

CHAPTER 5: NEW, MODIFIED AND DELETED TAX EXPENDITURES

This chapter provides an outline of the major changes to the list of tax expenditures since the *2002 Tax Expenditures Statement*. Since the 2002 Statement, 20 new tax expenditures were added, largely reflecting policy changes and amendments to the tax benchmarks. In addition 67 tax expenditures have been modified. These modifications largely reflect the revised presentation of tax expenditures in this year's statement, which has resulted in a number of tax expenditures being separated or amalgamated.

5.1 New tax expenditures

Table 5.1 reports new tax expenditure items arising from measures that have been announced or legislated since the *2002 Tax Expenditures Statement* up to the date of publication of the *2003-04 Mid-Year Economic and Fiscal Outlook*. In addition, the table reports existing measures that were not previously reported as tax expenditures, but which have been recently identified as tax expenditures.

Table 5.1: New tax expenditures

| TES code | Tax expenditure description | Reason for new tax expenditure |
|-----------------|--|--|
| INCOME | | |
| Personal | | |
| A33 | A taxpayer can be released from a tax liability where payment of the liability would cause serious hardship. | Existing measure not previously recognised as a tax expenditure |
| A34 | A tax deduction will be 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. | New policy measure included in the <i>2003-04 Mid-Year Economic and Fiscal Outlook</i> |
| A45 | Payments made under the First Home Owners Grant Scheme are exempt from tax. | Existing measure not previously recognised as a tax expenditure |
| A50 | Higher rates of taxation apply to the 'unearned income' of certain minors. | Existing measure not previously recognised as a negative tax expenditure |
| A51 | A part-year tax-free threshold applies to students who first cease full-time studies, new Australian residents and taxpayers who cease Australian residence. | Existing measure not previously recognised as a negative tax expenditure |

Table 5.1: New tax expenditures (continued)

| TES code | Tax expenditure description | Reason for new tax expenditure |
|--------------------------|---|--|
| Business | | |
| B10, B32 | Payments made under the refundable film tax offset and the refundable research and development (R&D) tax offset are exempt from tax. In addition, recipients of the R&D tax offset are denied deductions for carry-forward losses because the value of those deductions is contained with the offset. | The film tax offset and refundable research and development tax offset are now recorded as expense items. These reporting changes give rise to new tax expenditures. |
| B20 | 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. | Existing measure not previously recognised as a tax expenditure |
| B31 | Perpetual subordinated debt instruments may be treated as debt for tax purposes under certain circumstances, thereby allowing the issuer of the perpetual subordinated debt to claim a deduction. | New policy measure reported in the <i>2003-04 Budget</i> |
| Capital gains tax | | |
| E5 | 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. | New policy measure reported in the <i>2003-04 Budget</i> |
| E7 | An automatic capital gains tax roll-over applies for eligible financial service providers on transition to the Financial Services Reform regime. | New policy measure reported in the <i>2003-04 Budget</i> |
| E8 | An exemption applies to capital gains or losses on assets acquired before 20 September 1985. | Modification to the capital gains tax benchmark |
| E9 | An automatic roll-over applies where a capital gains tax asset is transferred to a spouse or former spouse because of a marriage breakdown. | Modification to the capital gains tax benchmark |
| E10 | There is no capital gains tax taxing point when a taxpayer dies. | Modification to the capital gains tax benchmark |
| E11 | Capital gains realised by Australian companies and controlled foreign companies on disposal of non-portfolio interests in foreign companies with active businesses are exempt from capital gains tax. | New policy measure reported arising from the Review of International Tax Arrangements reported in the <i>2003-04 Budget</i> |

Table 5.1: New tax expenditures (continued)

| TES code | Tax expenditure description | Reason for new tax expenditure |
|---|---|--|
| CONSUMPTION | | |
| Fuel | | |
| F7 | Excise rates on all petrol and diesel will be increased for two years to fund payments for the production or import of low sulphur variants of these fuels. | New policy measure reported in the <i>2003-04 Budget</i> |
| Alcohol | | |
| F14 | A concessional rate of excise applies to low strength packaged beer. | Modification to the alcohol consumption tax benchmark |
| Motor vehicles | | |
| F15 | Luxury cars are subject to luxury car tax. | The consumption benchmark now includes a benchmark tax treatment for motor vehicles. Under the benchmark motor vehicles are tax-exempt and as such the luxury car tax is identified as a negative tax expenditure. |
| General consumption tax expenditures | | |
| F16 | Diplomatic missions and foreign diplomats are eligible for certain exemptions on excise, wine equalisation tax and luxury car tax. | Existing measure not previously recognised as a tax expenditure |
| F17 | Consumption of tobacco and alcohol on board Australian military sea-going vessels is exempt from excise. | Existing measure not previously recognised as a tax expenditure |

