TAX EXPENDITURES STATEMENT

2003

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CHAPTER 1: INTRODUCTION

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

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

This statement lists around 250 tax expenditures and reports their value over the eight-year period 1999-2000 to 2006-07. The tax expenditures in this statement reflect all announced policies and legislation applying up to the date of publication of the *2003-04 Mid-Year Economic and Fiscal Outlook.*

1.1 What is a tax expenditure?

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

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

A tax expenditure can be delivered as a tax exemption, tax deduction, tax offset, concessional tax rate or deferral of a tax liability.

Direct expenditures could deliver the benefits of most tax expenditures. Tax expenditures are substitutes for expenditure, delivered through the taxation system and accordingly affect the budget position.

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

To estimate the value of a tax expenditure, we must identify the tax arrangement that normally would apply to establish the nature and extent of the concession. The tax treatment that normally would apply is the 'benchmark'. The benchmark should neither favour nor disadvantage similar activities or classes of taxpayer. Tax expenditures are deviations from the benchmark.

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

1.2 Why report tax expenditures?

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

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

Tax expenditure reporting in the OECD

Australia is one of only a few countries in the world that reports tax expenditures. Furthermore, Australia's tax expenditure statement has a broad coverage including the majority of taxes levied by the Commonwealth.

Around half of all OECD countries currently report tax expenditures. The purpose of reporting tax expenditures in most countries is generally the evaluation of tax expenditures and to promote and assist public debate on the design of the tax system.

Nine OECD countries, including Australia, have noted the significant importance of reporting tax expenditures and made it a legal requirement. The other countries are Austria, Belgium, France, Germany, Italy, Portugal, Spain and the United States. In addition, most of these countries explicitly link tax expenditure reporting to the budget process.

Most OECD tax expenditure reporting countries, including Australia, report tax expenditures annually except for Germany, which reports every two years, and Italy, which reports less frequently.

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

Source: *Tax Expenditures — Shedding Light on Government Spending through the Tax System, Lessons from Developed and Transition Economies,* The World Bank, Washington DC (2004).

TRANSPARENCY AND SCRUTINY

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

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

SCOPE OF GOVERNMENT

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

TAX SYSTEM DESIGN

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

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

1.3 Coverage of this statement

This statement covers these general-purpose Commonwealth taxes:

- income tax (personal and business);
- fringe benefits tax;
- capital gains tax;
- excise duties;
- wine equalisation tax;

- luxury car tax; and
- petroleum resource rent tax.

Taxes excluded from this statement are:

- customs duty or tariffs, except to the extent that the duty concerned is analogous to an excise duty that applies to similar goods produced in Australia
  - estimates of the value of assistance provided to various industries, including tariff arrangements, appear in the Productivity Commission's *Trade and Assistance Review*; and
- specific-purpose taxes, such as agricultural levies, which are generally levied for cost-recovery purposes.

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

1.4 Structure of this statement

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

TRENDS

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

METHODOLOGY AND BENCHMARKS

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

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

DETAILS AND ADDITIONAL INFORMATION

Chapter 5 outlines changes to the list of tax expenditures since the *2002 Tax Expenditures Statement*, new tax expenditures, modified tax expenditures and tax expenditures no longer reported.

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

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

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

CHAPTER 2: TRENDS IN TAX EXPENDITURE ESTIMATES

This chapter provides details on the trends in tax expenditure estimates. The changes in the overall level of tax expenditures since the *2002 Tax Expenditures Statement* largely reflect the availability of estimates for items that were previously unquantifiable and the availability of new data that allowed existing estimates to be revised.

2.1 Interpretation of trends and aggregates

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

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

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

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

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

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

2.2 Trends in tax expenditures

Total measured tax expenditures are reported in Table 2.1. Tax expenditures as a proportion of GDP are estimated to fall from around 4.5 per cent in 1999-2000 to around 3.6 per cent in 2006-07.

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

Year	Superannuation $m	Other tax expenditures $m	Total $m	Tax expenditures as a proportion of GDP (%)
1999-00 (est)	10 675	17 909	28 584	4.5
2000-01 (est)	9 685	20 091	29 776	4.4
2001-02 (est)	9 215	20 555	29 770	4.2
2002-03 (est)	10 075	19 946	30 021	4.0
2003-04 (proj)	10 960	19 486	30 446	3.8
2004-05 (proj)	11 775	19 478	31 253	3.7
2005-06 (proj)	12 625	19 814	32 439	3.7
2006-07 (proj)	13 450	20 302	33 752	3.6

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

The projected decline largely reflects the impact of the policy decision to remove accelerated depreciation for plant and equipment (B52)[1] with effect from 2001-02. The accelerated depreciation for plant and equipment is estimated to decline from a large positive tax expenditure in 1999-2000 to a large negative tax expenditure in 2006-07. It becomes a negative tax expenditure because accelerated depreciation merely brings forward tax deductions; hence deductions in coming years for investments made before accelerated depreciation was removed will be lower than they would have been under the benchmark.

2.3 Large tax expenditures

Table 2.2 provides a list of the largest measured tax expenditures, in terms of their absolute magnitude, for 2003-04. The twelve largest positive tax expenditures account for around 78 per cent of the aggregate value of tax expenditures in 2003-04.

