CHAPTER 6: TAX EXPENDITURES

6.1 Introduction

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

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

Benchmark	Specific benchmark category	Functional category	TES reference code
INCOME TAX (A - E)	Personal income (A)	General public services	A1 – A7
		Defence	A8 – A16
		Education	A17
		Health	A18 – A24
		Tax concessions for certain taxpayers	A25 – A34
		Certain government income support payments	A35 – A43
		Housing and community amenities	A44 – A45
		Recreation and culture	A46
		Other economic affairs	A47 – A51
		Substantiation provisions for employment related expenses	A52 – A54
		Miscellaneous	A55 – A61
	Business income (B)	Health	B1 – B2
		Social security and welfare	B3 – B6
		Recreation and culture	B7 – B10
		Agriculture, forestry and fishing	B11 – B20
		Manufacturing and mining	B21 – B23
		Other economic affairs	B24 – B33
		Capital expenditure, effective life and depreciation	B34 – B66
		Prepayments and advance expenditures	B67 – B71
		International tax expenditures	B72 – B86
		Miscellaneous	B87 – B92

Benchmark	Specific benchmark category	Functional category	TES reference code
INCOME TAX (A - E) (continued)	Retirement savings (C)		C1 – C9
	Fringe benefits tax (D)	General public services	D1
		Defence	D2
		Education	D3 –D4
		Health	D5 – D6
		Social security and welfare	D7 – D12
		Housing and community amenities	D13 – D14
		Transport and communication	D15 – D17
		Other economic affairs	D18 – D28
		Miscellaneous	D29 – D47
	Capital gains tax (E)		E1 – E20
COMMODITY (F)	Consumption taxes	Tobacco	F1
		Fuel	F2 – F7
		Alcohol	F8 – F14
		Motor vehicles	F15
		General consumption	F16 – F17
	Taxes on natural resources	Petroleum	F18

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 each tax expenditure.

Reference code
A Personal income
B Business income
C Retirement income
D Fringe benefits tax
E Capital gains tax
F Commodity tax

Tax expenditure estimates
- nil
.. not zero, but rounded to zero
* estimate is not available

A2 Title of the tax expenditure

Functional category

Health ($m)							
1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07

Tax expenditure type: *2002 TES code:*
Commencement date:
Expiry date:
Legislative reference:

Reference information

Brief description of the tax expenditure

Brief description

The reference information provides details of:

- the type of expenditure, for instance a tax exemption, deduction or tax offset;
- for tax expenditures that commenced since 1985, the year they commenced;
- for tax expenditures that will cease to operate, the year they expire;
- where to find the provisions implementing the tax expenditure in the legislation; and
- whether the tax expenditure is new or the *2002 Tax Expenditures Statement* reference code

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

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

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

6.2 Income tax benchmark

Most tax expenditures occur under the income tax benchmark. They are categorised: personal income; business income; retirement savings; fringe benefits tax; and capital gains tax.

PERSONAL INCOME

Personal income tax expenditures are generally grouped according to their 'functional group' (for example, health, education or defence). However, tax expenditures that relate to employment-related expenses are grouped separately.

Tax expenditures for general public services

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

General public services ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
..	..	..	..	..	..	-	-

Tax expenditure type:	Exemption	*2002 TES code:*	A1
Commencement date:	Introduced before 1985		
Expiry date:	No longer available for appointments after 28 June 2001		
Legislative reference:	Section 51-15 ITAA97		

The official salaries and ex-Australian income of the Governor-General and State Governors were exempt from income tax. This exemption is not available for appointments made after 28 June 2001.

A2 Deduction for government candidates' election expenses

General public services ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
2	2	1	1	1	1	1	1

Tax expenditure type:	Deduction	*2002 TES code*:	A2 and A3
Commencement date:	Introduced before 1985 (local government provisions introduced in 1985)		
Expiry date:			
Legislative reference:	Section 25-60 ITAA97		

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.

For further details see the ATO web site www.ato.gov.au or in Taxation Ruling TR 1999/10.

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

General public services ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2002 TES code*:	A4
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	*International Organisations (Privileges and Immunities) Act 1963*		

The official salary and emoluments of officials of prescribed international organisations may be exempt from income tax. Prescribed international organisations include the United Nations organisations, the OECD, the International Court of Justice and the International Atomic Energy Agency.

For further details see Taxation Ruling TR 92/14.

A4 Exemption of income of certain visitors to Australia

General Public Services, Defence, Education ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
1	1	1	1	1	1	1	1

Tax expenditure type:	Exemption	*2002 TES code*:	A5, A7, A8, A20 and A25
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Sections 23(b), 23(c)(iii), 23(c)(iv), 23(c)(v) and 23(v) ITAA36		

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

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

General public services ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
250	240	330	450	510	560	640	720

Tax expenditure type:	Exemption	*2002 TES code*:	Part of A6
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Sections 23AF ITAA36		

Note: estimates include tax expenditures A5 and A6.

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

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

General public services ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Included in A5							

Tax expenditure type:	Exemption	*2002 TES code*:	Part of A6
Commencement date:	1986		
Expiry date:			
Legislative reference:	Sections 23AG ITAA36		

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

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

General public services and health ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
8	11	8	9	9	9	10	10

Tax expenditure type:	Exemption	*2002 TES code*:	A9 and part of A29
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Section 24G and Section 251U ITAA36		

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

Tax expenditures for defence

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

Defence ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
35	30	30	30	25	25	25	25

Tax expenditure type:	Exemption	*2002 TES code*:	A10
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Section 51-5 ITAA97		

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

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

Defence ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
8	8	8	8	8	9	9	9

Tax expenditure type:	Exemption	*2002 TES code*:	A11, A12, A21 and A22
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Section 51-5 ITAA97		

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

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

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

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

Defence ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
..	..	..	..	..	..	..	..

Tax expenditure type:	Exemption	*2002 TES code*:	A13
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Section 23(u) ITAA36		

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

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

Defence ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
-	-	-	..	..	..	..	..

Tax expenditure type:	Exemption	*2002 TES code*:	A14
Commencement date:	2003		
Expiry date:			
Legislative reference:	Sections 51-33 ITAA97		

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

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

Defence ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
-	-	-	*	*	*	*	*

Tax expenditure type:	Exemption	*2002 TES code*:	A15
Commencement date:	2003		
Expiry date:			
Legislative reference:	Section 51-32 ITAA97		

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

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

Defence ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
35	18	25	30	35	20	20	20

Tax expenditure type:	Exemption	*2002 TES code*:	A16
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Sections 23AC and 23AD ITAA36		

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

The estimate in 1999-00 reflects the deployment of Australian Defence Force personnel to East Timor. Estimates from 2000-01 reflect ongoing deployment of Australian Defence Force personnel to East Timor. Other recent increases result from operations in the Middle East, Afghanistan and the Solomon Islands.

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

Defence ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
..	..	..	..	..	..	..	..

Tax expenditure type:	Exemption	*2002 TES code*:	A17
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Sections 23AB(5), 23AB(10) and 23AB(6) ITAA36		

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

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

Defence ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Included in A44							

Tax expenditure type:	Offset	*2002 TES code*:	A18
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Section 79B ITAA36 and Section 23AB(7) ITAA36		

Australian Defence Forces 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 a range of dependants.

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

Defence ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
30	30	30	30	35	35	35	35

Tax expenditure type:	Exemption	*2002 TES code*:	A19
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Section 251U ITAA36		

Income earned by Australian Defence Forces personnel (or relatives of, or individuals otherwise associated with, Australian Defence Force personnel) is exempt from the Medicare levy.

Tax expenditure for education

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

Education ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
8	6	5	6	6	6	7	7

Tax expenditure type:	Exemption	*2002 TES code*:	A23, A24 and A26
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Section 23(ya) ITAA36 and Section 51-10 ITAA97		

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

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

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

Tax expenditures for health

A18 Medical expenses tax offset

Health ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
130	150	150	185	200	210	230	260

Tax expenditure type:	Offset	*2002 TES code*:	A27
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Section 159P ITAA36		

A tax offset is available to a taxpayer whose net medical expenses in the income year exceed a certain threshold. Qualifying medical expenses may relate both to resident taxpayers and any resident dependants but are net of available reimbursements, such as Medicare and private health insurance refunds. The value of the offset is 20 per cent of the excess above the threshold of $1,500. Before 2002-03, the threshold was $1,250.

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

Health ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
290	310	340	350	360	360	360	360

Tax expenditure type:	Exemption	*2002 TES code*:	A28
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Section 7 of the *Medicare Levy Act 1986*		

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

A20 Medicare levy exemption for non-residents, repatriation beneficiaries and foreign government representatives

Health ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
55	55	55	55	55	55	55	55

Tax expenditure type:	Exemption	*2002 TES code*:	A29
Commencement date:	1985		
Expiry date:			
Legislative reference:	Section 251U ITAA36		

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

A21 Tax offset for private health insurance

Health ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
180	195	-	-	-	-	-	-

Tax expenditure type:	Offset	*2002 TES code*:	A30 and A31
Commencement date:	1997, amended in 1999		
Expiry date:			
Legislative reference:	Sections 61-300 to 61-345 ITAA97		

A tax offset is available for holders of appropriate private health insurance cover. The offset is worth 30 per cent of the value of the insurance premium. This offset can be claimed as a refundable tax offset, a direct payment or through reduced premiums.

Prior to 2001-02 the component claimed as a refundable tax offset was recorded as a tax expenditure. Since 2001-02 all claims (direct payments and tax offsets) have been recorded in Budget documentation as an expense and so are not recorded in the Tax Expenditures Statement.

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

Health ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
380	560	740	820	850	870	910	960

Tax expenditure type:	Exemption	*2002 TES code*:	A31
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Section 52-125 ITAA97		

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

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

Health ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
-140	-150	-85	-100	-100	-100	-100	-100

Tax expenditure type:	Increased tax rate	*2002 TES code*:	A32
Commencement date:	1997		
Expiry date:			
Legislative reference:	Sections 8B-8D of the *Medicare Levy Act 1986*		

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

A24 Deduction for payment of Incurred-But-Not-Reported levy

Health ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
-	-	-	-	-	1	2	2

Tax expenditure type:	Deduction	*2002 TES code*:	A72
Commencement date:	Announced in 2002		
Expiry date:			
Legislative reference:	Not yet legislated		

A specific tax deduction will be made available for all medical practitioners (including retirees) who are required to pay the Incurred-But-Not-Reported (IBNR) levy, equal to the full amount of the levy payable. The IBNR levy is imposed by the Australian Government on medical practitioners to fund its assumption of certain medical indemnity liabilities from medical defence organisations. This provision ensures that an income tax deduction is available to all taxpayers required to pay the levy, regardless of whether a deduction would otherwise be available.

Tax concessions for certain taxpayers

A25 Tax offset for sole parents

Social security and welfare ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
260	50	-	-	-	-	-	-

Tax expenditure type:	Offset	*2002 TES code*:	A33
Commencement date:	Introduced before 1985		
Expiry date:	Replaced in 2000		
Legislative reference:	Section 159K ITAA36		

A sole parent who had the sole care of a student or a dependent child under 16 was eligible for a tax offset until it was replaced with Family Tax Benefit, Part B on 1 July 2000.

A26 Tax offsets for taxpayers with dependants

Social security and welfare ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
13	16	15	15	16	17	18	19

Tax expenditure type:	Offset	*2002 TES code*:	A34, A37 and A38
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Section 159J ITAA36		

A taxpayer who contributes to the maintenance of one or more dependants may be entitled to a tax offset. Dependants must be Australian residents and must fall into one of the following categories:

- a dependent spouse (legal or *de facto*; the offset for a dependent spouse only applies where there are no children);
- a child-housekeeper (that is, a child who is wholly engaged in keeping house for the taxpayer);
- an invalid relative; or
- a parent or parent-in-law.

These offsets are indexed annually to the consumer price index.

A27 Tax offset for recipients of certain social security benefits, pensions or allowances

Social security and welfare ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
2,080	830	870	900	930	960	990	1,030

Tax expenditure type:	Offset	*2002 TES code*:	A35 and A44
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Section 160AAA ITAA36		

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

- various income support payments (for example, Newstart or sickness allowance);
- various pensions (for example, age pension (where not eligible for the Senior Australians' Tax Offset) and carer payment);

- Australian Government education and training payments (for example, youth allowance); and
- various other payments (for example, payments to Community Development Employment Project (CDEP) participants and exceptional circumstances relief payments).

A28 Senior Australians' Tax Offset

Social security and welfare ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
30	1,490	1,580	1,620	1,670	1,720	1,770	1,830

Tax expenditure type:	Offset	*2002 TES code*:	A42
Commencement date:	1996		
Expiry date:			
Legislative reference:	Sections 160AAAA and 160AAAB ITAA36		

The Senior Australians' Tax Offset (SATO, formerly known as the low income aged persons' tax offset) 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).

A29 Tax offset for housekeeper who cares for a prescribed dependant

Social security and welfare ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
430	360	340	350	360	370	380	390

Tax expenditure type:	Offset	*2002 TES code*:	A36
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Section 159L ITAA36		

Where an individual is wholly engaged in keeping house and caring for one or more dependants of a taxpayer, the taxpayer may be entitled to the housekeeper tax offset. Qualifying dependants include:

- a dependent child aged under 16 years;
- an invalid relative; and
- a spouse (legal or *de facto*) in receipt of a disability support pension.

The housekeeper tax offset is indexed annually to the consumer price index.

The housekeeper offset was previously reported with the dependent spouse rebate (with child). The dependent spouse offset (no children) is still reported as part of tax expenditure.

A30 Tax offset for low income earners

Social security and welfare ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
440	460	410	400	390	660	640	620

Tax expenditure type:	Offset	*2002 TES code*:	A39
Commencement date:	1993		
Expiry date:			
Legislative reference:	Section 159N ITAA 1936		

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

A31 Family Tax Assistance, Parts A and B

Social security and welfare ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
380	-	-	-	-	-	-	-

Tax expenditure type:	Offset	*2002 TES code*:	A43
Commencement date:	1996		
Expiry date:	2000		
Legislative reference:	Part II, Division 5, Section 20A-20V of the *Income Tax Rates Act 1986*		

Family Tax Assistance, Parts A and B were no longer provided following the introduction of Family Tax Benefit, Parts A and B on 1 July 2000.

A32 Family Tax Benefit, Parts A and B

Social security and welfare ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
-	11	-	-	-	-	-	-

Tax expenditure type:	Offset	*2002 TES code*:	Part of A45
Commencement date:	2000		
Expiry date:			
Legislative reference:	*A New Tax System (Family Assistance) Act 1999*		

From 1 July 2000, Family Tax Benefit replaced a number of other payments for families. The Family Tax Benefit can be claimed as either a direct payment or through the tax system as a refundable tax offset. From 2001-02 all claims are recorded in

Budget documentation as an expense. Prior to 2001-02 the component that was claimed as a tax offset was recorded in the Tax Expenditures Statement as a tax expenditure.

A33 Release from particular tax liabilities in cases of serious hardship

Social security and welfare ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2002 TES code*:	New
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Division 340 of Schedule 1 to the *Tax Administration Act 1953* (formerly Section 265 of ITAA36, which was repealed from 1 September 2003)		

An individual taxpayer can be released from a tax liability where payment of the liability would cause serious hardship. This release from tax liability acts like a tax exemption. Prior to 1 September 2003, the release arrangements applied principally to tax assessments and did not apply to taxpayers paying on an instalment basis. The procedures under which an individual taxpayer can be released from a tax liability were streamlined from 1 September 2003. In addition, the scope of relief was broadened to include Pay As You Go instalments and fringe benefits tax instalments. The streamlining of these procedures was undertaken to increase the efficiency and flexibility of the system for taxpayers to seek relief from tax debts.

A34 Deduction for tax agent fees for family tax benefit claims lodged through Centrelink

Social security and welfare ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
-	-	-	-	..	..	..	..

Tax expenditure type:	Deduction	*2002 TES code*:	New
Commencement date:	2003		
Expiry date:	2004		
Legislative reference:	Not yet legislated		

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.

