

4.1 Introduction

This chapter provides an outline of the major changes to the list or nature of tax expenditures since the *2001 Tax Expenditures Statement*.

4.2 New tax expenditures

Tax expenditures arising from measures that have been announced or legislated since the *2001 Tax Expenditures Statement* up to the date of publication of the *2002-03 Mid-Year Economic and Fiscal Outlook* (MYEFO) are as follows (tax expenditure reference codes, used in chapter 5 and Appendix A, are reported in parentheses):

- exemption from income tax of the baby bonus payment (A53);
- concessional tax treatment for venture capital managers (A59);
- deduction for the payment of the Incurred-But-Not-Reported levy (A72);
- fringe benefits tax exemption for certain payments to prescribed employee entitlement funds (C57);
- tax relief for demergers of companies and trusts (D46);
- removal of income tax at the point of conversion or exchange of traditional securities (D47); and
- statutory effective life caps on a range of assets used in the oil, gas and airline industries (D74).

Measures that were not previously reported, but which have been recently identified as tax expenditures, are as follows (tax expenditure reference codes are reported in parentheses):

- immediate deduction for depreciating assets costing no more than \$300 that are used to produce assessable income of a non-business nature (A71);
- an amendment to legislation to allow for the division of superannuation either by court order, or by agreement between the two parties on marriage breakdown (B1);
- exemption from excise of condensate produced or marketed separately from a crude oil stream (D15);

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- concessional tax treatment for eligible foreign authorised deposit-taking institutions (ADIs), or the holding company of eligible foreign ADIs, or newly established local ADIs, when transferring assets and liabilities (D106); and
- additional excise applied to diesel with a sulphur content higher than 50 parts per million (E2).

4.3 Modified tax expenditures

Modified tax expenditures are those that have changed materially since the *2001 Tax Expenditures Statement*. The nature of a modification may include a change to the benchmark, the decision to remove a tax expenditure in a certain year, an amalgamation of tax expenditures, or the inclusion of a new part. Items that have been modified as a result of a change to the applicable tax rate are not listed.

The following tax expenditures have been modified since they were last reported in the *2001 Tax Expenditures Statement* (the respective tax expenditure reference codes from this Statement and the *2001 Tax Expenditures Statement* are reported in parentheses):

- the threshold for the medical expenses offset is to be increased from \$1,250 to \$1,500 from the 2002-03 year of income (A27:A27);
- the Medicare levy low income thresholds have increased to \$14,539 for individuals and \$24,534 for families. The additional amount of threshold for each dependent child or student has also increased to \$2,253. The threshold for pensioners below pension age has increased to \$16,570 (A28:A28);
- from 2001-02 the components of the private health insurance rebate and Family Tax Benefit claimed through the tax system have been reclassified as an expense and are therefore no longer reported as tax expenditures (A31:A31, A45:A45);
- the pensioner tax offset for pensioners below age pension age was increased to \$1,710 for individuals and \$1,245 for each member of a couple with effect from the 2001-02 income year (A35:A35);
- the exemption of the language, literacy and numeracy supplement is included in the exemption of certain social security and repatriation payments (A40:A40);
- the eligibility for the Senior Australians' Tax Offset (SATO) was extended to senior Australians of veterans age who are eligible for a veterans' pension or allowance benefit (whether or not they receive a payment), and to senior Australians who are eligible for an age pension without meeting the residency requirement (A42:A42);
- the Government announced its response to the Report of the Inquiry into Charities and Related Organisations. Elements of the measure modify a number of tax expenditures, including (A65:A63, C13:C13, C35:C35, and D3:D3). These elements are:
 - a legislative definition of a charity for the purpose of administration of Commonwealth laws;