The largest tax expenditure is the concessional treatment of funded superannuation (C1) which is estimated to provide a benefit to taxpayers of around $10.5 billion in 2003-04. The next largest measured tax expenditures for 2003-04 are the income tax exemption of the Family Tax Benefit, Parts A and B (A36) and the capital gains tax

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

discount for individuals and trusts (E15). These tax expenditures are estimated to provide a benefit to taxpayers in 2003-04 of around $2.6 billion and $2.4 billion respectively.

The largest negative tax expenditures in 2003-04 are the higher rate of excise levied on cigarettes (F1) and the reduced deductions allowed under the accelerated depreciation regime for plant and equipment (B52). These tax expenditures are estimated to be around -$1.3 billion and -$0.7 billion respectively.

Table 2.2: Large measured tax expenditures in 2003-04

Tax Expenditure		Value $
Large positive tax expenditures		
C1	Concessional taxation of funded superannuation	10,490
A36	Exemption of Family Tax Benefit, Parts A and B, including expense equivalent	2,560
E15	Capital gains tax 50 per cent discount for individuals and trusts	2,360
A28	Senior Australians' Tax Offset	1,670
D26	Application of statutory formula to value car benefits	1,070
A35	Exemption of certain income support benefits, pensions or allowances	960
A27	Tax offset for recipients of certain social security benefits, pensions or allowances	930
A22	Exemption of 30 per cent private health insurance refund, including expense equivalent	850
F6	Exemption from excise for 'alternative fuels'	830
C3	Concessional treatment of non-superannuation termination benefits	780
F5	Concessional rate of excise levied on aviation gasoline and aviation turbine fuel	750
B86	Exemption from interest withholding tax on widely held debentures	650
Large negative tax expenditures		
F1	Higher rate of excise levied on cigarettes with less than 0.8 grams of tobacco	-1,340
B52	Accelerated depreciation allowance for plant and equipment	-680

2.4 Trends in tax expenditures by function

Total measured tax expenditures by functional category are reported in Table 2.3 for the period 2000-01 to 2006-07. Significant movements in functional categories are listed below.

- The increase in total agriculture, fisheries and forestry tax expenditures from 2000-01 to 2002-03 reflects a significant increase in the value of tax expenditures aimed at smoothing the impact of fluctuating incomes for primary producers (B11 and B19). The estimates of these tax expenditures are expected to fall in 2003-04 reflecting the impact of the drought on farm income.
  - While the cost of income tax averaging rose, the main increase is due to strong growth in Farm Management Deposit Scheme contributions by primary producers. Due to the volatility of farm incomes and the uncertain impact of the drought on the level of Farm Management Deposit Scheme deposits, these tax

expenditures are reported as unquantifiable beyond 2003-04, which results in a significant decline in total tax expenditures in 2004-05.

- The significant fall in the cost of mining, manufacturing and construction tax expenditures results from the decision to remove accelerated depreciation for plant and equipment (B52).

- The consistent growth in the social security and welfare tax expenditures reflect the growth in the tax concessions for funded superannuation (C1).

- The changes in the estimated value of health tax expenditures reflect: a change in the classification of the refundable tax offset for private health insurance (A21) and movements in the estimated tax concessions for registered health benefit organisations (B1) and high sulphur diesel (F3).

  – The reduction in total health tax expenditures relative to the *2002 Tax Expenditures Statement* reflects the negative tax expenditure for the higher rate of excise on cigarettes (F1), which was previously unquantifiable.

Table 2.3: Aggregate tax expenditures by function[(a)]

	Estimates ($m)			Projections ($m)			
	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
General public services							
A. Legislative and executive affairs	2	1	1	1	1	1	1
B. Financial and fiscal affairs	0	0	0	0	0	0	0
C. Foreign affairs and economic aid	238	329	443	503	547	626	706
D. General research	0	0	0	0	0	0	0
E. General services	11	8	9	9	9	10	10
F. Govt superannuation benefits	0	0	0	0	0	0	0
Defence	86	93	98	103	89	89	89
Public order and safety	0	0	0	0	0	0	0
Education	6	5	6	6	6	7	7
Health	75	270	45	45	101	246	287
Social security and welfare	18 615	18 335	19 224	20 168	21 346	22 287	23 249
Housing and community amenities	645	775	615	530	550	560	590
Recreation and culture	68	53	50	58	58	64	66
Fuel and energy	1 885	1 830	1 785	1 830	1 840	1 855	1 875
Agriculture, fisheries and forestry	531	633	852	667	74	75	79
Mining and mineral resources (other than fuels), manufacturing and construction	2 498	1 305	381	- 316	- 528	- 631	- 660
Transport and communications	40	50	70	57	57	57	57
Other economic affairs							
A. Tourism and area promotion	85	45	40	40	45	45	45
B. Labour and employment affairs	21	14	10	10	10	10	10
C. Other economic affairs, nec(b)	2 943	4 033	4 265	4 756	4 963	5 136	5 248
Other purposes							
A. Public debt interest	0	0	0	0	0	0	0
B. Nominal superannuation interest	0	0	0	0	0	0	0
C. General purpose inter-government transactions	0	0	0	0	0	0	0
D. Natural disaster relief	0	0	0	0	0	0	0
E. Contingency reserve	0	0	0	0	0	0	0
Not allocated to function	2 027	1 991	2 127	1 979	2 085	2 002	2 093
Total(c)	**29 776**	**29 770**	**30 021**	**30 446**	**31 253**	**32 439**	**33 752**

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

2.5 Comparison with direct expenditure

The tax expenditure estimates for 2002-03 by functional category are presented alongside direct government expenditure in Table 2.4. The list of direct expenditures by function is reproduced from Table 3 of the *2002-03 Final Budget Outcome*.