Tax exemptions for certain government income support payments

A35 Exemption of certain income support benefits, pensions or allowances

Social security and welfare ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
1470	880	910	940	960	990	1,020	1,060

Tax expenditure type:	Exemption	*2002 TES code:*	A40
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Sections 52-5 to 52-40 ITAA97		

Certain social security pensions, benefits and allowances and certain repatriation pensions paid under the *Social Security Act 1991* and the *National Health Act 1953* are exempt from income tax. This tax expenditure previously included Family Allowance, which was replaced with Family Tax Benefit, Part A on 1 July 2000.

A36 Exemption of Family Tax Benefit, Parts A and B, including expense equivalent

Social security and welfare ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
-	1,980	2,600	2,560	2,560	2,570	2,570	2,580

Tax expenditure type:	Exemption	*2002 TES code:*	Part of A45
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Section 52-150 ITAA97		

Taxpayers can receive the Family Tax Benefit either as a direct payment or as a refundable tax offset. Both payments are exempt from income tax.

A37 Exemption of rent subsidy payments under the Commonwealth/State mortgage and rent relief schemes

Social security and welfare ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
12	13	13	13	13	14	14	15

Tax expenditure type:	Exemption	*2002 TES code:*	A41
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Section 51-30 ITAA97		

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

A38 Exemption of Child Care Benefit

Social security and welfare ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
-	330	450	480	500	520	550	580

Tax expenditure type:	Exemption	*2002 TES code*:	A46
Commencement date:	2000		
Expiry date:			
Legislative reference:	Section 52-150 ITAA97		

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

A39 Exemption of one-off payments to senior Australians

Social security and welfare ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
-	540	2	-	-	-	-	-

Tax expenditure type:	Exemption	*2002 TES code*:	A47 and A52
Commencement date:	2000, 2001		
Expiry date:	2001		
Legislative reference:	Sections 52-10 and 52-130 ITAA97		

The Aged Persons Savings Bonus and the Self-Funded Retirees Supplementary Bonus made to senior Australians under the *A New Tax System (Bonuses for Older Australians) Act 1999* were exempt from income tax. Claims had to be lodged by 30 June 2001. The $300 one-off payment provided to people of age pension age who received income support or were outside the taxation and income support system was also exempt from income tax. Claims through Centrelink had to be made by 31 December 2001.

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

A40 Exemption of the baby bonus

Social security and welfare ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
-	-	-	6	19	25	30	35

Tax expenditure type:	Exemption	*2002 TES code*:	A53
Commencement date:	2002		
Expiry date:			
Legislative reference:	Subdivision 61-I ITAA97		

Baby bonus payments are exempt from income tax.

A41 Exemption of certain war-related payments and pensions

Social security and welfare ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
330	370	380	410	420	440	460	490

Tax expenditure type:	Exemption	*2002 TES code*:	A48
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Section 52-60 to 52-110 ITAA97		

Note: estimates include tax expenditures A41 and A42.

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

A42 Exemption of certain pensions, annuities or allowances paid for persecution

Social security and welfare ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Included in A41							

Tax expenditure type:	Exemption	*2002 TES code*:	A49 and A50
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Sections 23(kc) and (kca) ITAA36		

Certain pensions, annuities and allowances paid under a foreign law as compensation for persecution or disability arising during the Second World War have been exempt from income tax. The Australian Government will amend this exemption to ensure that it applies to all Second World War compensation funds for both income tax and capital gains tax purposes from 2001-02.

A43 Exemption for certain pensions received by Papua New Guinea residents

Social security and welfare ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2002 TES code*:	A51
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Section 23(kd) ITAA36		

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

Tax expenditures for housing and community amenities

A44 Zone tax offsets

Housing and community amenities ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
175	175	175	185	190	195	200	210

Tax expenditure type:	Offset	*2002 TES code*:	A54
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Section 79A ITAA36		

Note: includes tax expenditures A15 and A44.

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

For further information about the zone offset, see tax ruling TR 94/27.

A45 Exemption for payments made under the First Home Owners Grant Scheme

Housing and community amenities ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
-	390	530	350	260	270	270	280

Tax expenditure type:	Exemption	*2002 TES code*:	New
Commencement date:	2000		
Expiry date:			
Legislative reference:	*A New Tax System (Commonwealth-State Financial Arrangements) Act 1999 – Appendix D, Intergovernmental Agreement on Commonwealth-State Financial Relations, Appropriation Act (No. 2) 2001-02* (for the additional grant) and relevant State legislation		

Payments made under the First Home Owners Grant Scheme are exempt from tax. As part of *The New Tax System*, the Commonwealth Government required the States and Territories to introduce a new First Home Owners Scheme to help maintain the affordability of the family home. Eligible applicants purchasing or building their first home from 1 July 2000 are entitled to $7,000 assistance to offset the impact of the GST. For first home owners who entered into contracts between 9 March 2001 and 31 December 2001, the Commonwealth Government funded an additional $7,000 grant and between 1 January and 30 June 2002 funded an additional $3,000 grant to build or purchase new but previously unoccupied homes. Eligibility for this grant was subject to various criteria.

Tax expenditure for recreation and culture

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

Recreation and culture ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
5	6	9	10	10	11	13	14

Tax expenditure type:	Concessional tax rate	*2002 TES code:*	A55
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Division 405 ITAA97		

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

Tax expenditures for other economic affairs

A47 Deductibility of union dues and subscriptions to business associations

Other economics affairs (B) ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
*	*	*	*	*	*	*	*

Tax expenditure type:	Deduction	*2002 TES code:*	A56
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Section 25-55 ITAA97		

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

For further information on this deduction, see tax determination 1999/45.

A48 Deferral of tax and exemption for share discounts on qualifying employee share acquisition schemes

Other economics affairs (B) ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
*	*	*	*	*	*	*	*

Tax expenditure type:	Deferral/exemption	*2002 TES code*:	A57
Commencement date:	1995		
Expiry date:			
Legislative reference:	Section 26AAC and Division 13A ITAA36		

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

A49 Tax deferral advantage arising from return of after-tax contributions to a pension or annuity

Other economics affairs (B) ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
*	*	*	*	*	*	*	*

Tax expenditure type:	Deferral	*2002 TES code*:	A58
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Section 27H ITAA36		

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

A50 Increased tax rates for certain minors

Other economic affairs (C) ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
*	*	*	-6	-6	-7	-8	-8

Tax expenditure type:	Increased tax rates	*2002 TES code*:	New
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Division 6AA ITAA36		

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

A51 Part year tax-free threshold

Other economic affairs (C) ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
*	-8	-7	-7	-7	-7	-7	-7

Tax expenditure type:	Increased tax rate	*2002 TES code*:	New
Commencement date:	1986		
Expiry date:			
Legislative reference:	Sections 16 to 20 of the *Income Tax Rates Act 1986*		

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

Concessions under the substantiation provisions for employment-related expenses

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

A52 A reasonable overtime meal allowance

Not allocated to function ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
*	*	*	*	*	*	*	*

Tax expenditure type:	Deduction	*2002 TES code*:	A60
Commencement date:	1987		
Expiry date:			
Legislative reference:	Section 900-60 ITAA97		

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

For further information about the value of a reasonable overtime meal, see Tax Ruling TR 2002/12.

A53 Certain travel expenses in and outside Australia

Not allocated to function ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
*	*	*	*	*	*	*	*

Tax expenditure type:	Deduction	*2002 TES code*:	A61
Commencement date:	1987		
Expiry date:			
Legislative reference:	Sections 900-50 and 900-55 ITAA97		

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

For further information about the value of a reasonable domestic travel allowance, see Tax Ruling TR 2002/12.

A54 Alternatives to the logbook method of substantiating car expenses

Not allocated to function ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
*	*	*	*	*	*	*	*

Tax expenditure type:	Deduction	*2002 TES code*:	A63
Commencement date:	1987		
Expiry date:			
Legislative reference:	Sections 900-70 and 900-75 ITAA97		

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

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

Miscellaneous tax expenditures

A55 Tax offset on certain payments of income received in arrears

Not allocated to function ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
..	..	..	..	..	..	..	..

Tax expenditure type:	Offset	*2002 TES code:*	A64
Commencement date:	1986		
Expiry date:			
Legislative reference:	Sections 159ZR-159ZRD ITAA36		

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

A56 Deduction for gifts to approved donees

Not allocated to function ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
250	300	330	350	380	400	430	460

Tax expenditure type:	Deduction	*2002 TES code:*	A65 and A66
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Division 30 ITAA97		

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

A57 Exemption of post-judgement interest awards in personal injury compensation cases

Not allocated to function ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
14	2	2	2	2	2	2	2

Tax expenditure type:	Exemption	*2002 TES code:*	A67
Commencement date:	2000		
Expiry date:			
Legislative reference:	Section 51-57 ITAA97		

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

The provisions apply to compensation paid in the 1992-93 and later income years. Consequently, the estimate for the year of introduction (1999-2000) is unusually high.

A58 Tax offset of interest on certain government securities

Not allocated to function ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
..	..	..	..	..	..	-	-

Tax expenditure type:	Offset	*2002 TES code:*	A68
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Section 160AB ITAA36		

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

A59 Exemption from income tax of one-off payments to former civilian internees and detainees of the Japanese

Not allocated to function ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
-	4	-	-	-	-	-	-

Tax expenditure type:	Exemption	*2002 TES code:*	A69
Commencement date:	2001		
Expiry date:			
Legislative reference:	Section 11 of the *Compensation (Japanese Internment) Act 2001*		

The one-off ex gratia payment of $25,000 made in 2001 to former civilian internees and detainees of the Japanese in compensation for their pain and suffering in the Second World War is exempt from income tax. This is a once-off tax expenditure, reflecting the nature of these payments.

A60 Exemption for structured settlements and structured orders

Not allocated to function ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
-	-	-	1	3	4	5	6

Tax expenditure type:	Exemption	*2002 TES code*:	A70
Commencement date:	2001		
Expiry date:			
Legislative reference:	Section 54 ITAA97		

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

A61 Immediate deduction for low-value depreciating assets not used in business

Not allocated to function ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
-	*	*	*	*	*	*	*

Tax expenditure type:	Deduction	*2002 TES code*:	A71
Commencement date:	2001		
Expiry date:			
Legislative reference:	Subsection 40-80(2) ITAA97		

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

BUSINESS INCOME

Business income tax expenditures are generally grouped according to their 'functional group' (for example, health or defence). However, tax expenditures that relate to capital expenditures, prepayments and international taxation have been grouped separately.

Tax expenditures for health

B1 Income tax exemption for registered health benefit organisations

Health ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
50	105	220	30	30	35	35	35

Tax expenditure type:	Exemption	*2002 TES code:*	D1
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Section 50-30 ITAA97		

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

The growth in the estimates in 2000-01 and 2001-02 reflects increased health fund membership and greater profitability of the sector. The decrease in estimates thereafter reflects subsequent reduced profitability of the sector.

B2 Income tax exemption for public and non-profit hospitals

Health ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
..	..	..	..	..	..	..	..

Tax expenditure type:	Exemption	*2002 TES code:*	D2
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Section 50-30 ITAA97		

The income of public hospitals and hospitals operated by a society or association is exempt from income tax. This exemption is only available to hospitals operated by a society or association where they are not operated for gain or profit of their individual members. Furthermore, these hospitals must incur expenditure principally in Australia.

Tax expenditures for social security and welfare

B3 Income tax exemption for religious, scientific, charitable or public educational institutions

Social security and welfare ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2002 TES code*:	D3 and D19
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Section 50-5 ITAA97		

The income of the following organisations is exempt from tax:

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

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

B4 Concessional taxation treatment of mining payments made in respect of mining and exploration activities on Aboriginal land

Social security and welfare ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
..	..	..	..	..	..	..	..

Tax expenditure type:	Exemption	*2002 TES code*:	D4
Commencement date:	2000		
Expiry date:			
Legislative reference:	Sections 26AH and 160AAB ITAA36		

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

B5 Concessional taxation of life insurance investment income

Social security and welfare ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
*	*	*	*	*	*	*	*

Tax expenditure type:	Concessional tax rate	*2002 TES code*:	D5
Commencement date:	2000		
Expiry date:			
Legislative reference:	Sections 26AH and 160AAB ITAA36		

Some life insurance investment policyholders receive a concessional rate of tax because the policyholders' undistributed income is taxed at the company rate. Prior to 2000-01, this income was taxed at the trustee rate.

A reversionary bonus is a bonus paid when a life insurance policy matures, is forfeited or is surrendered. Reversionary bonus income distributed to policyholders 10 years after the commencement of the policy is exempt from further tax. If the bonus is distributed in the ninth and tenth year after commencement of the policy then only a fraction (two-thirds or one-third respectively) of the bonus is taxable. If the bonus is distributed within eight years of the commencement of the policy, it is fully taxable. However, if the insurance company has paid these bonuses from after-tax investment income (this income not being tax-exempt), then a rebate is allowed at the company rate of tax.

This tax expenditure ensures that 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.

More information can be found on the Australian Taxation Office website www.ato.gov.au

B6 Deductibility of charitable entertainment

Social security and welfare ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
*	*	*	*	*	*	*	*

Tax expenditure type:	Deduction	*2002 TES code*:	D90
Commencement date:	1985		
Expiry date:			
Legislative reference:	Section 32-50 ITAA97		

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

Tax expenditures for recreation and culture

B7 Income tax exemption for certain non-profit societies

Recreation and culture ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
25	20	20	15	15	15	15	15

Tax expenditure type:	Exemption	*2002 TES code:*	D6
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Section 50-45 ITAA97		

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

This tax expenditure exempts from income tax those amounts that are not already excluded by the 'mutuality principle'. (For a brief explanation of the mutuality principle, refer to section 4.2 of the Benchmarks Chapter).

B8 Income tax exemption for the Australian Film Finance Corporation

Recreation and culture ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
..	..	..	..	..	..	..	..

Tax expenditure type:	Exemption	*2002 TES code:*	D7
Commencement date:	1988		
Expiry date:			
Legislative reference:	Section 50-45 ITAA97		

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

B9 Income tax exemption for certain promotion and development non-profit societies

Recreation and culture ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
30	30	30	25	25	25	25	25

Tax expenditure type:	Exemption	*2002 TES code*:	D8
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Section 50-40 ITAA97		

An income tax exemption applies to the income of non-profit societies or associations predominantly devoted to the promotion or development of aviation or tourism, or of agricultural, pastoral, horticultural, viticultural, manufacturing or industrial resources of Australia. This expenditure includes the income tax exemption applying to non-profit societies or associations established for the purpose of promoting the development of Australian information and communication technology resources.

This tax expenditure exempts from income tax those amounts that are not already excluded by the 'mutuality principle'. (For a brief explanation of the mutuality principle, refer to section 4.2 of the Benchmarks Chapter).

B10 Exemption of refundable film tax offset payments

Recreation and culture ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
-	-	-	1	10	10	15	15

Tax expenditure type:	Exemption	*2002 TES code*:	New
Commencement date:	2001		
Expiry date:			
Legislative reference:	Division 376 ITAA97		

Payments made under the refundable tax offset for large-scale film production are exempt from tax. Producers of qualified large-scale films are eligible to receive a refundable tax offset equivalent to 12.5 per cent of qualifying Australian production expenditure on a film. The offset is paid through the tax system directly to producers. To be eligible, films need at least $15 million of qualifying Australian expenditure and that expenditure must amount to at least 70 per cent of the total production cost. (However, if qualifying Australian expenditure is over $50 million, the 70 per cent criterion does not apply.) The offset is designed to ensure that Australia remains competitive in attracting large-scale film productions.

Tax expenditures for agriculture, forestry and fishing

Business income tax expenditures for agriculture, forestry and fishing are also reported under 'Tax expenditures relating to capital expenditure, effective life and depreciation'.

B11 Income tax averaging for primary producers

Agriculture, forestry and fishing ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
70	140	240	280	280	*	*	*

Tax expenditure type:	Concessional tax rate	*2002 TES code*:	D9
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Division 392 ITAA97		

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

The growth in the estimates reflects increased income by primary producers between 1999-2000 and 2002-03. Projections beyond 2003-04 are not reported as the tax expenditure is very sensitive to variations in primary production income, which depends on a number of external factors.

