Department of the Treasury

TAX EXPENDITURES STATEMENT

1996–97

December 1997

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Introduction

This Tax Expenditures Statement (TES) provides details on the financial benefits that individuals and businesses derive from taxation concessions of various kinds. These concessions are usually delivered by tax exemptions, tax deductions, tax rebates or reduced tax rates. They lower the tax burden by either reducing or delaying the collection of taxation revenue.

The benefits provided by the tax concessions could equally be delivered in the form of direct expenditures (outlays). The Government can use taxation concessions to allocate resources to different activities in much the same way that it can use direct expenditure programmes. For this reason, and noting their direct impact on the underlying budget deficit, these concessions are generally called ‘tax expenditures’.

To allow for a more transparent and complete assessment of public funding, information is presented in this Statement about the magnitude of public assistance that is provided via concessional taxation treatment, and the sectors to which the assistance is provided. These figures provide information on the cost of tax expenditures and hence on the level of tax assistance provided to various groups. Details are also provided on the trends in tax expenditures, a comparison with direct outlays assistance, and the level of tax expenditure by taxpayer affected. Additional detail on methodological issues, including a detailed discussion of the retirement income tax expenditures is presented in Appendices.

Estimates and Forward Projections

It is generally easier for governments to estimate the cost of spending programmes than it is to estimate the revenue forgone as a result of concessional tax treatment. This has meant that many tax expenditures typically go uncosted, because the estimates are likely to be quite imprecise and only indicate broad orders of magnitude. Nonetheless, tax policy decisions are better served by broad indications of the cost of a tax expenditure than none at all. Where an estimate is not available, policy decisions are made more difficult. In some cases, the cost to revenue of expenditures can be estimated using tax return data, otherwise the cost can be estimated using census data or other official statistics.

This Statement continues the practice initiated in the 1990 TES of providing estimates of identified tax expenditures for the year in which the impact on revenue occurs. In Statements prior to 1990, most tax expenditures for income tax were costed on the basis of the income year in which use of the provision was made. This may differ from the year of impact on revenue because of lags in collection.

Historical data on the cost of tax expenditures has been provided for the years 1993-94 to 1996-97.

Forward projections of the cost of individual tax expenditures are included for the years 1997-98 to 2000-01. They have been provided to enable broad comparison with estimates for outlays over the next four years. The inclusion of forward projections is consistent with the requirements of the Charter of Budget Honesty.

The qualifications and caveats associated with costing tax expenditures (see Appendix C) assume greater importance in relation to the production of forward projections. For example, it is likely that the measured cost of aggregate tax expenditures is likely to be an underestimate of the actual cost of concessions in the tax system. Nevertheless, if these cautions are borne in mind, it is considered that fiscal analysis is aided by the publication of these forward projections.

The nature of tax expenditures is such that it is not possible to accurately forecast their cost (in many cases it is not even possible to provide reliable historical estimates). The forward projections presented in the TES are generally derived by extrapolating historical trends or applying broad growth factors (for example changes in the projected Consumer Price Index); in others, such as the superannuation concessions, by more detailed modelling.

The forward projections include the effect on particular tax expenditures of measures announced in the 1997-98 Budget or subsequently (whether legislated or not at the time of writing this Statement).

Fringe Benefits Tax Estimates

In interpreting the fringe benefits tax (FBT) estimates, it should be borne in mind that from 1 April 1994, FBT has been levied on the tax-inclusive value of fringe benefits; that is, subject to grossing up. As part of these arrangements, an income tax deduction is allowed for employers for FBT paid from 1 April 1994. However, this deduction generally impacts on employers in the following financial year. The estimates of FBT concessions for 1994-95 for taxable employers are therefore higher than the on-going level for these tax expenditures. The estimates for 1995-96 and 1996-97 and forward projections to 2000-2001 provide a better indication of the ongoing value of FBT concessions.

- Some categories of non-government, income tax exempt bodies are eligible for a rebate of FBT. Some other employers are exempt from FBT. Where tax expenditure items refer to FBT exemptions for particular categories of employers, the estimates are based on the gross cost of the exemption, not allowing for any rebate that might otherwise have been claimable.

Revised Estimates and Projections

Some estimates or projections of the revenue forgone for certain tax expenditures provided in Table 4 or 5 of this Statement represent significant revisions to estimates or projections published in the 1995-96 TES. These are listed below. There are more significant revisions to the forward projections than to historical estimates, reflecting the more significant caveats applying to them, as discussed earlier. Index references refer to listings in Table 4 or Table 5 of this Statement. These indices are the same as used in the 1995-96 TES.

Unless otherwise noted, the revisions relate to improvements in the method used to estimate the cost of the tax expenditure and the availability of more recent tax return data or other information since last year's TES.

- *H6 — FBT exemption for employees of a State or Territory health authority who work at a public hospital.*

This has been revised upward by $50 million for each of the years 1995-96 to 1999-2000 after receipt of more detailed data from the health sector on fringe benefits provision.

- *SS4-SS6 — Dependent rebates.*

The projections have been revised upward by $50 million for 1996-97, $45 million for 1997-98, $42 million for 1998-99 and $45 million for 1999-2000.

- *SS13 — Superannuation and termination payment concessions.*

The estimate for 1995-96 has been revised upwards by $2,025 million and forward projections have been revised upwards in subsequent years by $2,450 million, $2,040 million and $1,735 million. This reflects higher than estimated taxable income, particularly fund earnings, for 1995-96 and 1996-97, which increases the base used for calculating the forward projections. The estimates for superannuation are discussed in more detail in Appendix B.

- *SS21 — FBT exemption for benefits provided by public benevolent institutions.*

The forward projections have been revised upward by $75 million for 1996-97 and 1997-98, $80 million in 1998-99 and $85 million for 1999-2000 after receipt of more detailed information and discussions with the sector.

- *AFF5 — Primary producer income averaging.*

The preliminary 1995-96 estimate has been revised upward by $57 million and the forward projections revised upward by $47 million for 1996-97 and 1997-98, $42 million for 1998-99 and $72 million for 1999-2000. The revisions reflect larger than anticipated growth in the average rebate for the 1995-96 income year.

- *NAF14 — Certain interest withholding tax (IWT) concessions.*

The preliminary 1995-96 estimate has been revised downward by $73 million to $680 million. The projections for the outyears have been revised downward by $46 million to $116 million. This tax expenditure's series is normally fairly volatile due to the volatility of its underlying components. The revisions in this year's TES primarily reflect the fall in interest rates in 1996-97 which is assumed to continue into subsequent years.

- *OEA14 — Statutory formula method for calculating the FBT taxable value of cars.*

The 1966-97 and subsequent year projections have been revised downwards by $60-$90 million reflecting the fall in interest rates in 1996-97 which is assumed to continue into subsequent years.

- *AD10 — Depreciation for income-producing residential buildings*.

The series have been revised upward by between $180 million to $325 million a year over the period 1994-95 to 1999-2000.

Trends in Tax Expenditures

Table 1 provides the estimated cost of functional category aggregates, and the total annual aggregates, for the fiscal years 1995-96 to 1996-97, and projections for the outyears 1997-98 to 2000-01. Care must be taken when interpreting these aggregates, particularly when making comparisons across time. There are several major considerations in analysing tax expenditure aggregates.

- First, many of the identified expenditures are not costed because of a lack of suitable data. In addition, those associated with the wholesale sales tax system were not able to be costed for this year's TES. It is hoped to be able to include such estimates in future years.

- Second, estimates have not been consistently provided over time. Some tax expenditures have been costed for only a few of the fiscal years that they have actually been part of the tax system. For example, the 1995-1996 TES included for the first time estimates relating to the excise exemption applying to 'alternative' transport fuels which had been in place for some years. Changes in aggregates over time will therefore reflect both changes in the cost of individual tax expenditures, and changes in the coverage of the tax expenditures being costed.

- Third, changes over time in methodology and available data used for calculating the cost of particular expenditures means that there can be quite large revisions to tax expenditure estimates. Therefore numbers provided in previous TESs may not be strictly comparable to figures in more recent publications. This may affect the usefulness of comparing costs over a longer period of time than covered in any single TES.

- Fourth, the introduction of forward projections for the outyears adds an additional element of uncertainty when trying to draw strong conclusions on longer-term trends.

Tax Expenditures 1996-97

Table 1 shows that the net cost of aggregate tax expenditures which provide a permanent benefit or penalty to taxpayers, has risen from around $18.3 billion in 1995–96 to $19.5 billion in 1996–97. Excluding superannuation concessions, the aggregate cost of tax expenditures rose from about $10 billion to $10.8 billion.

- When account is also taken of so-called 'timing' tax expenditures, which merely defer tax collections to a later date, the Budget impact is around $21.1 billion in 1996-97, compared to $19.7 billion in 1995-96. This increase mainly reflects the growth in the cost of one accelerated depreciation allowance (AD8).

The 1996-97 aggregates for the functional categories social security and welfare, mining and mineral resources, manufacturing and construction, health, and other economic affairs, not elsewhere classified, have shown significant increases over the 1995-96 aggregates. The remaining functional categories remained fairly flat between 1995-96 and 1996-97.

- The rise in social security and welfare tax expenditures reflects mainly the growth in superannuation tax concessions (SS13) and the introduction of family tax assistance (SS29) from 1 January 1997. Growth in various pensioner and beneficiary rebates and the FBT exemption for public benevolent institutions (excluding public hospitals) have also contributed to some extent. The rise in the later reflects better information on the use of fringe benefits in the sector. These increases are offset to some degree by the full year effect of the replacement of the Dependent Spouse Rebate by the Parenting Allowance for eligible recipients, which is delivered through the outlays system. This was discussed in more detail in the 1995-96 TES.

- The cost of the Development Allowance is estimated to peak in 1996-97 (at an estimated $525 million) and underpins a 27 per cent rise in the cost of mining and mineral resources, manufacturing and construction tax expenditures. A smaller contribution was from growth in the research and development tax concession (MM14) and infrastructure borrowings concession (MM11).

- The major increase in the health category was due to the $55 million increase in the medical expenses rebate (H1). However, this was offset by a reduction in the cost of the exemption for health benefit fund income (H5).

- The FBT undervaluation of car benefits under the statutory formula method was the major contributor to the increase in the cost of tax expenditures in the Other Economic Affairs category.

- The excise exemption for alternative transport fuels (FE1) is estimated to have grown by 7 per cent to $610 million in 1996-97 due to continued growth in the use of alternative fuels, particularly liquefied petroleum gas, for transport.

Forward Projections

It is projected that the cost of tax expenditures (excluding timing measures) will rise from $19.5 billion in 1996–97 to $24.4 billion in 2000–01.

The main functional category projected to grow significantly in the outyears is social security and welfare. This reflects growth in the cost of superannuation and termination tax concessions, other concessions for recipients of various pensions and benefits, and family tax assistance.

Assistance to mining and mineral resources, manufacturing and construction is projected to fall after 1996-97 primarily reflecting a tightening in the research and development (R&D) tax concession and a winding down in the Development Allowance, which peaks in 1996-97 as eligible projects must have commenced before 1 July 1996.

The health category is also projected to rise significantly in future years, largely as a result of increases in the cost of the Medical Expenses Rebate and the operation of private health initiatives announced in the 1996-97 Budget.

The projected rise in the not allocated to function category primarily reflects the introduction of the tax rebate for private savings announced in the 1997-98 Budget.

Table 1: Aggregate Tax Expenditures by Function 1995-96 to 2000-01[(a)]

Function	Revenue Cost ($m) 1995-96	1996-97	1997-98	1998-99	1999-00	2000-01
Total General Public Services						
A. Legislative and Executive Affairs	0	0	0	0	0	0
B. Financial and Fiscal Affairs	0	0	0	0	0	0
C. Foreign Economic Aid	128	123	134	141	148	155
D. General Research	0	0	0	0	0	0
E. General Services	5	5	5	5	5	5
F. Govt Superannuation Benefits	0	0	0	0	0	0
Defence	60	66	66	69	73	76
Public Order and Safety	0	0	0	0	0	0
Education	28	29	29	30	31	31
Health	485	529	607	746	810	863
Social Security & Welfare	12982	13533	13683	14218	14993	15743
Housing & Community Amenities	162	211	213	217	221	225
Recreation and Culture	20	42	42	42	47	47
Fuel and Energy	570	610	650	710	770	840
Agriculture, Forestry and Fishing	329	354	327	351	397	414
Mining and Mineral Resources other than fuels; Manufacturing; and Construction	1360	1722	1231	1266	1328	1209
Transport and Communication	25	25	25	25	25	25
Total Other Economic Affairs						
A. Tourism and Area Promotion	60	70	75	80	80	80
B. Labour and Employment Affairs	19	15	25	21	17	14
C. Other Economic Affairs, nec	710	824	723	1105	1132	1136
Total Other Purposes						
A. Public Debt Interest	0	0	0	0	0	0
B. General Purpose Inter-Govt Transactions	0	0	0	0	0	0
C. Natural Disaster Relief	0	0	0	0	0	0
D. Contingency Reserve	0	0	0	0	0	0
E. Asset Sales	0	0	0	0	0	0
Not Allocated to Function	1344	1311	1321	1736	2822	3535
Total	18287	19469	19156	20762	22899	24398
Timing Measures(b)	1388	1597	1698	1807	1924	1995
Total (including timing measures)	19675	21066	20854	22569	24823	26393

nec Denotes not elsewhere classified.

(a) Aggregate cost of tax expenditures in functional categories is derived by summing the individual tax expenditure costings provided in Table 4, excluding items listed as costed at <1 or <5, etc.