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- a new category of deductible gift recipient (DGR) for charities whose principal activities promote the prevention and control of harmful and abusive behaviour among humans;
- requiring charities, public benevolent institutions and health promotion charities to be endorsed by the ATO in order to access all relevant tax concessions; and
- allowing entities established in perpetuity to be endorsed as DGRs.
- the tax expenditure relating to deductions for gifts, other than trading stock, to approved donees has been modified to reflect the introduction of apportionment of deductions for cash donations, which will apply in respect of donations made on or after 1 July 2003 (A65:A63);
- the types of payments eligible for the structured settlements tax exemption have been widened to include certain lump sums paid to the claimant sometime after settlement, provided they satisfy conditions similar to those required of structured settlement annuities (A70:A68);
- a number of changes announced in, and since, the 2002-03 Budget will impact on the concessional treatment of superannuation (B1:B1). These changes include:
 - an increase in the fully deductible amount for superannuation contributions made by the self-employed;
 - a reduction in the superannuation contribution and termination payments surcharge rates (also affects B2:B2);
 - allowing members of accumulation funds to split future employer and personal superannuation contributions with a spouse;
 - allowing eligible temporary residents access to their superannuation benefit upon permanent departure from Australia, subject to a special tax;
 - abolishing the rebate for personal superannuation contributions made by low-income earners;
 - allowing working people aged between 70 and 75 to make personal superannuation contributions;
 - allowing parents, other relatives and friends to make superannuation contributions on behalf of a child;
 - allowing recipients of the Baby Bonus to contribute the Baby Bonus, as well as any other amount, to a superannuation fund or retirement savings account;
 - a modification to the tax treatment of eligible termination payments (ETPs) from superannuation funds to limit the overall effective rate of taxation that applies to the excessive component;
 - amending the taxation treatment of internal roll-over transactions to ensure that these transactions are classified as ETPs and can be reported for Reasonable Benefit Limit (RBL) purposes;

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- an amendment to legislation to allow for the division of superannuation either by court order, or by agreement between the two parties on marriage breakdown; and
- the tax exemption of the Government superannuation co-contribution for low-income earners.
- the tax expenditure for the income tax exemption for certain non-profit societies now includes the income tax exemption for the Commonwealth Games Federation (D6:D6);
- depreciation for upgrading mains electricity to a business property has been merged with depreciation of the capital cost of telephone lines for primary producers under a new item, titled depreciation of the capital cost of telephone lines and mains electricity (D55:D56, D75);
- a number of accelerated depreciation concessions were removed when the Uniform Capital Allowance (UCA) system took effect on 1 July 2001 but were not reported in the *2001 Tax Expenditures Statement* (D60:D61, D61:D62, D63:D64, D66:D67, D67:D68, D69:D70, D70:D71);
- upon entry into force, the Second Protocol of the Australia-Malaysia Double Taxation Agreement (DTA) will extend the operation of the tax sparing provisions to 30 June 2003, at which time they will permanently expire (D98:D100);
- tax expenditures under the excise benchmark now include the equivalent tax expenditure associated with like items that are subject to customs duty (E1:E1, E3:E2, E5:E4, E6:E5, E7:E6, E8:E7, E10:E9); and
- the cessation of excise-free arrangements for ethanol from 18 September 2002 has resulted in the removal of the ethanol component from the exemption from excise for 'alternative fuels' tax expenditure (E4:E3).

4.4 Deleted tax expenditures

Deleted tax expenditures are tax expenditures that are not reported in this Statement but were reported in the *2001 Tax Expenditures Statement*. They do not include tax expenditures that have been abolished but are still reported in Table 5.1 because they have an impact over the reported time horizon, which extends back to 1998-99. (Instead, tax expenditures that have been abolished are generally reported as being modified.)

Tax expenditures that have been deleted since the *2001 Tax Expenditures Statement* are as follows (parentheses refer to the tax expenditure reference codes from the *2001 Tax Expenditures Statement*):

- the income tax exemption for Australian film receipts has not applied since 25 May 1988 and its cost is included in D49 (D8);
- the CGT exemption for disposal of assets under the Rural and Remote General Practice program has been deleted, as there is no economic gain being exempted - it is necessary only because of the particular drafting scheme of the CGT legislation (D33);

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- the CGT exemption for payments under the Sydney Aircraft Noise Insulation Project has been deleted, as there is no economic gain being exempted — it is necessary only because of the particular drafting scheme of the CGT legislation (D37);
- the CGT exemption for payments under the M4/M5 Cashback Scheme has been deleted, as there is no economic gain being exempted - it is necessary only because of the particular drafting scheme of the CGT legislation (D38); and
- depreciation for upgrading mains electricity to a business property (D75) has been merged with depreciation of the capital cost of telephone lines for primary producers and is therefore no longer separately identified.
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