estimate the cost of tax expenditures for those concessions.

A.5.3 MICROSIMULATION

This approach involves examining detailed datasets, such as taxpayer records, to determine the value of taxable transactions for each taxpayer. The value of the tax expenditure is the difference between the tax paid on those transactions under the concession and the tax that would have been collected under the benchmark.

Microsimulation modelling requires either a comprehensive database of all taxpayers or a detailed sample that can represent the population. The data must provide sufficient detail on the value of transactions affecting the calculation of tax liabilities to allow the required calculations.

Microsimulation modelling is used to estimate tax expenditures that closely target particular taxpayer groups (for instance, benefits subject to detailed eligibility tests) and concessions where the payment rate varies considerably according to taxpayer behaviour or circumstance.

Microsimulation modelling can also be used to derive key information, such as average effective tax rates, which can be used in other models that employ aggregate or distributional modelling. This is appropriate for situations where detailed datasets are not available for all items.

A.6 NOTES ON THE METHODOLOGY USED TO ESTIMATE CERTAIN TAX EXPENDITURES

A.6.1 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.

A.6.2 CAPITAL GAINS TAX ESTIMATES

Under the CGT benchmark, nominal capital gains are fully taxable upon realisation. The most significant tax expenditure against this benchmark is the 50 per cent discount for capital gains realised by individuals and trusts which affects most capital gains realised by these entities.

Individuals and trusts may also be eligible for other CGT concessions. The revenue forgone methodology that is generally used in this statement implies that estimates for these other CGT concessions should be calculated against the benchmark of full taxation of nominal capital gains.

To avoid double counting, the values of tax expenditures for other CGT concessions are reduced by the CGT discount component and the discount component of these other concessions is included in the tax expenditure for the CGT discount. This modification to the tax expenditure methodology provides more realistic estimates of

the value of the benefits taxpayers receive from capital gains concessions in aggregate, though it has the effect of understating the value of individual CGT tax expenditures other than the discount.

A.6.3 SUPERANNUATION

The estimates of the tax expenditures in the forward projections are not necessarily indicative of the cost of the superannuation concessions over the long term. In this context, 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 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 expenditure 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 2004-05 had been taxed according to the superannuation benchmark, superannuation fund assets and fund earnings in 2005-06 would be lower than if the concessional tax treatment had applied in the previous year.

In addition, changes to the taxation of superannuation could be expected to have behavioural impacts, to the extent that people may alter their saving behaviour as a result. The estimated cost of the superannuation tax expenditures assumes no behavioural change involving either the portfolio composition of savings or the saving rate more generally.

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, dividends and asset prices. Fund earnings have been 'smoothed out' for the forward projections.

APPENDIX B: CHANGES TO TAX EXPENDITURES IN 2009

This Appendix provides an outline of the changes to the list of tax expenditures since the *2008 Tax Expenditures Statement*. Since the 2008 TES, 20 new tax expenditures have been added, 27 tax expenditures have been modified and seven tax expenditures have been deleted.

B.1 NEW TAX EXPENDITURES

Table B.1 reports new tax expenditure items arising from measures that have been announced since the *2008 Tax Expenditures Statement* up to the date of the *Mid-Year Economic and Fiscal Outlook 2009-10*. The table also reports existing measures that were not previously reported as tax expenditures, but which have been recently identified as tax expenditures.

Table B.1: New tax expenditures

TES code	Tax expenditure description	Reason for new tax expenditure
INCOME TAX		
Personal income		
A56	Payments of the Tax Bonus for Working Australians to eligible taxpayers from April 2009 are exempt from income tax.	New policy measure reported in the <i>Updated Economic and Fiscal Outlook 2008-09</i> and 2009-10 Budget.
A58	A tax expenditure arises because the rules for determining whether individuals that carry on unprofitable business activities can claim deductions for losses arising from those activities are concessional for certain taxpayers with an adjusted taxable income below \$250,000.	Existing measure not previously recognised as a tax expenditure, modified by a policy proposal reported in the 2009-10 Budget.
Business income		
B25	The rate of income tax payable by a not-for-profit company that has a taxable income not exceeding \$416 in a given income year is reduced to zero.	Existing measure not previously identified as a tax expenditure.
B27	Certain payments to victims of Australian natural disasters are exempt from income tax.	New policy measure reported in the 2009-10 Budget. Reporting modification incorporating B26 and B27 from the 2008 TES.