(b) Timing measures involve deferral of revenue and are described and costed in Table 5.

Comparison with Direct Outlays

Estimates and forward projections for aggregate tax expenditures and Commonwealth outlays for the period 1993-94 to 2000-01 are provided in Table 2. In Table 3, the costs of identified tax expenditures in 1996-97 are compared with direct outlays by functional category consistent with the presentation in Budget Statement 4 of the 1997-98 Budget Paper No. 1.

The comparisons between tax expenditures and direct outlays shown in Tables 2 and 3 are informative in broad terms, however the costings are not strictly comparable. While most tax expenditures could, in principle, be replaced by a direct outlay, the tax expenditure estimates refer to revenue forgone, which is not necessarily the size of a direct outlay equivalent. For example, where a direct outlay is taxable, the amount of the gross direct outlay required to provide net assistance to a beneficiary equivalent to that provided by a tax expenditure would have to exceed the tax expenditure by the amount of the tax liability arising on the direct outlay.

From a public policy perspective, the size of the estimated tax expenditures relative to outlays is of interest, especially as the measured aggregate is likely to be an underestimate of the actual cost of concessions in the tax system. As noted by the National Commission of Audit, tax expenditures are not normally subject to the same annual scrutiny as are outlays. They can, however, have similar economic effects as outlays, and this should be taken into consideration when formulating government policy.

Table 2 shows that the budgetary cost of total measured tax expenditures has increased by around 23 per cent between 1993-94 and 1996-97, compared to a 15 per cent increase in Commonwealth budget outlays over the same period. (The outlays in Table 2 are shown on an underlying basis. A definition of underlying outlays can be found in the 1997-98 Budget Paper No. 1, page 1-3.)

- They are projected to increase a further 25 per cent between 1996-97 and 2000-01, although these forward projections are subject to significant uncertainty.

The aggregate level of tax expenditures, presented in Table 2, differs quite significantly from the same table published in Appendix C of Budget Statement 2 in the 1997-98 Budget Paper No. 1. For example, the 1996-97 aggregate is around $2.6 billion higher than previously published, of which most relates to a revised estimate for superannuation. This difference ranges from about $2.1 to $2.5 billion in later years.

- The differences are a result of updated data, changed costing methodologies, revised economic parameters, and the identification and costing of more tax expenditures in the 1996-97 TES.

Table 2: Aggregate Tax Expenditures and Direct Outlays 1993-94 to 2000-01

Year	Superannuation ($m)	Other tax expenditures ($m)(a)	Total ($m)	Budget outlays total ($m)	Ratio of tax expenditures to outlays (per cent)
1993-94	7665	8123	15788	117810	13.4
1994-95	5770	10459	16229	123559	13.1
1995-96	8315	9972	18287	131961	13.9
1996-97	8700	10769	19469	135928	14.3
1997-98 (est)	8490	10666	19156	137350	13.9
1998-99 (est)	8720	12042	20762	140214	14.8
1999-00 (p)	9390	13509	22899	145264	15.8
2000-01 (p)	10025	14373	24398	148819	16.4

(a) This aggregate does not include timing measures.
(b) As a result of classification changes introduced since the 1997-98 Budget, underlying outlays estimates are not strictly comparable with those previously published.
(p) Projection
(est) Estimate

The estimates presented in Table 3 indicate that revenue forgone through measured tax expenditures was much less than the cost of direct outlays for most functional classifications but significant in absolute terms. In aggregate, net measured tax expenditures are valued at about $19.5 billion or around 14 per cent of Commonwealth Budget underlying outlays in 1996-97.

Table 3 shows that most tax expenditures are classified as being related to social security and welfare (this category includes the superannuation tax concessions).

- Around 21 per cent of total assistance to this area (tax expenditures plus outlays) is provided through tax expenditures.

It also highlights significant assistance in the form of tax relief provided to the two business and industry categories of mining etc, and other economic affairs. Many tax expenditures could not be classified as belonging to any of the functional categories and are aggregated in the not allocated to function category.

Table 3: Aggregate Tax Expenditures and Direct Outlays by Function 1996-97

Function	Tax Expenditures Cost ($m) (a)	Direct Outlays Cost ($m)
Total General Public Services		
A. Legislative and Executive Affairs	0	481
B. Financial and Fiscal Affairs	0	1804
C. Foreign Economic Aid	123	1718
D. General Research	0	1158
E. General Services	5	113
F. Govt Superannuation Benefits	0	1420
Defence	66	10055
Public Order and Safety	0	1226
Education	29	10321
Health	529	19196
Social Security & Welfare	13533	49598
Housing & Community Amenities	211	1138
Recreation and Culture	42	1375
Fuel and Energy	610	22
Agriculture, Forestry and Fishing	354	1903
Mining and Mineral Resources other than fuels; Manufacturing; and Construction	1722	1653
Transport and Communication	25	1652
Total Other Economic Affairs		
A. Tourism and Area Promotion	70	86
B. Labour and Employment Affairs	15	2945
C. Other Economic Affairs, nec	824	314
Total Other Purposes		
A. Public Debt Interest	0	9402
B. General Purpose Inter-Govt Transactions	0	18229
C. Natural Disaster Relief	0	20
D. Contingency Reserve	0	0
E. Asset Sales	0	101
Not Allocated to Function	1311	0
Total (b)	19469	135928

nec Denotes not elsewhere classified.

(a) Aggregate cost of tax expenditures in functional categories is derived by summing the individual tax expenditure costings provided in Table 4, excluding items listed as costed at <1 or <5, etc. Deferral expenditures are not included.

(b) Items may not sum to totals due to rounding.

Tax Expenditure Tables

Information on tax expenditures including estimates of the cost to revenue — for the fiscal years 1993-94 to 2000-01 — is presented as follows:

Table 4: Tax Expenditures Reference Table
Table 5: Tax Expenditures Involving Deferral
Table 6: Tax Expenditures — Wholesale Sales Tax
Table 7: Tax Expenditures Classified by Taxpayer Affected

The Tax Expenditures Reference Tables

Tables 4 and 5 provide information about each identified expenditure. This information includes: the year in which each measure was introduced; a description of each expenditure; and its estimated revenue cost (where available). Revenue estimates are not yet available for expenditures associated with the wholesale sales tax system listed in Table 6. It is hoped to be able to include such estimates in future years.

The columns and their function are described below.

- The 'Index' column associates each expenditure with an identifier for easy reference, and cross referencing to Table 7.

- The 'Date' column provides the year that the legislation was given Royal Assent, which may be different from the year that the expenditure would first impact on taxpayers' tax liabilities.

- The 'Description' column describes each expenditure and, where possible, provides a legislative reference. The following abbreviations have been used in the descriptions column: capital gains tax (CGT); fringe benefits tax (FBT); dividend withholding tax (DWT); and interest withholding tax (IWT). All expenditures relate to the personal or corporate income tax system unless otherwise identified in the description (eg by CGT, FBT, IWT, DWT, or Excise duty). Legislative references for all income tax, CGT, IWT and DWT expenditures relate to the *Income Tax Assessment Act 1936* unless otherwise stated. Legislative references for FBT expenditures relate to the *Fringe Benefits Tax Assessment Act 1986*. Other Acts of Parliament are included in the descriptions where necessary.

Deleted Tax Expenditures

Tax expenditures which were included in the 1995-96 TES but which are not identified in the 1996-97 TES are listed below categorised by reason for deletion. A short description of the expenditure is followed, in parentheses, by its index reference from last year's TES.

Deleted because the measure has been abolished and/or its effect on revenue has ceased:

- Immediate deduction for payments to an approved research institute for scientific research (GR1);

- Exemption of pay earned by Australian Federal Police serving in Cambodia with the United Nations Transitional Authority (D7); and

- Various accelerated depreciation provisions (AD1 to AD6, AD14).

It should be noted that the tax expenditures identified as MM2 and MM3 in the 1995-96 TES have been included in the tax expenditure MM1 in this year's Statement.

New Tax Expenditures

Tax expenditures identified for the first time in the 1996-97 TES are listed below with a short description followed, in parentheses, by its index reference from this year's TES.

Added because the measure has recently been identified as a tax expenditure:

- Deductibility for election expenses of candidates for Federal, State, Territory and local governments (LEA2, LEA3);

- Exemption for remuneration to a non-resident for expert advice to Government or as a member of a Royal Commission (FA14);

- Exemption of Australian income earned by foreign government representatives or their staff visiting Australia (FA15);

- Exemption for foreign press reporting on matters listed under Section 23(c)(i)-(iv) of the Income Tax Assessment Act (FA16);

- Exemption of Disturbance Allowance for Defence Force members(D14);
- Exemption of Scholarship Allowance for Defence Force members (D15);
- Exemption for pensions derived by a Papua New Guinea resident and exemption of certain payments to persons formerly employed in Papua New Guinea (SS30);
- Rollover relief for balancing adjustments for exploration, mining and quarrying (MM16);
- FBT exemption for employee taxi travel (TC2); and
- Inclusion in the CGT cost base of certain non-capital costs of owning a personal use asset (NAF33).

Added because the tax expenditure is a measure proposed (and in some cases legislated) since the 1995-96 TES:

- Deduction for investments in the Film Licensed Investment Company (CR10);
- Farm Management Bonds (AFF16);
- New tax rebate scheme for interest from infrastructure investments (MM17);
- FBT exemption for record keeping for small businesses (OEA22);
- FBT exemption for some car parking by small businesses (OEA23);
- Exemption of US collective fund investments from Foreign Investment Fund regime (OEA24); and
- Tax rebate for savings (NAF34).

Tax Expenditure Tables

Table 4: Tax Expenditures Reference Table[a]

Index	Date	Description
General Public Services		
A. Legislative and Executive Affairs		
LEA1	pre 1985	Exemption of official salary and ex-Australian income of the Governor-General and Governor of any State (Section 23(a)(i)).
LEA2	pre 1985	Income tax deduction for election expenses of candidates for Federal, State and Territory governments (Section 74).
LEA3	1985	Income tax deduction up to $1000 for election expenses of candidates for local government (Section 74A).
B. Foreign Economic Aid		
FA1	pre 1985	Exemption of income of certain international organisations (eg UN, WHO). Exemption is now provided under the *International Organisations (Privileges and Immunities) Act 1963*.
FA2	pre 1985	Exemption of official salary and emoluments of officials of prescribed international organisations. Exemption is now provided under the *International Organisations (Privileges and Immunities) Act.*
FA3	pre 1985	Exempt income of visitors who are representatives of a society established for educational, scientific, religious or philanthropic purposes (Subsection 23(c)(iv)).
FA4	pre 1985	Exempt income of visitors who are representatives of a foreign press organisation (Subsection 23(c)(v)).
FA5	(b)	Tax-sparing provisions in Australia's double tax agreements for specific investment incentives offered by developing countries.
FA6	1990	Exemption from foreign tax credit system for certain non-portfolio dividends and branch income derived in a listed country.
FA7	1990	Exemption of most passive and highly mobile active income derived by controlled foreign companies and transferor trusts in listed countries from accruals taxation.
FA8	pre 1985	Total or partial exemptions of income earned by Australians working overseas (Sections 23AF and 23AG).
FA9	pre 1985	IWT exemption for interest received by certain organisations which are exempt from tax in their home country (Section 128B(3)(a)).
FA10	pre 1985	IWT exemption for interest received by prescribed international organisations which under the *International Organisations (Privileges and Immunities) Act* are exempt from the ordinary provisions of the *Income Tax Assessment Act*.
FA11	pre 1985	DWT exemption for dividends received by prescribed organisations which are also exempt from tax in their home country (Section 128B(3)(a)).

Table 4: Tax Expenditures Reference Table

1993-94 $m	1994-95 $m	1995-96 $m	1996-97 $m	1997-98 $m	1998-99 $m	1999-00 $m	2000-01 $m
< 1	<1	<1	< 1	<1	<1	<1	<1
na	na	na	na	na	na	na	na
na	na	na	na	na	na	na	na
na	na	na	na	na	na	na	na
na	na	na	na	na	na	na	na
na	na	na	na	na	na	na	na
na	na	na	na	na	na	na	na
na	na	na	na	na	na	na	na
na	na	na	na	na	na	na	na
na	na	na	na	na	na	na	na
104	113	128	123	134	141	148	155
Included in NAF13							
Included in NAF13							
na	na	na	na	na	na	na	na

Index	Date	Description
FA12	pre 1985	DWT exemption for dividends received by prescribed international organisations which, under the *International Organisations (Privileges and Immunities) Act*, are exempt from the ordinary provisions of the *Income Tax Assessment Act*.
FA13	1986	FBT exemption for benefits provided by certain international organisations (Section 55).
FA14	pre 1985	Exemption from income tax for remuneration paid to a non-resident for expert advice to Government or as a member of a Royal Commission (Section 23(b)).
FA15	pre 1985	Exemption of Australian sourced income earned by Government representatives visiting Australia or by their official staff (Section 23(c)(iii)).
FA16	pre 1985	Exemption of income earned in Australia by foreign press from reporting on matters listed under Section 23(c)(i)-(iv) .
D. General services		
GS1	pre 1985	Exemption of income of residents of Norfolk Island (Section 24G). (c)
Defence		
D1	pre 1985	Exemption of pay and allowances for part-time members of Defence Force Reserves (Sections 23(s) and 23(sa)).
D2	pre 1985	Exemption of certain allowances and bounties payable to Defence Force personnel: living-out allowances, child-education allowances, separation allowances, living-away-from-home allowances, overseas deployment allowances, retention-of-lodging allowances and re-engagement bounty (Section 23(t)(iii)).(d)
D3	pre 1985	Exemption of the value of rations and quarters supplied without charge to Defence Force personnel (Section 23(t)(iv)). Since the 1986-87 income year certain allowances have been subject to the FBT.
D4	pre 1985	Exemption of pay and allowances earned in Australia (unless paid by the Australian Government) by foreign forces (Section 23(u)). (e)
D5	pre 1985	Exemption of profits or remuneration derived by US domestic corporations or US citizens or residents in connection with certain US Government projects in Australia, provided the income is subject to tax in the US (Section 23AA). (e)
D6	pre 1985	Exemption of pay and allowances earned by members of the Defence Force while on special overseas service in an area prescribed by regulation (Section 23AC).

