

D Business tax benchmark

Income tax benchmark

D1 Income tax exemption for registered health benefit organisations

Introduced before 1985. Legislative reference: Section 50-30 ITAA97. 2001 TES reference code: D1.

Income of registered health benefit organisations is exempt from income tax, provided the organisations are not operated for the gain or profit of their individual members.

The growth in the estimates reflects increased health fund membership and greater profitability of the sector.

D2 Income tax exemption for public and non-profit hospitals

Introduced before 1985. Legislative reference: Section 50-30 ITAA97. 2001 TES reference code: D2.

Income of public hospitals, and hospitals operated by a society or association other than for gain or profit of its individual members, is exempt from income tax.

D3 Income tax exemption for religious, scientific, charitable or public educational institutions

Introduced before 1985. Legislative reference: Section 50-5 ITAA97. 2001 TES reference code: D3.

D4 Concessional taxation treatment of mining payments made in respect of mining and exploration activities on Aboriginal land

Introduced before 1985. Legislative reference: Division 11C of Part III ITAA36. 2001 TES reference code: D4.

Specified mining payments to Aboriginal and Torres Strait Islander persons or specified distributing bodies are exempt from income tax, where those payments have already attracted mining withholding tax.

D5 Taxation of life insurance investment income

Introduced before 1985. Legislative reference: Sections 26AH and 160AAB ITAA36. 2001 TES reference code: D5.

For the 2000-01 income year and beyond, life insurance investment policyholders' undistributed income will be taxed at the company rate (previously taxed at the trustee rate): these rates result in concessionary taxation for some policy holders. Reversionary bonus income distributed to policyholders after 10 years is exempt

from further tax. If distributed before 10 years, income is assessable to policyholders, and a tax offset is given based on the company rate, not the actual tax paid.

D6 Income tax exemption for certain non-profit societies

Introduced before 1985. Legislative reference: Section 50-45 ITAA97. 2001 TES reference code: D6.

The income of non-profit societies, associations or clubs established for the encouragement of sport or games, music, art, animal racing and literature is exempt from income tax.

This tax expenditure is the exemption of income not related to the application of the mutuality principle.

D7 Income tax exemption for the Australian Film Finance Corporation

Introduced in 1988. Legislative reference: Section 50-45 ITAA97. 2001 TES reference code: D7.

D8 Income tax exemption for certain promotion and development non-profit societies

Introduced before 1985. Legislative reference: Section 50-40 ITAA97. 2001 TES reference code: D9.

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 is exempt from income tax.

This tax expenditure is the exemption of income not related to the application of the mutuality principle.

D9 Income tax averaging for primary producers

Introduced before 1985. Legislative reference: Division 392 ITAA97. 2001 TES reference code: D10.

Primary producers can elect to pay tax at a tax rate based on the average income earned over the previous five income years. If the taxpayer has not been using this facility for five years, the tax rate is based on the income years in which averaging has applied, and the previous year. This measure provides a concession because, on balance, the saving from paying less tax in high income years outweighs additional tax paid in low income years.

The growth in the estimates reflects increased income by primary producers. Projections beyond 2003-04 are not reported as the tax expenditure is extremely sensitive to variations in primary production income, which depends on a number of external factors.

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D10 Deferment of income from a double wool clip

Introduced before 1985. Legislative reference: Section 385-135 ITAA97. 2001 TES reference code: D11.

D11 Spreading insurance recoveries for loss of timber or livestock

Introduced before 1985. Legislative reference: Subdivision 385-E ITAA97. 2001 TES reference code: D12.

Insurance recoveries from loss of timber or livestock, and net income from forced disposal of livestock, can be spread over five income years. If the compulsory disposal of livestock relates to the Brucellosis and Tuberculosis Eradication Campaign, the deferral period is extended to 10 years.

D12 Valuation of livestock from natural increase

Introduced before 1985. Legislative reference: Section 70-55 ITAA97. 2001 TES reference code: D13.

Primary producers can elect to adopt specified values for natural increase in livestock. These specified values are below the actual cost of production.

D13 Transitional trading stock rules for oyster farmers

Announced in 2001. 2001 TES reference code: D14.

Oyster farmers using the traditional stick method are able to value their trading stock at year-end using a designated value per stick. As a transition to this method, stick farmers are able to apply, in the 2001-02 income year, an opening stock valuation based on the per stick designated value rather than the closing stock value of the previous year.

D14 Income tax exemption for Dairy Exit Program payments

Introduced in 2000. Legislative reference: Section 118-37(1)(e) ITAA97. 2001 TES reference code: D15.