Table 2.4: Aggregate tax expenditures and direct expenditures by function in 2002-03

	Tax expenditures(a) $m	Direct expenditures $m
General public services		
A. Legislative and executive affairs	1	781
B. Financial and fiscal affairs	0	3 187
C. Foreign affairs and economic aid	443	2 364
D. General research	0	1 830
E. General services	9	553
F. Govt superannuation benefits	0	2 095
Defence	98	13 143
Public order and safety	0	2 104
Education	6	12 342
Health	45	29 734
Social security and welfare	19 224	71 763
Housing and community amenities	615	1 733
Recreation and culture	50	2 111
Fuel and energy	1 785	3 474
Agriculture, fisheries and forestry	852	1 945
Mining and mineral resources (other than fuels), manufacturing and construction	381	1 519
Transport and communications	70	2 268
Other economic affairs		
A. Tourism and area promotion	40	134
B. Labour and employment affairs	10	3 151
C. Other economic affairs, nec(b)	4 265	691
Other purposes		
A. Public debt interest	0	4 627
B. Nominal superannuation interest	0	5 350
C. General purpose inter-government transactions	0	3 638
D. Natural disaster relief	0	141
E. Contingency reserve	0	- 144
Not allocated to function	2 127	0
Total(c)	**30 021**	**170 534**

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

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

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

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

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

The addition of tax expenditures and direct expenditures will also tend to overstate the impact on the fiscal balance. For example, in the case of the exemption of certain income support benefits, pensions or allowances (A35) the direct expenditure column includes the full cost to government of the program; however there is also an associated tax expenditure for the value of the income tax exemption to the recipient.

As reported in Table 2.4, total measured tax expenditures in 2002-03 are valued at around $30 billion. Social security and welfare tax expenditures comprise around 64 per cent of total measured tax expenditures, which largely reflects the concessional taxation of funded superannuation (C1) and the income tax exemption of the Family Tax Benefit, Parts A and B (A36).

When compared to the sum of both total measured tax expenditures and total direct expenditure, total government assistance provided through tax expenditures is expected to remain at around 14-16 per cent. Table 2.5 shows that this ratio has been fairly steady at around this level over recent years.

Table 2.5: Trends in tax expenditures versus direct expenditures

Year	Tax expenditures	Direct expenditures (a)	Tax expenditures as a proportion of total expenditures (b)
	$m	$m	Per cent
1999-00 (est)	28 584	154 481	15.6
2000-01 (est)	29 776	156 817	16.0
2001-02 (est)	29 770	166 525	15.2
2002-03 (est)	30 021	170 534	15.0
2003-04 (proj)	30 446	178 031	14.6
2004-05 (proj)	31 253	186 521	14.4
2005-06 (proj)	32 439	194 176	14.3
2006-07 (proj)	33 752	202 351	14.3

(a) Source: Statement 13, Budget Paper Number 1, 2003-04 Budget.
(b) Tax expenditures as a proportion of direct expenditures *plus* tax expenditures.

CHAPTER 3: MEASURING TAX EXPENDITURES

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

3.1 Approaches to measuring tax expenditures

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

- The *revenue forgone approach* measures how much tax revenue is reduced (relative to a benchmark) because a tax expenditure exists. It is an ex-post measure of the cost of a particular tax concession that compares the current treatment and the benchmark treatment, assuming taxpayer behaviour is unchanged.

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

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

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

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

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

3.2 Interpretation of tax expenditure estimates

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

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

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

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

Furthermore, in cases where the level of activity is highly sensitive to the concession's existence, the increase in revenue from removing this tax expenditure could be very small. In these cases, reporting tax expenditure estimates as the cost to revenue would give the impression that the tax expenditure has little material effect when actually the recipients derive quite large financial benefits. Therefore, for this statement it is neither practical nor desirable to incorporate potential responses to the removal of a tax expenditure into the estimates.

Tax expenditure estimates may, in some cases, differ from budget estimates because tax expenditures are estimated relative to designated benchmarks. For example, the tax expenditures for the capital gains tax discount applying to individuals are measured relative to a benchmark of full taxation of capital gains. The estimates reflect the projected level of capital gains realisations since introduction of the concession on 21 September 1999. In contrast, the revenue impact of the concession is estimated against the benchmark of the revenue already included in the budget forward estimates. The budget estimates for implementing the capital gains tax discount measures take into account the offsetting impacts on revenue of removing capital gains tax indexation and averaging and the revenue dividend arising from increased realisations which formed part of the existing revenue base.

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

Tax expenditure estimates are separated into estimates (for historical years) and projections (for future years). The estimates for 2002-03 are preliminary and subject to revision upon receipt of further tax data.

3.3 Accrual estimates

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

Alternative methods of revenue recognition include:

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

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

3.4 Technical notes

TREATMENT OF IMPUTATION

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

CAPITAL GAINS TAX ESTIMATES

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

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

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

CHAPTER 4: BENCHMARKS

4.1 Defining benchmarks

WHAT IS A TAX EXPENDITURE BENCHMARK?