Table B.1: New tax expenditures (continued)

TES code	Tax expenditure description	Reason for new tax expenditure
B65	The Refundable R&D Tax Credit provides a company that has a grouped turnover of less than \$20 million with a refundable tax offset equal to 45 per cent of its eligible spending on R&D activities in lieu of normal tax deductions for that spending. The Credit is a tax exempt government payment.	New policy measure reported in the 2009-10 Budget.
B67	The Standard R&D Tax Credit provides a company with a tax offset equal to 40% of its eligible spending on R&D activities, in lieu of normal tax deductions for that spending. The tax offset is non-refundable, but can be carried forward and applied against future tax liabilities.	New policy measure reported in the 2009-10 Budget.
B99	Businesses that acquire eligible new tangible depreciating assets between 13 December 2008 and 31 December 2009 and start to use or have installed ready for use by 31 December 2010 can claim a bonus tax deduction in the income year that they use or install the asset.	New policy measures reported in the <i>Updated Economic and Fiscal Outlook 2008-09</i> and 2009-10 Budget.
Retirement savings		
C11	Caps apply to the amount of concessional contributions which receive this concessional taxation treatment. From the 2009-10 financial year onwards the concessional contributions cap has been reduced from \$50,000 to \$25,000 per annum. The transitional cap, which applies to persons aged 50 and over, has been reduced from \$100,000 to \$50,000. Contributions above these limits are taxed at the top marginal tax rate and Medicare Levy by applying an additional tax of 31.5 per cent on the excess contribution payable by the individual.	Existing measure not previously recognised as a tax expenditure.
C17	Amounts transferred from a New Zealand Kiwi Saver account to an Australian APRA-regulated complying superannuation fund will also be generally treated as non-concessional contributions.	New policy measure reported in the 2009-10 Budget.
Fringe Benefits Tax		
D22	Donations to deductible gift recipients made under salary sacrifice arrangements will not result in an employer incurring an FBT liability, with effect from the 2008-09 FBT year.	New policy measure reported in the 2009-10 Budget.
D23	Food, drink and accomodation provided to people training under the Australian Traineeship System is exempt from fringe benefits tax if the benefits are provided in accordance with an award or an industry custom and are not provided at a party, reception or other social function.	This item was erroneously removed from the 2008 TES.

Table B.1: New tax expenditures (continued)

TES code	Tax expenditure description	Reason for new tax expenditure
Capital Gains Tax		
E5	This tax expenditure item provides an estimate of the tax expenditure associated with the providing the 50 per cent discount to disposals of an individual's main residence.	Existing measure not previously recognised as a tax expenditure.
E11	A capital gains tax roll over will be available for capital gains arising from the transfer of assets between two trusts with no material discretionary elements (sometimes referred to as fixed trusts) and with the same beneficiaries with the same proportional interests.	New policy measure reported in the 2009-10 Budget.
E12	A roll-over will be available for capital losses and the transfer of revenue losses arising on the merger of a complying superannuation fund with another complying superannuation fund with at least five members. The measure will also allow the transfer of previously realised capital losses and revenue losses from the original fund to the continuing fund.	New policy measure reported in the 2009-10 Budget.
CONSUMPTION		
Goods and Services Tax		
H22	From 1 July 2010, the total transport cost of imported goods will be included in the value of taxable importation calculation for GST purposes. If the imported good is not a taxable importation, any domestic transport component of the transportation supply will not be subject to GST.	New policy measure reported in the 2009-10 Budget.
EXTERNALITIES		
Carbon Pollution Reduction Scheme		
I1	Entities emitting greenhouse gases below a threshold (typically 25,000 tonnes) per year will not be liable under the Carbon Pollution Reduction Scheme.	New policy measure reported in the <i>Updated Economic and Fiscal Outlook 2008-09</i> .
I2	Deforestation activity is to be excluded from the Carbon Pollution Reduction Scheme.	New policy measure reported in the <i>Updated Economic and Fiscal Outlook 2008-09</i> .
I3	Emissions from landfill sites that closed prior to 30 June 2008 are to be excluded from the Carbon Pollution Reduction Scheme.	New policy measure reported in the <i>Updated Economic and Fiscal Outlook 2008-09</i> .
I4	Agricultural entities are to be excluded from the Carbon Pollution Reduction Scheme regardless of entity emissions.	New policy measure reported in the <i>Updated Economic and Fiscal Outlook 2008-09</i> .
I5	Fugitive emissions from decommissioned coal mines are to be excluded from the Carbon Pollution Reduction Scheme.	New policy measure reported in the <i>Updated Economic and Fiscal Outlook 2008-09</i> .