More information on this concession can be found on the Australian Taxation Office website, www.ato.gov.au.

B12 Deferral of income from double wool clips

Agriculture, forestry and fishing ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
*	*	*	*	*	*	*	*

Tax expenditure type:	Deferral	*2002 TES code*:	D10
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Section 385-130 ITAA97		

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

B13 Spreading of income from insurance recoveries for loss of timber or livestock

Agriculture, forestry and fishing ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
*	*	*	*	*	*	*	*

Tax expenditure type:	Deferral	*2002 TES code*:	Part of D11
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Section 385-130 ITAA97		

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

B14 Deferral or spreading of income from the forced disposal or death of livestock

Agriculture, forestry and fishing ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
*	*	*	*	*	*	*	*

Tax expenditure type:	Deferral	*2002 TES code*:	Part of D11
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Sections 385-90 to 385-125 ITAA97		

The forced disposal or death of livestock resulting from certain events are subject to a tax concession. Relevant events that result in the forced disposal or death of livestock include:

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

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

B15 Valuation of livestock from natural increase

Agriculture, forestry and fishing ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
220	290	190	105	145	*	*	*

Tax expenditure type:	Concessional tax rate	*2002 TES code*:	D12
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Section 70-55 ITAA97		

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

More information can be found on the Australian Taxation Office website www.ato.gov.au.

B16 Transitional trading stock rules for oyster farmers

Agriculture, forestry and fishing ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
-	-	..	-	-	-	-	-

Tax expenditure type:	Concessional tax rate	*2002 TES code*:	D13
Commencement date:	2001		
Expiry date:	2002		
Legislative reference:	Section 70-41 of the *Income Tax (Transitional Provisions) Act 1997*		

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

More information is available on the Australian Taxation Office website www.ato.gov.au.

B17 Income tax exemption for Dairy Exit Program payments

Agriculture, forestry and fishing ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
-	-	1	1	..	-	-	-

Tax expenditure type:	Exemption	*2002 TES code*:	D14
Commencement date:	2000		
Expiry date:	2002		
Legislative reference:	Paragraph 118-37(1)(e) ITAA97		

Payments made under the Dairy Exit Program (DEP) were exempt from income tax. Between 2000 and 2002, the DEP provided a grant of up to $45,000 to farmers in the dairy industry who decided to leave farming. The DEP also provided a retraining grant to eligible farmers to assist them in finding an alternative career after they exited farming. The DEP is part of the Dairy Industry Adjustment Package which aims to help dairy farmers in the transition to a deregulated market from 1 July 2000.

Further information may be found on the Centrelink website www.centrelink.gov.au.

B18 Income Equalisation Deposits scheme

Agriculture, forestry and fishing ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
9	-	-	-	-	-	-	-

Tax expenditure type:	Tax deferral	*2002 TES code*:	D91
Commencement date:	1976		
Expiry date:	1999		
Legislative reference:	Sections 3, 4B(5), 18, 19, 20A, and 20B of the *Loan (Income Equalization Deposits) Act 1976*		

The Income Equalisation Deposits scheme allowed primary producers to defer their tax liability. Since 2 January 1999, it has been replaced by the Farm Management Deposit scheme.

B19 Farm Management Deposit scheme

Agriculture, forestry and fishing ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
25	50	150	410	180(p)	*	*	*

Tax expenditure type:	Tax deferral	*2002 TES code*:	D92
Commencement date:	1999		
Expiry date:			
Legislative reference:	Schedule 2G, Division 393 ITAA36		

(p) Preliminary estimate only due to data limitations.

The Farm Management Deposit (FMD) scheme allows primary producers (with a limited amount of non-primary production income) to defer their income tax liability.

Primary producers are able to claim deductions for their FMD made in the year of deposit, with subsequent withdrawals being subject to assessment in the year of withdrawal. The FMD has a maximum limit on deposits of $300,000. Primary producers in exceptional circumstance areas are also able to withdraw their deposits within 12 months to maintain the concessional tax treatment of the scheme. The FMD scheme replaced the Income Equalisation Deposits and Farm Management Bonds schemes on 2 January 1999.

The growth in the estimates between 1999-2000 and 2002-03 reflects increased investments by primary producers. The decline in the estimates in 2003-04 reflects a decline in deposits and an increase in withdrawals relative to 2002-03. Projections beyond 2003-04 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.

More information on this concession can be found on the Australian Tax Office website www.ato.gov.au.

B20 Exemption of Sugar Industry Exit Grants

Agriculture, forestry and fishing ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
-	-	-	-	1	3	3	2

Tax expenditure type:	Exemption	*2002 TES code*:	New
Commencement date:	Announced in 2003		
Expiry date:			
Legislative reference:	Not yet legislated		

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. This expenditure aims to provide assistance to cane growers whose business is no longer viable and who need additional help in making the transition to new employment.

Tax expenditures for manufacturing and mining

Business income tax expenditures for manufacturing and mining are also reported under 'Tax expenditures relating to capital expenditure, effective life and depreciation'.

B21 Infrastructure Bonds Scheme

Manufacturing and mining ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
85	60	25	20	20	20	20	15

Tax expenditure type:	Exemption/offset	*2002 TES code:*	D16
Commencement date:	1992		
Expiry date:	1997		
Legislative reference:	Division 16L ITAA36		

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

B22 Land Transport Infrastructure Borrowings Tax Offset Scheme

Manufacturing and mining ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
10	10	20	25	25	30	15	10

Tax expenditure type:	Offset	*2002 TES code:*	D17
Commencement date:	1998		
Expiry date:			
Legislative reference:	Section 396-5 to 396-110 ITAA97		

A tax offset at the company tax rate is available to resident lenders who receive interest income from loans given for approved land transport infrastructure projects. This offset is available for the first five years of interest payments. The interest paid by the borrower is not deductible. The objective of the offset is to encourage genuine private sector investment in public land transport infrastructure by reducing financing costs associated with infrastructure projects. The cost of this scheme is capped at $75 million per annum.

More information on this can be found at the Department of Transport and Regional Services website www.dotars.gov.au and the Australian Taxation Office website www.ato.gov.au.

B23 Income tax exemption for sale, transfer or assignment of mining rights

Manufacturing and mining ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
5	-	-	-	-	-	-	-

Tax expenditure type:	Exemption	*2002 TES code:*	D18
Commencement date:	Introduced before 1985		
Expiry date:	2001		
Legislative reference:	Paragraph 23 (pa) ITAA36		

An income tax exemption applies to income derived by bona fide prospectors from sale, transfer or assignment of rights to mine gold, prescribed metals or prescribed minerals. This exemption only applies to rights acquired before 20 August 1996 and income derived before 20 August 2001.

Tax expenditures for other economic affairs

Business income tax expenditures for other economic affairs are also reported under 'Tax expenditures relating to capital expenditure, effective life and depreciation'.

B24 Income tax exemption for trade unions and registered organisations

Other economic affairs (B) ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
10	10	10	10	10	10	10	10

Tax expenditure type:	Exemption	*2002 TES code:*	D20
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Section 50-15 ITAA97		

Subject to certain conditions, the income of trade unions and registered associations of employers and employees is exempt from income tax. However, certain ordinary and statutory income of some associations of employees and some registered trade unions may be subject to income tax. This tax expenditure exempts from income tax those amounts that are not already excluded by the 'mutuality principle'. (For a brief explanation of the mutuality principle, refer to section 4.2 of the Benchmarks Chapter.)

B25 Income tax exemption for the Commonwealth Rebate for Apprentice Full-time Training (CRAFT)

Other economic affairs (B) ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
12	11	4	-	-	-	-	-

Tax expenditure type:	Exemption	*2002 TES code*:	D21
Commencement date:	Introduced before 1985		
Expiry date:	Only applies in respect of apprentices who (most recently) started work with their employer before 1998		
Legislative reference:	Section 51-10 Item 2.2 ITAA97		

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

More information can be found at the Department of Education website www.dest.gov.au.

B26 Concessional tax rate for the life insurance business of friendly societies

Other economic affairs (C) ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
10	5	-	-	-	-	-	-

Tax expenditure type:	Concessional tax rate	*2002 TES code*:	D22
Commencement date:	Introduced before 1985		
Expiry date:	2002		
Legislative reference:	Subsection 23C of the *Income Tax Rates Act 1986*		

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

B27 Income tax exemptions for foreign superannuation funds

Other economic affairs (C) ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2002 TES code*:	D24
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Paragraphs 23(jb) and 128B (3)(a) ITAA36		

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

Exempting foreign superannuation funds from income tax aims to encourage their investment in Australia. Overseas jurisdictions use similar concessions, and consequently, without such an exemption, foreign entities may be discouraged from investing in Australia. Payment of withholding tax in Australia by a foreign superannuation fund may generate a credit that the fund can apply against its income tax liability in its own country.

B28 Concessional tax treatment for Pooled Development Funds

Other economic affairs (C) ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
7	9	12	15	15	17	19	20

Tax expenditure type:	Concessional tax rate	*2002 TES code*:	Part of D25
Commencement date:	1992		
Expiry date:			
Legislative reference:	Sections 46(1), (2), (7), (7A); 46A(1), (5), (9), (10); Division 10E of Part III and Division 12A of Part IIIA ITAA36; and Sections 3(1); 23(4C), (4D) of the *Income Tax Rates Act 1986*		

Note: estimates include tax expenditures B28 and B29.

Concessional taxation treatment is available to investment companies that are established and registered as Pooled Development Funds (PDFs). Income arising from investments in small-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-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.

B29 Exemption for superannuation funds that invest through Pooled Development Funds in venture capital

Other economic affairs (C) ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Included in B28							

Tax expenditure type:	Exemption	*2002 TES code*:	Part of D25
Commencement date:	1992		
Expiry date:			
Legislative reference:	Sections 46(1), (2), (7), (7A); 46A(1), (5), (9), (10); Division 10E of Part III and Division 12A of Part IIIA ITAA36; and Sections 3(1); 23(4C), (4D) of the *Income Tax Rates Act 1986*		

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

B30 Tax exemption for small credit unions

Other economic affairs (C) ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
..	..	..	..	..	..	..	..

Tax expenditure type:	Exemption	*2002 TES code*:	D26
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Section 23G ITAA 1936 and Section 23(6) of the *Income Tax Rates Act 1986*		

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

B31 Concessions resulting from the clarification of the debt or equity treatment of perpetual subordinated debt

Other economic affairs (C) ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
-	-	-	-	*	*	*	*

Tax expenditure type:	Deduction	*2002 TES code:*	New
Commencement date:	2001		
Expiry date:			
Legislative reference:	Not yet legislated		

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

B32 Exemption of refundable research and development tax offset payments

Other economic affairs (C) ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
-	-	-	50	35	15	-5	-15

Tax expenditure type:	Exemption	*2002 TES code:*	New
Commencement date:	2001		
Expiry date:			
Legislative reference:	Section 73I ITAA36		

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

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

In addition, companies that claim the refundable R&D tax offset are unable to claim deductions for the R&D expenditures concerned. This is because the refundable R&D tax offset has already provided these companies with a benefit equivalent to the value of these deductions. The absence of these deductions constitutes a negative tax expenditure and explains why the estimates become negative from 2005-06.

B33 Immediate deduction for expenditure on core technology related to research and development activities

Other economic affairs (C) ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Included in B62							

Tax expenditure type:	Deduction	*2002 TES code*:	Part of D78
Commencement date:	1996		
Expiry date:			
Legislative reference:	Sections 73B(12) to 73B(12C) ITAA36		

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

Tax expenditures relating to capital expenditure, effective life and depreciation

B34 Tax incentives for film investment

Recreation and culture ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
6	6	-6	-1	-2	-3	-4	-3

Tax expenditure type:	Deduction, accelerated write-off	*2002 TES code*:	D48
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Divisions 10B and 10BA ITAA36		

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

B35 Film Licensed Investment Companies

Recreation and culture ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
1	6	-	-	-	-	-	-

Tax expenditure type:	Deduction	*2002 TES code*:	D49
Commencement date:	1998		
Expiry date:	2000		
Legislative reference:	Sections 375-850 to 375-880 ITAA97		

Amounts paid by investors in 1998-99 and 1999-2000 for shares in a Film Licensed Investment Company were immediately deductible.

B36 Three year write-off for expenditure on water facilities

Agriculture, forestry and fishing ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
20	20	20	20	20	25	25	30

Tax expenditure type:	Accelerated write-off	*2002 TES code*:	D51
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Subdivision 40F ITAA97		

Note: estimates include tax expenditures B36 and B37.

Primary producers can claim a deduction for capital expenditure on water facilities over three years. 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.

More information on this concession can be found on the Australian Tax Office website www.ato.gov.au.

B37 Landcare deduction

Agriculture, forestry and fishing ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Included in B36							

Tax expenditure type:	Deduction	*2002 TES code*:	D52
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Sections 40-630 to 40-640 ITAA97		

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

More information on this concession can be found on the Australian Tax Office website www.ato.gov.au.

B38 Landcare and water facility tax offset

Agriculture, forestry and fishing ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
1	..	..	..	..	..	..	..

Tax expenditure type:	Offset	*2002 TES code:*	D53
Commencement date:	1998		
Expiry date:	2001		
Legislative reference:	Former Subdivision 388 ITAA97		

Primary producers and users of rural land with taxable income of up to $20,000 a year were able to claim a 30 cents in the dollar tax offset for capital expenditure on soil conservation, prevention of land degradation and related measures incurred until the end of the 2000-01 income year. This concession could be claimed as an alternative to the landcare deduction (B37). The tax offset was based on one-third of the eligible expenditure and was available in the year the expenditure was incurred and in each of the subsequent two years.

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

More information on this concession can be found on the Australian Tax Office website www.ato.gov.au.

B39 Deduction for horse breeding stock

Agriculture, forestry and fishing ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
*	*	*	*	*	*	*	*

Tax expenditure type:	Accelerated write-off	*2002 TES code:*	D54
Commencement date:	1992		
Expiry date:			
Legislative reference:	Sections 70-60, 70-65 ITAA97		

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

B40 Deduction for capital cost of telephone lines and electricity connections

Agriculture, forestry and fishing ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
8	8	8	8	8	8	8	8

Tax expenditure type:	Accelerated write-off	*2002 TES code*:	D55
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Sections 40-645 to 40-655 ITAA97		

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

More information on this concession can be found on the Australian Tax Office website www.ato.gov.au.

B41 Tax write-off for horticultural plants

Agriculture, forestry and fishing ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
4	5	6	7	8	8	9	9

Tax expenditure type:	Accelerated write-off	*2002 TES code*:	D56
Commencement date:	1995		
Expiry date:			
Legislative reference:	Subdivision 40-F ITAA97		

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

More information on this concession can be found on the Australian Tax Office website www.ato.gov.au.

B42 Accelerated depreciation for grapevine plantings

Agriculture, forestry and fishing ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
5	8	12	16	20	25	25	25

Tax expenditure type:	Accelerated write-off	*2002 TES code*:	D57
Commencement date:	1993		
Expiry date:			
Legislative reference:	Subdivision 40-F ITAA97		

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

B43 Drought investment allowance

Agriculture, forestry and fishing ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
10	5	1	-	-	-	-	-

Tax expenditure type:	Deduction	*2002 TES code*:	D58
Commencement date:	1995		
Expiry date:	2000		
Legislative reference:	Part XII of the ITAA36		

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

B44 Development allowance

Manufacturing and mining ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
250	220	200	170	-	-	-	-

Tax expenditure type:	Deduction	*2002 TES code*:	D59
Commencement date:	1992		
Expiry date:	1996		
Legislative reference:	Sections 82AAAA-82AQ ITAA36 and Sections 15, 27 and 40 *Development Allowance Authority Act 1992*		

For major projects approved by the Development Allowance Authority, 10 per cent of capital expenditure on plant and equipment, including motor vehicles and primary production, can be immediately deducted. 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.