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

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

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

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

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

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

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

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

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

4.2 Income tax benchmark

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

GENERAL FEATURES

Tax base

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

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

Income derived from earning activities includes:

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

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

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

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

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

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

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

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

- Imputed rent from owner-occupied housing is not included in income, and expenditure incurred in earning imputed rent is not deductible.
- The mutuality principle excludes certain receipts by mutual associations and societies from income on the basis that a mutual society is made up of its members and cannot derive income from dealings with members.
- Certain gains, such as gains received by way of compensation or damage for any wrong or injury suffered by a taxpayer (where they are not solely for the loss of income), or gains or winnings from gambling (where taxpayers are not considered to be carrying on a business of gambling), are not included in income.

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

- Investment income derived from income bonds, funeral policies and scholarship plans of friendly societies that were issued before 1 January 2003 are not included in income.
  - Income relating to policies issued after 1 January 2003 is included in a friendly society's assessable income.
  - To prevent double taxation of income from bonds, funeral policies and scholarship plans, friendly societies can deduct the investment component of the benefits paid out to policyholders (other than the benefits from scholarship plans that are returned to investors rather than paid to the nominated students).
- Losses are deductible against assessable income for a later income year. Losses generally cannot be transferred to other taxpayers, and some losses may only be claimed against certain types of future income (quarantining of capital and foreign losses).

Arrangements to prevent double taxation

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

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

International tax arrangements

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

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

- Resident taxpayers are allowed to claim foreign tax credits up to the amount of Australian tax payable on foreign income. These arrangements ensure foreign source income is not taxed twice, firstly when earned overseas, then again in Australia.
- The controlled foreign company, foreign investment fund and transferor trust rules ensure Australian residents cannot escape or defer taxation of tainted income by interposing a non-resident legal entity.

– Tainted income is generally income derived by investments which are mobile and whose location probably was influenced primarily by tax considerations. It includes passive income such as interest, royalties and dividends, and highly mobile forms of active income.

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

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

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

Tax rates and income brackets

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

The personal income tax system includes the progressive personal income tax rate scale, the tax-free threshold and the Medicare levy. The progressive income tax rate scale is an integral and longstanding feature of the tax system. The income tax offset for low-income earners (A30) is excluded from the benchmark because it is not available to all taxpayers.

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

Tax unit

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

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

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

Taxation period

The taxation period adopted under the income tax benchmark is the financial year. Consequently, measures that defer taxable income to another financial year such as income averaging (A46 and B11) or the farm management deposit scheme (B19) are reported as tax expenditures. Tax deferral arrangements will generally give rise to tax expenditures in the year income is earned, offset by a negative tax expenditure when the income is taxed.

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

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

General features of the income tax benchmark

The personal income tax benchmark comprises:

- a tax base including all nominal income less expenses incurred in earning income;
- a tax rate including existing tax rates and income tax brackets;
- the individual as the tax unit; and
- the financial year as the tax period.

The business income tax benchmark comprises:

- a tax base including all nominal income less expenses incurred in earning income;
- a tax rate as the existing rate that applies to the entity;
- the individual company (or head entity of a consolidated group) as the tax unit; and
- the financial year (or substituted accounting period) as the taxation period.

RETIREMENT BENEFITS TAX BENCHMARK

Contributions to and earnings of superannuation funds are classified as income under the Schanz-Haig-Simons definition. This section details how the general income tax benchmark is applied to superannuation and retirement benefits.

Superannuation in Australia may be taxed at three stages:

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

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

Special features of the retirement benefits tax benchmark

The retirement benefits tax benchmark comprises:

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

FRINGE BENEFITS TAX BENCHMARK

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

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

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

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

Special features of the fringe benefits tax benchmark

The fringe benefits tax benchmark comprises:

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

CAPITAL GAINS TAX BENCHMARK

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

The tax base for the capital gains tax benchmark is realised nominal gains and losses. The benchmark only includes gains or losses arising from the realisation of property where the realisation is not an aspect of the carrying on of a business. This excludes

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

gains or losses that form part of a business's normal trading activities from the capital gains benchmark, for instance, gains or losses on trading stock of a business and gains or losses realised in the business of trading particular assets. These gains or losses are dealt with under the general features of the income tax benchmark.

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

Consistent with the general features of the income tax benchmark, the benchmark for Australian residents is their worldwide capital gains. Non-residents are taxed on Australian-source capital gains except where the difficulties and costs associated with collecting this tax would make it impractical. For example, a capital gains tax exemption applies to non-residents who sell a portfolio interest in an Australian public company (a portfolio interest is an interest of less than 10 per cent).

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

Special features of the capital gains tax benchmark

The capital gains tax benchmark comprises:

- a tax base as nominal gains (losses) from the realisation of property;
- a tax rate including the existing tax rates and income tax brackets;
- the individual, company or fund as the tax unit; and
- the financial year (or substituted accounting period) as the tax period.

4.3 Commodity tax benchmark

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

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

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

CONSUMPTION TAX BENCHMARK

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

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

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

General features of the consumption tax benchmark

The commodity tax benchmark comprises:

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

Tobacco

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

Fuel (or energy)

The tax base for the consumption of all fuel (or energy) is the volume of fuel consumed, adjusted for the energy content in the case of alternative fuels with lower energy contents such as liquefied petroleum gas (LPG), liquefied natural gas (LNG) and ethanol.

The benchmark excise rate for the consumption of fuel is the base rate of excise that applies to unleaded petrol and ultra low sulphur diesel, excluding any transitional taxes imposed for purposes such as accelerating the introduction of cleaner fuels.