B.2 MODIFIED TAX EXPENDITURES

Table B.2 reports tax expenditures that have been modified since they were last reported in the 2008 TES (the respective tax expenditure reference codes from this Statement and the 2008 TES are shown in the first two columns of the table).

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

Table B.2: Modified tax expenditures

TES code		Modification to the tax expenditure	Nature of modification
2009	2008		
INCOME TAX			
Personal income			
A3	A3	The Government will better target the income tax exemption for foreign employment income, with effect from 1 July 2009. Foreign employment income will generally become taxable and taxpayers will be entitled to a foreign income tax offset for foreign tax paid on the foreign employment	Modification to an existing tax expenditure as a result of a policy measure reported in the 2009-10 Budget.
A4	A4	Foreign earnings derived by an Australian individual engaged in continuous foreign service for not less than 91 days may be exempt from income tax if the foreign service meets certain criteria.	Modification to an existing tax expenditure as a result of a policy measure reported in the 2009-10 Budget.
A22	A23	The Government increased the Medicare levy low-income thresholds to \$17,794 for individuals and \$30,025 for individuals in families, with effect from 1 July 2008.	Modification to an existing tax expenditure as a result of a policy measure reported in the 2009-10 Budget.
A23	A24	From 1 July 2010, the Government introduced three new 'Private Health Insurance Tiers' which may affect the amount of private health insurance refund a taxpayer can receive.	Modification to an existing tax expenditure as a result of a policy measure reported in the 2009-10 Budget.
A27	A28	From 1 July 2010, the Government introduced three new 'Private Health Insurance Tiers' which may affect the amount of surcharge to which a taxpayer is subject.	Modification to an existing tax expenditure as a result of a policy measure reported in the 2009-10 Budget.
A47	A49	From 20 September 2009 the Utilities Allowance was absorbed into the Pension Supplement and the Seniors' Concession Allowance, together with the Telephone Allowance, became part of the Seniors' Supplement.	Modification to an existing tax expenditure as a result of a policy measure reported in the 2009-10 Budget.

Table B.2: Modified tax expenditures (continued)