Table 4: Tax Expenditures Reference Table (continued)

1993-94 $m	1994-95 $m	1995-96 $m	1996-97 $m	1997-98 $m	1998-99 $m	1999-00 $m	2000-01 $m
na	na	na	na	na	na	na	na
na	na	na	na	na	na	na	na
na	na	na	na	na	na	na	na
na	na	na	na	na	na	na	na
na	na	na	na	na	na	na	na
4	4	5	5	5	5	5	5
26	28	32	33	35	37	39	41
1	2	2	2	2	2	3	3
na	na	na	na	na	na	na	na
<1	<1	<1	<1	<1	<1	<1	<1
na	na	na	na	na	na	na	na
5	<1	<1	<1	<1	<1	<1	<1

Index	Date	Description
D8	pre 1985	Exemption of compensation payments paid to civilian personnel in service with an armed force of the United Nations contributed to by Australia (Section 23AB(5)); relief from unpaid tax by such personnel in the event of death (Section 23AB(10)); and partial exemption of living allowances paid to such personnel (Section 23AB(6)).
D9	pre 1985	Rebates for Defence Force personnel serving overseas (Section 79B).
D10	pre 1985	Exemption from the Medicare levy for Defence Force members (Section 251U).
D11	1994	CGT exemption for gains on the disposal of war medals acquired for no consideration (Section 160L(6)).
D12	1986	FBT exemption for loan benefits on war service home loans provided under the *Defence Services Homes Act* (Section 6, *Fringe Benefits Tax (Application to the Commonwealth) Act*).
D13	pre 1985	Exemption of income earned by visitors assisting in the defence of Australia if that income is not exempt from income tax in the visitor's country of residence (Section 23(v)).
D14	pre 1985	Exemption of Disturbance Allowance for Defence Force members from income tax (Section 23(t)(iii)).
D15	pre 1985	Exemption of Scholarship Allowance from income tax. The Allowance is payable to a Defence Force member whose child forfeits a scholarship or bursary because of the member's posting to another locality.
Education		
E1	pre 1985	Exemption of income from certain Commonwealth educational scholarships or forms of assistance (Sections 23(zaa) and 23(ya)).
E2	pre 1985	Exemption of income from other scholarships or forms of assistance in limited circumstances (Section 23(z)).
E3	pre 1985	Exemption of Australian income of representatives of educational, scientific, religious or philanthropic societies and associations who are visiting Australia for the purpose of attending international or Commonwealth conferences in Australia or for carrying on research (Section 23(c)(iv)). (e)
E4	pre 1985	Exemption for grants from the Australian-American Educational Foundation (Section 23(za)).
E5	1986	FBT reduction of the taxable value for education costs paid by employers for children of employees posted overseas (Section 65A).

Table 4: Tax Expenditures Reference Table (continued)

1993-94 $m	1994-95 $m	1995-96 $m	1996-97 $m	1997-98 $m	1998-99 $m	1999-00 $m	2000-01 $m
<1	<1	<1	<1	<1	<1	<1	<1
Included in HC1 below							
24	26	26	31	29	30	31	32
<1	<1	<1	<1	<1	<1	<1	<1
na	na	na	na	na	na	na	na
<1	<1	<1	<1	<1	<1	<1	<1
na	na	na	na	na	na	na	na
na	na	na	na	na	na	na	na
21	28	28	29	29	30	31	31
na	na	na	na	na	na	na	na
<1	<1	<1	<1	<1	<1	<1	<1
<1	<1	<1	<1	<1	<1	<1	<1
na	na	na	na	na	na	na	na

Table 4: Tax Expenditures Reference Table (continued)

Index	Date	Description
E6	1986	FBT disregard of possible application of the $250 threshold for deductibility for some self-education expenses when determining the 'otherwise deductible' rule for expense payment benefits of this kind (Section 24(1)).
Health		
H1	pre 1985	Medical Expenses Rebate (Section 159P).
H2	pre 1985	Exemption from Medicare levy for residents with a taxable income below a threshold (*Medicare Levy Act* Section 7).
H3	1985	Medicare levy exemptions for non-residents, repatriation beneficiaries, foreign government representatives and residents who meet certain criteria (Section 251U).
H4	pre 1985	Exemption of income of public hospitals and hospitals operated by a society or association other than for gain or profit to its individual members (Section 23(ea)).
H5	pre 1985	Exemption of income of registered hospital, medical and health benefit funds provided they are not operated for the gain or profit of their individual members (Section 23(eb)).
H6	1986	FBT exemption for benefits provided by public hospitals to employees, and benefits provided to employees of public hospitals if they are employed by a State or Territory health authority rather than the institution itself (Section 57A).
H7	1986	FBT exemption for travel costs of employees and their families in foreign countries to obtain medical treatment (Section 58L).
H8	1994	Penalty rate of excise levied on leaded petrol (Sub-paragraph 11(A) 3(b)-(c)) *Excise Tariff Act 1921* .
H9	1994	CGT exemption for payments under General Practice Rural Incentives program (Section 160L(9)).
H10	1997	Income-tested rebates for private health insurance up to $150 for a single individual, $250 for a couple and $450 for a family with a dependent child (Subdivision 61-G, *Income Tax Assessment Act 1997*).
Social Security		
SS1	pre 1985	Rebate for sole parent (Section 159K).
SS2	pre 1985	Rebates for taxpayers supporting a dependant parent, parent-in-law, or invalid relative (Section 159J).

Table 4: Tax Expenditures Reference Table (continued)

1993-94 $m	1994-95 $m	1995-96 $m	1996-97 $m	1997-98 $m	1998-99 $m	1999-00 $m	2000-01 $m
<5	<5	<5	<5	<5	<5	<5	<5
110 (f)	114 (f)	110 (g)	165(g)	180(g)	220(g)	255(g)	280(g)
244	313	296	290	340(h)	310	320	330
17	17	20	20	18	19	21	22
<1	<1	<1	<1	<1	<1	<1	<1
81	67	42	14	15	15	16	17
60	115	170	175	180	185	190	195
<5	<5	<5	<5	<5	<5	<5	<5
-34	-147	-153	-136	-126	-116	-106	-96
na	na	na	1	na	na	na	na
-	-	-	-	-	113	114	115
176	183	198	212	222	234	245	258
Included in H1							

Table 4: Tax Expenditures Reference Table (continued)

Index	Date	Description
SS3	pre 1985	Rebates for recipients of taxable repatriation or social security pensions (Section 160AAA(1)); or unemployment, sickness or special benefits (Section 160AAA(2)).
SS4	pre 1985	Rebate for housekeeper who cares for a prescribed dependant of the taxpayer (Section 159L).
SS5	pre 1985	Rebate for dependent spouse (Sections 159J(1B) and 159H(3)).
SS6	pre 1985	Rebate for child-housekeeper (Section 159J(1B)).
SS7	pre 1985	Rebate for low income earners (Section 159N).
SS8	pre 1985	Exemption of repatriation pensions, or pensions, allowances and payments of a similar nature, and certain war-related payments and pensions.
SS9	pre 1985	Exemption of certain social security pensions, benefits and allowances, and certain repatriation pensions, paid under the *Social Security Act 1991* , and the *National Health Act 1953*.
SS10	pre 1985	Exemption of compensation paid by Federal Republic of Germany by way of pensions, annuities or allowances for Nazi persecution (Section 23(kc)).
SS11	pre 1985	Exemption of pensions, annuities or allowances paid by certain foreign governments (after 2 March 1982) for persecution or disablement arising from Nazi or other enemy persecution (or flight from such persecution).
SS12	pre 1985	Life insurance policyholders' undistributed income is taxed at the trustee rate: this can be concessionary. Reversionary bonus income distributed to policyholders after 10 years is exempted from further tax. If distributed before 10 years, income assessable to policyholders, and a tax rebate is given based on the trustee rate, not the actual tax paid (Sections 26AH and 160AAB).
SS13	pre 1985	Concessional treatment of superannuation contributions, fund income and benefits paid and other termination payments. (See Appendix B).
SS14	pre 1985	Exemption of rent subsidy payments made to tenants under Commonwealth/State mortgage and rent relief schemes (Section 23(ke)).
SS15	pre 1985	Exemption of specified mining payments to Aboriginals where payments have already attracted mining withholding tax (Section 23AE; tax expenditure relates to concessional element in the setting of the rate of withholding tax).
SS16	pre 1985	Exemption of income of scientific, public educational and charitable institutions (Section 23(e)).
SS17	1985	Deductibility of expenses incurred in entertaining members of the public who are sick, disabled, poor or otherwise disadvantaged (Section 51AE(5)(k)).

Table 4: Tax Expenditures Reference Table (continued)

1993-94 $m	1994-95 $m	1995-96 $m	1996-97 $m	1997-98 $m	1998-99 $m	1999-00 $m	2000-01 $m
1270	1365	1410	1460	1525	1590	1640	1692
1135	1115	579	404	418	432	450	468
Included in SS4							
Included in SS4							
na	530	527	526	466	437	411	388
293	305	334	350	354	364	372	380
1050	1070	1160	1210	1220	1250	1300	1352
<5	<5	<5	<5	<5	<5	<5	<5
Included in SS10							
na	na	na	na	na	na	na	na
7665	5770	8315	8700	8490	8720	9390	10025
13	11	11	11	11	12	12	12
3	3	3	3	3	3	3	3
na	na	na	na	na	na	na	na
na	na	na	na	na	na	na	na

Table 4: Tax Expenditures Reference Table (continued)

Index	Date	Description
SS18	1986	FBT exemption for providing safety award benefits up to a value of $200 per year per employee (Section 58R).
SS19	1986	FBT exemption for provision of recreational or child-care facilities on an employer's premises (Section 47(2)).
SS20	1986	FBT exemption for employer contributions to guarantee places for employees' children in certain child-care centres (Section 47(8)).
SS21	1986	FBT exemption for benefits provided by public benevolent institutions, excluding public hospitals, to employees (Section 57A).
SS22	1986	FBT exemption for accommodation, fuel and meals for live-in employees caring for the elderly or disadvantaged (Sections 58 and 58U).
SS23	1986	FBT exemption for employer-provided property and facilities for immediate relief of employees and their families in times of emergency (Section 58N).
SS24	pre 1985	Taxation of lump sums paid after 15 August 1978 for unused annual leave or for unused long service leave: (i) in respect of service before 18 August 1993 is capped at 30 per cent plus the Medicare levy (Division 17); or (ii) in respect of service on or after 18 August 1993 under circumstances of bona fide redundancy, early retirement scheme or invalidity is capped at 30 per cent plus the Medicare levy (Division 17).
SS25	pre 1985	Taxation of only 5 per cent of unused long service leave attributable to service up to 15 August 1978 (Section 26AD).
SS26	1997	CGT exemption, up to a maximum of $500,000 on the sale of a small business where the proceeds are used for retirement (s160ZZPZA-160ZZPZQ).
SS27	1997	Rebate of 18 per cent for superannuation contributions of up to $3000 per annum made by income earning individuals on behalf of a non-income earning or working spouse with an income below $10,800 per annum (Sections 158T-159TC).
SS28	1996	Tax rebate for low income aged persons (Sections 160AAAA and 160AAAB).
SS29	1996	Increase in tax free threshold of $1000 to one member of a couple or sole parent for each dependent child up to age 16 or student up to 18 and an additional $2500 threshold for single income families with a child under 5, both subject to income tests (Part II, Division 5, Section 20A-20V, *Income Tax Rates Act 1986).*
SS30	1985	Income tax exemption for pensions derived by a Papua New Guinea resident and exemption of certain payments to persons formerly employed in Papua New Guinea (Sections 23(kd), 23AAA).