B45 Capital expenditure deduction for mining, quarrying and petroleum operations

Manufacturing and mining ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
30	30	30	20	20	20	10	10

Tax expenditure type:	Accelerated write-off	*2002 TES code*:	D60
Commencement date:	Introduced before 1985		
Expiry date:	2001		
Legislative reference:	Subdivision 40-B ITAA97 as adjusted by Sections 40-35, 40-40 and 40-75 IT(TP)97		

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 ten 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 but this does not constitute a tax expenditure. However, the deduction will have a transitional impact until all eligible expenditure incurred before 1 July 2001 is fully depreciated.

B46 Deduction for patents, designs and copyrights

Other economic affairs (C) ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
30	30	30	-	-	-	-	-

Tax expenditure type:	Deduction	*2002 TES code*:	D61
Commencement date:	Introduced before 1985		
Expiry date:	2001		
Legislative reference:	Former Division 373 ITAA97		

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

Expenditure incurred on or after 1 July 2001 can be deducted over the life of the underlying intellectual property but this does not constitute a tax expenditure. However, the deduction will have a transitional impact until all eligible expenditure incurred before 1 July 2001 is fully depreciated.

B47 Exploration and prospecting deduction

Manufacturing and mining ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
*	*	*	*	*	*	*	*

Tax expenditure type:	Deduction	*2002 TES code*:	D62
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Subsection 40-80(1) and Section 40-730 ITAA97		

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

B48 Deduction for expenditure on environmental impact studies

Manufacturing and mining ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Included in B49							

Tax expenditure type:	Accelerated write-off	*2002 TES code*:	D63
Commencement date:	1991		
Expiry date:	2001		
Legislative reference:	Subdivision 40-B ITAA97 as adjusted by Section 40-55 IT(TP)97		

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 but this does not constitute a tax expenditure. However, the deduction will have a transitional impact until all eligible expenditure incurred before 1 July 2001 is fully depreciated.

B49 Deduction for environmental protection activities

Manufacturing and mining ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
14	13	5	3	3	3	3	3

Tax expenditure type:	Deduction	*2002 TES code*:	D64
Commencement date:	1992		
Expiry date:			
Legislative reference:	Sections 40-75 and 40-760 ITAA97		

Note: estimates include tax expenditures B48 and B49.

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.

B50 Balancing charge roll-over relief for exploration, mining and quarrying activities

Manufacturing and mining ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
*	*	*	*	*	*	*	*

Tax expenditure type:	Tax deferral	*2002 TES code*:	D67
Commencement date:	Introduced before 1985		
Expiry date:	2001		
Legislative reference:	Sections 330-540 to 330-552 ITAA97		

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

With the introduction of the uniform capital allowance system on 1 July 2001 this specific treatment is no longer available. The general balancing adjustment roll-over relief (see B58) will provide some of the treatment previously provided by this tax expenditure for depreciable assets.

B51 Absence of depreciation recapture for certain assets

Manufacturing and mining ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
*	*	*	*	*	*	*	*

Tax expenditure type:	Deduction	*2002 TES code*:	D68
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Division 43 and Section 110-45 ITAA97		

Certain buildings and structures receive deductions that are not recaptured by balancing adjustment on disposal of the asset. Capital gains tax (CGT) cost base reduction rules can have a practical effect that is (when viewed very broadly) similar to a depreciation balancing charge. The cost base of assets acquired after 13 May 1997 needs to be reduced by deductible amounts. These rules also apply to improvement expenditure incurred after 30 June 1999 for land and buildings acquired on or before 13 May 1997.

The rationale for the CGT cost base reduction rules is that expenditure should be deductible for income tax purposes or included in CGT cost base of an underlying asset, but not both.

B52 Accelerated depreciation allowance for plant and equipment

Manufacturing and mining ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
2,270	1,710	620	-200	-680	-850	-890	-840

Tax expenditure type:	Accelerated write-off	*2002 TES code*:	D69
Commencement date:	1992		
Expiry date:	2001		
Legislative reference:	Former Division 42 and Subdivision 40-B ITAA97 as adjusted by Sections 40-10 and 40-12 IT(TP)97		

Note: estimates include tax expenditures B52 and B53.

An accelerated depreciation allowance was provided for plant and equipment acquired under contract, or commenced to be constructed, on or after 27 February 1992. This concession was removed for individuals and businesses with a turnover of $1 million or more per annum on 21 September 1999. This treatment was removed for businesses with an annual turnover of less than $1 million from 1 July 2001. These businesses can opt to enter the simplified tax system from this time and utilise the simplified capital allowances system (see B60).

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

B53 Accelerated depreciation for employees' amenities

Manufacturing and mining ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Included in B52							

Tax expenditure type:	Accelerated write-off	*2002 TES code*:	D70
Commencement date:	1994		
Expiry date:	2001		
Legislative reference:	Former Section 42-150 and subdivision 40-B ITAA97 as adjusted by Sections 40-10 and 40-12 IT(TP)97		

Plant, including plumbing fixtures and fittings, acquired for providing meals, meal facilities, clothing cupboards, first aid, restrooms or recreational facilities for employees or their children, was deductible over three years. This concession was removed for businesses with a turnover of $1 million or more per annum and for individuals on 21 September 1999. This treatment was removed for all other businesses (that is, with turnovers of less than $1 million per annum) from 1 July 2001. These businesses can elect to enter the simplified tax system from this time and use the simplified capital allowances system (see B60). This tax expenditure will have a transitional impact until all eligible plant expenditure has been fully depreciated.

B54 Accelerated depreciation for mining buildings

Manufacturing and mining ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
440	450	400	360	310	260	220	150

Tax expenditure type:	Accelerated write-off	*2002 TES code*:	D71
Commencement date:	1982		
Expiry date:	2001		
Legislative reference:	Former Subdivision 330-C and subdivision 40-B ITAA97 as adjusted by Section 40-35 of the *Income Tax (Transitional Provisions) Act 1997*		

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

B55 Accelerated depreciation for Australian trading ships

Manufacturing and mining ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
-20	-25	-25	-17	-14	-11	-9	-8

Tax expenditure type:	Accelerated write-off	*2002 TES code*:	D73
Commencement date:	Introduced before 1985		
Expiry date:	1997		
Legislative reference:	Section 53I(2), 57AM ITAA36		

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

B56 Statutory effective life caps

Transport and communications ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
-	-	-	*	*	*	*	*

Tax expenditure type:	Accelerated write-off	*2002 TES code*:	D74
Commencement date:	2002		
Expiry date:			
Legislative reference:	Section 40-102 ITAA97		

'Statutory effective life caps' limit the number of years over which an asset can be depreciated, where a taxpayer could otherwise choose to use the Commissioner of

Taxation's 'safe harbour' effective life. The caps exist for a range of assets, including aircraft and certain assets used in the oil and gas industries and allow businesses to claim larger capital allowance deductions than those available under the Commissioner's 'safe harbour' effective life determinations. The caps were introduced to address the broader national interest in the light of large increases in the Commissioner's 'safe harbour' effective lives that would have a significant effect on investment in industries with national economic implications.

B57 Depreciation to nil value rather than estimated scrap value

Other economic affairs (C) ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
*	*	*	*	*	*	*	*

Tax expenditure type:	Tax deferral	*2002 TES code*:	D65
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Division 40 ITAA97		

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

B58 Depreciation balancing adjustment roll-over relief

Other economic affairs (C) ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
*	*	*	*	*	*	*	*

Tax expenditure type:	Tax deferral	*2002 TES code*:	D66
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Section 40-340 ITAA97		

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

Prior to 21 September 1999, roll-over relief was also available when replacement items of plant and equipment were acquired. This treatment continued to be available to businesses with turnover of less than $1 million until 1 July 2001 (see B61).

B59 Depreciation pooling for low-value assets

Other economic affairs (C) ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
-	110	330	400	420	400	320	230

Tax expenditure type:	Accelerated write-off	*2002 TES code*:	D72
Commencement date:	2000		
Expiry date:			
Legislative reference:	Subdivision 40-E ITAA97		

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

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

B60 The Simplified Tax System

Other economic affairs (C) ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
-	-	10	390	470	390	400	370

Tax expenditure type:	Deduction, deferral, accelerated write-off	*2002 TES code*:	D75
Commencement date:	2001		
Expiry date:			
Legislative reference:	Division 328 ITAA97		

The Simplified Tax System (STS) provides eligible taxpayers with a simpler means of managing their bookkeeping and income tax compliance requirements. The STS allows small businesses the opportunity to use cash, rather than accrual, accounting. It also allows access to a simplified trading stock regime, where, in certain circumstances, changes in the value of trading stock do not have to be accounted for and stocktaking is not required at the end of the income year. Additionally, the simplified capital allowances system within the STS allows small businesses to immediately write off purchases costing less than $1,000 and depreciate assets that cost $1,000 or more at accelerated rates under a pooled arrangement. Finally, fuel retailers can exclude sales of petrol, diesel and liquefied petroleum gas from the calculation of turnover.

To enter the STS, businesses must have an average annual turnover of less than $1 million and depreciating assets with a written down value of less than $3 million.

B61 Transitional exemption of small business from abolition of accelerated depreciation, balancing charge offset and low-value pooling

Other economic affairs (C) ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
-	220	470	-260	-90	-60	-40	*

Tax expenditure type:	Accelerated write-off	*2002 TES code*:	D76
Commencement date:	1999		
Expiry date:	2001		
Legislative reference:	Subdivision 42-K ITAA97		

For eligible businesses, a range of accelerated depreciation measures that were terminated as of 21 September 1999 were retained until the commencement of the Simplified Tax System on 1 July 2001 (see B60). Eligible businesses were those with three-year average annual turnovers of less than $1 million. The measures that continued to apply to these eligible businesses were accelerated depreciation, the balancing charge offset, the pooling of low-value depreciating assets, and the immediate deductibility of plant items costing up to $300.

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

B62 Research and development tax concession

Other economic affairs (C) ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
340	420	440	230	250	300	330	360

Tax expenditure type:	Deduction, accelerated write-off	*2002 TES code*:	Part of D78
Commencement date:	1985		
Expiry date:			
Legislative reference:	Sections 73B and 73BA ITAA36		

Note: estimates include tax expenditures B33 and B62.

Taxpayers are generally 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 over its effective life with a 25 per cent loading.

B63 Premium tax concession for additional research and development (R&D) expenditure

Other economic affairs (C) ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
-	-	20	65	75	70	80	85

Tax expenditure type:	Deduction	*2002 TES code*:	D79
Commencement date:	2001		
Expiry date:			
Legislative reference:	Section 73Q to 73Y ITAA36		

Companies that increase certain labour-related components of R&D expenditure are eligible to receive a 175 per cent concession. The 175 per cent premium covers all additional R&D expenditure excluding plant, pilot plant, contracted plant, plant leases, core technology, R&D related interest and items excluded from the 125 per cent R&D tax concession. This deduction is available from the first income year starting after 30 June 2001.

This tax expenditure was introduced to provided an incentive for those companies that increase their level of expenditure on R&D labour in order to increase the benefits of R&D expenditure flowing to the whole economy.

Further information can be found in *Backing Australia's Ability* or at www.innovation.gov.au.

B64 Accelerated depreciation for software

Not allocated to function ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
65	165	250	270	240	175	105	85

Tax expenditure type:	Accelerated write-off	*2002 TES code*:	D80
Commencement date:	1998		
Expiry date:			
Legislative reference:	Subdivision 40-E ITAA97		

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

B65 Immediate deduction relating to year 2000 upgrades

Not allocated to function ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
105	130	-70	-65	-65	-40	-	-

Tax expenditure type:	Accelerated write-off	*2002 TES code:*	D81
Commencement date:	1998		
Expiry date:	1999		
Legislative reference:	Sections 46-1 to 46-110 ITAA97		

Expenditure on software related to Year 2000 upgrades was immediately deductible if it was incurred between 11 May 1998 and 1 July 1999. 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 will have a transitional impact until all eligible software acquired between 11 May 1998 and 1 July 1999 is fully depreciated.

B66 Immediate deductibility for GST-related plant and software

Not allocated to function ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
-	185	-50	-50	-40	-35	-10	-

Tax expenditure type:	Accelerated write-off	*2002 TES code:*	D82
Commencement date:	2000		
Expiry date:	2000		
Legislative reference:	Sections 25-80, 42-168 ITAA97		

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

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 will have a transitional impact until all eligible GST-related plant and software is fully depreciated.

Tax expenditures relating to prepayments and advance expenditures

B67 Prepayment rule for Simplified Tax System taxpayers and non-business expenditure by individuals

Other economic affairs (C) ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
*	*	*	*	*	*	*	*

Tax expenditure type:	Tax deferral	*2002 TES code:*	D83
Commencement date:	2001		
Expiry date:			
Legislative reference:	Section 82 KZM ITAA36		

Prepayments by Simplified Tax System (STS) 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 B68), which was previously removed in 21 September 1999 for businesses with a turnover of $1 million or more per annum.

B68 Transitional arrangements for prepayments

Other economic affairs ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
670	-160	-80	-180	-140	-40	-15	-

Tax expenditure type:	Tax deferral	*2002 TES code:*	D84
Commencement date:	1999		
Expiry date:			
Legislative reference:	Division 3 Part III Sections 82 KZMB, KZMC, 82 KZL (1) ITAA36		

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

B69 The 10-year rule for prepayments

Other economic affairs ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
*	*	*	*	*	*	*	*

Tax expenditure type:	Tax deferral	*2002 TES code*:	D85
Commencement date:	1988		
Expiry date:			
Legislative reference:	Subsection 82 KZL (1) ITAA36		

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

B70 Exemption from the tax shelter prepayments measure for passive investments

Other economic affairs ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
-	*	*	*	*	*	*	*

Tax expenditure type:	Tax deferral	*2002 TES code*:	D86
Commencement date:	1988		
Expiry date:			
Legislative reference:	Section 82 KZME ITAA36		

A prepayment in relation to investments in infrastructure bonds, shares, units, rental property and arrangements entered into before 1 July 2000, to which product rulings apply, continue to be immediately deductible. This is conditional upon the prepayment expenditure meeting the requirements described in B68. The benchmark treatment of prepayments is that they are deductible over the period of the expenditure. This allows deductions to be spread over a shorter period and consequently it allows greater deductions than the benchmark treatment.

B71 Prepayment rule for forestry managed investments

Other economic affairs ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
-	-	-	25	5	-	25	25

Tax expenditure type:	Tax deferral	*2002 TES code*:	D87
Commencement date:	Announced in 2001		
Expiry date:			
Legislative reference:	Section 82KZMG ITAA36		

Prepayments on seasonally dependent agronomic operations in the establishment of a forestry plantation are immediately deductible. This is conditional upon the prepayment expenditure meeting the requirement described in B68. This tax expenditure is available for investors in forestry managed investment schemes. The benchmark treatment of prepayments is that they are deductible over the period of the expenditure. This allows deductions to be spread over a shorter period and consequently it allows greater deductions than the benchmark treatment.

More information on this concession can be found on the Australian Tax Office website www.ato.gov.au.

International tax expenditures

Tax expenditures that relate to the international income of residents or the Australian-source income of non-residents are described below.

B72 Exemptions for prescribed international organisations

General public services (C) ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2002 TES code*:	D94 and D97
Commencement date:	1963		
Expiry date:			
Legislative reference:	Section 6, *International Organisations (Privileges and Immunities) Act 1963*		

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

B73 Interest withholding tax and dividend withholding tax exemptions for overseas charitable institutions

General public services (C) ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2002 TES code*:	D95 and D96
Commencement date:	1936		
Expiry date:			
Legislative reference:	Paragraph 128B(3)(aa) ITAA36		

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

B74 Tax sparing provisions in Australia's double tax agreements

General public services (C) ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
25	5	5	5	5	..	..	..