TES code		Modification to the tax expenditure	Nature of modification
2009	2008		
A48	A50	The Government will provide additional assistance to first home buyers from 14 October 2008 to 31 December 2009.	Modification to an existing tax expenditure as a result of a policy measure reported in the 2009-10 Budget.
A53	A55	From 1 July 2009, the tax on the discount for shares and rights acquired under an employee share scheme will be paid upfront. However, tax may be deferred in schemes where there is a real risk of forfeiture or where the benefits are provided under salary sacrifice arrangements. For those taxpayers who meet the conditions for deferral of tax, the maximum time for deferral is reduced from ten years to seven years. The deferral arrangements applying to salary sacrifice-based schemes will apply up to a cap of \$5,000 worth of shares. Eligibility for the \$1,000 upfront tax concession will be means tested and only be available to taxpayers with an adjusted taxable income of less than \$180,000.	Modification to an existing tax expenditure as a result of policy measures reported in the 2009-10 Budget and <i>Mid-Year Economic and Fiscal Outlook 2009-10</i> .
A66	A70	Reporting modification.	On 1 October 2009, 'Prescribed Private Funds' became 'Private Ancillary Funds'.
A71	B100	Reporting modification.	This exemption has been moved from the business income benchmark to the personal income benchmark.
Business income			
B4	A8	Reporting modification.	This tax expenditure has been moved from the personal income benchmark to the business income benchmark.
B13	B12	Interest withholding tax exemption was extended to Commonwealth Government securities.	Modification to an existing tax expenditure as a result of a policy measure reported in the <i>Mid-Year Economic and Fiscal Outlook 2009-10</i> .
B32	B31	The Australian Film Finance Corporation has been wound up and its functions moved into Screen Sound Australia.	Modification to an existing tax expenditure as a result of a policy measure reported in the 2007-08 Budget.
B61	A59	Reporting modification.	This exemption has been moved from the personal income benchmark to the business income benchmark.
B64	A62	Reporting modification.	This rebate has been moved from the personal income benchmark to the business income benchmark.
B95	B89	The Government will replace the Research and Development Tax Concessions with a new Research and Development (R&D) Tax Credit with effect from 1 July 2010.	Modification to an existing tax expenditure as a result of a policy measure reported in the 2009-10 Budget.

Table B.2: Modified tax expenditures (continued)

TES code		Modification to the tax expenditure	Nature of modification
2009	2008		
B96	B90	The Government will replace the Research and Development Tax Concessions with a new Research and Development (R&D) Tax Credit with effect from 1 July 2010.	Modification to an existing tax expenditure as a result of a policy measure reported in the 2009-10 Budget.
Retirement savings			
C5	C5	The Government will reduce the concessional contribution cap from \$50,000 to \$25,000 and the transitional contribution cap for persons aged 50 and over will be reduced from \$100,000 to \$50,000 with effect from 1 July 2009.	Modification to an existing tax expenditure as a result of a policy measure reported in the 2009-10 Budget.
C8	C8	Concessional contribution cap reduced to \$25,000. Transitional concessional contribution cap reduced to \$50,000.	Modification to existing tax expenditure as a result of a policy measure reported in the 2009-10 Budget.
Fringe Benefits Tax			
D26	D24	New data and research has become available which has led to a large decrease in the estimate for the concessional treatment of car fringe benefits.	Reporting modification.
Capital Gains Tax			
E4	E4	Reporting modification.	This tax expenditure has been split into two components-a component reflecting the 50 per cent discount provided to disposals of non-main residence assets (E5), and a component that brings the concession up to 100 per cent (E4).
E9	E8, B96	Merged the capital gains tax relief TES items for demutualisation activities by friendly societies and health insurers.	Modification to an existing tax expenditure as a result of reporting modification. This exemption now includes B96 from the 2008 TES.
CONSUMPTION			
Commodity taxes			
F3	F3	From 1 July 2011, fuel tax rates will be reduced on a 'cent-for-cent' basis with the impact of the Carbon Pollution Reduction Scheme on fuel for three years. This reduces the benchmark tax rate.	Modification to an existing tax expenditure as a result of a policy measure reported in the <i>Updated Economic and Fiscal Outlook 2008-09</i> .
F4	F4	From 1 July 2011, fuel tax rates will be reduced on a 'cent-for-cent' basis with the impact of the Carbon Pollution Reduction Scheme on fuel for three years. This reduces the benchmark tax rate.	Modification to an existing tax expenditure as a result of a policy measure reported in the <i>Updated Economic and Fiscal Outlook 2008-09</i> .
F5	F5	From 1 July 2011, fuel tax rates will be reduced on a 'cent-for-cent' basis with the impact of the Carbon Pollution Reduction Scheme on fuel for three years. This reduces the benchmark tax rate.	Modification to an existing tax expenditure as a result of a policy measure reported in the <i>Updated Economic and Fiscal Outlook 2008-09</i> .