Alcoholic beverages

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

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

The taxation of these activities reflects a longstanding feature of the tax system whereby different tax rates apply to beer, spirits and wine. The benchmark excise rates are noted below.

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

Motor vehicles

Motor vehicle purchases are not taxed under the benchmark. Consequently, the luxury car tax (F15) is a negative tax expenditure.

TAXES ON NATURAL RESOURCES (PETROLEUM)

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

- The benchmark for projects that commenced after 1986-87 is the petroleum resource rent tax.

- The benchmark for projects that commenced prior to 1 July 1986 is the crude oil excise.

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

General features of the benchmark for the taxation of natural resources

The petroleum resource rent tax benchmark comprises:

- the tax base as all income from offshore petroleum production less eligible project expenditures;

- the tax rate as the current petroleum resource rent tax rate (40 per cent); and

- the individual or company that has the legal obligation to pay the tax as the tax unit.

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

- the tax base as the barrel equivalent production of crude oil;

- the tax rate as the existing rates of tax that apply to crude oil; and

- the entity that has the legal obligation to pay the tax as the tax unit.

CHAPTER 5: NEW, MODIFIED AND DELETED TAX EXPENDITURES

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

5.1 New tax expenditures

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

Table 5.1: New tax expenditures

TES code	Tax expenditure description	Reason for new tax expenditure
INCOME **Personal**		
A33	A taxpayer can be released from a tax liability where payment of the liability would cause serious hardship.	Existing measure not previously recognised as a tax expenditure
A34	A tax deduction will be available for tax agent fees for family tax benefit claims relating to the 2001-02 income year lodged through Centrelink between 1 July 2003 and 30 June 2004.	New policy measure included in the *2003-04 Mid-Year Economic and Fiscal Outlook*
A45	Payments made under the First Home Owners Grant Scheme are exempt from tax.	Existing measure not previously recognised as a tax expenditure
A50	Higher rates of taxation apply to the 'unearned income' of certain minors.	Existing measure not previously recognised as a negative tax expenditure
A51	A part-year tax-free threshold applies to students who first cease full-time studies, new Australian residents and taxpayers who cease Australian residence.	Existing measure not previously recognised as a negative tax expenditure

Table 5.1: New tax expenditures (continued)

TES code	Tax expenditure description	Reason for new tax expenditure
Business		
B10, B32	Payments made under the refundable film tax offset and the refundable research and development (R&D) tax offset are exempt from tax. In addition, recipients of the R&D tax offset are denied deductions for carry-forward losses because the value of those deductions is contained with the offset.	The film tax offset and refundable research and development tax offset are now recorded as expense items. These reporting changes give rise to new tax expenditures.
B20	Grants to individuals who exit the sugar industry under the Sugar Industry Reform Program are exempt from tax if the recipient remains out of the agricultural industry for at least five years.	Existing measure not previously recognised as a tax expenditure
B31	Perpetual subordinated debt instruments may be treated as debt for tax purposes under certain circumstances, thereby allowing the issuer of the perpetual subordinated debt to claim a deduction.	New policy measure reported in the *2003-04 Budget*
Capital gains tax		
E5	A capital gains tax roll-over is available for a fund that amends or replaces its trust deed in order to become an approved worker entitlement fund for fringe benefits tax purposes.	New policy measure reported in the *2003-04 Budget*
E7	An automatic capital gains tax roll-over applies for eligible financial service providers on transition to the Financial Services Reform regime.	New policy measure reported in the *2003-04 Budget*
E8	An exemption applies to capital gains or losses on assets acquired before 20 September 1985.	Modification to the capital gains tax benchmark
E9	An automatic roll-over applies where a capital gains tax asset is transferred to a spouse or former spouse because of a marriage breakdown.	Modification to the capital gains tax benchmark
E10	There is no capital gains tax taxing point when a taxpayer dies.	Modification to the capital gains tax benchmark
E11	Capital gains realised by Australian companies and controlled foreign companies on disposal of non-portfolio interests in foreign companies with active businesses are exempt from capital gains tax.	New policy measure reported arising from the Review of International Tax Arrangements reported in the *2003-04 Budget*

Table 5.1: New tax expenditures (continued)

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

5.2 Modified tax expenditures

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

Table 5.2: Modified tax expenditures

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

Table 5.2: Modified tax expenditures (continued)

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

Table 5.2: Modified tax expenditures (continued)

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

Table 5.2: Modified tax expenditures (continued)

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

Table 5.2: Modified tax expenditures (continued)