5.2 Modified tax expenditures

Table 5.2 reports tax expenditures that have been modified since they were last reported in the *2002 Tax Expenditures Statement* (the respective tax expenditure reference codes from this Statement and the *2002 Tax Expenditures Statement* are shown in the first two columns of the table). Modified tax expenditures refer to tax expenditures that have changed materially, for example because of: a change to the benchmark; a decision to remove a tax expenditure in a certain year; an amalgamation of tax expenditures; or the inclusion of a new element to an existing tax expenditure. A number of items have been modified as a result of a review of tax expenditures. Items that have been modified as a result of a change to the applicable tax rate are not listed.

Table 5.2: Modified tax expenditures

| TES code | | Modification to the tax expenditure | Nature of modification |
|-----------------|----------------------|---|--|
| 2003 code | 2002 code | | |
| INCOME | | | |
| Personal | | | |
| A2 | A2, A3 | All deductions for candidates' election expenses are now reported as one tax expenditure. | Reporting modification |
| A4 | A5, A7, A8, A20, A25 | All exemptions for foreign visitors to Australia are now reported as one tax expenditure. | Reporting modification |
| A5, A6 | A6 | The exemption for Australians working on approved overseas projects and the exemption for Australians working in a foreign country are now reported as separate tax expenditures | Reporting modification |
| A7 | A9, A29 | The exemption from Medicare levy and the exemption of income of residents of Norfolk Island are now reported as one tax expenditure | Reporting modification |
| A9 | A11, A12, A21, A22 | Certain exemptions for Australian Defence Force personnel are now reported as one tax expenditure. | Reporting modification |
| A13 | A16, A18 | The exemptions for pay and allowances for Australian Defence Force personnel in operational areas are now reported as one tax expenditure. Furthermore, Australian Defence Force members certified as serving overseas on the following operations are eligible for an income tax exemption in respect of their Australian Defence Force pay and allowances: Operation Paladin (Middle East), Operation Anode (Solomon Island), Operation Palate (Afghanistan), Operation Catalyst (Middle East) and Operation Falconer (Iraq) | Reporting modification. Extension to an existing tax expenditure as a result of a new policy measures reported in the <i>2003-04 Budget</i> and <i>2003-04 Mid-Year Economic and Fiscal Outlook</i> |
| A17 | A23, A24, A26 | The exemptions for educational scholarships and grants are now reported as one tax expenditure. | Reporting modification |
| A18 | A27 | Payments for the maintenance of properly trained dogs for guiding or assisting the hearing impaired or other disabled individuals are included as eligible medical expenses under the medical expenses tax offset. | Extension to an existing tax expenditure as a result of a new policy measure reported in the <i>2003-04 Budget</i> |

Table 5.2: Modified tax expenditures (continued)

| TES code | | Modification to the tax expenditure | Nature of modification |
|-----------|---------------------|---|---|
| 2003 code | 2002 code | | |
| A19 | A28 | The Medicare levy low-income thresholds have increased to \$15,062 for individuals and \$25,417 for families. The additional amount of threshold for each dependent child or student has also increased to \$2,334. The threshold for pensioners below pension age has increased to \$17,164 | Modifications to an existing tax expenditure as a result of a new policy measure reported in the <i>2003-04 Budget</i> |
| A21 | A30, A31 | The tax expenditures for tax offsets for private health insurance are now reported as one tax expenditure. | Reporting modification |
| A22 | A30, A31 | The income tax exemption for the private health insurance offset is now reported as a separate tax expenditure. | Reporting modification |
| A26 | A34, A37, A38 | Certain tax offsets for taxpayers who care for a dependant are now reported as a single tax expenditure. | Reporting modification |
| A27 | A35, A44 | The tax offset for Community Development Employment Project (CDEP) participants is now included with other tax offsets for social security benefits, pensions or allowances. | Reporting modification |
| A36 | A45 | The exemption of the Family Tax Benefit, Parts A and B is now reported as a separate tax expenditure. | Reporting modification |
| A39 | A47, A52 | The exemptions for one-off payments made to senior Australians are now reported as one tax expenditure. | Reporting modification |
| A41 | A49, A50 | The exemptions for certain war-related payments and pensions paid under a foreign law as compensation for persecution arising during the Second World War are now reported as one tax expenditure. Furthermore, from 1 July 2002 the exemption will be extended to payments relating to persecution suffered or property lost during the Second World War. | Reporting modification. Extension to the existing tax expenditures (A49 and A50) as a result of a new policy measure reported in the <i>2003-04 Budget</i> . |
| A56 | A65, A66 | The deductions for gifts to approved donees are now reported as one tax expenditure. | Reporting modification |
| A60 | A70 | Certain annuities and deferred lump sums ordered by a court as compensation for catastrophic injuries (known as structured orders) are exempt from tax. | Extension to an existing tax expenditure as a result of a new policy measure reported in the <i>2003-04 Mid-Year Economic and Fiscal Outlook</i> |