Table B.2: Modified tax expenditures (continued)

TES code		Modification to the tax expenditure	Nature of modification
2009	2008		
F6	F6	From 1 July 2011, the general fuel tax rate will be reduced on a 'cent-for-cent' basis with the impact of the Carbon Pollution Reduction Scheme on fuel for three years. The benchmark rates for alternative fuels reduce proportionally.	Modification to an existing tax expenditure as a result of a policy measure reported in the <i>Updated Economic and Fiscal Outlook 2008-09</i> .
Goods and Services Tax			
H18	H19	From 1 July 2010, farm land supplied for farming will no longer be GST free, instead GST may be reverse charged to the recipient. The reverse charge mechanism can only be used by registered recipients. As a result, farm land supplied for farming to an unregistered recipient will no longer be GST free.	Modification to an existing tax expenditure as a result of a policy measure reported in the 2009-10 Budget.

B.3 DELETED TAX EXPENDITURES

Table B.3 reports tax expenditures that have been deleted since the 2008 *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 a particular TES. Deleted tax expenditures do not include tax expenditures that have been abolished but are still relevant to some years within the reported time horizon.

Table B.3: Deleted tax expenditures

TES code	Tax expenditure description	Reason for deletion
2008		
INCOME TAX		
Personal income		
A32	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.	This no longer has an impact over the reported time horizon.
A75	Taxpayers were 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.	This no longer has an impact over the reported time horizon.
Business income		
B26	Payments from the Business Assistance Fund to businesses adversely affected by Cyclone Larry or flooding owing to the cumulative effects of Cyclones Larry and Monica are exempt from tax.	Reporting modification. This exemption is included in B27.
B27	Taxpayers are exempt from tax on Government reimbursements for fuel excise paid to businesses adversely affected by Cyclone Larry.	Reporting modification. This exemption is included in B27.
B96	Policyholders of a friendly society that demutualises to a for-profit entity is not subject to capital gains tax on any capital gains or losses they realise on the exchange of rights in the friendly society for shares in the demutualised entity.	Reporting modification. This exemption is included in E8.
B103	Transitional tax exemption for certain life insurance management fees recieved on certain life insurance policies taken out before 1 July 2000.	This no longer has an impact over the reported time horizon.

Table B.3: Deleted tax expenditures (continued)

TES code	Tax expenditure description	Reason for deletion
2008		
CONSUMPTION		
Commodity taxes		
F17	Partial rebates of wine equalisation tax were available for certain cellar door, mail order and internet sales of wine from 1 July 2000 to 1 October 2004. Replaced by the wine equalisation tax producer rebate (F17).	This no longer has an impact over the reported time horizon.

APPENDIX C: ALTERNATIVE ESTIMATES FOR OWNER-OCCUPIED HOUSING

This section sets out the treatment of tax concessions relating to the consumption of owner-occupied housing and presents estimates of the tax expenditure for 2005-06 to 2008-09 and forward projections for the next four financial years.

The tax expenditure estimates for owner-occupied housing attempts to measure the assistance provided to taxpayers due to the various tax concessions, relative to a benchmark. As such, these expenditures cannot be interpreted as indicators of the tax revenues that would arise from changes to policy. This is because they do not take into account the effects of taxpayer behavioural responses that arise from changes in policy or the design features of any policy changes that might be contemplated.

Tax concessions for owner-occupied dwellings fall into two broad categories which are related to capital gains and ordinary income tax.

The capital gains tax (CGT) main residence exemption implies a 100 per cent CGT discount for owner-occupied dwellings. However, the 50 per cent CGT discount for individuals (if they have held the asset for at least 12 months) means that even in the absence of the main residence exemption, owner occupiers would only be liable for tax on the discounted capital gain of the dwelling, rather than the full capital gain.

Owner-occupied housing can be viewed as an investment by the owner which yields a stream of income in the form of the value of the accommodation that housing provides. Tenure neutrality and tax neutrality benchmarks have been developed (Flood and Yates 1987, 1989) that go beyond the traditional benchmark approach of considering a taxation system where the concessions are completely removed. A tenure neutral benchmark ensures that all owners (and consumers) of housing receive the same tax treatment, irrespective of their status as owner occupiers or otherwise. A tax neutral benchmark ensures that the tax treatment of housing investments is the same as other non housing investments, for example, shares or savings, and the tax treatment of housing consumption is the same as other non housing consumption. Both the tenure neutrality and tax neutrality benchmarks raise the issue of the taxation of mutual income, which is whether members of a household can be taxed on the value of services they provide within the household – or more specifically, whether a household can be taxed on the value of rental services it provides to itself.