Table 4: Tax Expenditures Reference Table (continued)

1993-94 $m	1994-95 $m	1995-96 $m	1996-97 $m	1997-98 $m	1998-99 $m	1999-00 $m	2000-01 $m
<5	<5	<5	<5	<5	<5	<5	<5
na	na	na	na	na	na	na	na
na	na	na	na	na	na	na	na
30	70	75	150	155	160	165	170
na	na	na	na	na	na	na	na
na	na	na	na	na	na	na	na
290	195	195	190	185	180	175	175
290	185	175	160	145	130	120	105
-	-	nil	nil	nil	50	50	50
-	-	-	-	-	Included in SS13		
-	-	-	10	48	65	65	65
-	-	-	147	441	591	595	600
na	na	na	na	na	na	na	na

Table 4: Tax Expenditures Reference Table (continued)

Index	Date	Description
Housing and Community Amenities		
HC1	pre 1985	Zone rebates (Section 79A).
HC2	1985	CGT exemption for gains on the disposal of a taxpayer's principal residence and reasonable curtilage (Section 160ZZQ).
HC3	1985	Extension of CGT principal residence exemption for up to 6 years after the date on which the dwelling ceases to be the sole and principal residence (Subsection 160ZZQ(11)).
HC4	1985	CGT exemption for gains on the disposal of a licence or right to occupy a flat or unit, including in a retirement village, that was the taxpayer's principal residence (Section 160ZZQ(2)).
HC5	1986	FBT reduction of the taxable value to 50 per cent of the market value for remote area housing benefits (including rent reimbursement), with 50 per cent reduction in the taxable value of fuels supplied to the housing (Sections 29(1) and 59(1)).
HC6	1986	FBT undervaluation of the benefit resulting from the alternative of an indexed statutory value which can be used to value remote area accommodation (Sections 29(3A) and 29A).
HC7	1986	FBT reduction of the taxable value to 50 per cent of the discount on interest or purchase price for remote area housing purchase assistance, with 50 per cent reduction in the taxable value of associated fuel benefits (Section 60).
Culture and Recreation		
CR1	pre 1985	Concessional rates of tax for abnormal receipts derived by authors, composers, dramatists, artists, sportspersons and inventors (Sections 158B-158E).
CR2	pre 1985	Immediate deduction for capital expenditure incurred in acquiring an interest in the initial copyright of a new Australian film (Division 10BA; rate of deduction was reduced to 100 per cent from 25 May 1988).
CR3	pre 1985	Exemption for net receipts from new Australian films of up to a specified percentage of capital investment (Section 23H; abolished in respect of investment after 25 May 1988).
CR4	pre 1985	Exemption of income of sportspersons visiting Australia to engage in athletic sports or games as representatives of a foreign club or association (Section 23(c)(i)). (e)
CR5	pre 1985	Exemption of income of official Commonwealth sporting clubs or associations from their share of the proceeds of cricket, football or similar matches played in Australia by visiting teams (Section 23(c)(ii)).

Table 4: Tax Expenditures Reference Table (continued)

1993-94 $m	1994-95 $m	1995-96 $m	1996-97 $m	1997-98 $m	1998-99 $m	1999-00 $m	2000-01 $m
146	160	162	171	173	177	181	185
na	na	na	na	na	na	na	na
na	na	na	na	na	na	na	na
na	na	na	na	na	na	na	na
na	na	na	40	40	40	40	40
na	na	na	na	na	na	na	na
na	na	na	na	na	na	na	na
<1	< 1	<1	<1	<1	<1	<1	<1
22	24	20	22	22	22	22	22
Included in CR2							
na	na	na	na	na	na	na	na
na	na	na	na	na	na	na	na

Index	Date	Description
CR6	pre 1985	Exemption of income of non-profit societies, associations or clubs established for the promotion or encouragement of sport, games, music, art, etc. and non-profit friendly societies (other than a friendly society dispensary) and non-profit community service organisations (from the 1989-90 income year) (Section 23(g)). This is subject to the 1996-97 Budget announcement for non-resident entities. (j)
CR7	1994	Taxation rebate for expenditure on approved heritage conservation work from 7 April 1994 (Sections 159U-UY).
CR8	1988	Exemption of income of Film Finance Corporation.
CR9	1994	CGT exemption for the disposal of an asset under the Cultural Bequests program. (Subsection 160L(9)).
CR10	1997	100 per cent deduction for investors in the Film Licensed Investment Company.
Fuels and Energy		
FE1	pre-1985	Exemption from fuel excise of 'alternative fuels'. Liquefied petroleum gas, natural gas and ethanol are the main 'alternative fuels' currently used in Australia.
Agriculture, Forestry and Fishing		
AFF1	pre 1985	Allowance to primary producers to adopt specified standard values for stock valuation for natural increases in livestock (Section 34(1), Regulation 5). (l)
AFF2	1992	Optional deduction for horse breeding stock acquired on or after 19 August 1992 that allows 25 per cent of the cost of sires to be written off on a prime cost basis per annum and mares to be written down to $1 at age 12 (Section 32A). Sires and mares acquired after 20 August 1985 and prior to 19 August 1992 can be written off at 50 per cent per annum and 33 1/3 per cent per annum respectively.
AFF3	pre 1985	Deduction over 3 years (immediate deduction prior to 19 September 1985) to primary producers for costs of conserving or conveying water (Section 75B).
AFF4	1985	Immediate deduction to certain taxpayers for capital expenditure on soil conservation, prevention of land degradation and related measures (Section 75D).
AFF5	pre 1985	Income tax averaging for primary producers (Section 156).
AFF6	pre 1985	Deferment of assessment on income from double wool clip (Section 26BA).
AFF7	pre 1985	Provision for spreading over five years of assessment of: (a) insurance recoveries for loss of timber or livestock and (b) income from forced disposal of livestock. In the latter case, profit from compulsory disposal after 30 June 1986 of livestock for Brucellosis and Tuberculosis Eradication Campaign can be spread over a 10 year period (Sections 26B, 36(3)-(7), 36AA, 36AAA).

Table 4: Tax Expenditures Reference Table (continued)

1993-94 $m	1994-95 $m	1995-96 $m	1996-97 $m	1997-98 $m	1998-99 $m	1999-00 $m	2000-01 $m
na	na	na	20	20	20	25	25
nil	nil	<1	<1	<1	<1	<1	<1
na	na	<1	<1	<1	<1	<1	<1
-	-	<5	<5	<5	<5	<5	<5
na	na	na	na	na	na	na	na
na	470 (k)	570 (k)	610 (k)	650(k)	710 (k)	770 (k)	840 (k)
75	69	90	97	85 (m)	85 (m)	85 (m)	85 (m)
na	na	na	na	na	na	na	na
30	30	30	30	30	30	30	30
Included in AFF3							
100	135	190	180	160	175	205	220
na	na	na	na	na	na	na	na
na	na	na	na	na	na	na	na

Index	Date	Description
AFF8	pre 1985	Deductions to primary producers under the Income Equalisation Deposits (IED) scheme. From 7 April 1995, the Farm Management Bonds scheme (a component of the IED scheme) was enhanced, with the investment component raised to 100 per cent and a new maximum limit on deposits of $150,000; *Loan (IED) Act 1976* (Sections 3; 4B(5); 15(4)(b); 18; 19; 20A; and 20B). These schemes will be replaced by the Farm Management Deposits scheme from 1 July 1998. (n)
AFF9	1993	Expenditure incurred on or after 1 July 1993 on acquiring and establishing grape vines for use in a business of primary production is evenly deductible over four years. Deductions are available from the time vines are planted (Section 75AA).
AFF10	pre 1985	Depreciation over 10 years of the capital cost of telephone lines extending to land used for primary production (Subsection 70(1) and (2)).
AFF11	1995	A five year, 10 per cent taxation allowance for capital expenditure on drought preparedness assets of up to $50,000 per taxpayer per annum effective 23 March 1995 (Sections 82AC; 50C(3); 50F(1); 56(3); 159GJ(1); and 170(10)).
AFF12	pre 1985	Lower rate of excise on brandy than the general rate (Item 2A) *Excise Tariff Act 1921* .
AFF13	pre 1985	Excise-free status of wine, alcoholic cider and a range of other alcoholic drinks except brandy.
AFF14	1995	Deduction for capital expenditure incurred in establishing horticultural plantations (Part III, Div 10F).
AFF15	1997	FBT exemption for remote area housing provided by primary producers (Section 58ZA).
AFF16	1997	Deductions to primary producers under the Farm Management Deposits scheme which replaced the Income Equalisation Deposits and Farm Management Bonds schemes. The scheme has a maximum limit on deposits of $300,000. (i)
Assistance to Mining, Manufacturing and Construction		
MM1	pre 1985	Deductions for certain allowable capital expenditures incurred in either: prospecting or exploration by general and petroleum miners; or carrying on mining or quarrying operations (Divisions 10AAA, 10AB and Sections 122J-122JF,124AH).
MM4	pre 1985	Exemption of income from sale, transfer or assignment of rights to mine gold or prescribed metals (Section 23(pa), Regulation 4AA). (Abolished in respect of income from contracts entered into after 20 August 1996, subject to transitional arrangements.)

Table 4: Tax Expenditures Reference Table (continued)

1993-94 $m	1994-95 $m	1995-96 $m	1996-97 $m	1997-98 $m	1998-99 $m	1999-00 $m	2000-01 $m
9	9	9	26	21	0	0	0
nil	1	2	3	5	5	5	5
<1	< 1	<1	<1	<1	<1	<1	<1
nil	nil	2	13	10	9	10	10
6	6	6	5	5	5	5	5
na	na	na	na	na	na	na	na
nil	nil	nil	nil	1	3	5	6
-	-	-	-	10	5	5	5
-	-	-	-	0	34	47	48
410	360	370	370	370	370	370	370
40	40	40	40	38	18	5	0

Index	Date	Description
MM5	1992	Development Allowance of 10 per cent for plant and equipment relating to major projects, approved by the Development Allowance Authority, which commenced on or after 27 February 1992 and completed before 30 June 2002 82AAAA and 82AA-AQ). The allowance was extended to the motor vehicle and printing production industries on 18 January 1994, *Development Allowance Authority Act 1992* (Sections 15, 27, 40).
MM6	1993	General investment allowance provides an additional tax deduction of 10 per cent of the cost of qualifying plant and equipment ordered from 9 February 1993 and before 1 July 1994 and which is first used for the purpose of producing income, or installed ready for use, before 1 July 1994.
MM7	1991	Deduction over 10 years or life of project to which it relates, whichever is the least, for expenditure incurred on or after 12 March 1991 on an eligible environmental impact study (Section 82BB).
MM8	1992	Immediate deduction for expenditure on or after 19 August 1992 for the sole or dominant purpose of preventing, combating or rectifying pollution, or treating, cleaning up, removing or storing waste where the waste or pollution was produced by, or is on the site of, the taxpayer's income-producing activities (Section 82BH-82BR).
MM9	pre 1985	Absence of balancing adjustment on disposal for certain depreciable assets (eg buildings) which would recapture allowed income tax deduction for depreciation in excess of actual decline in asset's market value over period to disposal. New cost base rules announced in the 1997-98 Budget and subsequently have limited this tax expenditure to expenditures on pre-Budget land or buildings, which create separate assets, incurred after 13 May 1997 but before 1 July 1999.
MM10	pre 1985	The ability to roll over liability for balancing adjustments levied on the disposal of certain depreciable assets (Sections 59(2A) to 59(2E)).
MM11	1992	Exemption for borrowings for eligible infrastructure facilities, from 1 July 1992. From 1 July 1994: the maximum term of the concession was increased from 10 to 15 years; the exemption became applicable to more sectors; and investors are offered a tax rebate equal to the company tax rate as an alternative to the non-assessable income arrangement (Division 16L, Sections 159GZZZZD to 159GZZZZH). No further approvals from 14 February 1997. The scheme has been replaced by MM17 (see below).
MM12	pre 1985	Immediate deduction for expenditure incurred in obtaining or seeking to obtain, for the purpose of producing assessable income, the registration or extension of a patent, design or copyright (Section 68A).

Table 4: Tax Expenditures Reference Table (continued)

1993-94 $m	1994-95 $m	1995-96 $m	1996-97 $m	1997-98 $m	1998-99 $m	1999-00 $m	2000-01 $m
5	50	50	525	205	165	250	225
100	445	200	12	nil	nil	nil	nil
na	<10	<10	<10	<10	<10	<10	<10
na	na	na	na	na	na	na	na
na	na	na	na	5	60	70	0
na	na	na	na	na	na	na	na
nil	nil	na	40	105	178	148	109
26	23	25	25	30	30	30	30

Index	Date	Description
MM13	pre 1985	Exemption of income of funds established to enable scientific research to be conducted by or in conjunction with a public university, provided the fund is actually being applied for that purpose (Section 23(j)(iii)).
MM14	1985	Deductions of up to 125 per cent for eligible expenditure on research and development activities undertaken after 20 May 1996 (150 per cent before). Eligible expenditures which are of a current nature receive an immediate 125 per cent deduction. Eligible expenditures on R&D plant are deductible at 125 per cent over three years. Expenditure on 'core technology' which relates to R&D activities undertaken by the firm is deductible over the period of the related R&D activities, subject to constraints about the maximum deduction allowable (Section 73B). (o)
MM15	Pre 1985	Depreciation to nil rather than estimated scrap value (Sections 54-55).
MM16	Pre 1985	Rollover relief for balancing adjustments for exploration, mining and quarrying activities (Sections 122K, 123C and 124AM).
MM17	1997-98 Budget	Tax rebate on interest received from infrastructure providers. The scheme is open to new private road and rail infrastructure projects and related facilities, project proponents with applications pending for the previous infrastructure (IBs) tax concession scheme at 14 February 1997, and extensions to projects which had previously been certified to use IBs. The rebate will be set at the current company tax rate and will be available for up to five years from the time of first borrowing for a qualifying project.(i)

Transport and Communications

Index	Date	Description
TC1	1986	FBT exemption for providing free or discounted commuter travel to employees where the employer carries on a business of providing public transport (Section 47(1)).
TC2	1997	FBT exemption for employee taxi travel arriving at or leaving from place of work from 1 April 1997. From 1 April 1995 an exemption was available for travel before 6 am or after 8 pm. (i)

Other Economic Affairs

A. Tourism and Area Promotion

Index	Date	Description
TAP1	1986	FBT valuation of stand-by travel for airline employees and travel agents at 37.5 per cent of full fare (Section 33).