Table 5.2: Modified tax expenditures (continued)

| TES code | | Modification to the tax expenditure | Nature of modification |
|-----------------|-----------|--|--|
| 2003 code | 2002 code | | |
| Business | | | |
| B3 | D3, D19 | The income tax exemption for funds established for scientific research and the income tax exemption for religious, scientific, charitable or public educational institutions are now reported as one tax expenditure. | Reporting modification |
| B13, B14 | D11 | The forced disposal or death of livestock resulting from certain events are subject to tax concessions and these are now identified in a separate tax expenditure. | Reporting modification |
| B19 | D92 | Primary producers in Exceptional Circumstance declared areas who make a withdrawal from their Farm Management Deposit Scheme account within 12 months are able to maintain the concessional tax treatment. | Extension to an existing tax expenditure as a result of a new policy measure reported in the <i>2003-04 Budget</i> |
| B28, B29 | D25 | The concessional tax treatment for pooled development funds and the concessional tax treatment for superannuation funds that invest through pooled development funds in venture capital are now reported as separate tax expenditures. | Reporting modification |
| B33 | D78 | An immediate deduction is available for expenditure on core technology related to research and development activities. | Reporting modification |
| B60 | D75 | Eligibility to enter the Simplified Tax System was extended to most fuel retailers. | Extension to an existing tax expenditure as a result of a new policy measure reported in the <i>2003-04 Budget</i> |
| B72 | D94, D97 | All exemptions (income, dividend and interest withholding tax) for prescribed international organisations are now reported as one tax expenditure. | Reporting modification |
| B73 | D95, D96 | The dividend and interest withholding tax exemptions for certain overseas organisations are now reported as one tax expenditure. | Reporting modification |
| B75 | D99 | The exemption for branch profits from the foreign tax credit system has been extended to branches in all countries. | Extension to an existing tax expenditure arising from the Review of International Tax Arrangements reported in the <i>2003-04 Budget</i> |
| B83 | D107 | The exemption of non-portfolio dividends from the foreign tax credit system has been extended to non-portfolio dividends paid by all foreign companies. | Extension to an existing tax expenditure arising from the Review of International Tax Arrangements reported in the <i>2003-04 Budget</i> |
| B86 | D110 | The exemption from interest withholding tax has been extended to qualifying debentures issued by certain widely held unit trusts. | Extension to an existing tax expenditure arising from the Review of International Tax Arrangements reported in the <i>2003-04 Budget</i> |

Table 5.2: Modified tax expenditures (continued)

| TES code | | Modification to the tax expenditure | Nature of modification |
|----------------------------|-----------|--|--|
| 2003 code | 2002 code | | |
| Retirement savings | | | |
| C1, C2 | B1, B6 | The tax expenditure for the concessional treatment of superannuation has been amended. The concessional taxation of unfunded lump sums is now reported separately and the capital gains tax discount for superannuation funds is now included with the concessional treatment of funded superannuation. | Reporting modifications |
| | | The 2002 TES was based on a planned reduction in the superannuation contributions and termination payments surcharge rates. The reduction in these rates will now be smaller than originally planned. The government superannuation co-contribution for low-income earners has also been extended and modified. | Modification to an existing tax expenditure as a result of policy measures reported in the <i>2003-04 Mid-Year Economic and Fiscal Outlook</i> |
| C1 | D23 | The income tax exemption for current pension liabilities is now included in the concessional treatment of funded superannuation | Reporting modification |
| C1 | D45 | The treatment of capital gains that relate to segregated pension assets is now included in the concessional treatment of funded superannuation. | Reporting modification |
| Fringe benefits tax | | | |
| D13 | C16, C19 | The exemption for remote area housing benefits and residential fuels and the reduction in taxable value for remote area housing assistance are reported as one tax expenditure. | Reporting modification |
| D25 | C30, C52 | The exemption for certain loan benefits and the exemption for certain loans to employees to meet employment-related expenses are reported as one tax expenditure. | Reporting modification |
| Capital gains tax | | | |
| E8 | D40 | The exemption resulting from reducing the cost base of trusts for capital gains tax purposes related to assets purchased prior to 20 September 1985 was previously reported as a separate tax expenditure. It is now included in a new tax expenditure that relates to all assets purchased prior to 20 September 1985 | Reporting modification and benchmark change |