This appendix considers three benchmarks for owner-occupied housing in an attempt to address issues around tenure neutrality and mutuality.

The **first benchmark** (see Table C1) formalises the notion that owner occupiers are simultaneously both producers of housing (through their ownership of the dwelling)

and consumers of housing (through their residence in the dwelling). This means that the owner occupier may be considered to be two separate entities, a housing producer (landlord) and housing consumer (tenant).

There are three main components to the tax concessions for owner-occupied housing against this benchmark.

- The capital gains tax main residence exemption means that owner occupiers pay no tax on the capital gain of their owner-occupied housing. This is effectively a 100 per cent CGT discount. In the benchmark, the capital gains on owner-occupied housing would be subject to the 50 per cent CGT discount for individuals (or the indexation method of assessing capital gains for properties acquired before 21 September 1999). The value of the 50 per cent CGT discount would be added to the value of the tax expenditure CGT discount for individuals and trusts (E14).
- The imputed rent paid by the owner occupier as tenant to the owner occupier as landlord is not taxed. That is, if the owner-occupied dwelling was instead rented to someone other than the owner occupier, the rental income would be taxed at the owner's marginal tax rate. By effectively renting their dwelling to themselves, the owner occupier avoids paying tax on the imputed rent they can be considered to be paying to themselves. In the benchmark the owner occupier as tenant and the owner occupier as landlord are considered separately, which has the effect of taxing imputed rent identically to ordinary rent.
- The general income tax benchmark includes deductions for expenses incurred in earning income. Since imputed rent is treated as taxable income by the owner-occupied housing benchmark, deductions incurred in generating that income must also be included. This includes the provision under the benchmark for negative gearing of owner-occupied housing, where these deductions exceed the imputed rental income and can then be used to offset any assessable income.
- The main source of such income tax deductible expenses is interest payments on mortgage repayments. Other deductions include, for example, capital works deductions for major capital improvements, however amounts claimed in such deductions cannot then be included in the cost base of the property for capital gains tax purposes.

The rationale for choosing this tax benchmark would be two fold. As mentioned in section A.6, it avoids double counting of the capital gains tax discount for individuals and trusts (E14) when considering the capital gains tax main residence exemption (E4). However, the more important consideration is the inherently equitable nature of a tenure neutral treatment. That is, by treating owner occupiers and other consumers of housing in the same manner and subjecting them to the same tax considerations, it is ensured that all consumers of housing are treated equally, and allows for meaningful evaluations of the tax concessions afforded to one group compared to the other.

Under the income tax benchmark used for the Tax Expenditures Statement outlined in section A.2, imputed rent from owner-occupied housing is not included in income because of the mutuality principle which suggests that taxpayers' internal transactions (the paying of rent to themselves) should not be taxed.

The **second benchmark** (Table C2) thus removes both imputed rent and any deductions for associated expenses such as mortgage interest payments and other housing deductions, leaving only capital gains tax considerations.

The second benchmark removes the eligibility for deductions on the basis that they were associated with imputed rental income, which is not taxed. However, this neglects the fact that the owner occupiers still receive income in the form of capital gains. Thus, it is still possible to make a case for allowing deductions in the presence of (expected) capital gains while imputed rent is untaxed. This is because deductions are generally allowed against relevant expenses incidental to capital investments as long as the investment is made with the intention of receiving capital gains.

This benchmark is the basis for the estimates reported in Chapter 3 for tax expenditures E4 and E5 .