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

5.3 Deleted tax expenditures

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

Table 5.3: Deleted tax expenditures

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

CHAPTER 6: TAX EXPENDITURES

6.1 Introduction

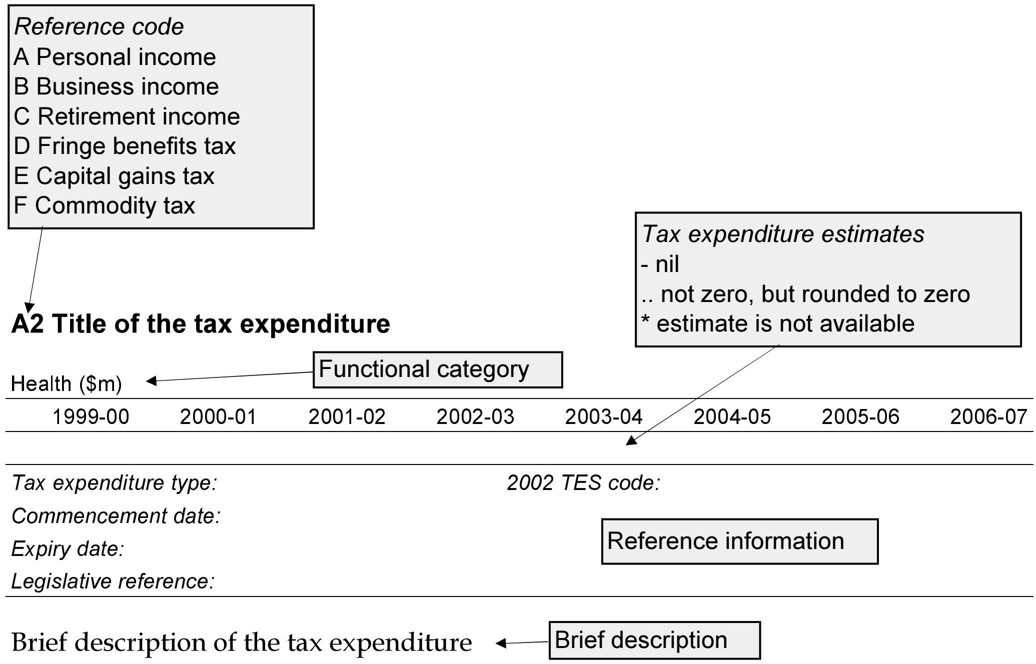
This chapter provides information on all Commonwealth tax expenditures. Details include a description of the tax expenditure, its commencement date and (where applicable) its expiry date, legislative references for the tax expenditure and estimates of the annual benefit derived by the recipients of the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



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.

APPENDIX A: MODELLING TAX EXPENDITURES

This Appendix provides an overview of the various modelling techniques used in this statement to estimate the value of tax expenditures.

The methods used to calculate the estimates of individual tax expenditures in this statement vary between tax expenditures. The approach taken depends on the nature of the tax benchmark, the particular tax concession examined and the availability of data. Data availability is also a major factor in determining the reliability of the estimates, and in many cases estimates are not provided due to data limitations.

The approaches used to estimate tax expenditures include aggregate modelling, distributional modelling and microsimulation. The most commonly used approach is distributional modelling, generally by adopting data derived from microsimulation analysis.

A.1 Aggregate modelling

This approach involves using information on the aggregate volume of transactions to calculate the value of a particular tax concession. This is most appropriate for a concession with a simple proportional value of the total transactions concerned and for tax exemptions. Data sources suitable for aggregate modelling include national accounts data, aggregates derived from administrative databases (such as taxation records), and trade and production statistics.

Aggregate modelling typically is used to estimate tax expenditures in fuel excise, where exemptions or reduced rates of excise for particular fuels can be estimated from statistics on the volume of those fuels produced.

A.2 Distributional modelling

This approach involves using more detailed aggregate data to calculate the impact of tax concessions on particular segments of the economy. It is most appropriate for concessions directed towards a particular group of taxpayers and for assistance that changes according to the variables used to analyse the data. Data sources suitable for distributional modelling include survey data and data derived from administrative databases.

Distributional modelling is used to estimate tax expenditures in personal income tax concessions when the cost of which is related to a taxpayer's taxable income. For these concessions, data on income distribution and tax concessions by grade of taxable income can be used to estimate the cost of tax expenditures on those concessions.

A.3 Microsimulation

This approach involves examining detailed datasets, such as taxpayer records, to determine the value of taxable transactions for each taxpayer and the amount of tax paid on them. This information then is used to calculate how much tax would apply to those transactions under the benchmark tax treatment, calculating the value of the tax expenditure by subtracting the actual tax collected from the benchmark amount. This approach requires either a comprehensive database for all taxpayers or a detailed sample that can represent the population. It must sufficiently detail the value of transactions affecting the calculation of tax liabilities to allow the required calculations.

Microsimulation modelling is especially useful for calculating concessions that closely target particular taxpayer groups (for instance benefits subject to detailed eligibility tests) and for which the payment rate varies considerably according to taxpayer behaviour or circumstance.

Microsimulation modelling also can be used to derive data for use as an input to calculating tax expenditures using an aggregate or distributional modelling approach. This approach uses the microsimulation model to derive key information, such as the average effective tax rates to use in other models. It is suitable for situations where detailed datasets are not available for all data items.

APPENDIX B: CONCESSIONAL TAXATION OF FUNDED SUPERANNUATION

B.1 Scope

This Appendix sets out the estimated tax expenditures related to the superannuation system for 1999-2000 to 2002-03 and forward projections for the following four years. It also briefly examines some conceptual issues relating to the interpretation of these estimates.

The key features of the taxation of superannuation relate to the treatment of contributions, earnings and benefits. As outlined in the retirement benefits benchmark, funded superannuation in Australia is taxed at three stages:

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

The benchmark treatment of superannuation is that *contributions* are taxed like any other income in the hands of the employee, *earnings* are taxed like any other investments in the hands of the investor and *benefits* from superannuation are untaxed. Any costs associated with superannuation investments are deductible under the benchmark.

