

CHAPTER 5: NEW, MODIFIED AND DELETED TAX EXPENDITURES

This chapter provides an outline of the major changes to the list of tax expenditures since the *2007 Tax Expenditures Statement*. Since the 2007 Statement, 33 new tax expenditures have been added, 30 tax expenditures have been modified and 8 tax expenditures have been deleted.

5.1 New tax expenditures

Table 5.1 reports new tax expenditure items arising from measures that have been announced since the *2007 Tax Expenditures Statement* up to the date of finalisation of the *Mid-Year Economic and Fiscal Outlook 2008-09*. In accordance with the 2008-09 Budget which reports the GST as an Australian Government tax for the first time, GST tax expenditures are now reported. In addition, the table reports existing measures that were not previously reported as tax expenditures, but which have been recently identified as tax expenditures.

Table 5.1: New tax expenditures

TES code	Tax expenditure description	Reason for new tax expenditure
INCOME TAX		
Personal income		
A8	Under some of Australia's tax treaties, certain dividends, interest and royalties attract reduced withholding tax rates.	Existing measure not previously recognised as a tax expenditure.
A18	Exemption from income tax for payments made under the Education Tax Refund.	New policy measure reported in the 2008-09 Budget.
A29	First Home Saver Accounts provide a concessionally taxed vehicle for individuals to save for the purchase of their first home.	New policy measure reported in the 2008-09 Budget.
A66	Remove deductibility for political donations.	New policy measure reported in the 2008-09 Budget.
A67	First Home Saver Accounts provide a concessionally taxed vehicle for individuals to save for the purchase of their first home.	New policy measure reported in the 2008-09 Budget.

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Table 5.1: New tax expenditures (continued)

TES code	Tax expenditure description	Reason for new tax expenditure
Business income		
B47	Exemptions to radiocommunications taxes for not-for-profit, community or government entities.	Existing measure not previously recognised as a tax expenditure.
B48	Denial of depreciation deduction for car value above the luxury car tax threshold.	Existing measure not previously recognised as a tax expenditure.
B95	Exemption from income tax for refundable tax offsets paid under the National Urban Water and Desalination Plan.	New policy measure reported in the 2008-09 Budget.
B96	Policyholders of a friendly society that demutualises to a for-profit entity will not be subject to capital gains tax on any capital gains or losses they realise on the exchange of rights in the friendly society for shares in the demutualised entity. In addition, policyholders will receive a cost base for these shares that is based on the market value of the friendly society's health insurance business and the embedded value of any other business of the friendly society.	New policy measure reported in the 2008-09 Budget.
B97	International tax — reduced withholding tax rates for certain distributions from Australian managed investment trusts to foreign residents.	New policy measure reported in the 2008-09 Budget.
B98	Tax exemption for incentives provided by governments under the National Rental Affordability Scheme.	New policy measure reported in the 2008-09 Budget.
CONSUMPTION		
Goods and services tax		
H1	Where entities do not exceed the financial acquisitions threshold (input tax credits relating to financial acquisitions are less than \$50,000 or 10% of total input tax credits) they may be entitled to income tax credits for acquisitions relating to financial supplies.	Existing measure not previously recognised as a tax expenditure.
H2	Most financial supplies, including loans, share trading and life insurance are input-taxed.	Existing measure not previously recognised as a tax expenditure.
H3	Financial Supplies — Reduced input tax credits at a rate of 75 per cent.	Existing measure not previously recognised as a tax expenditure.
H4	Some retailers and small enterprises can choose to apply simplified accounting methods with a view to reducing their compliance costs.	Existing measure not previously recognised as a tax expenditure.
H5	Supplies by charities and other gift-deductible bodies are entitled to GST free treatment.	Existing measure not previously recognised as a tax expenditure.
H6	Child care services are generally GST free if the provider is a registered carer or child care service as specified under the relevant Commonwealth legislation.	Existing measure not previously recognised as a tax expenditure.