The **third benchmark** (Table C3) continues the non taxation of imputed rent on mutuality grounds, but allows partial deductions of mortgage interest and other expenses related to the capital gain in recognition that deductions should be allowed to the extent that capital gains on owner-occupied housing are taxable under the benchmark.¹

ESTIMATES

Estimates of the main components of the capital gains tax main residence exemption under the three benchmarks are presented in Tables C1, C2 and C3 and the projections for the forward estimates period are based on assumptions that are consistent with historical growth rates.² The estimates presented are particularly sensitive to owner-occupied housing turnover rates and the housing duration profile (number of years after which capital gain is realised), both of which are survey based.

1 A pro-rated partial deduction is inconsistent with the concept of tax neutrality, since other capital investments, such as shares, do not have such a system of partial pro-rated deductions. The partial deduction was 50 per cent.

2 The 50 per cent discount is treated as the last component and so has a higher marginal tax rate applied to it than to the full capital gain.

Alternative estimates for owner-occupied housing

Table C1: Capital gains tax main residence exemption with imputed rent and full deductibility

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Tax								
1. Tax on capital gains	39,500	38,500	40,000	31,000	31,500	31,500	31,000	30,000
2. Tax on imputed rent	19,000	19,500	21,000	22,500	23,500	24,500	26,500	27,500
Sub-total	58,500	58,000	61,000	53,500	55,000	56,000	57,500	57,500
Less offsets								
3. 50 per cent discount on capital gains	-22,000	-21,500	-22,000	-17,000	-17,000	-17,000	-17,000	-16,500
Sub-total	-22,000	-21,500	-22,000	-17,000	-17,000	-17,000	-17,000	-16,500
4. Interest deductions	-6,000	-6,000	-6,500	-6,500	-7,000	-7,000	-7,500	-7,500
5. Other deductions	-10,500	-10,500	-11,000	-11,000	-11,500	-12,000	-12,500	-13,500
Sub-total	-16,500	-16,500	-17,500	-17,500	-18,500	-19,000	-20,000	-21,000
Total tax expenditures	20,000	20,000	21,500	19,000	19,500	20,000	20,500	20,000

Table C2: Capital gains tax main residence exemption with no imputed rent or deductibility

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Tax								
1. Tax on capital gains	39,500	38,500	40,000	31,000	31,500	31,500	31,000	30,000
2. Tax on imputed rent	0	0	0	0	0	0	0	0
Sub-total	39,500	38,500	40,000	31,000	31,500	31,500	31,000	30,000
Less offsets								
3. 50 per cent discount on capital gains	-22,000	-21,500	-22,000	-17,000	-17,500	-17,000	-17,000	-16,500
Sub-total	-22,000	-21,500	-22,000	-17,000	-17,500	-17,000	-17,000	-16,500
4. Interest deductions	0	0	0	0	0	0	0	0
5. Other deductions	0	0	0	0	0	0	0	0
Sub-total	0	0	0	0	0	0	0	0
Total tax expenditures	17,500	17,000	18,000	14,000	14,000	14,500	14,000	13,500

Table C3: Capital gains tax main residence exemption with no imputed rent and partial deductibility

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Tax								
1. Tax on capital gains	39,500	38,500	40,000	31,000	31,500	31,000	31,000	30,000
2. Tax on imputed rent	0	0	0	0	0	0	0	0
Sub-total	39,500	38,500	40,000	31,000	31,500	31,000	31,000	30,000
Less offsets								
3. 50 per cent discount on capital gains	-22,000	-21,500	-22,000	-17,000	-17,500	-17,000	-17,000	-16,500
Sub-total	-22,000	-21,500	-22,000	-17,000	-17,500	-17,000	-17,000	-16,500
4. Interest deductions	-3,000	-3,000	-3,000	-3,000	-3,000	-3,500	-3,500	-3,500
5. Other deductions	-5,000	-5,000	-5,000	-5,000	-5,500	-5,500	-6,000	-6,000
Sub-total	-8,000	-8,000	-8,000	-8,000	-8,500	-9,000	-9,500	-9,500
Total tax expenditures	9,500	9,000	10,000	6,000	5,500	5,000	4,500	4,000

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APPENDIX D: AGGREGATED SUPERANNUATION TAX EXPENDITURE

Table D1 aggregates the estimated tax expenditures related to funded superannuation. The tax expenditures identified individually in Table D1 should be understood as part of an integrated system. This system is significantly concessional taken as a whole. To get a complete picture of superannuation tax expenditures, item C7 covering unfunded superannuation should be added.