Table 4: Tax Expenditures Reference Table (continued)

1993-94 $m	1994-95 $m	1995-96 $m	1996-97 $m	1997-98 $m	1998-99 $m	1999-00 $m	2000-01 $m
<1	<1	<1	<1	<1	<1	<1	<1
465	685	675	710	440	370	380	400
<10	<10	<10	<10	<10	<10	<10	<10
na	na	na	na	na	na	na	na
-	-	-	-	38	75	75	75
20	40	25	25	25	25	25	25
-	-	na	na	na	na	na	na
40	65	60	70	75	80	80	80

Index	Date	Description
B. Labour and Employment		
LE1	pre 1985	Exemption of income received by trade unions and registered associations of employers or employees (Section 23(f)). (An exception is that trade unions and employee associations are assessable on non-premium income attributable to the business of granting certain annuities under Sections 116J and 116G.) (j)
LE2	pre 1985	Deductibility, up to a limit, of union dues and subscriptions to business associations (Section 73(3)).
LE3	pre 1985	Exemption of rebates paid to employers who take on apprentices under the CRAFT (Commonwealth Rebate for Apprentice Full-Time Training) scheme (Section 23(jc)). The Government announced in the 1997-98 Budget that the CRAFT scheme would be converted to an outlay from 1 January 1998.
LE4	pre 1985	Deferral of tax on share discounts and, from 1 July 1988, exemption of share discounts received by an employee under an approved employee share acquisition scheme currently up to a maximum of $1000 (Div 13A).
LE5	1986	FBT exemption for long service awards for service of more than 15 years to a value of $500 per employee (Section 58Q).
LE6	1986	FBT exemption for food and accommodation provided to employees training under the Australian Traineeship Scheme (Section 58S).
LE7	1986	FBT exemption for providing compensation-related benefits, certain relocation and recruitment expenses (Sections 58A-D and F).
LE8	1986	FBT exemption for providing occupational health and counselling services and some training courses (Sections 58J, K and M).
LE9	1986	FBT reduction in the taxable value of certain relocation and recruitment expenses (Sections 61B-E).
LE10	1986	FBT reduction in the taxable value of benefits in the form of a reimbursement of car expenses on cents per km basis where the expenses are incurred in association with occupational health and counselling services and some training courses (Section 61F).
C. Other Economic Affairs, nec		
OEA1	1988	Ten year straight line depreciation for capital expenditure in connecting or upgrading mains electricity for a property on which a business is carried on (Section 70A).
OEA2	pre 1985	Deduction to co-operative companies for amounts distributed to members as bonuses, interest or dividends and for the repayment of Commonwealth and State government loans (Section 120(1)).

Table 4: Tax Expenditures Reference Table (continued)

1993-94 $m	1994-95 $m	1995-96 $m	1996-97 $m	1997-98 $m	1998-99 $m	1999-00 $m	2000-01 $m
na	na	na	na	10	10	10	10
na	na	na	na	na	na	na	na
22	21	19	15	15	11	7	4
na	na	na	na	na	na	na	na
<5	<5	<5	<5	<5	<5	<5	<5
<5	<5	<5	<5	<5	<5	<5	<5
na	na	na	na	na	na	na	na
na	na	na	na	na	na	na	na
na	na	na	na	na	na	na	na
na	na	na	na	na	na	na	na
3	4	5	5	6	6	7	7
<1	<1	<1	<1	<1	<1	<1	<1

Table 4: Tax Expenditures Reference Table (continued)

Index	Date	Description
OEA3	pre 1985	The concessional treatment of the investment income of registered organisations from certain types of life, disability and accident policies (taxable, at a concessional rate of 20 per cent, from 1983-84 to 1987-88 income years; 30 per cent for the life insurance business of friendly societies from 1988-89 to 1993-94 income years; 33 per cent for the 1994-95 to 1998-99 income years; and 39 per cent for subsequent income years). (j)
OEA4	pre 1985	Exemption of interest received by credit unions (Section 23G). (p)
OEA5	1992	Application of a concessional (effectively 10 per cent) rate of tax on eligible income derived by an Offshore Banking Unit (OBU) from 1 July 1992. The Government announced in this year's industry policy statement *Investing for Growth* an extension of the OBU concessions.
OEA6	1994	CGT: a limited form of rollover available to certain eligible superannuation funds which merge on or after 1 July 1994 and before 1 July 1997 to defer accrued CGT liabilities (Section 160ZZPJ).
OEA7	1994	CGT rollover relief is provided where a complying Approved Deposit Fund (ADF) converts to a complying superannuation fund, or where a complying superannuation fund or a complying ADF redesigns its trust deed, effective 12 January 1994 (Sections 160AZA and ZZPJ).
OEA8	1995	Multinational firms establishing regional headquarters in Australia can claim, inter alia, business expenses incurred in relocating from overseas (Sections 82C-CE).
OEA9	1986	Exemption of certain payments from reducing cost base of trusts for CGT purposes (Section 160ZM(3A)).
OEA10	1995	Concessional CGT treatment of demutualisations.
OEA11	pre 1985	Exemption of income of foreign superannuation funds (Section 23(jb)).
OEA12	1986	FBT exemption for benefits on loans where the interest paid is above the declared rate but below the market rate (Section 18). (q)
OEA13	1986	FBT undervaluation of benefits on loans where the interest paid is below the declared rate and is below the market rate (Section 18). (q)
OEA14	1986	FBT undervaluation of benefits resulting from the statutory formula available to value car benefits (Section 9).
OEA15	1994	IWT half exemption for notional interest paid by a foreign bank branch to its overseas parent (Section 160ZZZJ(2)).
OEA16	1992	DWT exemptions for dividends paid by pooled development funds (Sections 128B(3)(ba), 124ZM).

Table 4: Tax Expenditures Reference Table (continued)

1993-94 $m	1994-95 $m	1995-96 $m	1996-97 $m	1997-98 $m	1998-99 $m	1999-00 $m	2000-01 $m
48	31	22	23	24	25	27	nil
43	45	18	25	25	<1	<1	<1
na	10	9	13	14	23	30	30
nil	nil	na	na	na	na	na	na
na	<1	na	na	na	na	na	na
nil	nil	6	7	2	2	2	2
na	na	na	na	na	na	na	na
-	-	-	-	na	na	na	na
na	na	na	na	na	na	na	na
na	na	na	na	na	na	na	na
na	na	na	na	na	na	na	na
400	800	650	740	610	670	690	710
Included in NAF13							
na	na	na	na	na	na	na	na

Index	Date	Description
OEA17	pre 1985	Assessable income of a pension or annuity stream is determined after subtracting the undeducted purchase price (UPP) component of that income stream. The UPP (capital component) of a superannuation pension or annuity, is apportioned evenly over the term of the income stream payments. This provides a tax deferral advantage because the UPP component of an income stream typically grows over time until the last payment of the stream is mainly comprised of the UPP component.
OEA18	pre 1985	Income from segregated pension assets is not taxable in the hands of the superannuation fund. It is taxable when paid to the pensioner but this could be some time after the income accrues, possibly representing a deferral of tax liability.
OEA19	1992	Concessional taxation treatment available to investment companies which are established and registered as Pooled Development Funds (PDFs) (Sections 46(1), (2), (7), (7A); 46A(1), (5), (9), (10); 124ZS-ZV; 124ZW-ZZD, and the *Income Tax Rates Act 1986*, Sections 3(1); 23(4C), (4D)).
OEA20	1986	CGT goodwill exemption (Section 160ZZR).
OEA21	1997	CGT rollover relief for businesses with net assets of less than $5 million, including rollover relief for shares (s160ZZPK-160ZZPZ).
OEA22	1997	FBT exemption for record keeping for employers (other than a government body or tax exempt body) submitting a return in a base year with $5,000 or less in taxable benefits and thereafter not significantly altering the amount or kind of benefits provided in each year. (i)
OEA23	1997	FBT exemption for small businesses in respect of car parking on their business premises. For the purposes of the exemption, small business employers are taxpayers (other than government bodies and listed public companies and their subsidiaries) with gross incomes of less than $10 million. (i)
OEA24	1997	Exemption of US collective fund investments from Foreign Investment Fund tax regime. Announced by the Government in this year's industry policy statement *Investing for Growth*.
Not Allocated to Function		
NAF1-4		Concessions under the substantiation provisions for employment-related expenses incurred after 1 July 1986 (Sections 82KT-82KZB) including (NAF1-NAF4):
NAF1	1986	*expenses up to the amount of a reasonable overtime meal allowance are not subject to substantiation requirements;*

1993-94 $m	1994-95 $m	1995-96 $m	1996-97 $m	1997-98 $m	1998-99 $m	1999-00 $m	2000-01 $m
na	na	na	na	na	na	na	na
na	na	na	na	na	na	na	na
< 1	<1	<1	11	12	12	13	14
na	na	na	na	na	na	na	na
-	-	nil	nil	nil	290	305	315
-	-	-	-	5	25	20	20
-	-	-	-	25	50	35	35
-	-	-	-	-	2	3	3
na	na	na	na	na	na	na	na
See above							

Index	Date	Description
NAF2	1986	*substantiation rules do not apply to expenses on accommodation, meals and incidental costs of travel in Australia up to the amount of a reasonable travel allowance;*
NAF3	1986	*expenses which do not exceed the amount of certain award transport allowances are not subject to substantiation requirements (rules relaxed somewhat from 1 July 1988); and*
NAF4	1986	*use of 1/3 of car expenses or 12 per cent of the purchase cost of the car as alternatives to the actual expenses method of substantiating car expenses.*
NAF5	pre 1985	Exemption of income of religious institutions (Section 23(e)). (This exemption is generally not available to offshore orgainsations from 1 July 1997.)
NAF6	pre 1985	Exemption of 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 (Section 23(h)). (j)
NAF7	1986	Rebate on certain payments of income received in arrears, including lump sum payments of workers' or accident compensation and of social security and other benefits, on or after 1 July 1986 (Sections 159ZR-159ZRD).
NAF8	pre 1985	Rebate of interest on certain government or semi-government securities issued before 1 November 1968 (Section 160AB).
NAF9	pre 1985	Exemption of income of municipal corporations and other local governing bodies and public authorities (other than a State or Territory body within the meaning of Division 1AB) (Section 23(d)).
NAF10	pre 1985	Exemption of income of a State/Territory body (Part III, Division 1AB). (This exemption was included in Section 23 (d) before 1 July 1994.)
NAF11	pre 1985	Deduction for gifts other than trading stock to approved donees (Section 78). Section 78 provides the list of approved donees.
NAF12	pre 1985	Deduction for gifts of trading stock to approved donees, where deduction is the value of stock included in taxpayer's assessable income (Section 78(12)). Section 78 provides the list of approved donees.
NAF13	pre 1985	IWT exemption for foreign borrowings raised by a public offer of debentures (Section 128F). The Government announced in this year's industry policy statement *Investing for Growth* the extension of the IWT exemption to publicly offered corporate securities issued in Australia.

Table 4: Tax Expenditures Reference Table (continued)

1993-94 $m	1994-95 $m	1995-96 $m	1996-97 $m	1997-98 $m	1998-99 $m	1999-00 $m	2000-01 $m
See above							
See above							
See above							
na	na	na	na	na	na	na	na
30	30	30	30	30	30	30	30
<1	< 1	<1	<1	<1	<1	<1	<1
<1	<1	<1	<1	<1	<1	<1	<1
na	130	120	120	125	130	135	140
nil	na	na	na	na	na	na	na
160 (r)	169 (r)	184 (r)	196 (r)	206 (r)	216 (r)	227 (r)	230 (r)
na	From 1994-95 included in NAF11						
610	680	790	730	720	760	800	830

Index	Date	Description
NAF14	pre 1985	IWT exemption for interest on loans raised outside Australia by a State or by an authority of the Commonwealth or a State and the loan funds are not used by an authority in competing directly with a non-government enterprise Section 128GA). (Abolished with respect to loans contracted for after 1 July 1986.)
NAF15	1994	FBT rebate for specified categories of non-government, non-profit organisations from 1 April 1994 (Section 65J).
NAF16	1986	FBT exemption for benefits provided by employers in relation to certain compassionate travel of employees (Section 58LA).
NAF17	1986	FBT exemption for fringe benefits provided by religious institutions (Section 57).
NAF18	1986	FBT exemption for staff accommodation at religious institutions and meals provided in religious houses (Section 58T).
NAF19	1986	FBT exemption for provision of food or drink in certain circumstances (Sections 54 and 58V).
NAF20	1986	FBT reduction of the taxable value to 75 per cent of the arm's length transaction price for in-house property and residual fringe benefits (Sections 42(1), 48 and 49).
NAF21	1986	FBT exemption for up to $500 per employee of the taxable value of airline transport fringe benefits and free discounted goods or services of a kind ordinarily provided to employers' customers or clients (Section 62).
NAF22	1986	FBT valuation of board fringe benefits at $2 per meal, or $1 per meal if the person is under the age of 12 (Section 36).
NAF23	1993	FBT exemption for car parking benefits provided by employers who are non-profit scientific organisations, religious institutions or public education institutions. Exemption for all car parking benefits was available up to 1 July 1993 (Section 58G).
NAF24	1993	FBT undervaluation of benefits resulting from valuation arrangements for car parking (Section 39A).
NAF25	1986	FBT reduction in the taxable value of holiday travel by 50 per cent of actual cost up to an amount equal to 50 per cent of the cost of one return holiday per year to Australia, irrespective of destination, for employees posted overseas (Section 61A).
NAF26	1986	FBT exemption in certain circumstances for transport for oil rig and remote area employees (Section 47(7)).