Table 5.1: New tax expenditures (continued)

TES code	Tax expenditure description	Reason for new tax expenditure
Goods and services tax (continued)		
H7	A supply of water is GST free unless it is supplied in, or transferred into a container with a capacity of less than 100 litres. In addition, the emptying of a septic tank is GST free as is the draining of storm water.	Existing measure not previously recognised as a tax expenditure.
H8	Rebates of GST paid by diplomats and approved multilateral organisations under the Indirect Tax Concession Scheme.	Existing measure not previously recognised as a tax expenditure.
H9	Duty free sales to inward international travellers are GST free up to specified limits.	Existing measure not previously recognised as a tax expenditure.
H10	Importation threshold — Imported goods below the low value threshold (\$1000) are not subject to GST.	Existing measure not previously recognised as a tax expenditure.
H11	Imported services (those that are not done in Australia as specified in s9-25) which are not part of a reverse charge importation are GST free.	Existing measure not previously recognised as a tax expenditure.
H12	Most education services are GST free.	Existing measure not previously recognised as a tax expenditure.
H13	Health — Most drugs and medical preparations are GST free.	Existing measure not previously recognised as a tax expenditure.
H14	Health — most medical aids and appliances are GST free.	Existing measure not previously recognised as a tax expenditure.
H15	Health — Medical and health services, residential care, community care and other care services are generally GST free.	Existing measure not previously recognised as a tax expenditure.
H16	Health — Private Health Insurance is GST free.	Existing measure not previously recognised as a tax expenditure.
H17	Health — Some services provided by care and specialist disability providers are GST free.	Existing measure not previously recognised as a tax expenditure.
H18	Supplies of religious services are GST free if supplied by a religious institution and the supplied service is integral to the practise of that religion.	Existing measure not previously recognised as a tax expenditure.
H19	Specific supplies of farmland and crown land are GST free.	Existing measure not previously recognised as a tax expenditure.
H20	Registration thresholds (Small Business concession). Entities with a turnover less than \$75,000 (\$150,000 for non profit entities), are not required to register for GST. Supplies made by non-registered entities are not subject to GST.	Existing measure not previously recognised as a tax expenditure.
H21	Supply of a precious metal — The first supply of a precious metal by or on behalf of a refiner after the refining process to a precious metal dealer is GST free. Subsequent supplies of precious metals are input taxed. The importation of precious metals is also GST free.	Existing measure not previously recognised as a tax expenditure.
H22	Basic Food that is GST free.	Existing measure not previously recognised as a tax expenditure.

5.2 Modified tax expenditures

Table 5.2 reports tax expenditures that have been modified since they were last reported in the *2007 Tax Expenditures Statement* (the respective tax expenditure reference codes from this Statement and the *2007 Tax Expenditures Statement* are shown in the first two columns of the table). Modified tax expenditures refer to tax expenditures that have changed materially, for example because of a change to the benchmark, a decision to remove a tax expenditure in a certain year, an amalgamation or split of tax expenditures, or the inclusion of a new element to an existing tax expenditure.

Table 5.2: Modified tax expenditures

TES code		Modification to the tax expenditure	Nature of modification
2008	2007		
INCOME TAX			
Personal income			
A6	A6	Exemption of official salary and emoluments of officials of additional prescribed international organisations.	Modification to an existing tax expenditure as a result of policy measure reported in the 2008-09 Budget.
A13	A12	To extend of the exemption of pay and allowances earned by members of the Australian Defence Force in operational areas.	Modification to an existing tax expenditure as a result of policy measure reported in the 2008-09 Budget.
A20	A18	The Government will provide an income tax exemption of up to \$1,000 to apprentices who receive early completion bonuses in skill shortage occupations from the Queensland Government.	Modification to an existing tax expenditure as a result of policy measure reported in the 2008-09 Budget.
A24	A22	Adjustment to the estimated cost of the tax exemption for payments under the PHIO to reflect the impact of the increase in Medicare levy surcharge threshold.	Modification to an existing tax expenditure as a result of policy measure reported in the <i>Mid-Year Economic and Fiscal Outlook 2008-09</i> .
A28	A26	Increase the income thresholds for the Medicare levy surcharge to \$70,000 for singles and \$140,000 for couples for the 2008-09 income year.	Modification to an existing tax expenditure as a result of policy measure reported in the <i>Mid-Year Economic and Fiscal Outlook 2008-09</i> .
A30	A28	Changes to better target and deliver the Baby Bonus expense measure	Modification to an existing tax expenditure as a result of policy measure reported in the 2008-09 Budget.
A34	A31	From 1 July 2009, the non-grossed value of reportable fringe benefits will be assessed as income for the purposes of determining eligibility for the senior Australians' tax offset.	Modification to an existing tax expenditure as a result of policy measure reported in the 2008-09 Budget.
A36	A33	From 1 July 2009, the non-grossed value of reportable fringe benefits will be assessed as income for the purposes of determining eligibility for the pensioner tax offset	Modification to an existing tax expenditure as a result of policy measure reported in the 2008-09 Budget.