Tax expenditure type:	Exemption	*2002 TES code:*	D98
Commencement date:	Date of effect depends on the date of effect of the double tax agreement		
Expiry date:			
Legislative reference:	Provided for in Australia's double tax agreements		

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

B75 Exemption for branch profits from the foreign tax credit system

General public services (C) ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2002 TES code:*	D99
Commencement date:	1990		
Expiry date:			
Legislative reference:	Section 23AH ITAA36		

In general, income from a business carried on by an Australian company through a permanent establishment (branch) in a prescribed foreign country is exempt from Australian tax if it has been subject to tax. Prescribed foreign countries refer to broad and limited exemption-listed countries. In the case of a permanent establishment based in a *limited* exemption-listed country, the exempt income broadly comprises operating profits and capital gains. In the case of a permanent establishment based in a *broad* exemption-listed country, the exempt income also includes most passive and other tainted income, other than designated concessionally taxed income. The exemption reduces compliance costs, as little or no additional Australian tax would be payable after allowing for foreign tax credits. Non-residents deriving such income through an Australian company are generally tax exempt, as the income does not have an Australian source.

B76 Income tax exemption for certain United States projects in Australia

Defence ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2002 TES code*:	D100
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Section 23AA ITAA36		

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

B77 Interest withholding tax concession on interest payments by Australian branches to foreign banks

Other economic affairs (C) ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Included in B86							

Tax expenditure type:	Concessional tax rate	*2002 TES code*:	D101
Commencement date:	1994		
Expiry date:			
Legislative reference:	Section 160ZZZJ ITAA36		

The notional interest paid to a foreign bank from its Australian branch attracts a reduced interest withholding tax rate. Tax is only paid on half of the taxable amount. The concessional tax rate was introduced as part of policy changes to promote competition in the banking sector by allowing foreign bank branch operations.

B78 Deductibility of costs of setting up regional headquarters

Other economic affairs (C) ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
2	2	..	..	..	..	..	..

Tax expenditure type:	Deduction	*2002 TES code*:	D102
Commencement date:	1994		
Expiry date:			
Legislative reference:	Sections 82C-CE ITAA36		

Eligible regional headquarters (RHQs) are entitled to deductions in respect of set-up costs. Set-up costs include relocation and incorporation costs. These costs must be incurred within a two-year period commencing 12 months before and ending 12 months after the RHQ first derives assessable income from the provision of 'regional headquarters support'. This deduction is designed to encourage multinational corporations to locate their RHQs in Australia.

B79 Concessional tax treatment of income of offshore banking units

Other economic affairs (C) ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
75	85	40	40	40	40	40	40

Tax expenditure type:	Concessional tax rate	*2002 TES code*:	D103
Commencement date:	1992		
Expiry date:			
Legislative reference:	Division 9A ITAA36		

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

B80 Dividend withholding tax exemption for Pooled Development Funds

Other economic affairs (C) ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
1	1	..	..	..	..	..	..

Tax expenditure type:	Exemption	*2002 TES code*:	D104
Commencement date:	1992		
Expiry date:			
Legislative reference:	Sections 128B(3)(ba), 124ZM ITAA36		

Any unfranked portion (if there is any) of dividends paid by pooled development funds to a shareholder are exempt from tax. In part, this is designed to encourage venture capital investment through pooled development funds.

B81 De minimis exemption for thin capitalisation

Other economic affairs (C) ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
-	-	-	1	1	1	1	2

Tax expenditure type:	Deduction	*2002 TES code*:	D105
Commencement date:	2001		
Expiry date:			
Legislative reference:	Sections 820-35 ITAA 1997		

A taxpayer may claim debt deductions of up to $250,000 in any income year without being subject to thin capitalisation rules. An additional *de minimis* rule excludes outward investing entities from the thin capitalisation regime if at least 90 per cent of their assets (excluding those of a private or domestic nature) are Australian assets. This tax expenditure alleviates compliance costs by removing the need for smaller taxpayers to comply with the thin capitalisation regime.

The thin capitalisation rules aim to prevent multinational taxpayers allocating a disproportionate amount of debt to their Australian operations. The rules do this by disallowing deductions in relation to excessive debt financing.

B82 Concessional tax treatment for foreign authorised deposit-taking institutions (ADIs)

Other economic affairs (C) ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
*	*	*	*	*	*	*	*

Tax expenditure type:	Concessional tax rate	*2002 TES code*:	D106
Commencement date:	1993		
Expiry date:	2006		
Legislative reference:	Sections 20(2)(bb)(ii)(B) and 24(2)(bb)(ii)(B), Schedules 1 and 2, Sections 170-33(2) and 170-133(2) *Financial Corporations (Transfer of Assets and Liabilities) Act 1993*		

Banks with ADI authority can transfer a tax loss or a net capital loss from locally incorporated subsidiaries of foreign banks to newly established branches of the foreign parent bank. As a result, such banks can benefit from a reduced tax rate. The deadline to effect any subsequent transfer of assets and liabilities was extended from 30 June 2004 to 30 June 2006.

B83 Exemption of non-portfolio dividends from the foreign tax credit system

Not allocated to function ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
120	120	80	60	70	70	80	80

Tax expenditure type:	Exemption	*2002 TES code*:	D107
Commencement date:	1990		
Expiry date:			
Legislative reference:	Section 23AJ ITAA36		

Non-portfolio dividends are exempt from income tax where they are paid to an Australian resident company by a company resident in a listed country. The profits from which the dividends are paid are generally comparably taxed offshore. The exemption reduces compliance costs, as little or no additional Australian tax would be payable after allowing for foreign tax credits. Non-residents deriving such income through an Australian company are generally tax exempt, as the income does not have an Australian source.

B84 Exemption from accrual taxation for controlled foreign companies (CFCs)

Not allocated to function ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2002 TES code*:	D108
Commencement date:	1990		
Expiry date:			
Legislative reference:	Sections 384-5 ITAA36		

Most tainted income derived by controlled foreign companies in broad exemption-listed countries is exempt from accrual taxation (applied to the attributable taxpayer) as it is generally comparably taxed. An exemption also applies to controlled foreign companies that derive more than 95 per cent of their income from genuine business activities. Such exemptions reduce compliance costs for businesses without compromising the purpose of the controlled foreign companies rules.

B85 Exemption from accrual taxation for transferor trusts

Not allocated to function ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2002 TES code*:	D109
Commencement date:	1990		
Expiry date:			
Legislative reference:	Paragraph 102AAU(1)(b) ITAA36		

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

B86 Exemption from interest withholding tax on widely held debentures

Not allocated to function ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
610	670	740	810	650	540	600	660

Tax expenditure type:	Exemption	*2002 TES code*:	D110
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Section 128F ITAA36		

Note: estimates include tax expenditures B77 and B86.

Certain widely held debentures are exempt from interest withholding tax. This exemption was extended to publicly offered corporate securities issued in Australia, as well as securities issued by non-resident companies operating through a permanent establishment in Australia The exemption is available where it will not be exploited by a group of associated companies seeking to move profits offshore through a series of intra-group loans.

Miscellaneous tax expenditures

B87 Exemption from non-commercial losses provisions (primary producers and artists)

Not allocated to functional ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
-	-	140	145	145	150	155	155

Tax expenditure type:	Exemption	*2002 TES code*:	D89
Commencement date:	2000		
Expiry date:			
Legislative reference:	Subsections 35-10 (4) and (5) ITAA97		

Primary producers and artists with other assessable income of less than $40,000 are exempt from the non-commercial losses provisions. These provisions allow a loss to be claimed where a business activity, by its nature, has particular lead time characteristics and is in its start-up phase. This exemption allows an immediate deduction for losses from primary production and art businesses that are of a non-commercial nature.

B88 Deduction for certain co-operative companies

Other economic affairs (C) ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
*	*	*	*	*	510	510	510

Tax expenditure type:	Deduction	*2002 TES code*:	D93
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Sections 117, 120 ITAA36		

Deductions are provided to certain co-operative companies for the repayment of principal of Commonwealth and State government loans provided for the purchase of assets required for the purpose of carrying on the business of the co-operative.

B89 Income tax exemption for business grants from the Cyclones Elaine and Vance Trust Account

Other purposes (D) ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
1	-	-	-	-	-	-	-

Tax expenditure type:	Exemption	*2002 TES code*:	D28
Commencement date:	2000		
Expiry date:	2001		
Legislative reference:	Schedule 4 of the *Taxation Laws Amendment Act (No. 3) 2000*		

Business assistance grants provided from the Cyclones Elaine and Vance Trust Account were exempt from income tax in the 1998-99 and 1999-00 income years. Grants were capped at a maximum level of $10,000 per eligible business. The Trust Account was established to provide general relief and business assistance to the cyclone affected regions and to help restore the local communities by re-establishing businesses. This exemption was designed to assist in the achievement of these goals. The Trust Account was established in the wake of the damage to Exmouth, Western Australia and its surrounding districts by Cyclones Elaine and Vance in March 1999.

B90 Transitional tax exemption for certain life insurance management fees

Not allocated to function ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
-	180	210	195	195	195	-	-

Tax expenditure type:	Exemption	*2002 TES code*:	D29
Commencement date:	2000		
Expiry date:	2005		
Legislative reference:	Section 320-40 ITAA97		

A tax exemption applies to life insurance companies on one-third of specified management fees received on certain life insurance policies taken out before 1 July 2000. Specified management fees do not apply on all life insurance policies. For example, there are no specified management fees on policies where amounts would be paid only on death or disability of a person. This exemption will cease to apply to amounts that become specified management fees after 30 June 2005.

The rationale for the exemption is that a full tax deduction is not allowed for policy acquisition expenses to the extent that associated management fees are not taxed at the company tax rate. These acquisition expenses are recovered from fees charged on the policy in its initial years – fees that will now be taxed at the company tax rate.

B91 Income tax exemption for State and Territory bodies

Not allocated to function ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2002 TES code*:	D30
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Part III Division 1AB ITAA36		

The income of all non-excluded State and Territory bodies is exempt from income tax. Excluded State and Territory bodies include, but are not limited to, State government insurance organisations and superannuation funds.

B92 Income tax exemption for municipal authorities and other local governing bodies

Not allocated to function ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
100	100	90	95	95	100	105	110

Tax expenditure type:	Exemption	*2002 TES code*:	D31
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Section 50-25 ITAA97		

The income of municipal corporations or authorities and local governing bodies is exempt from income tax. This exemption includes the local governing bodies in Norfolk, Cocos (Keeling) and Christmas Islands.

RETIREMENT SAVINGS

Retirement savings tax expenditures relate to funded and unfunded superannuation, non-superannuation termination benefits, unused recreation and long service leave, the sale of small businesses at retirement, capital gains tax roll-over relief for changes to trust deeds of Approved Deposit Funds and superannuation funds and the savings tax offset.

C1 Concessional taxation of funded superannuation

Social security and welfare ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
10,205	9,215	8,745	9,605	10,490	11,305	12,155	12,980

Tax expenditure type:	Concessional tax rate/deduction/higher tax rate	*2002 TES code*:	Part of B1
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Part III, division 2, subdivision AA ITAA36 Part III, division 3, subdivisions AA and AB ITAA36 Part III, division 14 ITAA36 Part III, division 17, subdivisions AAA, AAB, AAC and AACA ITAA36 Part IX ITAA36 Section 26-80 ITAA97 Section 115-10 and paragraph 115-100(b) ITAA97 Section 320-135 ITAA97 *Superannuation contributions tax acts (surcharge acts)*		

The concessional treatment of superannuation contributions, fund earnings and benefits paid is the largest single tax expenditure. This treatment of superannuation comprises several related components. These components are described in Appendix B, along with estimates of their contribution to the concessional taxation of superannuation.

C2 Concessional taxation of unfunded superannuation lump sums

Social security and welfare ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
470	470	470	470	470	470	470	470

Tax expenditure type:	Concessional tax rate	*2002 TES code*:	Part of B1
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Part III, division 2, subdivision AA ITAA36 Part III, division 14 ITAA36 Part III, division 17, subdivision AAA ITAA36 Part IX ITAA36 *Superannuation contributions tax acts (surcharge acts)*		

In the case of an unfunded superannuation lump sum no employer contribution is made until the actual benefit is provided on the member's retirement. The appropriate benchmark treatment for these amounts is therefore taxation at personal rates on receipt by the member. Unfunded lump sums are taxed in the same way as superannuation lump sums from untaxed funds (the tax treatment of these payments is outlined in Appendix B).

C3 Concessional treatment of non-superannuation termination benefits

Social security and welfare ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
1050	990	930	850	780	710	650	600

Tax expenditure type:	Concessional tax rate	*2002 TES code*:	B2
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Part III, division 2, subdivision AA ITAA36 Part III, division 14 ITAA36 Part III, division 17, subdivision AAA ITAA36 *Termination payments tax Acts (termination payments surcharge acts)*		

Non-superannuation termination payments are generally paid by employers to terminating employees. These amounts are taxed in the same way as superannuation lump sums from untaxed funds (the tax treatment of these payments is outlined in Appendix B) with the exception of bona fide redundancy payments and approved early retirement scheme payments which are tax free up to certain limits. This tax expenditure excludes the treatment of payments in lieu of leave (see C4 and C5).

C4 Capped taxation rates for lump sum payments for unused recreation and long service leave

Social security and welfare ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
250	210	230	210	200	190	185	175

Tax expenditure type:	Concessional tax rate	*2002 TES code*:	B3
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Sections 26AC, 26AD, 159S and 159SA ITAA36		

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

C5 Taxation of five per cent of unused long service leave accumulated by 15 August 1978

Social security and welfare ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
160	135	115	100	85	70	60	50

Tax expenditure type:	Concessional tax rate	*2002 TES code*:	B4
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Subsection 26AD(5) ITAA36		

A reduced tax rate applies to lump sum payments for unused long service leave which accrued prior to 15 August 1978. Five per cent of such payments is included in the taxpayer's assessable income and is subject to tax at marginal rates.

C6 Capital gains tax exemption on the sale of a small business at retirement

Social security and welfare ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
25	25	35	45	45	45	45	45

Tax expenditure type:	Exemption	*2002 TES code*:	B5
Commencement date:	1997		
Expiry date:			
Legislative reference:	Subdivision 152-D ITAA97		

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

The exemption, together with the small business 15 year capital gains tax exemption (C7), recognises the fact that small business taxpayers need to put their resources into their businesses and therefore find it more difficult to save for their retirement by contributing to tax-advantaged superannuation funds.

C7 Small business 15 year capital gains tax exemption

Other economic affairs (C) ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
-	*	7	40	40	40	40	45

Tax expenditure type:	Exemption	*2002 TES code*:	B7
Commencement date:	1999		
Expiry date:			
Legislative reference:	Subdivision 152-B ITAA97		

Capital gains arising from the disposal of active small business assets that have been held continuously for 15 years are exempt from capital gains tax. This exemption is only available if the taxpayer is permanently incapacitated or reaches the age of 55 and retires.

The exemption, together with the capital gains tax exemption on the sale of a small business at retirement (C6), recognises the fact that small business taxpayers need to put their resources into their businesses and therefore find it more difficult to save for their retirement by contributing to tax-advantaged superannuation funds.

Due to data limitations, estimates for this tax expenditure include a component associated with the capital gains tax 50 per cent discount for individuals and trusts (E15).

C8 Capital gains tax roll-over relief for changes to trust deeds of Approved Deposit Funds and superannuation funds

Other economic affairs (C) ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
*	*	*	*	*	*	*	*

Tax expenditure type:	Tax deferral	*2002 TES code*:	B8
Commencement date:	1994		
Expiry date:			
Legislative reference:	Subdivision 126-C ITAA97		

Capital gains tax (CGT) roll-over relief is provided where a complying superannuation fund or a complying Approved Deposit Fund (ADF) amends or replaces its trust deed. In the absence of the roll-over, either CGT event E1 (creating a trust over an asset) or CGT event E2 (transferring an asset to a trust) would give rise to a CGT taxing point if the amendment or replacement of the trust deed resulted in a resettlement of the fund.

C9 Savings tax offset

Not allocated to function ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
520	-	-	-	-	-	-	-

Tax expenditure type:	Offset	*2002 TES code*:	B9
Commencement date:	1998		
Expiry date:	1999		
Legislative reference:	Subdivision 61-A, Section 61-50 to 61-70 (repealed) ITAA97		

A tax offset was available for savings to a value of 7.5 per cent of undeducted superannuation contributions up to $3,000, or the first $3,000 of net personal income from savings and investment. This offset was only available in 1998-99 and the maximum offset was $225.