Table 4: Tax Expenditures Reference Table (continued)

1993-94 $m	1994-95 $m	1995-96 $m	1996-97 $m	1997-98 $m	1998-99 $m	1999-00 $m	2000-01 $m
Included in NAF13							
nil	35	45	55	55	55	60	60
<5	<5	<5	<5	<5	<5	<5	<5
80	150	155	160	165	170	175	180
<5	<5	<5	<5	<5	<5	<5	<5
na	na	na	na	na	na	na	na
na	na	na	na	na	na	na	na
na	na	na	na	na	na	na	na
20	30	20	20	20	25	25	25
na	na	na	na	na	na	na	na
na	na	na	na	na	na	na	na
na	na	na	na	na	na	na	na
na	na	na	na	na	na	na	na

Index	Date	Description
NAF27	1986	FBT reduction in taxable value by up to 50 per cent of cost for remote area holiday benefits, including those given to the employee's family (Sections 60A and 61).
NAF28	1986	FBT exemption for minor benefits (Section 58P).
NAF29	1986	FBT exemption for private use of business property consumed on business premises and principally for use in connection with business operations (Sections 41 and 47(3)).
NAF30	1986	FBT exemption for benefits such as allowances or components of allowances, accommodation, food and household goods provided while living away from home in order to perform duties of employment (Sections 21, 31, 47(5), 58E and 63).
NAF31	1986	FBT exemption for private use of company cars that is minor and infrequent (Section 47(6)).
NAF32	1986	FBT exemption for fringe benefits on loans provided to employees to meet employment-related and accommodation-related expenses (Sections 17(3) and 17(4)).
NAF33	1991	Non-capital costs in respect of ownership of a personal use asset may be included in the CGT cost base (Section 160ZH(1)(ba)).
NAF34	1997-98 Budget	Tax rebate for savings, to a value in 1998-99 of 7.5 per cent of undeducted superannuation contributions and/or net personal income from savings and investment, with a maximum rebate of $225, and in 1999-00 onwards of 15 per cent with a maximum rebate of $450. (i)

Table 4: Tax Expenditures Reference Table (continued)

1993-94 $m	1994-95 $m	1995-96 $m	1996-97 $m	1997-98 $m	1998-99 $m	1999-00 $m	2000-01 $m
na	na	na	na	na	na	na	na
na	na	na	na	na	na	na	na
na	na	na	na	na	na	na	na
na	na	na	na	na	na	na	na
na	na	na	na	na	na	na	na
na	na	na	na	na	na	na	na
na	na	na	na	na	na	na	na
-	-	-	-	-	350	1370	2040

Notes

- Nil

nec Denotes not elsewhere classified.

<X Denotes revenue cost is less than X million dollars (eg <1 denotes that the estimate is less than $1 million).

na Denotes estimate of revenue cost is not available.

(a) 1996-97 figures are preliminary only and are subject to revision on receipt of tax data for 1996-97. Figures for 1997-98 to 2000-2001 are projections based on currently available information.

(b) The date of effect of this tax expenditure depends on the date on which the double tax agreement takes effect.

(c) Norfolk Island is basically self-supporting. The only contributions by the Commonwealth are of a one-off nature eg a dollar-for-dollar grant for a water and sewerage scheme.

(d) In the case of living-away-from-home allowances and living allowances paid to Defence Force personnel, the benchmark is defined to be compensation for the actual additional costs faced by employees in living away from their homes. On this view, the tax expenditure relates solely to any excess over such a component.

(e) Denotes item referring to Australian-source income of non-residents.

(f) Includes invalid relative rebate, parent or parent-in-law rebate and superannuation pension or annuity rebate.

(g) Includes invalid relative rebate and parent or parent-in-law rebate.

(h) The Medicare levy in 1996-97 was raised from 1.5 to 1.7 per cent to fund the costs associated with the gun buyback scheme (the gun levy). It is assumed the revenue impact of exemption from the gun levy is experienced in 1997-98.

(i) Recent measure, yet to be legislated.

(j) The tax expenditure element here refers to the exemption of income not related to the application of the mutuality principle; ie, from trading with non-members and investment income.

(k) Based on estimates and projections of fuel use published by ABARE in *Australian Energy Consumption and Production* (1997). Calculated on equivalent unit of energy basis. The estimates and projections exclude the effect of the recent Commonwealth safety net arrangements for petrol on the benchmark following the invalidation of State business franchise fees by the High Court.

(l) The tax expenditure element relates to the difference between the standard specified values and market value.

(m) Equal to annual average value of the tax expenditure for the period 1994-95 to 1996-97

(n) The IED scheme allows primary producers to make deposits that are tax-deductible upon deposit but assessable on withdrawal. A negative expenditure may thus occur in a year when farmers make a net withdrawal from the scheme. The main effect of this scheme is to allow a tax deferral, but tax will be reduced to the extent that deposits are made in high income, high marginal tax rate years but withdrawn in years of low income and low marginal tax rates. In the long run, the real value of the concession for farmers will be the sum of each year's estimate.

(o) The general (that is, non-syndicated) R&D tax concession provides both immediate deductibility of capital expenditure and premium deductions over 100 per cent for eligible expenditures. The tax expenditure estimates provided relate only to the revenue cost of premium deductions for R&D under the general concession. No estimate is made of the cost of the bring forward of capital deductions. As a result, the estimates provide a lower limit to the revenue cost of the tax expenditure on R&D against a benchmark of amortisation of eligible expenditures over time.

(p) This exemption was removed from the beginning of the 1994-95 income year for credit unions with gross balance sheet assets of $30 million or more and for other credit unions from the 1995-96 income year. Taxation will be at the concessional rate of 20 per cent until the beginning of the 1997-98 income year at which time the full corporate rate will apply. Concessional rates of taxation will be provided for credit unions with low levels of notional taxable income.

(q) The term 'declared rate' (also referred to elsewhere as the 'benchmark rate') is used to refer to the rate declared by the Commissioner of Taxation for the purpose of determining FBT liability for loan benefits.

(r) This estimate is derived from donations claimed on individuals' returns only. Donations made by companies, partnerships and trusts are not included. This estimate will therefore significantly understate the true cost to revenue of the concession.

Sources: Unless otherwise specified, Australilan Taxation Office, Australian Customs Service, or the Treasury.

Table 5: Tax Expenditures Involving Deferral(a)

Index	Date	Description
AD7	1991	Broad banding of 18 depreciation rates into seven classes, applying from 1 July 1991 to 26 February 1992, and immediate write off for plant with effective life of less than three years or costing less than $300, applying from 1 July 1991.
AD8	1992	Accelerated depreciation allowances for plant and equipment acquired under contract, or commenced to be constructed, on or after 27 February 1992 (Section 55).
AD9	1992	Depreciation over 40 years for structural improvements (Division 10D) where construction commenced on or after 27 February 1992.
AD10	1985	Depreciation for residential income-producing buildings over 25 years where construction commenced after 18 July 1985 and over 40 years for buildings contracted for after 15 September 1987 (Sections 124ZF-ZK). (b)
AD11	1992	Depreciation over 25 years for short-term traveller accommodation and industrial buildings (Division 10C and 10D) where construction commenced on or after 27 February 1992.
AD12	pre 1985	Depreciation over 40 years for non-residential income-producing buildings where construction commenced after 19 July 1982 and before 21 August 1984 or after 15 September 1987; where construction commenced between 21 August and 15 September 1987, depreciation is over 25 years (Division 10D).
AD13	pre 1985	Accelerated depreciation over 5 years on Australian trading ships commissioned on or after 29 July 1977 (Section 57AM). (Abolished subject to transitional arrangements for ships registered and delivered before 1 July 1997.)

Notes

na Denotes estimate of revenue cost is not available.

(a) 1996-97 figures are preliminary only and are subject to revision on receipt of tax data for 1996-97. Figures for 1997-98 to 2000-01 are projections based on currently available information.

(b) The revenue impact does not include any clawback from reducing the cost base for CGT purposes by the amount of the concession claimed.

Table 5: Tax Expenditures Involving Deferral

1993-94 $m	1994-95 $m	1995-96 $m	1996-97 $m	1997-98 $m	1998-99 $m	1999-00 $m	2000-01 $m
60	45	30	15	5	15	20	20
350	640	870	1060	1180	1260	1370	1430
Included in AD8							
470	365	470	510	520	540	555	570
Included in AD10							
Included in AD10							
38	31	18	12	-7	-8	-21	-25

Table 6: Tax Expenditures — Wholesale Sales Tax

Index	Description(a)
WST1	Goods ordinarily used as raw materials in the construction or repair of buildings, fixtures or structures or other works that are attached to land, other similar materials and electrical fittings (Items 39-49).
WST2	Piping, tubing, channelling and guttering for use by a person mainly for the purposes of irrigation, water supply, drainage or sewerage, other associated materials and water tanks (Items 50-54).
WST3	Hydraulic power and electric current, goods for purifying or compressing natural gas, and goods for generating or storing gas or electricity in residential premises (Items 56, 57A and 58).
WST4	Certain transportation related items including ships, aircraft, public railways, passenger buses and public transport authorities as specified (Items 59-64).
WST5	Primary products derived directly from prescribed activities in Australia that have not been subject to any process or treatment resulting in an alteration of their form, nature or condition (Items 65-67).
WST6	Food and drink for human consumption or as ingredients of such food, including tea, coffee and milk products (Items 68-74).
WST7	Clothing and footwear for human wear including fastners and materials for repair of such goods (Items 75-77).
WST8	Goods related to human health and hygiene. These include, drugs and medicines, surgical and dental instruments, ambulances, spectacles, cotton wool, bandages, toothbrushes, contraceptives, sunscreens, sanitary pads, nappies and goods for the use of disabled persons (Items 78-99).
WST9	Books, printed matter and paper, including pamphlets, leaflets periodicals, magazines, newspapers, manuscripts, stamps and goods made from recycled paper (Items 100-108).
WST10	Scientific and educational goods for use by a school, university or associated bodies (Items 109-114).
WST11	Works of art, museum exhibits, and imported collector pieces, paintings, sculptures and antiques (Items 115-119).
WST12	Public monuments and memorials, defence service honour boards, tombstones, imported trophies, and miniatures of specific awards (Items 120-124).
WST13	Goods for use by Commonwealth, State, Territory and local Governments, including authorities completely controlled by them. Imported goods used for official purposes by the Governor-General, State Governors and their families. Goods for the use of State libraries, museums, art galleries and grain storage authorities (Items 125-130).
WST14	Goods for the use of foreign governments (excluding goods for the use of diplomatic missions, consular posts and trade commissioners). Goods produced by a foreign tourist promotion agency. Certain goods used by armed forces serving in Australia (Items 131-139).

Table 6: Tax Expenditures — Wholesale Sales Tax (Continued)

Index	Description[a]
WST15	Goods for use by a public or non-profit hospital, a public benevolent institution or a public body established and maintained principally for the relief of unemployed persons including associated fund raising bodies. Goods for the use of medical research bodies, accident prevention bodies, exempt child care bodies, zoos and armed forces support bodies (Items 140-147).
WST16	A wide range of miscellaneous goods as specified in the *Act*, including wedding rings, prams, coffins, coth on the roll, leather, fertilisers, solar energy equipment, water, ice, national flags, goods for donation and loan to an always-exempt person or a foreign government (Items 148-184, 186-187, and 189-195).

(a) Item references refer to Schedule 1 of the *Sales Tax (Exemptions and Classification) Act 1992*.

Tax Expenditures by Taxpayer Affected

This section provides a broad indication of the recipients of assistance through tax expenditures. Despite the difficulties in determining the final beneficiary of the assistance, the purpose of this analysis is to provide an overall picture of the direction of tax expenditures.

For the purpose of this analysis the classification of 'taxpayer affected' is by the legal incidence of the tax. Legal incidence should not be confused with the economic incidence of a tax measure. Legal incidence refers to the taxpayer upon whom the tax is levied. In contrast, the economic incidence of a tax relates to the taxpayer who bears the economic impact of the tax, that is, whose behaviour is changed by the imposition of the tax or concession. Economic incidence will differ from legal incidence if the group bearing the legal incidence transfers the tax expenditure to someone else.

- For instance, the legal incidence of a tax expenditure may be on the manufacturer of a product. However, the economic incidence may actually fall on consumers of the product via a change in price.

The taxpayer aggregates in Table 7 consist of the expenditures listed below, covering those items for which costings are available (excluding deferral expenditures). Descriptions and costings of each expenditure are provided in Table 4.

