

CHAPTER 6: TAX EXPENDITURES

6.1 Introduction

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

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

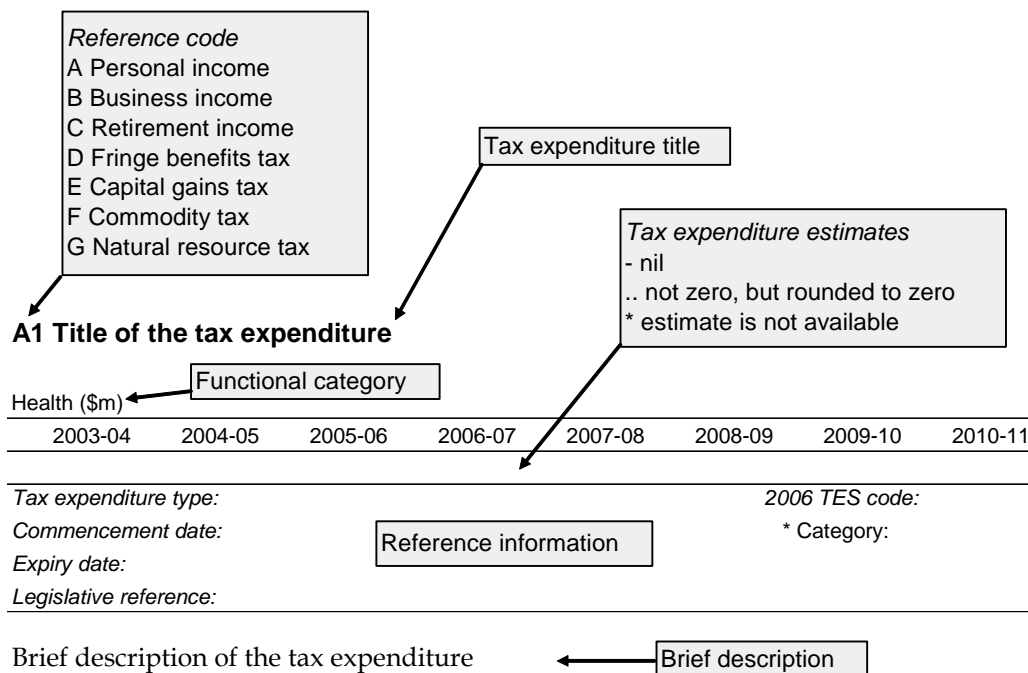
| Benchmark | Specific benchmark category | Subject category | TES reference code |
|-------------------------------|------------------------------------|---|---------------------------|
| Income Tax (A – E) | Personal income (A) | Tax expenditures for general public services | A1 – A7 |
| | | Tax expenditures for defence | A8 – A16 |
| | | Tax expenditures for education | A17 – A19 |
| | | Tax expenditures for health | A20 – A26 |
| | | Tax expenditures for social security and welfare | A27 – A28 |
| | | Tax concessions for certain taxpayers | A29 – A38 |
| | | Tax exemptions for certain government income support payments | A39 – A46 |
| | | Tax expenditures for housing and community amenities | A47 – A48 |
| | | Tax expenditures for recreation and culture | A49 – A50 |
| | | Tax expenditures for other economic affairs | A51 – A59 |
| | | Concessions under the substantiation provisions for employment-related expenses | A60 – A62 |
| | | Miscellaneous tax expenditures | A63 – A70 |