Australia's taxation treatment of funded superannuation varies from the benchmark. Contributions and earnings are taxed concessionally relative to the benchmark but partially offsetting these concessions is the taxation of superannuation benefits. Consequently, the tax concessions identified individually in Table B1 should be understood as part of an integrated system. This system is significantly concessional taken as a whole. This concessional treatment reflects the requirement to preserve superannuation until retirement and encourages individuals to undertake private savings in order to secure a higher standard of living in retirement than would be possible from the age pension alone.

The calculation of the estimates requires projections of contributions, earnings and eligible termination payments (ETPs). The estimates use Australian Taxation Office and RIMGROUP[1] projections of contributions, earnings and payouts. They also assume that tax is collected from superannuation funds in the year in which the contributions and earnings occur.

B.2 Interpretation

The estimate of the tax expenditure in the forward projections is not necessarily indicative of the cost of the superannuation concessions over the long term:

- the taxes on superannuation pensions and lump sums could be expected to provide a greater offset to the cost of the under-taxation of contributions in future years, when there are larger numbers of taxpayers drawing down their superannuation savings relative to the numbers in the accumulation phase; and
- the current superannuation tax concessions will have an (intended) impact on certain direct budgetary expenses in future years, particularly age pension payments.

Further, the estimates in Table B1 cannot be interpreted as a time series of the ongoing revenue savings that could be obtained if the superannuation concessions were eliminated. This is because the increase in tax revenue arising from the elimination of the tax expenditures with respect to a particular year would cause the superannuation tax base to be smaller for the next year. For example, if contributions and fund earnings in 2002-03 had been taxed according to the retirement benefits benchmark, superannuation fund assets, and hence fund earnings, would be lower in 2003-04 than if the concessional tax treatment had applied in the previous year. The increase in tax due to taxation under the benchmark in 2003-04 would, in these circumstances, be lower than if the superannuation concessions had applied in 2002-03.

In addition, the estimated cost of the superannuation tax expenditure assumes no behavioural change involving either the portfolio composition or the saving rate. To the extent that this is an unrealistic assumption, the budgetary cost of these concessions will be overestimated.

B.3 Estimates

The separate components of the overall superannuation tax expenditure which are listed in Table B1 are explained further below.

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1 RIMGROUP is the model used by Treasury's Retirement and Income Modelling Unit to project superannuation fund contributions, earnings and payouts as well as related retirement income, social security and taxation aggregates.

1. UNDER TAXATION OF EMPLOYER CONTRIBUTIONS

The benchmark treatment for contributions by employers to superannuation funds is that they are taxed like any other income in the hands of the employee (that is, contributions are taxed at the employee's marginal tax rate) and are deductible to the employer. However, employer contributions after certain costs of the superannuation fund are deducted, are taxed at a concessional rate of 15 per cent. The superannuation surcharge for higher income earners also applies to some contributions.

The application of the benchmark treatment rather than the concessional tax rates to these contributions would increase tax revenue by the amounts indicated.

2. DEDUCTION FOR CONTRIBUTIONS BY THE SELF-EMPLOYED

Contributions to complying superannuation funds are fully tax deductible to employers up to the employee's age-based deduction limit. Self-employed persons receive a full tax deduction for the first $5,000 of contributions plus 75 per cent of any remaining contributions up to their age-based deduction limit. Under the benchmark, contributions by the self-employed to superannuation funds are not deductible on the basis that the contributions are not outgoings.

If the level of contributions made by the self-employed were maintained but the contributions were not deductible, revenue would be higher by the amounts indicated.

3. UNDER TAXATION OF FUND EARNINGS

The benchmark treatment for the earnings of superannuation funds is that they are taxed like any other income in the hands of an investor (that is, earnings are taxed at the investor's marginal tax rate). However, the earnings of complying superannuation funds, after certain costs of the funds are deducted, are taxed at a concessional rate. The tax rate is 15 per cent, however earnings on investments that are supporting pensions or annuities are not taxed. Complying superannuation funds are also entitled to refunds of excess imputation credits attached to dividends payable to the fund.

Item three reflects the extra tax that would be collected if superannuation earnings were held constant, but were taxed at members' personal tax rates rather than fund rates.

4. MEASURES FOR LOW-INCOME EARNERS

Low-income earners receiving superannuation support were eligible for a tax rebate on personal superannuation contributions made to a superannuation fund before

1 July 2003. The low-income earners rebate was based on the annual contribution made by the low-income earner. Specifically, the rebate was 10 per cent of the lesser of:

- the annual contribution made; and
- $1,000 (where the taxpayer's income is $27,000 or less, phasing out at $31,000).

This rebate has been repealed and replaced with a much more extensive Government superannuation co-contribution applying to eligible personal superannuation contributions made on or after 1 July 2003.

The maximum co-contribution of $1,000 is payable for qualifying low-income earners on incomes[2] of $27,500 or less making eligible personal superannuation contributions of $1,000. The maximum co-contribution reduces by 8 cents for each dollar of income over $27,500, phasing out completely at an income of $40,000.

The co-contribution measure is aimed at encouraging low-income earners to make greater personal contributions into superannuation, thus achieving greater self-reliance in retirement.

The amounts indicated represent the impact of the Government co-contribution not being taxed at the contribution tax rate of 15 per cent, and the value of the rebate in the past.

5. SPOUSE CONTRIBUTIONS AND REBATES

An 18 per cent rebate is available for post-tax contributions to the superannuation account of a spouse (where the total of assessable income and reportable fringe benefits for the spouse is less than $13,800). The rebate applies up to a maximum annual contribution of $3,000 where the spouse income is $10,800 or less, reducing dollar for dollar above that amount. The amounts reported are the value of the rebate.