The calculation of the estimates requires projections of contributions, earnings and eligible termination payments (ETPs). The estimates use projections of contributions, earnings and payouts. They assume that tax is collected from superannuation funds mainly in the year in which the contributions and earnings occur.

There have been significant changes to the estimates of the superannuation tax expenditures since the 2008 TES, mainly due to:

- updated base data used to estimate the superannuation tax expenditures;
- revised growth estimates reflecting the impacts of the global financial crisis, particularly on taxable capital gains¹; and
- revised methodology in some instances.

¹ Only realised capital gains are taxable and therefore impact on tax expenditures. The published 'headline' returns of superannuation funds include both realised and unrealised capital gains.

Table D1: Aggregated tax expenditures for funded superannuation^{(a),(b)}

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Costs								
C4 Capital gains tax discount for funds	1,090	1,690	890	210	80	80	150	300
C5 Concessional taxation of employer contributions(c)	9,500	11,400	13,000	12,500	11,400	12,100	13,250	14,550
C6 Concessional taxation of superannuation entity earnings	12,150	16,050	14,450	10,000	9,800	11,250	13,450	16,100
C8 Deduction and concessional taxation of certain personal contributions	410	810	1,550	1,400	1,100	610	660	750
C9 Measures for low-income earners(d)	90	270	550	310	310	310	190	180
C10 Spouse contribution offset	15	15	10	8	6	6	5	5
C17 Trans-Tasman retirement savings portability scheme	-	-	-	-	*	*	*	*
Sub-total	23,255	30,235	30,450	24,430	22,695	24,355	27,705	31,885
Less offsets								
C11 Tax on excess concessional contributions	*	*	*	*	*	*	*	*
C12 Tax on excess non-concessional contributions	*	*	*	*	*	*	*	*
C13 Tax on funded lump sums relating to post-June 1983 service(e)	-160	-170	-180	-180	-180	-180	-180	-180
C14 Tax on funded lump sums relating to pre-July 1983 service	-30	-17	-	-	-	-	-	-
C15 Tax on funded superannuation income streams(f)	*	*	*	*	*	*	*	*
C21 Payment of temporary residents' superannuation to the Australian Government	-	-	-	-170	-210	-160	-110	-140
Sub-total	-190	-185	-180	-350	-390	-340	-290	-320
Total tax expenditures	23,070	30,050	30,270	24,080	22,310	24,020	27,420	31,570

(a) The concessional treatment of unfunded superannuation (C7) 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 contributions for 2004-05 and earlier years.

(d) Prior to 2002-03, this line showed the level of the tax offset available to low income earners who made personal contributions. Since 2003-04, the line shows the impact of the government co-contribution being untaxed.

(e) Includes total tax withheld from departing Australia superannuation payments.

(f) Indeterminate, but likely to be insignificant.

GLOSSARY

ATO	Australian Taxation Office
ANAO	Australian National Audit Office
CFC	Controlled foreign company
CGT	Capital gains tax
CPRS	Carbon Pollution Reduction Scheme
CSS	Commonwealth Superannuation Scheme
ETM	Economic Transactions Method
FBT	Fringe benefits tax
FMD	Farm management deposit
FTB	Family Tax Benefit
GDP	Gross domestic product
GFC	Global Financial Crisis
GST	Goods and services tax
HECS	Higher Education Contribution Scheme
HELP	Higher Education Loans Program
JCPAA	Joint Committee of Public Accounts and Audit
MYEFO	Mid-Year Economic and Fiscal Outlook
OECD	Organisation for Economic Co-operation and Development
PEFO	Pre-election Economic and Fiscal Outlook
PRRT	Petroleum resource rent tax
PSS	Public service superannuation
R&D	Research and development
SATO	Senior Australians' Tax Offset
TES	Tax Expenditures Statement
TLM	Tax Liability Method
WET	Wine equalisation tax

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