Tax Expenditures Statement

| Benchmark | Specific benchmark category | Subject category | TES reference code |
|---|--|---|--|
| Income Tax (A – E) (continued) | Business income (B) | Tax expenditures for general public services | B1 |
| | | International tax expenditures | B2 – B16 |
| | | Tax expenditures for health | B17 – B18 |
| | | Tax expenditures for social security and welfare | B19 – B22 |
| | | Tax concessions for certain taxpayers | B23 – B24 |
| | | Tax exemptions for certain government income support payments | B25 – B27 |
| | | Tax expenditures for recreation and culture | B28 – B31 |
| | | Tax expenditures relating to prepayments and advance expenditures | B32 – B36 |
| | | Tax expenditures for agriculture, forestry and fishing | B37 – B45 |
| | | Tax expenditures for manufacturing and mining | B46 – B47 |
| | | Tax expenditures for other economic affairs | B48 – B63 |
| | | Tax expenditures relating to capital expenditure, effective life and depreciation | B64-B98 |
| | | Miscellaneous tax expenditures | B99 – B105 |
| | | Retirement savings (C) | Tax expenditures for social security and welfare |
| Tax expenditures for other economic affairs | C16 – C19 | | |
| Fringe Benefits Tax (D) | Tax expenditures for general public services | D1 | |
| | Tax expenditures for defence | D2 – D4 | |
| | Tax expenditures for education | D5 | |
| | Tax expenditures for health | D6 – D7 | |
| | Tax expenditures for social security and welfare | D8 – D13 | |
| | Tax expenditures for housing and community amenities | D14 – D15 | |
| | Tax expenditures for transport and communications | D16 – D18 | |
| | Tax expenditures for other economic affairs | D19 – D29 | |
| | Miscellaneous tax expenditures | D30 – D50 | |
| Capital Gains Tax (E) | Tax expenditures for defence | E1 | |
| | Tax expenditures for health | E2 | |
| | Tax expenditures for housing and community amenities | E3 – E5 | |
| | Tax expenditures for recreation and culture | E6 | |
| | Tax expenditures for other economic affairs | E7 – E29 | |

| Benchmark | Specific benchmark category | Subject category | TES reference code |
|--------------------------------|-----------------------------|---|--------------------|
| Consumption Tax (F – G) | Commodity taxes (F) | Fuel | F1 – F6 |
| | | Tobacco | F7 – F8 |
| | | Alcohol | F9 – F18 |
| | | Motor vehicles | F19 |
| | | General consumption tax expenditures | F20 – F22 |
| | Natural resource taxes (G) | Tax expenditures for manufacturing and mining | G1 – G3 |
| | | Petroleum | G4 |

The descriptions of tax expenditures included in this chapter present a range of information about each identified tax expenditure item. The following example illustrates the information included for a given tax expenditure.



Tax Expenditures Statement

The reference information provides details of:

- the type of expenditure, for instance a tax exemption, deduction or tax offset;
- the year a tax expenditure commenced;
- the year a tax expenditure will cease to operate (if applicable);
- where to find the provisions implementing the tax expenditure in the legislation;
- the 2006 Tax Expenditures Statement reference code for a tax expenditure that is not new; and
- a category classification for a tax expenditure for which estimates are not available, indicating an order of magnitude range for the likely size of the tax expenditure.

Tax expenditures by functional categories are summarised in Table 2.4. The functional categories are based on an international standard classification of functions of government that is incorporated into the Government Finance Statistics framework.

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

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

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

ORDER OF MAGNITUDE RANGE

In many cases, estimates for tax expenditures are not available because of data limitations or because of the nature of the tax expenditure itself. The various modelling techniques used to estimate the value of tax expenditures, which are discussed in detail in Appendix A, are unable to be utilised fully to produce reliable estimates.

The following categories are used to provide an indication of the size of the expenditure for those tax expenditures for which an estimate is not available. A positive sign denotes a positive tax expenditure, while a negative sign denotes a negative tax expenditure.

| Order of Magnitude Range | |
|---------------------------------|---------------------------------------|
| Category | Expected Tax Expenditure (\$m) |
| 0 | 0 on average |
| 1 | 0 - 10 |
| 2 | 10 - 100 |
| 3 | 100 - 1,000 |
| 4 | 1,000 + |
| na | not available |

The category classifications are provided as a broad guide only and have been estimated without the benefit of detailed data. They are based on assumptions and judgment and as such they should be treated with caution. Tax expenditures which are categorised in this way are not included in the aggregate measured tax expenditures reported in Chapter 2.

The category assigned to an unquantifiable tax expenditure refers to the year the tax expenditure is considered to be most significant. The category classification also indicates whether a tax expenditure is positive or negative. For example, reliable estimates for an exemption from fringe benefits tax that applies to benefits provided by certain international organisations (D1) are not available. As such, category 1+ has been allocated to this tax expenditure to indicate the broad range of the size of the tax expenditure. It indicates that this tax expenditure is considered to be up to \$10 million in the year the tax expenditure is most significant.

Where a tax expenditure for which an estimate is not available is small and is expected to average zero over the reporting period, it is classified as category 0. Lastly, for a tax expenditure where neither an estimate, nor an order of magnitude could be assigned, a 'na' classification has been adopted.