FRINGE BENEFITS TAX

Fringe benefits tax expenditures are grouped according to their 'functional group' (for example, health, education or defence).

Tax expenditure for general public services

D1 Exemption for benefits provided by certain international organisations

General public services (B) ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2002 TES code*:	C1
Commencement date:	1986		
Expiry date:			
Legislative reference:	Sections 55 of the *Fringe Benefits Tax Assessment Act 1986*		

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

Tax expenditure for defence

D2 Exemption for certain benefits provided under the Defence Service Homes Act

Defence ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2002 TES code*:	C2
Commencement date:	1986		
Expiry date:			
Legislative reference:	Section 6 of the *Fringe Benefits Tax (Application to the Commonwealth) Act 1986*		

Certain benefits that are provided to certain eligible employees under the *Defence Service Homes Act 1918* are exempt from fringe benefits tax.

Tax expenditures for education

D3 Reduction in taxable value for certain education costs of children of employees posted overseas

Education ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
*	*	*	*	*	*	*	*

Tax expenditure type:	Reduction in taxable value	*2002 TES code*:	C6
Commencement date:	1986		
Expiry date:			
Legislative reference:	Section 65A of the *Fringe Benefits Tax Assessment Act 1986*		

The taxable value of fringe benefits associated with certain education costs for children of employees posted overseas for not less than 28 days may be reduced. The extent of the amount of the reduction relates to the period of the employee's service overseas.

D4 Disregard of possible application of the $250 threshold for deductibility for some self-education expenses

Education ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
*	*	*	*	*	*	*	*

Tax expenditure type:	Reduction in taxable value	*2002 TES code*:	C7
Commencement date:	1986		
Expiry date:			
Legislative reference:	Subsection 24(1) of the *Fringe Benefits Tax Assessment Act 1986*		

The taxable value of a fringe benefit may be reduced by the amount that the employee would have been entitled to claim as an income tax deduction if the employee had not been reimbursed by the employer. In applying this rule, the fringe benefits tax legislation disregards the $250 threshold that applies to the deduction for self-education expenses.

Tax expenditure for health

D5 Capped exemption for certain public and non-profit hospitals

Health ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
155	115	120	125	125	130	135	140

Tax expenditure type:	Exemption	*2002 TES code*:	C8
Commencement date:	2000		
Expiry date:			
Legislative reference:	Section 57A of the *Fringe Benefits Tax Assessment Act 1986*		

Certain public and non-profit hospitals are provided with an exemption from fringe benefits tax on up to $17,000 of grossed up taxable value per employee. Prior to 1 April 2000, the exemption was not capped.

D6 Exemption for travel costs of employees and their families associated with overseas medical treatment

Health ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2002 TES code*:	C9
Commencement date:	1986		
Expiry date:			
Legislative reference:	Section 58L of the *Fringe Benefits Tax Assessment Act 1986*		

Benefits that meet the costs of travel away from a work place located in a foreign country in order to obtain medical treatment are exempt from fringe benefits tax. Accommodation and meals are also exempt if provided en route.

Tax expenditures for social security and welfare

D7 Exemption for safety award benefits up to $200 per year per employee

Social security and welfare ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2002 TES code*:	C10
Commencement date:	1986		
Expiry date:			
Legislative reference:	Section 58R of the *Fringe Benefits Tax Assessment Act 1986*		

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

D8 Exemption for recreational or childcare facilities on an employer's business premises

Social security and welfare ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2002 TES code*:	C11
Commencement date:	1986		
Expiry date:			
Legislative reference:	Subsection 47(2) of the *Fringe Benefits Tax Assessment Act 1986*		

Recreational or childcare facilities are exempt from fringe benefits tax if the facilities are provided on an employer's business premises for the benefit of employees.

D9 Exemption for employer contributions to secure childcare places in certain centres

Social security and welfare ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2002 TES code*:	C12
Commencement date:	1986		
Expiry date:			
Legislative reference:	Subsection 47(8) of the *Fringe Benefits Tax Assessment Act 1986*		

Payments made by employers to obtain priority of access to certain childcare facilities for children of employees are exempt from fringe benefits tax if made under certain programs administered by the Australian Government.

D10 Capped exemption for public benevolent institutions (excluding public hospitals)

Social security and welfare ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
210	240	240	250	260	270	280	290

Tax expenditure type:	Exemption	*2002 TES code*:	C13
Commencement date:	2001		
Expiry date:			
Legislative reference:	Subsection 57A(1) of the *Fringe Benefits Tax Assessment Act 1986*		

Public benevolent institutions are provided with an exemption from fringe benefits tax on up to $30,000 of grossed up taxable value per employee. Prior to 1 April 2001, the exemption was not capped.

D11 Exemption for accommodation, fuel and meals for live-in employees caring for the elderly or disadvantaged

Social security and welfare ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2002 TES code*:	C14
Commencement date:	1986		
Expiry date:			
Legislative reference:	Sections 58 and 58U of the *Fringe Benefits Tax Assessment Act 1986*		

An exemption from fringe benefits tax applies to certain benefits that are provided to people employed in caring for elderly or disadvantaged persons and who reside with them in their own homes. The benefits that are exempt are accommodation, residential fuel, meals and other food and drink provided in the home to the employee.

D12 Exemption for emergency assistance

Social security and welfare ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2002 TES code*:	C15
Commencement date:	1986		
Expiry date:			
Legislative reference:	Section 58N of the *Fringe Benefits Tax Assessment Act 1986*		

Benefits provided by way of emergency assistance are exempt from fringe benefits tax. Emergency assistance includes certain first aid or other emergency health care; emergency meals, food supplies, clothing, accommodation, transport, or use of household goods; temporary repairs; and any other similar matter.

Tax expenditures for housing and community amenities

D13 Exemption for remote area housing and reduction in taxable value for remote area housing assistance

Housing and community amenities ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
35	80	70	80	80	85	90	100

Tax expenditure type:	Exemption	*2002 TES code*:	C16 and C19
Commencement date:	1986, 2000		
Expiry date:			
Legislative reference:	Sections 58ZC, 59, 60, and 65CC of the *Fringe Benefits Tax Assessment Act 1986*		

From 1 April 2000, housing benefits provided to employees in remote areas are exempt from fringe benefits tax. Prior to this exemption, remote area housing benefits

provided by primary producers were exempt from fringe benefits tax and remote area housing fringe benefits provided by other employers received concessional fringe benefits tax treatment in the form of either a 50 per cent reduction in taxable value (discounted market value method) or a statutory valuation which effectively incorporated a 50 per cent discount (statutory method).

The taxable value of housing assistance provided to employees in remote areas is generally reduced by 50 per cent. Housing assistance includes a housing loan, the provision of residential fuel, the provision of a house and land, the provision of a residential property 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.

D14 Exemption for housing provided by certain employers in 'regional' areas

Housing and community amenities ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
-	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2002 TES code*:	C17
Commencement date:	2000		
Expiry date:			
Legislative reference:	Section 58ZC of the *Fringe Benefits Tax Assessment Act 1986*		

Housing benefits provided to employees by police, charities and certain public and non-profit hospitals in 'regional' areas are exempt from fringe benefits tax.

Tax expenditures for transport and communications

D15 Exemption for free or discounted commuter travel for employees of public transport providers

Transport and communications ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
35	35	45	45	45	45	45	45

Tax expenditure type:	Exemption	*2002 TES code*:	C20
Commencement date:	1986		
Expiry date:			
Legislative reference:	Subsection 47(1) of the *Fringe Benefits Tax Assessment Act 1986*		

Where an employer operates a business of providing transport to the public, the provision of free or discounted travel (other than in an aircraft) to employees of that business for the purpose of their travelling to and from work is exempt from fringe benefits tax. Where an employee's place of work is in a metropolitan area, free or discounted travel on a scheduled service within that area is also exempt from fringe benefits tax.

D16 Exemption for employee taxi travel arriving at or leaving from place of work

Transport and communications ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2002 TES code*:	C21
Commencement date:	1997		
Expiry date:			
Legislative reference:	Section 58Z of the *Fringe Benefits Tax Assessment Act 1986*		

Any benefit arising from taxi travel by an employee is exempt from fringe benefits tax if the travel is a single trip beginning or ending at the employee's place of work.

D17 Exemption for free or discounted travel to and from duty by police officers on public transport

Transport and communications ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
-	5	5	5	5	5	5	5

Tax expenditure type:	Exemption	*2002 TES code*:	C22
Commencement date:	2000		
Expiry date:			
Legislative reference:	Subsection 47(1A) of the *Fringe Benefits Tax Assessment Act 1986*		

The provision of travel on public transport to police officers for the purpose of travel between the officer's place of residence and their primary place of employment is exempt from fringe benefits tax.

Tax expenditures for other economic affairs

D18 Discounted valuation of stand-by travel for airline employees and travel agents

Other economic affairs (A) ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
85	85	45	40	40	45	45	45

Tax expenditure type:	Discounted valuation	*2002 TES code*:	C23
Commencement date:	1986		
Expiry date:			
Legislative reference:	Sections 32 and 33 of the *Fringe Benefits Tax Assessment Act 1986*		

The taxable value of an airline transport fringe benefit for airline employees and travel agents is the stand-by value less the employee contribution. For domestic travel, the stand-by value is 37.5 per cent of the lowest publicly advertised, economy airfare charged by the provider, at or about the time of travel, over that route. For international travel, the stand-by value is 37.5 per cent of the lowest fare published in

Australia as charged by the carrier for travel over that route in the 12 months preceding the end of the year of tax.

D19 Exemption for long service awards for more than 15 years of service

Other economic affairs (B) ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2002 TES code*:	C24
Commencement date:	1986		
Expiry date:			
Legislative reference:	Section 58Q of the *Fringe Benefits Tax Assessment Act 1986*		

Long service awards granted in recognition of 15 years or more service are exempt from fringe benefits tax provided the value of the award does not exceed a specified maximum amount. The specified maximum amount is $500 where the period of service being recognised by the award is 15 years. If the award recognises a period of service greater than 15 years, the maximum amount increases by $50 for each additional year.

D20 Exemption for certain benefits provided to employees training under the Australian Traineeship System

Other economic affairs (B) ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2002 TES code*:	C25
Commencement date:	1986		
Expiry date:			
Legislative reference:	Section 58S of the *Fringe Benefits Tax Assessment Act 1986*		

Food, drink and accommodation provided to people training under the Australian Traineeship System may be exempt from fringe benefits tax. To be exempt, the benefits must be provided in accordance with an award or an industry custom and must not be provided at a party, reception or other social function.

D21 Exemption for certain relocation and recruitment expenses

Other economic affairs (B) ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2002 TES code*:	C26
Commencement date:	1986		
Expiry date:			
Legislative reference:	Sections 58A-D and 58F of the *Fringe Benefits Tax Assessment Act 1986*		

Certain benefits associated with relocation and recruitment expenses are exempt from fringe benefits tax. The exemption applies to benefits associated with the cost of travelling to attend an interview or selection test, the cost of removal and storage of household effects, costs associated with the sale and/or purchase of a dwelling, costs associated with connecting or re-connecting certain utilities and the costs of providing relocation transport and any meals and accommodation en route.

D22 Reduction in taxable value for certain relocation and recruitment expenses

Other economic affairs (B) ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
*	*	*	*	*	*	*	*

Tax expenditure type:	Reduction in taxable value	*2002 TES code*:	C28
Commencement date:	1986		
Expiry date:			
Legislative reference:	Section 61B-E of the *Fringe Benefits Tax Assessment Act 1986*		

Reductions in taxable value are provided for fringe benefits associated with certain relocation and recruitment expenses. This includes benefits associated with cents-per-kilometre reimbursements for transport in an employee's car for relocation travel or travel to attend an interview or selection test, the provision of temporary accommodation, and meals provided to an employee (or family member) while staying in a hotel, motel, hostel or guesthouse which is used for temporary accommodation while relocating.

D23 Exemption for compensation related benefits, occupational health and counselling services and some training courses

Other economic affairs (B) ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2002 TES code*:	C27
Commencement date:	1986		
Expiry date:			
Legislative reference:	Sections 58J, 58K and 58M of the *Fringe Benefits Tax Assessment Act 1986*		

Certain benefits in relation to compensable work-related trauma, medical services 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.

D24 Reduction in taxable value for reimbursements of car expenses incurred for occupational health and counselling services and some training courses

Other economic affairs (B) ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
*	*	*	*	*	*	*	*

Tax expenditure type:	Reduction in taxable value	*2002 TES code*:	C29
Commencement date:	1986		
Expiry date:			
Legislative reference:	Section 61F of the *Fringe Benefits Tax Assessment Act 1986*		

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

D25 Exemption for certain loan benefits

Other economic affairs (C) ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2002 TES code*:	C30 and C52
Commencement date:	1986		
Expiry date:			
Legislative reference:	Section 17 of the *Fringe Benefits Tax Assessment Act 1986*		

Certain in-house loan benefits and certain loans to employees to meet employment-related expenses are exempt from fringe benefits tax.

D26 Application of statutory formula to value car benefits

Other economic affairs (C) ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
940	970	1,000	1,030	1,070	1,100	1,140	1,180

Tax expenditure type:	Discounted valuation	*2002 TES code:*	C32
Commencement date:	1986		
Expiry date:			
Legislative reference:	Section 9 of the *Fringe Benefits Tax Assessment Act 1986*		

Under the fringe benefits tax benchmark, the value of a car fringe benefit is the cost of providing the vehicle (for instance, where the vehicle is provided under a lease, the value of the lease payments) plus the associated vehicle running costs. However, the statutory formula method for valuing car fringe benefits values the benefit as a proportion of the acquisition cost of the vehicle, which declines as distance travelled by the vehicle each year increases. This approach may result in the undervaluation of the benefit when calculating fringe benefits tax with the result that less tax is paid on car fringe benefits than would be if the cost of the benefit were paid by the employee out of after tax cash remuneration.

D27 Record keeping exemption

Other economic affairs (C) ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
6	3	4	4	4	4	4	4

Tax expenditure type:	Record keeping exemption	*2002 TES code:*	C33
Commencement date:	1998		
Expiry date:			
Legislative reference:	Section 135A of the *Fringe Benefits Tax Assessment Act 1986*		

If certain conditions are satisfied, an employer need not keep or retain full fringe benefits tax records. The employer's liability to pay tax is based on their liability in their most recent base year instead of the current year.

D28 Exemption for small business employee car parking

Other economic affairs (C) ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2002 TES code:*	C34
Commencement date:	1997		
Expiry date:			
Legislative reference:	Section 58GA of the *Fringe Benefits Tax Assessment Act 1986*		

Car parking benefits provided by small business employers are exempt from fringe benefits tax if: the parking is not provided in a commercial car park; the employer is neither a government body, nor a listed public company, nor a subsidiary of a listed public company; and the employer's total income is less than $10 million.

Miscellaneous tax expenditures

D29 Partial rebate for certain non-profit, non-government bodies

Not allocated to function ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
70	40	30	20	20	20	25	25

Tax expenditure type:	Rebate	*2002 TES code*:	C35
Commencement date:	1994		
Expiry date:			
Legislative reference:	Section 65J of the *Fringe Benefits Tax Assessment Act 1986*		

Certain non-profit, non-government bodies are eligible for a 48 per cent rebate of the fringe benefits tax that would otherwise be payable on up to $30,000 of grossed up taxable value per employee. Prior to 1 April 2001, the rebate was not subject to the $30,000 cap.

D30 Exemption for benefits in relation to certain compassionate travel

Not allocated to function ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2002 TES code*:	C36
Commencement date:	1986		
Expiry date:			
Legislative reference:	Section 58LA of the *Fringe Benefits Tax Assessment Act 1986*		

Certain benefits provided in connection with compassionate travel are exempt from fringe benefits tax. The exemption applies to the cost of transport, meals and accommodation for the person travelling.