Table 5.2: Modified tax expenditures (continued)

| TES code | | Modification to the tax expenditure | Nature of modification |
|--------------------|-----------|--|---|
| 2003 code | 2002 code | | |
| E13 | D37, D39 | The partial capital gains tax exemption for goodwill is now included in the tax expenditure for the sale of active assets of small businesses. | Reporting modification |
| CONSUMPTION | | | |
| Fuel | | | |
| F3 | E2 | Introduction of the one cent per litre penalty rate of excise on High Sulphur Diesel was deferred from 1 January 2003 to 1 July 2003 | Change in the timing of a previously reported tax expenditure reported in the <i>2003-04 Budget</i> |
| F5 | E6 | The concessional excise rates on aviation turbine fuel and aviation gasoline have been slightly increased for 12 months, from 1 July 2003, to provide supplementary funding to the Civil Aviation Safety Authority. In addition, the excise arrangements on aviation turbine fuel for funding the Location Specific Pricing Subsidy have been extended until 31 August 2004. | Modifications to an existing tax expenditure item reported in the <i>2003-04 Budget</i> |
| F6 | E4 | The removal of the excise-free arrangements for biodiesel from 18 September 2003 has resulted in the removal of the biodiesel component from the excise exemption for the 'alternative fuels' tax expenditure. | Modification to an existing tax expenditure item reported in the <i>2003-04 Budget</i> |
| Alcohol | | | |
| F11 | E10 | Increase in the value of the tax expenditure for the concessional rate of excise levied on draught beer, as the low strength component of the draught beer concession has increased. | A result of changes to the alcohol consumption tax benchmark |

5.3 Deleted tax expenditures

Table 5.3 reports tax expenditures that have been deleted since the *2002 Tax Expenditures Statement*. Deleted tax expenditures do not include tax expenditures that have been abolished but are still reported because they have an impact over the reported time horizon, which extends back to 1999-2000. (Instead, tax expenditures that have been abolished but which still have an impact within the reporting period are generally reported as being modified.)

Table 5.3: Deleted tax expenditures

| 2002 TES code | Tax expenditure description | Reason for deletion |
|---------------|--|---|
| A62 | Substantiation provisions for employment-related expenses which do not exceed the amount of certain award transport allowances | This is no longer identified as a tax expenditure because this does not provide for a concessional valuation of this employment-related expense. |
| C3 | Exclusion from the fringe benefits reporting requirement for certain benefits provided to Australian Defence Force Personnel | This is no longer identified as a tax expenditure because although this exclusion is taken into account to determine entitlement to income-tested government benefits, liability to tax surcharges and income-tested obligations, it does not affect an employer's fringe benefits tax liability. |
| C4 | Exclusion from the fringe benefits reporting requirement for certain elements of the Overseas Living Allowance | <i>(See C3 above)</i> |
| C5 | Exclusion from the fringe benefits reporting requirement for benefits associated with Australian Defence Force removals | <i>(See C3 above)</i> |
| C18 | Exclusion from the fringe benefits reporting requirement for regional housing benefits provided by certain employers in regional areas | <i>(See C3 above)</i> |
| C31 | Discounted valuation of certain loan benefits | Benchmark revision. These discounted valuations accord with the benchmark treatment of the relevant loan benefits |
| C53 | Exclusion from the fringe benefits reporting requirement for certain travel in marked emergency vehicles | <i>(See C3 above)</i> |
| C55 | Exclusion from the fringe benefits reporting requirement for benefits associated with police force removals | <i>(See C3 above)</i> |
| C56 | Exclusion from the fringe benefits reporting requirement for benefits associated with home-to-work travel in unmarked police vehicles | <i>(See C3 above)</i> |
| D27 | Income tax exemption for business assistance grants from the Katherine District Business Re-Establishment Fund | This no longer has an impact over the reported time horizon. |
| D50 | Refundable tax offset for large scale film production | Reclassified as an expense |
| D77 | Research and development refundable tax offset for small companies | Reclassified as an expense. |
| D88 | Capitalisation of ownership costs of assets held partly for private use | Benchmark revision. This item relates to cost base adjustments that are more appropriately included within the benchmark. |