The spouse contribution measure is intended to assist families to maximise the benefits available in superannuation and provide an avenue for spouses to share their superannuation benefits.

6. CAPITAL GAINS TAX DISCOUNTS FOR FUNDS

Capital gains on superannuation investments are taxed. However, only two thirds of any nominal capital gain is included in the assessable income of a fund when it disposes of an asset that it has held for at least one year. This measure was introduced

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2 Income is defined as assessable income plus reportable fringe benefits.

in 1999 together with the freezing of indexation in capital gains tax calculations. The effect of this item is in addition to the effect of lower tax rates for superannuation investments reported in item three. The amounts reported reflect the additional tax that would be raised at fund rates on the same investments if total nominal capital gains were taxed instead of discounted gains or gains with frozen indexation.

7. TAX ON FUNDED PENSIONS

Pension and annuity payments received by a taxpayer are included in their assessable income and are subject to tax at marginal rates. However, annuities or pensions paid from a taxed fund to a taxpayer aged 55 or over generally attract a tax rebate of 15 per cent. The tax raised on pensions and annuities reduces the total superannuation tax expenditure, because under the benchmark withdrawals from superannuation are tax-free.

8. TAX ON FUNDED LUMP SUMS BEFORE 1 JULY 1983

The part of a lump sum benefit relating to service prior to July 1983 is taxed at a lower rate. Only 5 per cent of these amounts is included in a taxpayer's assessable income and subject to tax at marginal rates. This more concessional treatment reflects the fact that the current regime for taxing eligible termination payments did not exist before this time and applying the current tax rates to these benefits would impose a tax retrospectively. The amounts reported are the tax raised on these lump sums.

9. TAX ON FUNDED LUMP SUMS FROM 1 JULY 1983

Funded lump sums are generally taxed at 20 per cent (plus Medicare levy) where the taxpayer is aged under 55 years. For taxpayers aged 55 or over, the elements of any lump sum benefit taxed during the accumulation stage are typically taxed at zero per cent up to the lump sum threshold and 15 per cent (plus Medicare levy) thereafter. Some superannuation benefits are not taxed during the accumulation phase, for example because the fund is protected from any taxation by the constitution. For elements untaxed during accumulation, the corresponding taxation rates are typically 15 per cent (plus Medicare levy) and 30 per cent (plus Medicare levy) respectively for taxpayers aged 55 or over, and 30 per cent (plus Medicare levy) where the taxpayer is under age 55. The amounts reported are the tax raised on these lump sums.

COMPARABILITY OF ESTIMATES WITH THOSE PUBLISHED PREVIOUSLY

These estimates are comparable with those published in the 2002 Tax Expenditures Statement, with the significant exception that unfunded superannuation is now a separate tax expenditure (C2). To obtain a comprehensive number for superannuation that is comparable to the 2002 estimates, C1 and C2 should be added.

New policy measures, such as changes in the surcharge rate, have been incorporated into the estimates. Each year there are also variations arising from the revision of earnings estimates. The taxable earnings of superannuation funds are not readily predictable. A major reason is that it lies within the discretion of a fund manager to decide when any accrued capital gains of a fund are realised. In addition, the earnings series is intrinsically volatile, reflecting fluctuations in interest rates and dividends. Fund earnings have been 'smoothed out' for the forward projections.

Table B1: Concessional taxation of funded superannuation,[a] 1999-2000 to 2006-07

	1999-00 ($m)	2000-01 ($m)	2001-02 ($m)	2002-03 ($m)	2003-04 ($m)	2004-05 ($m)	2005-06 ($m)	2006-07 ($m)
Costs								
1 Under taxation of employer contributions (b)	5010	4400	4810	5410	5850	6230	6630	6960
2 Deduction for contributions by the self-employed	220	190	220	230	260	270	280	300
3 Under taxation of fund earnings	5380	4630	3820	4050	4420	4780	5200	5660
4 Measures for low-income earners (c)	10	10	10	10	10	65	65	60
5 Spouse contributions and rebates	10	15	15	15	20	20	20	20
6 Capital gains tax discounts for funds	-	300	210	250	310	340	380	410
Sub-total (d)	10,630	9,545	9,085	9,965	10,870	11,705	12,575	13,410
Less offsets								
7 Tax on funded pensions	(e)	(e)	(e)	(e)	(e)	(e)	(e)	(e)
8 Tax on funded lump sums before 1 July 1983	-25	-20	-20	-20	-20	-20	-20	-20
9 Tax on funded lump sums from 1July 1983	-400	-310	-320	-340	-360	-380	-400	-410
Sub-total (d)	-425	-330	-340	-360	-380	-400	-420	-430
Total tax expenditures	**10,205**	**9,215**	**8,745**	**9,605**	**10,490**	**11,305**	**12,155**	**12,980**

(a) The concessional treatment of unfunded superannuation (C2) and the concessional treatment of non-superannuation benefits (C3) are reported as separate tax expenditures and are not included in this table.
(b) Includes the revenue impact of the surcharge on superannuation contributions for high income earners.
(c) For years up to 2002-03 this line shows the level of the tax offset available to low income earners who made personal contributions. From 2003-04 the line shows the impact of the government co-contribution being untaxed.
(d) Totals may not sum due to rounding.
(e) Indeterminate, but likely to be insignificant.

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