D31 Exemption for certain benefits provided to religious practitioners

Not allocated to function ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
180	170	175	180	185	185	185	190

Tax expenditure type:	Exemption	*2002 TES code*:	C37
Commencement date:	1986		
Expiry date:			
Legislative reference:	Section 57 of the *Fringe Benefits Tax Assessment Act 1986*		

Benefits provided to an employee of a religious institution are exempt from fringe benefits tax if the employee is a religious practitioner and the benefit is provided principally in respect of pastoral duties or any other duties that are directly related to the practice, study, teaching or propagation of religious beliefs.

D32 Exemption for certain benefits provided to live-in employees who provide domestic services and are employed by religious institutions or religious practitioners

Not allocated to function ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2002 TES code*:	C38
Commencement date:	1986		
Expiry date:			
Legislative reference:	Section 58T of the *Fringe Benefits Tax Assessment Act 1986*		

Accommodation, household fuel, meals and other food and drink provided to live-in employees who provide domestic services and are employed by religious institutions or religious practitioners are exempt from fringe benefits tax.

D33 Exemption for the provision of food and drink in certain circumstances

Not allocated to function ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2002 TES code*:	C39
Commencement date:	1986		
Expiry date:			
Legislative reference:	Sections 54 and 58V of the *Fringe Benefits Tax Assessment Act 1986*		

Where employees receive meals that are board fringe benefits, any additional food and drink supplied to them, 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.

D34 Discounted valuation of arm's length transaction price for in-house property and residual fringe benefits

Not allocated to function ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
*	*	*	*	*	*	*	*

Tax expenditure type:	Discounted valuation	*2002 TES code*:	C40
Commencement date:	1986		
Expiry date:			
Legislative reference:	Sections 42, 48 and 49 of the *Fringe Benefits Tax Assessment Act 1986*		

The taxable value of in-house property fringe benefits and in-house residual fringe benefits is 75 per cent of the lowest retail price charged to the public in the ordinary course of business.

D35 Exemption for airline transport fringe benefits and certain in-house fringe benefits up to $500 per employee

Not allocated to function ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2002 TES code*:	C41
Commencement date:	1986		
Expiry date:			
Legislative reference:	Section 62 of the *Fringe Benefits Tax Assessment Act 1986*		

A *de minimus* rule applies to certain in-house and airline transport fringe benefits to reduce the taxable value by up to $500 per employee.

D36 Discounted valuation for board fringe benefits

Not allocated to function ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
25	20	16	10	9	9	9	9

Tax expenditure type:	Discounted valuation	*2002 TES code*:	C42
Commencement date:	1986		
Expiry date:			
Legislative reference:	Section 36 of the *Fringe Benefits Tax Assessment Act 1986*		

The taxable value of a board fringe benefit is $2 per meal per person, or $1 per meal per person if the person is under the age of 12.

D37 Discounted valuation for car parking fringe benefits

Not allocated to function ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
*	*	*	*	*	*	*	*

Tax expenditure type:	Discounted valuation	*2002 TES code*:	C44
Commencement date:	1993		
Expiry date:			
Legislative reference:	Section 39A of the *Fringe Benefits Tax Assessment Act 1986*		

A car parking fringe benefit only arises if within a one-kilometre radius of the premises on which the car is parked there is a commercial parking station that charges a fee for all-day parking that is more than a specified threshold.

D38 Exemption for motor vehicle parking and car parking fringe benefits provided by certain employers

Not allocated to function ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2002 TES code*:	C43
Commencement date:	1986, 1993		
Expiry date:			
Legislative reference:	Section 58G of the *Fringe Benefits Tax Assessment Act 1986* Regulation 13A of the *Fringe Benefits Tax Regulations 1992*		

Motor vehicle parking, which is employer-provided parking that is not a car parking fringe benefit, is exempt from fringe benefits tax. Car parking fringe benefits provided by scientific, religious, charitable or public education institutions and car parking fringe benefits provided for certain disabled employees are also exempt from fringe benefits tax.

D39 Reduction in taxable value for holiday transport for employees posted overseas

Not allocated to function ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
*	*	*	*	*	*	*	*

Tax expenditure type:	Reduction in taxable value	*2002 TES code*:	C45
Commencement date:	1986		
Expiry date:			
Legislative reference:	Section 61A of the *Fringe Benefits Tax Assessment Act 1986*		

The taxable value of certain fringe benefits in relation to holiday transport for employees posted overseas may be reduced. The reduction in taxable value depends on whether the travel is to the employee's home country or to some other destination.

D40 Exemption for transport for oil rig and remote area employees in certain circumstances

Not allocated to function ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2002 TES code:*	C46
Commencement date:	1986		
Expiry date:			
Legislative reference:	Section 47(7) of the *Fringe Benefits Tax Assessment Act 1986*		

Transport provided to employees in remote areas or who work on oil rigs or other installations at sea may be exempt from fringe benefits tax. The exemption applies where the employees are provided with accommodation at or near the work site on working days and it would be unreasonable to expect the employees to travel to and from work on a daily basis.

D41 Reduction in taxable value for remote area holiday benefits

Not allocated to function ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2002 TES code:*	C47
Commencement date:	1986		
Expiry date:			
Legislative reference:	Sections 60A and 61 of the *Fringe Benefits Tax Assessment Act 1986*		

The taxable value in relation to remote area holiday transport benefits may be reduced. The reduction in taxable value depends on certain conditions being met.

D42 Exemption for minor benefits

Not allocated to function ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2002 TES code:*	C48
Commencement date:	1986		
Expiry date:			
Legislative reference:	Section 58P of the of the *Fringe Benefits Tax Assessment Act 1986*		

Minor benefits may be exempt from fringe benefits tax. Minor benefits are benefits that are less than $100 in value, infrequently provided and/or are difficult to record and value. It also must be concluded that it would be unreasonable to treat the minor benefit as a fringe benefit.

D43 Exemption for private use of business property

Not allocated to function ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2002 TES code*:	C49
Commencement date:	1986		
Expiry date:			
Legislative reference:	Sections 41 and 47(3) of the of the *Fringe Benefits Tax Assessment Act 1986*		

Property provided on the employer's business premises and consumed by the employee on a working day may be exempt from fringe benefits tax. The use of property (other than a motor vehicle) that is ordinarily located on the employer's business premises and is principally used directly in connection with business operations is also exempt from fringe benefits tax.

D44 Exemption for certain allowances, accommodation and food benefits

Not allocated to function ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2002 TES code*:	C50
Commencement date:	1986		
Expiry date:			
Legislative reference:	Sections 21, 31, 47(5), 58E and 63 of the of the *Fringe Benefits Tax Assessment Act 1986*		

Certain allowances, accommodation and food benefits provided to employees living away from their usual place of residence in order to perform their duties of employment are exempt from fringe benefits tax.

D45 Exemption for minor private use of company motor vehicle

Not allocated to function ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2002 TES code*:	C51
Commencement date:	1986		
Expiry date:			
Legislative reference:	Section 47(6) of the of the *Fringe Benefits Tax Assessment Act 1986*		

Where an employee is provided with the use of a motor vehicle that is not a car, such use is exempt from fringe benefits tax if any private use is restricted to: travel to and from work; use which is incidental to travel in the course of duties of employment; and non-work-related use that is minor, infrequent and irregular.

D46 Capped exemption for charities promoting the prevention or control of diseases in human beings

Not allocated to function ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
-	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2002 TES code*:	C54
Commencement date:	2001		
Expiry date:			
Legislative reference:	Subsection 57A(5) of the of the *Fringe Benefits Tax Assessment Act 1986*		

Charitable institutions whose principal activity is to promote the prevention or control of diseases in human beings are provided with an exemption from fringe benefits tax on up to $30,000 of grossed up taxable value per employee. These institutions were provided with an uncapped exemption from 1 April 1998 to 1 April 2001 and a capped exemption thereafter.

D47 Exemption for certain payments to approved worker entitlement funds

Not allocated to function ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
-	-	-	-	-	220	230	250

Tax expenditure type:	Exemption	*2002 TES code*:	C57
Commencement date:	2003		
Expiry date:			
Legislative reference:	Sections 58PA, 58PB and 58PC of the of the *Fringe Benefits Tax Assessment Act 1986*		

Certain payments to approved worker entitlement funds are exempt from fringe benefits tax. For the exemption to apply, the payments into the fund and the fund itself must satisfy certain criteria.

CAPITAL GAINS TAX

Tax expenditures relating to capital gains tax are listed below. See also 'Retirement savings' and 'Tax expenditures relating to capital expenditure, effective life and depreciation'.

E1 Capital gains tax exemption for valour or brave conduct decorations

Defence ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
..	..	..	..	..	..	..	..

Tax expenditure type:	Exemption	*2002 TES code:*	D32
Commencement date:	1985		
Expiry date:			
Legislative reference:	Paragraph 118-5(b) ITAA97		

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

E2 Capital gains tax concessions for conservation covenants

Housing & community amenities ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
-	-	..	..	..	..	..	..

Tax expenditure type:	Exemption	*2002 TES code:*	D33
Commencement date:	2000		
Expiry date:			
Legislative reference:	Section 104-47 ITAA97		

For capital gains tax purposes, perpetual conservation covenants are treated as a part disposal of the land, rather than the creation of a right. This treatment results in a reduced capital gain because a portion of the cost base of the land is taken into account. Previously the capital gain equalled the amount received for the covenant less incidental costs.

Landowners can also benefit from any 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.

E3 Capital gains tax main residence exemption

Housing & community amenities ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2002 TES code:*	D34
Commencement date:	1985		
Expiry date:			
Legislative reference:	Subdivision 118-B ITAA97		

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

E4 Capital gains tax exemption for the disposal of assets under the Cultural Bequests and Cultural Gifts programs

Recreation and culture ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2002 TES code:*	D35
Commencement date:	1994, extended in 1998		
Expiry date:			
Legislative reference:	Section 118-60 ITAA97		

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.

E5 Capital gains tax roll-over for worker entitlement funds

Other economic affairs (B) ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
-	-	-	-	-	*	*	*

Tax expenditure type:	Tax deferral	*2002 TES code:*	New
Commencement date:	2003		
Expiry date:			
Legislative reference:	Subdivision 126-C ITAA97		

From 1 April 2003, 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.

E6 Capital gains tax concession for carried interests paid to venture capital managers

Other economic affairs (C) ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
-	-	-	-	1	6	12	17

Tax expenditure type:	Concessional tax rate	*2002 TES code*:	A59
Commencement date:	2002		
Expiry date:			
Legislative reference:	Sections 104-255 and 118-21		

Venture capital fund managers may be paid a performance–based share of partnership profits by investors. Such performance payments are 'carried interests'. An entitlement to receive a carried interest is a capital gains tax event in the hands of individual venture capital fund managers and is not treated as income. Consequently, individual managers are eligible for the 50 per cent discount on their carried interest. This concession is intended to encourage leading international venture capital managers to locate in Australia and facilitate the development of the venture capital industry.

E7 Capital gains tax roll-over relief for financial service providers on transition to the Financial Services Reform regime

Other economic affairs (C) ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
-	-	-	*	*	*	*	-

Tax expenditure type:	Tax deferral	*2002 TES code*:	New
Commencement date:	2002		
Expiry date:	2004		
Legislative reference:	Not yet legislated		

An automatic capital gains tax roll-over applies for eligible financial service providers on transition to the Financial Services Reform regime. Financial service providers are eligible for the roll-over when, during the Financial Services Reform transitional period:

- an existing statutory licence, registration or authority is replaced with an Australian financial services licence;
- a qualified Australian financial services licence is replaced with an Australian financial services licence; or
- an intangible capital gains tax asset is replaced with another intangible capital gains tax asset.

The capital gains tax roll-over will ensure that the capital gain or capital loss that would otherwise be made when the original asset comes to an end is deferred until a capital gains tax event happens to the replacement asset. This tax expenditure was introduced to assist financial service providers in the transition to the Financial Services Reform regime.

E8 Capital gains tax exemption for assets acquired before 20 September 1985

Other economic affairs (C) ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2002 TES code:*	New
Commencement date:	1985		
Expiry date:			
Legislative reference:	Subdivision 104-A ITAA97		

Capital gains or losses on assets acquired before 20 September 1985 are generally exempt from capital gains tax.

E9 Capital gains tax roll-over relief for transfer of assets on marriage breakdown

Other economic affairs (C) ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
*	*	*	*	*	*	*	*

Tax expenditure type:	Tax deferral	*2002 TES code:*	New
Commencement date:	1985		
Expiry date:			
Legislative reference:	Subdivision 126-A ITAA97		

An automatic roll-over relief is available where a capital gains tax asset is transferred to a spouse or former spouse because of a marriage breakdown.

E10 Capital gains tax deferral of liability when taxpayer dies

Other economic affairs (C) ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
*	*	*	*	*	*	*	*

Tax expenditure type:	Tax deferral	*2002 TES code:*	New
Commencement date:	1985		
Expiry date:			
Legislative reference:	Division 128 ITAA97		

Generally, there is no capital gains tax taxing point when a taxpayer dies. Recognition of the gains or losses accruing during the life of the deceased is deferred until the person inheriting the asset later disposes of it. This can happen for an unlimited number of generations. An exception applies if the capital gains tax asset passes to: an exempt entity; the trustee of a complying superannuation entity; or a non-resident of Australia.

E11 Capital gains tax exemption for non-portfolio interests in foreign companies with active businesses

Other economic affairs (C) ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
-	-	-	-	*	*	*	*

Tax expenditure type:	Exemption	*2002 TES code*:	New
Commencement date:	Announced in 2003		
Expiry date:			
Legislative reference:	Not yet legislated		

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.

E12 Venture capital concessions

Other economic affairs (C) ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
-	-	-	-	20	25	30	30

Tax expenditure type:	Exemption	*2002 TES code*:	D36
Commencement date:	1999, extended in 2002		
Expiry date:			
Legislative reference:	Sections 51-54, 51-55 and Subdivisions 118-F, 118-G ITAA97		

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 jurisdiction).

The concession introduced in 2002 provides an exemption on the profits and gains in equity investments made by a venture capital limited partnership to certain non-resident partners in the partnership. The exemption is available to partner who is a tax-exempt resident of Canada, France, Germany, Japan, the United Kingdom, the United States or other approved jurisdiction, 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 jurisdiction who holds less than 10 per cent of the committed capital of a venture capital limited partnership.

These concessions are intended to facilitate non-resident investment in the Australian venture capital industry by providing incentives for increased investment which will support patient equity capital investments in relatively high-risk start-up and expanding businesses that would otherwise have difficulty in attracting investment through normal commercial means.

E13 Small business 50 per cent capital gains tax active asset reduction

Other economic affairs (C) ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
-	-	*	125	185	195	200	210

Tax expenditure type:	Exemption	*2002 TES code*:	D37 and D39
Commencement date:	1999		
Expiry date:			
Legislative reference:	Subdivision 152-C ITAA97		

A capital gains tax exemption applies to 50 per cent of capital gains arising from the sale of active assets of a small business. Active assets include assets used in carrying on a business and intangible assets inherently connected with a business (for example, goodwill). This exemption applies to capital gains occurring from 21 September 1999. It replaced a 50 per cent exemption that applied only to the portion of a capital gain on the sale of a small business that was attributable to goodwill. This reduction is directed at promoting investment in small business and recognises the important contribution that small business makes to employment.

E14 Small business capital gains tax roll-over

Other economic affairs (C) ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
55	60	35	60	60	60	60	60

Tax expenditure type:	Tax deferral	*2002 TES code*:	D38
Commencement date:	1997		
Expiry date:			
Legislative reference:	Subdivision 152-E ITAA97		

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. As a result, the capital gains tax liability is deferred from the time of the sale until the ultimate disposal of the active assets. This roll-over is directed at promoting investment in small business and recognises the important contribution that small business makes to employment.

E15 Capital gains tax 50 per cent discount for individuals and trusts

Other economic affairs (C) ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
-	1,390	1,810	2,240	2,360	2,470	2,600	2,730

Tax expenditure type:	Exemption	*2002 TES code:*	D41
Commencement date:	1999		
Expiry date:			
Legislative reference:	Division 115 ITAA97		

A capital gains tax exemption applies to 50 per cent of any nominal capital gain made by an individual or trust where the asset has been owned for at least one year. For assets acquired prior to 21 September 1999 and held for at least one year, an individual or trust may instead choose to be taxed on the difference between the disposal price and the frozen indexed cost base as at 30 September 1999. This discount recognises the generally riskier nature of capital investments.