The Dairy Exit Program (DEP) is one component of the Government's Dairy Industry Adjustment Package. The DEP provides eligible dairy farmers who choose to exit agriculture with a payment of up to \$45,000. This payment is exempt from income tax and could be applied for until 30 June 2002.

D15 Condensate excise free status

Introduced before 1985. Legislative reference: Schedule 17(B) of *the Excise Tariff Act 1921*. 2001 TES reference code: na.

Condensate produced in a State or Territory or inside the outer limits of the territorial sea of Australia or marketed separately from a crude oil stream is free of excise. The condensate excise free status was granted as a concession to the petroleum industry in 1977.

D16 Infrastructure Bonds Scheme

Introduced in 1992. Legislative reference: Division 16L ITAA36. 2001 TES reference code: D16.

Interest income from loans to eligible infrastructure facilities is exempt from income tax, while the interest paid by the borrower is not deductible. After 15 December 1994, the lender could elect to include the income in assessable income and receive an offset at the company tax rate for the income. The scheme was closed to new projects from 14 February 1997, and replaced by the Infrastructure Borrowings Tax Offset Scheme in 1998.

D17 Infrastructure Borrowings Tax Offset Scheme

Introduced in 1998. Legislative reference: Section 396-5 to 396-110 ITAA97. 2001 TES reference code: D17.

Resident lenders receive a tax offset at the company tax rate for interest income received from loans for approved land transport infrastructure projects. The interest paid by the borrower is not deductible.

The cost of this scheme is capped at \$75 million per annum. The costing indicates the maximum level of expenditure that is possible under the IBTOS. Actual expenditure depends on the eligible projects that are supported under the scheme, and the time period over which those projects are undertaken.

D18 Income tax exemption for sale, transfer or assignment of mining rights

Introduced before 1985. Legislative reference: Paragraph 23 (pa) ITAA36. 2001 TES reference code: D18.

Income derived by bona fide prospectors from sale, transfer or assignment of rights to mine gold, prescribed metals or prescribed minerals is exempt from income tax. This measure only applies to rights acquired before 20 August 1996.

D19 Income tax exemption for funds established for scientific research

Introduced before 1985. Legislative reference: Section 50-5 ITAA97. 2001 TES reference code: D19.

Income of funds established for the purpose of enabling scientific research to be conducted by, or in conjunction with, a public university or hospital is exempt from income tax.

D20 Income tax exemption for trade unions and registered organisations

Introduced before 1985. Legislative reference: Section 50-15 ITAA97. 2001 TES reference code: D20.

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The income of trade unions and registered associations of employers and employees is exempt from income tax.

This tax expenditure is the exemption of income not related to the application of the mutuality principle.

D21 Income tax exemption for CRAFT apprenticeship rebates

Introduced: before 1985. Legislative reference: Section 23(jc) ITAA36. 2001 TES reference code: D21.

Rebates paid to employers who take on apprentices under the Commonwealth Rebate for Apprentice Full-time Training (CRAFT) scheme are exempt from income tax. This measure was converted into a grants program, and hence applies only to apprentices who commenced work before 1 January 1998.

D22 Concessional tax rate for the life insurance business of friendly societies

Introduced before 1985. Legislative reference: Schedule 2, Item 111, Subsection 23C *Income Tax Rates Act 1986*. 2001 TES reference code: D22.

Traditionally the life insurance business of friendly societies has been treated more concessionally than that of life insurance companies. The benefit has been wound back progressively since 1983-84 when the exemption for this business was removed and a 20 per cent tax rate applied. The rate was increased to 30 per cent from 1988-89 and to 33 per cent in 1994-95. The tax rate differential is legislated to be removed from the 2001-02 income year when the rate will decrease to 30 per cent, consistent with the company tax rate that will apply to life insurance companies.

D23 Income tax exemption for current pension liabilities

Introduced before 1985. Legislative reference: Sections 282B and 283 ITAA36. 2001 TES reference code: D23.

Income relating to current pensions 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, representing a deferral of tax liability.

D24 Income tax exemptions for foreign superannuation funds

Introduced before 1985. Legislative reference: Paragraphs 23(jb) and 128B (3)(a) ITAA36. 2001 TES reference code: D24.

Interest and certain dividends received by a foreign superannuation fund are exempt from income tax. This income is also exempt from non-resident withholding tax if it is exempt from income tax in the country in which the foreign superannuation fund resides.