Businesses (CR2-CR3, AFF12, OEA1, OEA8, OEA19, OEA21, MM1, MM4-MM6, MM12, MM14, FE1,H8);
Defence force personnel, including veterans and their families (D1-D2, D6, D10, SS8);
Donors to approved organisations (NAF11);
Employees (SS24-SS25);
Employers (HC5, LE3, TC1, TAP1, AFF15, OEA14, OEA22-OEA23, NAF22);
Financial institutions (OEA3-OEA5);
Government (NAF9);
Hospitals and State and Territory Authorities (H6);
Superannuation funds and beneficiaries, termination payment recipients (SS13, SS26, SS27);
Non-profit organisations (H5, CR6, LE1, NAF6, NAF15, NAF17, SS21);
Personal income taxpayers (GS1, H1-H3, H10, SS1-SS2, SS4-SS7, SS9, SS14-SS15, SS29; HC1, NAF34);
Retirees and allowees (SS3, SS28)
Property owners (MM9);
Primary producers (AFF1, AFF3-AFF5, AFF8-AFF9, AFF11, AFF14, AFF16);
Students (E1);

Non-residents (FA8, NAF13-NAF14, OEA15, OEA24); and **Miscellaneous** (H9, MM11, MM17)**.**

Table 7: Tax Expenditures Classified by Taxpayer Affected

Taxpayer	1993-94 $m	1994-95 $m	1995-96 $m	1996-97 $m	1997-98 $m	1998-99 $m	1999-00 $m	2000-01 $m
Businesses	1043	1960	1814	2206	1654	1884	2053	2134
Defence	349	361	394	416	420	433	445	456
Donors	160	169	184	196	206	216	227	230
Employees	580	380	370	350	330	310	295	280
Employers	502	956	774	910	825	931	927	944
Financial institutions	91	86	49	61	63	48	57	30
Government	0	130	120	120	125	130	135	140
Hospitals	60	115	170	175	180	185	190	195
Superannuantion beneficiaries	7665	5770	8315	8700	8490	8770	9440	10075
Non-profit organisations	221	352	347	429	450	460	481	492
Personal income taxpayers	2898	3520	3071	3164	3497	4153	5282	6058
Retirees/allowees	1270	1365	1410	1470	1573	1655	1705	1757
Property Owners	0	0	0	0	5	60	70	0
Primary producers	214	244	323	349	312	341	387	404
Students	21	28	28	29	29	30	31	31
Non-residents	714	793	918	853	854	903	951	988
Miscellaneous(a)	0	0	0	41	143	253	223	184
Total(b)	15788	16229	18287	19469	19156	20762	22899	24398

(a) Expenditures included in the 'Miscellaneous' category are those for which the 'Taxpayer Affected' does not belong to any of the other identified categories.

(b) Totals do not include any contribution from items which were costed as being 'less than' in Table 4 (eg <1, <5).

Conceptual Issues

Tax expenditures are those provisions of the Australian taxation law which effectively tax certain classes of taxpayers or particular types of activity differently from the chosen benchmark. A positive tax expenditure arises where an activity or class of taxpayer is taxed preferentially with respect to the chosen benchmark. A negative tax expenditure arises where taxation is at a higher rate than implied by the chosen benchmark structure. Virtually all tax expenditures identified in this Statement are positive.

The decision as to the appropriate benchmark for determining tax expenditures is a matter for judgement: benchmarks may vary across countries and within countries over time. The principal criterion of benchmark design is that it should represent the neutral taxation treatment of similarly placed activities or classes of taxpayer (that is, neutral taxation treatment neither favours nor disadvantages similarly placed activities or classes of taxpayer).

This typically implies a taxation system with a comprehensive base. Because the tax bases relevant to the vast majority of Australian taxes are based on a definition of income which refers to an accretion in economic wealth (rather than, say, a consumption derivative) the Schanz-Haig-Simons definition of income is used as a starting point for the ideal benchmark. This essentially defines income as the increase in net economic wealth between two points of time plus consumption during that period, where consumption includes all expenditures except those incurred as a cost in the earning or production of income.

In Australia we also adopt the individual as the tax unit for income tax and this feature is adopted as part of the benchmark.

Departures from the ideal benchmark would be a practical necessity under any operational income tax system. Such departures involve taxing income derived from particular activities in a manner which departs from the conceptual ideal (such as the taxation of realised as opposed to accrued capital gains) or excluding certain types of income from the income tax base altogether (for example, the non-taxation of imputed rent from consumer durables and the non-deductibility of expenses incurred in earning that income) because it would not be feasible administratively to tax them. In addition, certain provisions relating to the taxation of foreign source income (such as the quarantining of foreign losses) are necessary to prevent the erosion of the domestic tax base and to protect the integrity of the Australian tax system. Accordingly, provisions which are intrinsic to the operation of the tax system but which nevertheless may depart from the ideal income tax benchmark have been incorporated into the benchmark for this Statement.

In some instances adherence to the ideal benchmark may be ruled out on pragmatic grounds and a comprehensive and achievable alternative to the existing taxation system may not be available. In such cases an interim benchmark which accepts the existing system and identifies deviations from it as tax expenditures has been adopted. For example, prior to 1987-88 when the classical system of company taxation operated, no tax expenditures were identified in relation to the treatment of distributed and undistributed income even though it departed significantly from the ideal benchmark. With the introduction of the imputation system of company taxation from 1 July 1987, imputation was incorporated into the benchmark from the 1987-88 income year.

It follows that benchmarks may change over time. This approach recognises that the treatment of ideal tax benchmarks needs to be tempered to ensure that the analysis of tax expenditures remains relevant.

Practical difficulties inevitably attach to the definition of a benchmark tax structure. It is difficult to ascertain whether some tax provisions should be part of the benchmark structure or listed as tax expenditures. This Statement generally lists as tax expenditures items for which such a categorisation is judged to be marginal.

Although the above discussion focuses upon the income tax benchmark, the broad issues of benchmark design identified are equally relevant for the other heads of Commonwealth taxation such as wholesale sales tax, fringe benefits tax and excise duty.

Income Tax Benchmark

The benchmark adopted has the following characteristics:

- The legislated progressive personal income tax rate scale, including the tax-free threshold is part of the benchmark.

- The individual is the tax unit under the income tax system and this feature is adopted as part of the benchmark. Tax expenditures are thus deemed to arise where taxpayers' liabilities are modified according to their dependant-care responsibilities.

- A single tax year is adopted as the accounting period under the benchmark structure. Accordingly, averaging provisions available only to selected classes of taxpayer are regarded as tax expenditures. However, carry-forward loss provisions are considered to fall within the benchmark.

- Consistent with practice in Australia, a nominal income benchmark is adopted in this Statement with some ad hoc adjustments for inflation. (Adoption of a real income benchmark would require the identification — as (generally negative) tax expenditures — of all aspects of the tax system which do not adjust the measurement of income for inflation.)

- An exception to this is in relation to capital gains tax, where the taxation of real gains on assets held for more than 12 months is an intrinsic feature of the capital gains tax system and is therefore included in the benchmark. The following intrinsic features are also included in the benchmark:

  – CGT exemption for gains on the disposal of motor vehicles, and on each other personal-use asset with disposal value of less than $10,000;

  – CGT exemption for gains on assets acquired prior to 20 September, 1985;

  – CGT exemption for gains received by way of compensation or damages for any wrong or injury suffered by a taxpayer;

  – CGT exemption of gains or winnings from gambling;

  – CGT rollover reliefs on the death of a taxpayer, the involuntary disposal of an asset, or the transfer of assets between spouses upon breakdown of marriage; and

  – CGT averaging of tax liabilities.

- Although assessment of income on an accruals basis is the general benchmark, those provisions where income is assessed on a realisation basis (eg under the capital gains provisions of the income tax) are considered to be essential features of the tax system and hence are incorporated into the benchmark.

- Under the benchmark adopted, expenses incurred in earning assessable income are deductible:

- the substantiation rules, which apply to employment-related expenses incurred on or after 1 July 1986, generally conform to this benchmark. However, tax expenditures are deemed to arise where taxpayers are allowed to claim on the basis of statutory formulae which yield a larger deduction than the actual cost incurred;

- deductions for depreciation are identified as tax expenditures if they provide more generous treatment than effective life depreciation; and

- provisions which defer deductions are identified as negative tax expenditures. The restrictions on the deductibility of interest on borrowings used to finance rental property investments acquired after 17 July 1985 (the restriction being repealed from 1 July 1987) gave rise to a negative tax expenditure.

• For the 1987-88 income year and beyond, the imputation system of company taxation is the benchmark for identifying tax expenditures arising under the provisions of the income tax law relating to company income. It replaces the classical company tax system. The imputation system of company taxation — which has applied since 1 July 1987 — allows resident shareholders credit for company tax paid. This effectively frees company dividends from the double taxation which existed under the classical system where tax was imposed at both the company and shareholder level, reducing the effective tax rate on distributed profits derived by Australian residents through business entities covered by imputation.

• Under imputation, the value of concessions is offset to some degree since such concessions reduce company tax paid. The subsequent taxation, in the hands of shareholders, of dividends paid out of tax-preferred income (as also occurred under the classical system) is not costed in this Statement because of the practical difficulties in doing so. This needs to be considered in relation to the cost to revenue of company tax expenditures. While this subsequent taxation may reduce the value of the concessions to shareholders, the shareholders can still benefit through the tax-preferred income being retained in the company for long periods before being distributed.

• The taxation rules applying to sole traders, partnerships and trusts, which are not separate taxable entities, are regarded as design features of the tax system and are included in the benchmark. The taxation treatment of co-operative companies departs from the taxation of companies under the imputation system. Tax expenditures arise where the income and distributions of co-operative companies receive concessional treatment.

- The separate income tax rates scale applicable to non-residents (in the case of individual taxpayers) is taken as part of the benchmark structure, as are design features such as dividend withholding tax and interest withholding tax which apply to non-residents generally. The allocation of taxing rights in Australia's double tax agreements is included in the benchmark.

- As part of a Government policy to encourage multinationals to establish regional-headquarters in Australia, certain foreign source dividends paid on or after 1 July 1994 by a resident company to non-resident shareholders will be exempt from withholding tax. As this particular exemption reflects the view that Australia does not have a strong claim for taxing that income, on either a residence or source basis, it is not considered to be a tax expenditure. For the same reason, the exemption from interest withholding tax for interest paid to non-residents by an offshore banking unit is now considered to be part of the benchmark.

- The benchmark for foreign source income is taken to be assessment on a world-wide basis, with a limit on foreign tax credits, on a source-by-source basis, to the amount of Australian tax payable in respect of the foreign income. Under the benchmark passive income such as interest, royalties and dividends, and highly mobile forms of active income are assessed on an accruals basis while most active foreign source income is assessed on a repatriation basis with a credit for any foreign tax paid (ie the foreign tax credit system (FTCS) is applied).

  – An exemption from the operation of the FTCS is provided for branch income and certain non-portfolio dividends derived in a listed country (sections 23AH and AJ). It was intended that this list of countries should only include those that consistently impose tax on a comparable basis to Australia. To the extent that the total foreign company tax plus dividend withholding tax is less than the Australian tax payable, there is a tax expenditure, but this has not been costed.

  – Most passive income and highly mobile active income derived by controlled foreign companies (CFCs) and transferor trusts in listed countries is exempt from accruals taxation on the presumption that it has been comparably taxed. To the extent that foreign company tax paid on a current basis is less than would have been payable in Australia, there is a tax expenditure, but this has also not been costed.

- The measures for taxing Australian residents' interests in foreign investment funds (FIFs) are taken to be consistent with the benchmark.

- Foreign employment income is exempt from Australian tax where it is derived by a taxpayer during a period of continuous service of 91 days or more, other than in certain cases where the income is exempt from tax in the source country. The income may otherwise be exempt if derived from continuous service of 91 days or more on an 'approved overseas project'. Both circumstances constitute a tax expenditure, the magnitude of which is likely to be small.

- The untaxed imputed rent from owner-occupied housing (and the non-deductibility of expenses incurred in earning that income) and the income received from an inheritance would both fall within the Schanz-Haig-Simons definition of income, but the non-taxation of these items is considered part of the benchmark for the purposes of this statement.

- Many types of capital receipts not representing a return to investors of their initial capital have not been taxed in Australia in the past (eg some capital gains realised on the sale of property; payments received by professional sportspersons in consideration for giving up a permanent asset such as their amateur status; and receipts in consideration of a restrictive covenant whereby the recipient undertakes not to use specified assets or to trade only with the other party to the covenant). Policy has moved over recent years, however, to bring many classes of capital receipts into the income tax base, particularly with the introduction in 1985 of the capital gains tax provisions in the income tax law. This Statement identifies as tax expenditures capital receipts which are specifically exempt under the capital gains tax provisions.

- Certain receipts of organisations such as non-profit associations and societies are exempt from Australian income tax on the basis of the 'mutuality principle', which asserts that a person cannot derive income from dealings with himself or herself and is applied notwithstanding that the club or society with which persons are associated may be incorporated. Such organisations are generally assessed only on their investment income and on income from trading with non-members. The application of the mutuality principle is not considered to involve a tax expenditure. The global income tax exemptions for the income of specified non-profit organisations (eg trade unions, cultural and sporting societies), which extend, for example, to investment income and income from business activities in competition with taxable entities, are treated as tax expenditures.

- The income tax benchmark includes sovereign immunity exemptions and international taxation right exemptions. This practice is justified by the fact that these exemptions reflect standard international practices of long-standing inter-governmental taxation agreements, and thus lack the element of policy discretion usually attributed to tax expenditures.

- The income tax rebate for low income earners has been excluded from the benchmark, and therefore identified as a tax expenditure, on the grounds that it provides assistance to a distinct class of taxpayer and could be replaced by a direct outlay (a criterion used to identify expenditures in other OECD countries).

- For 1996-97 only, the Medicare levy was increased from 1.5 per cent to 1.7 per cent to fund the costs associated with the gun buyback scheme. This temporary levy increase is treated as part of the benchmark.

Retirement and Other Employment Termination Benefits[1]

The benchmark for retirement and other employment termination benefits is the general taxation treatment of remuneration and savings. This benchmark has the following features:

- Remuneration in respect of employment is deductible to taxable employers and fully taxed to the employee.

- Savings are normally financed out of after-tax income.

- Investment income on savings is normally taxed in the income year it is derived.

- Dissaving of amounts (including interest) accumulated and already taxed is not taxed again.