Table 5.2: Modified tax expenditures (continued)

TES code		Modification to the tax expenditure	Nature of modification
2008	2007		
Personal income (continued)			
A37	A34	From 1 July 2009, the non-grossed value of reportable fringe benefits will be assessed as income for the purposes of determining eligibility for the dependent spouse, child-housekeeper and housekeeper tax offsets	Modification to an existing tax expenditure as a result of policy measure reported in the 2008-09 Budget.
A38	A35	From 1 July 2009, the non-grossed value of reportable fringe benefits will be assessed as income for the purposes of determining eligibility for the parent, parent-in-law and invalid relative tax offsets	Modification to an existing tax expenditure as a result of policy measure reported in the 2008-09 Budget.
A39	A36	From 1 July 2009, certain salary sacrifice contributions to superannuation will be assessed as income for the purposes of determining eligibility to the mature age worker tax offset.	Modification to an existing tax expenditure as a result of policy measure reported in the 2008-09 Budget.
A42	A39	(a) The Government will provide a tax exemption for rent assistance paid to Austudy recipients.	Modification to an existing tax expenditure as a result of policy measure reported in the 2008-09 Budget.
		(b) The bonus payments for seniors and carers announced in the 2008-09 Budget are exempt from income tax.	Modification to an existing tax expenditure as a result of policy measure reported in the 2008-09 Budget.
A44	A41	The bonus payments for seniors announced in the 2008-09 Budget will be made exempt from income tax.	Modification to an existing tax expenditure as a result of policy measure reported in the 2008-09 Budget.
A52	A49	The Prime Minister's Literary Award is exempt from income tax from the 2007-08 income year.	Modification to an existing tax expenditure as a result of policy measure reported in the 2008-09 Budget.
Business income			
B12	B12	Interest withholding tax exemption was extended to state government bonds.	Modification to an existing tax expenditure as a result of policy measure reported in the <i>Mid-Year Economic and Fiscal Outlook 2008-09</i> .
B51	B50	To restrict the eligibility of the Entrepreneurs' tax offset through an income test.	Modification to an existing tax expenditure as a result of policy measure reported in the 2008-09 Budget.
B53	B52	The concessional treatment will not apply to capital protected borrowings arrangements entered into after 13 May 2008. Arrangements entered into before that date will continue to receive the concessional treatment for a period of up to five years.	Modification to an existing tax expenditure as a result of policy measure reported in the 2008-09 Budget.
B82	B85	The Government will increase the period over which capital expenditure on in house computer software is depreciated from 2.5 years to 4 years. The measure reduces a tax concession and tax expenditure.	Modification to an existing tax expenditure as a result of policy measure reported in the 2008-09 Budget.

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Table 5.2: Modified tax expenditures (continued)