Due to data limitations, part of the estimates for this tax expenditure is included in estimates for the small business 15 year capital gains tax exemption (C7) and the scrip-for-scrip capital gains tax roll-over (E16).

E16 Scrip-for-scrip capital gains tax roll-over

Other economic affairs (C) ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
-	-	150	230	210	195	175	155

Tax expenditure type:	Tax deferral	*2002 TES code:*	D42
Commencement date:	1999		
Expiry date:			
Legislative reference:	Subdivision 124-M ITAA97		

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 reorganisations.

Due to data limitations, estimates for this tax expenditure include a component associated with the capital gains tax 50 per cent discount for individuals and trusts (E15).

E17 Capital gains tax roll-over for assets compulsorily acquired, lost or destroyed

Other economic affairs (C) ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
-	*	*	*	*	*	*	*

Tax expenditure type:	Deferral	*2002 TES code*:	D43
Commencement date:	1985		
Expiry date:			
Legislative reference:	Subdivision 124-B ITAA97		

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 tax liability is deferred from the time of the compulsory acquisition, loss or destruction until the ultimate disposal of the replacement asset.

E18 Capital gains tax deduction for investors in listed investment companies

Other economic affairs (C) ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
-	-	5	20	20	20	20	20

Tax expenditure type:	Deduction	*2002 TES code*:	D44
Commencement date:	2001		
Expiry date:			
Legislative reference:	Subdivision 115D ITAA97		

A company that makes a capital gain may distribute that gain to shareholders as a dividend. The benchmark treatment for such capital gains is that they are not subject to the partial capital gains tax exemption for individuals, trusts and superannuation funds. However, resident shareholders are eligible for an income tax deduction if they receive a distribution of capital gains realised after 1 July 2001 by a listed investment company. The value of this deduction is equivalent to the value of the exemption shareholders would have been entitled if they had realised the capital gain themselves. Consequently, the deduction is available at different rates to individuals, complying superannuation funds, trusts and life insurance companies. This tax expenditure allows shareholders of certain listed companies to obtain benefits similar to those conferred by discount capital gains.

E19 Capital gains tax roll-over and exemption and related taxation relief for demergers

Other economic affairs (C) ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
-	-	-	*	*	*	*	*

Tax expenditure type:	Deferral and exemption	*2002 TES code*:	D46
Commencement date:	2002		
Expiry date:			
Legislative reference:	Division 125 ITAA97, Section 45B ITAA36		

Tax concessions are available to assist the restructuring of a corporate or a trust group by splitting the group into two or more entities or groups (that is, by demerging). There are three components to demerger relief:

- capital gains tax roll-over at the shareholder or trust membership interest level for interests such as shares that are exchanged during the demerger process (this results in a tax deferral);
- a capital gains tax exemption for certain capital gains and losses at the entity level; and
- an income tax exemption for certain 'demerger dividends'.

These concessions are available for demergers that occur on or after 1 July 2002 and are designed to increase efficiency by allowing greater flexibility in structuring businesses, providing an overall benefit to the economy.

E20 Removal of taxation of certain financial instruments at point of conversion or exchange

Other economic affairs (C) ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
-	-	*	*	*	*	*	*

Tax expenditure type:	Deferral	*2002 TES code*:	D47
Commencement date:	2002		
Expiry date:			
Legislative reference:	Not yet legislated		

Convertible interests are financial instruments that convert into shares in the company that issued the convertible interest. Exchangeable interests are instruments that convert into ordinary shares in a company other than the issuer of the exchangeable interest. A gain or loss may arise from the conversion of convertible interests that are traditional securities into ordinary shares or from the exchange of an exchangeable interest. Any such gains or losses on convertible or exchangeable interests issued after 14 May 2002 will not be subject to taxation until the ultimate disposal of the ordinary shares acquired on conversion or exchange. This concession is designed to alleviate cash flow difficulties that investors experienced at the point of conversion because the gain is in the form of shares rather than cash.

For individuals, trusts, life insurance companies and superannuation funds, gains and losses on conversion or exchange were taxed at a higher tax rate than the benchmark capital gains tax rate. Subsequent to 14 May 2002, no taxable gains or losses will arise until the ultimate disposal of the shares and these taxpayers will be able to qualify for discount capital gains tax treatment for such gains or losses.

6.3 Commodity tax benchmark

Tax expenditures occur under the commodity tax benchmark for certain consumption goods and for natural resources. They are reported under these two headings.

CONSUMPTION TAXES

Commodity tax expenditures are grouped according to commodity type – tobacco, fuel, alcohol, motor vehicles and certain 'general consumption' tax expenditures.

Tobacco

F1 Higher rate of excise levied on cigarettes with less than 0.8 grams of tobacco

Health ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
-450	-1,240	-1,270	-1,360	-1,340	-1,350	-1,350	-1,360

Tax expenditure type:	Higher excise rate	*2002 TES code*:	E3
Commencement date:	1999		
Expiry date:			
Legislative reference:	Item 8 of Schedule of the *Excise Tariff Act 1921*		

The benchmark excise treatment for the consumption of tobacco products is applied per kilogram of tobacco. This treatment applies to loose tobacco and to cigarettes and cigars with more than 0.8 grams of tobacco. However, cigarettes and cigars with less than 0.8 grams of tobacco are subject to excise on a per-stick basis. The effect of per-stick excise is to tax the tobacco in these cigarettes and cigars more heavily than the benchmark. This tax expenditure is designed to discourage smoking more, lighter cigarettes that have created greater health problems than smoking the same amount of tobacco in fewer cigarettes.

Fuel

F2 Higher rate of excise levied on leaded petrol

Health ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
-80	-25	..	..	..	..	..	..

Tax expenditure type:	Higher excise rate	*2002 TES code*:	E1
Commencement date:	1994		
Expiry date:	2001		
Legislative reference:	Item 11 of Schedule of the *Excise Tariff Act 1921*		

Leaded petrol is subject to a higher rate of excise than the benchmark rate, which is the rate that applies to unleaded petrol and ultra low sulphur diesel. The excise differential, which currently equates to around two cents per litre was originally introduced in 1994 to address health concerns associated with the use of leaded fuels.

The decline in this tax expenditure to zero in 2001-02 reflects the introduction of lead replacement petrol, which is subject to excise at the high energy content fuel rate, and restricted access to leaded petrol (under the *Fuel Quality Standards Act 2000)* from 1 January 2002.

F3 Higher rate of excise levied on high sulphur diesel

Health ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
-	-	-	-60	-135	-110	-25	-

Tax expenditure type:	Higher excise rate	*2002 TES code*:	E2
Commencement date:	2003		
Expiry date:			
Legislative reference:	Item 11 of Schedule of the *Excise Tariff Act 1921*		

Diesel with a sulphur content higher than 50 parts per million is subject to a higher rate of excise than the benchmark rate, which is the rate that applies to unleaded petrol and ultra low sulphur diesel. The excise differential of one cent per litre was implemented from 1 July 2003 and will increase to two cents per litre from 1 January 2004. This tax expenditure was announced as part of the *Measures for a Better Environment* package and is designed as an incentive for the production of ultra low sulphur diesel.

F4 Concessional rate of excise levied on fuel oil, heating oil and kerosene

Fuels and energy ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
220	245	240	265	250	250	255	255

Tax expenditure type:	Concessional excise rate	*2002 TES code:*	E5
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Item 11 of Schedule of the *Excise Tariff Act 1921*		

Fuel oil, heating oil and kerosene that are used as a fuel but not used as a fuel in internal combustion engines are subject to a lower rate of excise than the benchmark rate, which is the rate that applies to unleaded petrol and ultra low sulphur diesel. These fuels are currently taxed at 7.557 cents per litre.

F5 Concessional rate of excise levied on aviation gasoline and aviation turbine fuel

Fuels and energy ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
840	870	770	740	750	750	750	750

Tax expenditure type:	Concessional excise rate	*2002 TES code:*	E6
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Item 11 of Schedule of the *Excise Tariff Act 1921*		

Aviation gasoline and aviation turbine fuel are subject to a lower rate of excise than the benchmark rate, which is the rate that applies to unleaded petrol and ultra low sulphur diesel. Aviation turbine fuel is currently excised at 3.151 cents per litre and aviation gasoline is currently excised at 3.114 cents per litre. Excise on aviation fuels, at various times since 1957, have 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 and the Airservices Australia Location Specific Pricing Subsidy.

F6 Exemption from excise for 'alternative fuels'

Fuels and energy ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
650	770	820	780	830	840	850	870

Tax expenditure type:	Exemption	*2002 TES code*:	E4
Commencement date:	1985		
Expiry date:			
Legislative reference:	These products are not dutiable under the *Excise Tariff Act 1921*		

Alternative transport fuels (that is, alternative fuels that are used in internal combustion engines), including liquefied petroleum gas and compressed natural gas, are currently exempt from excise duty. Starting from 1 July 2008, excise on these fuels will be introduced in five equal annual steps to a final rate on 1 July 2012.

F7 Higher rate of excise levied on petrol and diesel

Fuel and energy ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
-	-	-	-	-	-	-6	-65

Tax expenditure type:	Higher excise rate	*2002 TES code*:	New
Commencement date:	2006		
Expiry date:	2009		
Legislative reference:	Not yet legislated		

Excise rates will be increased for all petrol from 1 January 2006 for two years and for all diesel from 1 January 2007 for two years. These increases will be used to fund grant payments for the production or import of petrol with less than 50 parts per million sulphur and diesel with less than 10 parts per million sulphur.

Alcohol

F8 Concessional rate of excise levied on brandy

Agriculture, forestry and fishing ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
8	5	5	5	5	5	5	5

Tax expenditure type:	Concessional excise rate	*2002 TES code*:	E7
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Item 2A of the *Excise Tariff Act 1921*		

Brandy is subject to a lower rate of excise than other spirits. This treatment was established as a support measure for the grape production industry. The excise rates on other spirits and on brandy are indexed to the consumer price index biannually. Consequently, the excise differential increases over time.

F9 No excise-free threshold for excisable alcoholic beverages (other than beer) not exceeding 10 per cent alcohol

Not allocated to function ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
-	-50	-75	-85	-110	-120	-130	-150

Tax expenditure type:	Higher excise rate	*2002 TES code*:	E8
Commencement date:	2000		
Expiry date:			
Legislative reference:	Item 1 of Schedule of the *Excise Tariff Act 1921*		

Alcoholic beverages not exceeding 10 per cent alcohol include beer and 'ready-to-drinks'. The benchmark treatment for these beverages includes an excise-free threshold: the first 1.15 per cent of alcohol is not excisable. However, alcoholic beverages not exceeding 10 per cent alcohol other than beer do not qualify for the excise-free threshold that is currently available for beer.

F10 Rebate of wine equalisation tax for cellar door and mail order wine sales

Not allocated to function ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
-	13	14	15	16	16	17	18

Tax expenditure type:	Offset	*2002 TES code*:	E9
Commencement date:	2000		
Expiry date:			
Legislative reference:	Schedule 9A of the *Indirect Tax Legislation Amendment Act 2000*		

A partial rebate of wine equalisation tax is available for certain cellar door, mail order and internet sales of wine. The maximum rebate of 14 per cent of the taxable value is available for all eligible sales of wine up to $300,000 per annum (wholesale value). The rebate tapers to zero for sales between $300,000 and $580,000.

The rebate complements similar state production subsidies of 15 per cent, to support cellar door and mail order sales by smaller winemakers.

F11 Concessional rate of excise levied on draught beer

Not allocated to function ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
-	30	140	150	160	170	170	170

Tax expenditure type:	Concessional excise rate	*2002 TES code*:	E10
Commencement date:	2001		
Expiry date:			
Legislative reference:	Item 1 of Schedule of the *Excise Tariff Act 1921*		

Draught beer (that is, beer packaged in individual containers exceeding 48 litres) is subject to a lower rate of excise than beer packaged in individual containers not exceeding 48 litres. This tax expenditure is designed to limit price increases for draught beer associated with the introduction of *The New Tax System*.

F12 Concessional rate of excise levied on brew on premise beer

Not allocated to function ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
..	..	..	..	..	..	..	..

Tax expenditure type:	Concessional excise rate	*2002 TES code*:	E11
Commencement date:	1993		
Expiry date:			
Legislative reference:	Item 1 of Schedule of the *Excise Tariff Act 1921*		

Brew on premise beer (that is, beer produced for non-commercial purposes using commercial facilities or equipment) is subject to a lower rate of excise than other beer. This tax expenditure ensures that own-use brewers hiring commercial facilities may still gain access to concessional excise arrangements.

F13 Excise concession for microbreweries

Not allocated to function ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
-	..	..	..	..	..	..	..

Tax expenditure type:	Concessional excise rate	*2002 TES code*:	E12
Commencement date:	2000		
Expiry date:			
Legislative reference:	Regulation 50(1)(zzd) of the *Excise Act 1901*		

Microbreweries producing less than 30,000 litres of product per annum receive excise concessions in the form of a refund of excise paid. The refund paid in any financial year cannot exceed the lesser of $10,000 or 60 per cent of the excise payable.

F14 Concessional rate of excise levied on low-strength packaged beer

Not allocated to function ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
-	-60	-45	15	15	15	15	15

Tax expenditure type:	Concessional excise rate	*2002 TES code*:	New
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Item 1 of the Schedule to the *Excise Tariff Act 1921*		

Beer that is packaged in containers not exceeding 48 litres and which has an alcohol content of no more than 3 per cent is taxed at a concessional excise rate relative to higher strength beer. The first 1.15 per cent of alcohol remains free of excise.

Motor vehicles

F15 Luxury car tax

Other economic affairs (C) ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
-	-172	-220	-260	-295	-285	-300	-320

Tax expenditure type:	Increased tax rate	*2002 TES code*:	New
Commencement date:	2000		
Expiry date:			
Legislative reference:	*A New Tax System (Luxury Car Tax) Act 2000*		

Luxury car tax applies to the value of car sales and importations that exceed the luxury car tax threshold. The tax does not apply to specified emergency vehicles.

General consumption tax expenditures

F16 Certain exemptions for diplomatic missions and foreign diplomats

General public services (C) ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
6	6	7	7	7	7	7	6

Tax expenditure type:	Concessional excise rate	*2002 TES code*:	New
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Regulation 50 of the *Excise Act 1901* Section 10 of the *Diplomatic Privileges and Immunities Act 1967* Section 10 of the *Consular Privileges and Immunities Act 1972* Section 11 of the *International Organisations (Privileges and Immunities) Act 1963* Section 12 of the *Overseas Missions (Privileges and Immunities) Act 1995*		

Note: estimates represent excise duty only.

Excise, wine equalisation tax and luxury car tax is not payable (or an equivalent amount of that paid is claimable) for alcohol, fuel, tobacco and luxury cars used for official purposes by diplomatic missions or for personal use by persons identified in the *Diplomatic Privileges and Immunities Act 1967*.

F17 Certain exemptions for Australian military sea-going vessels

Defence ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
2	2	2	2	2	2	2	2

Tax expenditure type:	Concessional excise rate	*2002 TES code*:	New
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Item 18 of the Schedule to the *Excise Tariff Act 1921*		

Note: estimates represent excise duty only.

Alcohol and tobacco excise is not payable by Australian military sea-going vessels in full commission when the products are consumed on board.

TAXES ON NATURAL RESOURCES

Petroleum

F18 Condensate excise-free status

Fuels and energy ($m)

1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2002 TES code*:	D15
Commencement date:	1977		
Expiry date:			
Legislative reference:	Schedule 17(B) of the *Excise Tariff Act 1921*		

Condensate produced in a State or Territory or inside the outer limits of the territorial sea of Australia or marketed separately from a crude oil stream is exempt from the crude oil excise. Condensate is a light oil extracted from 'wet' gas and primarily processed for use in motor vehicles (commonly known as petrol). This concession was granted as a concession to the petroleum industry in 1977 to encourage the exploration and development of Australia's petroleum resources, specifically gas.