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1 A detailed discussion of departures from this benchmark was provided in the 1989 Statement.

Fringe Benefits Tax (FBT) Benchmark

The benchmark adopted has the following characteristics:

- The role of the FBT in supplementing the personal income tax structure is the starting point in determining the benchmark. Accordingly, under the benchmark FBT would apply to all benefits provided to all employees or associates (except where their wage or salary income is exempt from personal income tax) and hence all employers providing such benefits would be liable for FBT.

- Reflecting the role of the FBT in supplementing the personal income tax structure, it is accepted as part of the benchmark that the FBT is levied at the maximum personal tax rate, including the Medicare levy. Negative tax expenditures arise where employees who receive fringe benefits face marginal personal tax rates below the maximum because the FBT paid by the employer is higher than the tax which employees would pay if the benefit were assessable in their hands. However, as the effective administration of the FBT requires that it be levied at a single rate, this feature is accepted as part of the benchmark.

- The benchmark value of a fringe benefit to an employee is taken to be its market value less any consideration paid by the employee. In some cases statutory formulae are available to calculate the benefit derived. As for the substantiation rules, tax expenditures are deemed to arise where the formulae provide a concession to taxpayers.

- The non-deductibility for income tax purposes of FBT on fringe benefits provided up to 31 March 1994 reduced the tax advantage of receiving remuneration in the form of fringe benefits and, accordingly, is treated as part of the benchmark.

- These characteristics were altered from 1 April 1994 when FBT was applied to the tax inclusive value of the fringe benefits and FBT became income tax deductible for employers. A special rebate applies to non-government entities that are exempt from income tax but subject to FBT and this rebate is treated as a tax expenditure.

Wholesale Sales Tax Benchmark

The benchmark adopted has the following characteristics:

- Tax is levied at the final wholesale transaction on goods that enter domestic consumption.
- The tax is a single stage tax. Cases where goods are taxed more than once would give rise to a negative tax expenditure.
- Services are not taxed directly. However, services are input taxed. Business input exemptions for service providers would give rise to tax expenditures.
- The existence of multiple rates of tax is considered an essential part of the design of the existing system and is part of the benchmark. The exception to this is certain exempt items contained in Schedule 1 of the *Sales Tax (Exemptions and Classifications) Act 1992*. These items provide preferential treatment to activities or classes of taxpayers and so give rise to tax expenditures.
- Business input exemptions for goods producers contained in Schedule 1 of the *Act* are part of the benchmark. This reflects the design feature of the system that it is a single stage tax.

Excise Duty Benchmark

The benchmark for the excise taxes has the following characteristics:

- The benchmark includes excises for alcohol, tobacco and fuels.
- The benchmark has no exemptions for classes of taxpayers or activities.
- The benchmark rate for alcohol is the excise rate on beer. Beer is the highest selling alcoholic product in Australia. To allow for the different alcohol contents of beverages the excise rate is expressed as an excise per unit of alcohol.
- The benchmark rate for fuels is the excise on unleaded petrol (which is also the rate for diesel). To allow for differences in the energy output of different fuels the rate is expressed as an excise per unit of energy. The tax on leaded petrol is a negative tax expenditure.
- The benchmark rate for tobacco is the current excise rate on tobacco. Treasury is unaware of any tax expenditures for tobacco.

Retirement and Other Employment Termination Benefits

This Appendix sets out the estimated tax expenditures on retirement and other employment termination benefits for 1993-94 to 1996-97 and forward projections for the following four years. It also briefly examines some conceptual issues relating to the interpretation of these estimates. The estimates are presented in Table B1 according to the forms of departure from the benchmark taxation treatment of these benefits.

A brief discussion of the savings benchmark is included in Appendix A. A discussion of how the actual taxation of retirement and other employment termination benefits depart from this benchmark is provided in Appendix B of the 1994 *Tax Expenditures Statement*. The 1994 Statement also outlines the difference between these estimates and estimates of the longer-term budgetary impact of superannuation concessions provided by the Retirement Income Modelling Unit (RIM) models.

The method of estimating superannuation and other termination payment concessions is the same as that used for last year's Statement. This method:

- uses RIMGROUP projections of contributions in their entirety and has regard to RIMGROUP projections of earnings (RIMGROUP is the population model used by RIM to project superannuation fund contributions, earnings and payouts as well as related retirement income, social security and taxation aggregates);

- removes the assumed year delay in the collection of tax from superannuation funds, reflecting changes in the collection timetable (this produces a more stable series); and

- incorporates a revised approach to estimating earnings, which leads to a higher estimated earnings figure.

Table B1: Estimated Tax Expenditures Through Retirement and Other Employment Termination Tax Concessions 1993-94 to 2000-01

	1993-94 ($m)	1994-95 ($m)	1995-96 ($m)	1996-97 ($m)	1997-98 ($m)	1998-99 ($m)	1999-00 ($m)	2000-01 ($m)
Costs (a)								
1 Under taxation of employer contributions	2990	2870	3900	4220	4580	5000	5410	6050
2 Deduction for self-employed/unsupported	170	180	150	190	190	190	190	190
3 Under taxation of fund earnings	3620	1940	3460	3530	3000	2820	3080	3110
4 Under taxation of unfunded lump sums	1200	1110	1120	1080	1090	1100	1110	1120
5 Superannuation rebate - low income earners	55	45	35	30	30	30	30	30
6 Superannuation rebate - low income spouse	nil	nil	nil	nil	nil	35	35	35
Sub-total	8035	6145	8665	9050	8890	9140	9820	10500
Less Offsets								
7 Tax on funded pensions	(b)	(b)	(b)	(b)	(b)	(b)	(b)	(b)
8 Tax on funded lump sums before 1/7/83	90	85	40	30	30	30	25	25
9 Tax on funded lump sums from 1/7/83	280	290	310	320	370	390	405	450
Total Offsets	370	375	350	350	400	420	430	475
	7665	5770	8315	8700	8490	8720	9390	10025

(a) Includes the revenue impact of the surcharge on superannuation contributions for high income earners.
(b) Indeterminate but unlikely to be significant.

Source: Australian Taxation Office.

Interpretation

The cost estimate for the tax expenditure measures the amount by which tax revenue is reduced by the provisions for taxing retirement and other employment termination benefits in a particular year. The estimate of the tax expenditure in the forward projections is not necessarily indicative of the cost of the superannuation concessions in future years:

- 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 outlays in future years. In particular, consideration of the ongoing cost of the superannuation concessions would need to take account of the offsetting effect on future age pension outlays.

Even aside from these factors, 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 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 1996-97 were taxed according to the savings benchmark, superannuation fund assets, and hence fund earnings, would be lower in 1997-98 than if the concessional tax treatment had applied the previous year. The cost of taxing fund earnings concessionally in 1997-98 will, in these circumstances, be lower than if the superannuation concessions had applied in 1996-97.

In addition, the estimated cost of the tax expenditure on retirement and other employment termination benefits assumes no behavioural change; so the level of superannuation savings would not be affected by the removal of the concessions. To the extent that this is an unrealistic assumption the cost of the concessions will be overestimated.

Notwithstanding these caveats, the methodology used to cost tax expenditures in this Statement is considered to provide the best measure of the budgetary impact in *any given year* of removing existing tax concessions *in that year*.

Estimates

The estimated and projected cost of the superannuation/termination tax concessions has been revised substantially upwards for 1995-96 and succeeding years compared to the estimates and projections in last year's TES. This reflects the taxable income of funds in 1995-96 and 1996-97 substantially exceeding the estimates in the previous year's TES. The main upward revision has been to fund earnings but there has also been a significant revision to fund contributions. As noted in the 1995-1996 TES, Appendix B, the earnings of superannuation funds are not readily predictable. The major reason is that it is a matter for the discretion of a fund manager when the accrued capital gains of a fund are to be realised. In addition, the earnings series is intrinsically volatile, reflecting the fluctuation in interest rates and yields that contribute to it.

The higher estimated taxable income of funds in 1995-96 has flowed through to the estimates for 1996-97 and forward projections. It has been assumed that fund earnings return to more normal levels in 1997-98. As with the projections in the 1995-1996 TES, fund earnings have been 'smoothed out' for the forward projections as this is considered to provide a better indication of the cost of the tax expenditure over time.

Cost Measurement Issues

The cost estimates provided in this Statement for positive tax expenditures measure the amount by which tax revenue is reduced in a particular year, by the tax provision in question relative to the benchmark. Estimates are costed on the basis of the year of impact on revenue rather than the income year in which use of the provision was made.

Aggregation of Cost Estimates

For a number of reasons the aggregation of costings for individual tax expenditure items presented in the TES will not provide an accurate estimate of the total level of assistance which is provided through tax expenditures.

These considerations suggest that although the concept of revenue forgone may overstate the revenue which might accrue from removal of individual tax expenditures, in aggregate the costings understate the total level of preference provided through tax expenditures.

- The listing of tax expenditures while much broader, with the inclusion of those associated with the wholesales sales tax, may not be exhaustive.
- Because of the unavailability of data, estimates are not available for many items which are listed. Further, considerable conceptual and data difficulties surround the costing of many tax expenditures. For retirement and other employment termination benefits this problem is particularly acute.
- Under a progressive income tax the removal of a positive tax expenditure may push the taxable income of some taxpayers into a higher marginal tax rate bracket and thereby increase the estimated revenue forgone by virtue of remaining tax expenditures, with the reverse true for negative tax expenditures.
- The costings assume, often unrealistically, that taxpayers would not alter their behaviour following the removal of a tax expenditure. However, the removal of one tax expenditure may induce greater usage of another. This caveat also applies to direct budgetary expenditures.

Tax Expenditures Involving Deferral

In this publication information on timing (or deferral) expenditures has been placed in a separate table. Such a separation allows readers to decide if they wish to include these estimates when assessing tax expenditures. This will depend on why they are interested in analysing tax expenditures; to determine the revenue impact in a particular year or to consider the level of assistance provided through the tax system.

This section provides more information on these deferral expenditures and provides a practical example of the operation of an accelerated depreciation provision.

The accelerated depreciation provisions of the income tax law permit tax to be deferred by allowing deductions to be brought forward. The taxpayer pays less tax in early years but more tax later. This does not mean that the aggregate revenue losses in the early years will be made up later. Accelerated depreciation provisions usually result in revenue losses over a number of years, but the losses are not offset by revenue gains in future years unless the provisions are removed. The size of the revenue effects can differ markedly from year to year, particularly during the transitional period following the introduction or removal of the concession. Thus the ongoing revenue implications of such provisions cannot be adequately summarised by ‘first’ or ‘full’ year costs to revenue. Nevertheless, reflecting the ‘annual cost to the Budget’ basis of tax expenditure estimates, these tax expenditures are costed in terms of their impact on revenue in individual years.

A positive tax expenditure arises in the years in which capital is being depreciated rapidly, followed by revenue gains in the years in which no deductions, or comparatively smaller deductions, can be claimed because the capital has already been written down relative to an effective life depreciation schedule, which is the benchmark. The removal of the 5/3 accelerated depreciation provisions, announced in the May 1988 Economic Statement, resulted in a revenue gain in both the 1993-94 and 1994-95 income years.

Table C1 presents calculations demonstrating how a negative tax expenditure may arise over time as a consequence of a change from an effective life regime to an accelerated depreciation regime.

The calculations are based on the following assumptions:

- A firm purchases $10 billion of depreciable equipment midway through year 1. The equipment has an effective life of nine years, and is scrapped in year 10 for no residual value.

- Under (non-accelerated) effective life depreciation, the firm would be able to depreciate the equipment at 16.67 per cent per annum using the diminishing value method (i.e. 150 per cent divided by the effective life of nine years).

- Under the current accelerated depreciation provisions, the firm can depreciate equipment at 30 per cent per annum using the diminishing value method.

- The current company tax rate of 36 per cent applies to the firm.

- Factors such as past and current year losses are ignored.

Columns (2) to (4) of the table present the calculations for depreciation under effective life and the associated tax saving. Columns (5) to (7) contain the same information for accelerated depreciation. The 'Tax Saving' is the value of the depreciation deduction to the taxpayer.

Column (8) gives the year-by-year cost to revenue of accelerated write-off, assuming a zero discount rate.[2] Positive tax expenditures occur in the earlier years but are offset in later years by negative tax expenditures. With the assumption of a zero discount rate, cumulative tax expenditures are zero. However, in the real world case where the discount rate is positive, cumulative tax expenditures would also be positive, thus conferring an accumulated benefit to investors and an accumulated loss to government.

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[2] The Tax Expenditures Statement estimates are intended to be comparable and complementary to other Budget estimates, therefore the assumption of a zero discount rate is appropriate.

Table C1: Accelerated Depreciation Tax Expenditures

	Effective life			Accelerated depreciation		Tax Expenditure		
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Year	Opening Balance $m	Depreciation $m	Tax Saving $m	Opening Balance $m	Depreciation $m	Tax Saving $m	(7)-(4) Cost $m	Cumulative Cost $m
1	10000	833	300	10000	1500	540	240	240
2	9167	1528	550	8500	2550	918	368	608
3	7639	1273	458	5950	1785	643	184	792
4	6366	1061	382	4165	1250	450	68	860
5	5305	884	318	2916	875	315	-3	857
6	4421	737	265	2041	612	220	-45	812
7	3684	614	221	1429	429	154	-67	745
8	3070	512	184	1000	300	108	-76	669
9	2558	426	153	700	210	76	-78	591
10	2132	2132	767	490	490	176	-591	0