TES code		Modification to the tax expenditure	Nature of modification
2008	2007		
Retirement savings			
C7	C7	The Government will back-date the commencement of the previously announced measure to make superannuation lump sum benefits tax free for people with a terminal medical condition to 1 July 2007. Provision for the cost of allowing access to tax free lump sums for persons with a terminal medical condition is already included in the forward estimates on the basis of the original commencement date of 12 September 2007.	Modification to an existing tax expenditure as a result of policy measure reported in the 2008-09 Budget.
C9	C9	From 1 July 2009, certain salary sacrifice contributions to superannuation will be assessed as income for the purposes of determining eligibility for the Government superannuation co-contribution.	Modification to an existing tax expenditure as a result of policy measure reported in the 2008-09 Budget.
C10	C10	From 1 July 2009, certain salary sacrifice contributions to superannuation will be assessed as income for the purposes of determining eligibility for the spousal income test for the spouse contribution offset.	Modification to an existing tax expenditure as a result of policy measure reported in the 2008-09 Budget.
C12	C12	The Government will back-date the commencement of the previously announced measure to make superannuation lump sum benefits tax free for people with a terminal medical condition to 1 July 2007. Provision for the cost of allowing access to tax free lump sums for persons with a terminal medical condition is already included in the forward estimates on the basis of the original commencement date of 12 September 2007.	Modification to an existing tax expenditure as a result of policy measure reported in the 2008-09 Budget.
C19	C19	To defer the start date for the payment of temporary residents' superannuation to the Australian Government to the date of Royal Assent.	Modification to an existing tax expenditure as a result of policy measure reported in the 2008-09 Budget.
Fringe benefits tax			
D38	D40	To tighten the current FBT exemption and depreciation deductions for certain work-related items by ensuring the exemption only applies where these items are used primarily for work purposes.	Modification to an existing tax expenditure as a result of policy measure reported in the 2008-09 Budget.
D43	D45	To tighten the FBT exemption that applies to the private use of business property on an employer's premises by excluding meals under a salary sacrifice arrangement. The measure reduces the FBT concession and tax expenditure associated with property provided on the employer's business premises.	Modification to an existing tax expenditure as a result of policy measure reported in the 2008-09 Budget.
Capital gains tax			
E8	E22	To allow a capital gains tax exemption for policy holders of health insurers who receive shares when their insurer demutualises.	Modification to an existing tax expenditure as a result of policy measure reported in the 2008-09 Budget.

Table 5.2: Modified tax expenditures (continued)

TES code		Modification to the tax expenditure	Nature of modification
2008	2007		
Capital gains tax (continued)			
E15	E13	Greater access for small business to the small business CGT concessions for taxpayers owning a CGT asset used in a business by a related entity and for partners owning a CGT asset used in the partnership business.	Modification to an existing tax expenditure as a result of policy measure reported in the 2008-09 Budget.
CONSUMPTION			
Commodity taxes			
F16	F16	Increased excise and excise-equivalent customs duty on 'other excisable beverages not exceeding 10 per cent alcohol by volume'.	Modification to an existing tax expenditure as a result of policy measure reported in the 2008-09 Budget.
F19	F19	(a) Luxury car tax rate increased from 25 per cent to 33 per cent with effect from 1 July 2008.	Modification to an existing tax expenditure as a result of policy measure reported in the 2008-09 Budget.
		(b) Luxury car tax exemption for those holding a disability certificate from Health Services Australia.	Modification to an existing tax expenditure as a result of policy measure reported in the 2008-09 Budget.
		(c) Luxury car tax concessions for Farmers and hybrid vehicles.	Modification to an existing tax expenditure as a result of policy measure reported in the 2008-09 Budget.
Natural resource taxes			
G4	G4	To remove the exemption of condensate from crude oil excise.	Modification to an existing tax expenditure as a result of policy measure reported in the 2008-09 Budget.

5.3 Deleted tax expenditures

Table 5.3 reports tax expenditures that have been deleted since the 2007 *Tax Expenditures Statement*. Deleted tax expenditures generally arise because the relevant tax provisions have been abolished or cease to have effect within the reported time horizon of a particular TES. Deleted tax expenditures do not include tax expenditures that have been abolished but are still relevant to some years within the reported time horizon.

Table 5.3: Deleted tax expenditures

TES code	Tax expenditure description	Reason for deletion
2007		
INCOME TAX		
Business income		
B42	Payments made under the Dairy Exit Program were made exempt from tax.	This no longer has an impact over the reported time horizon.
B54	Changes to the consolidation tax cost setting rules.	Deletion of unlegislated tax expenditure as a result of policy measure reported in the 2008-09 Budget.
B75, B76, B77	Accelerated depreciation previously expired.	The provisions are no longer applicable and their impact can no longer be reliably estimated.
B92	Expenditure on software related to Year 2000 upgrades was immediately deductible if it was incurred between 11 May 1998 and 1 July 1999.	This no longer has an impact over the reported time horizon.
Fringe benefits tax		
D14	Exemption for housing provided by certain employers in regional areas	Reporting modification. This exemption is included in D14.
D20	The section exempted from FBT food, drink and accommodation provided to people training under the Australian Traineeship System.	The Australian Traineeship System was replaced by the New Apprenticeship Programme on 1 January 1998. The New Apprenticeship Programme was replaced by the Australian Apprenticeships Programme on 1 January 2007. No specific FBT exemptions applied to benefits provided under the New Apprenticeship Programme or apply under the Australian Apprenticeships Programme.