D25 Pooled Development Funds (PDFs)

Introduced in 1992. Legislative reference: Sections 46(1), (2), (7), (7A); 46A(1), (5), (9), (10); Division 10E of Part III and Division 12A of Part IIIA ITAA36; and

Sections 3(1); 23(4C), (4D) *Income Tax Rates Act 1986*. 2001 TES reference code: D25.

Concessional taxation treatment is available to investment companies that are established and registered as PDFs.

For Australian superannuation funds, franked dividends from a Pooled Development Fund that relate to capital gains on an eligible venture capital investment, will be exempt from tax. Those superannuation funds will also be entitled to a refundable imputation credit.

D26 Concessional treatment of some credit unions

Introduced before 1985. Legislative reference: Section 23G ITAA 1936 and Section 23(6) of *Income Tax Rates Act 1986*. 2001 TES reference code: D26.

Interest income received by some credit unions is exempt from income tax. 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 was at the concessional rate of 20 per cent until the beginning of the 1997-98 income year at which time the full corporate rate applied. Concessional rates of taxation will be provided for credit unions with low levels of notional taxable income.

D27 Income tax exemption for business assistance grants from the Katherine District Business Re-Establishment Fund

Introduced in 1999. Legislative reference: Schedule 2 of Taxation Laws Amendment Act (No.4) 1999. 2001 TES reference code: D27.

Business assistance grants provided from the Katherine and District Business Re-Establishment Fund are exempt from income tax. These grants were capped at a maximum level of \$10,000 per eligible business.

D28 Income tax exemption for business grants from the Cyclones Elaine and Vance Trust Account

Introduced in 2000. Legislative reference: Schedule 4 of *Taxation Laws Amendment Act (3) 2000*. 2001 TES reference code: D28.

Business assistance grants provided from the Cyclones Elaine and Vance Trust Account are exempt from income tax. These grants were capped at a maximum level of \$10,000 per eligible business.

D29 Transitional taxation of life insurance management fees

Introduced in 2000. Legislative reference: Section 320-40 ITAA97. 2001 TES reference code: D29.

Life insurance companies are exempt on one-third of specified management fees on certain life insurance policies taken out before 1 July 2000. The exemption will cease to apply from 30 June 2005.

D30 Income tax exemption for State/Territory bodies

Introduced before 1985. Legislative reference: Part III Division 1AB ITAA36. 2001 TES reference code: D30.

State/Territory bodies, except for excluded bodies, are exempt from income tax.

D31 Income tax exemption for municipal authorities and other local governing bodies

Introduced before 1985. Legislative reference: Section 50-25 ITAA97. 2001 TES reference code: D31.

Capital gains tax (CGT) benchmark

D32 CGT exemption for valour or brave conduct decorations

Introduced before 1985. Legislative reference: Paragraph 118-5(b) ITAA97. 2001 TES reference code: D32.

Capital gains or losses arising from the disposal of a decoration awarded for valour or brave conduct are exempt from capital gains tax, unless the owner of the decoration had paid money or given any other property for it.

D33 CGT treatment of perpetual conservation covenants

Announced in 2001. 2001 TES reference code: D34.

For capital gains tax purposes, perpetual conservation covenants (which have been accredited by the Minister for the Environment and Heritage) will be treated like a part disposal of the land, rather than the creation and disposal of a new asset.

D34 CGT main residence exemption

Introduced in 1985. Legislative reference: Subdivision 118-B ITAA97. 2001 TES reference code: D35.

Capital gains or losses on the disposal of a taxpayer's main residence and up to two hectares of adjacent land are exempt from capital gains tax.

D35 CGT exemption for the disposal of assets under the Cultural Bequests and Cultural Gifts programs

Introduced in 1994. Legislative reference: Section 118-60 ITAA97. 2001 TES reference code: D36.

D36 Venture capital concessions

Introduced in 1999. Legislative reference: Subdivision 118-G ITAA36. 2001 TES reference code: D39.

Non-resident pension funds that are tax exempt in their home jurisdiction (being either Canada, France, Germany, Japan, UK, USA or other approved jurisdictions)

are exempt from income tax on the disposal of investments in new equity in eligible venture capital investments.

The current concession also extends to other eligible tax-exempt non-resident investors including: endowment funds, venture capital fund-of-funds, and taxable non-resident investors holding less than 10 per cent of a venture capital limited partnership.

D37 Small business 50 per cent CGT exemption

Introduced in 1999. Legislative reference: Division 152 ITAA97. 2001 TES reference code: D40.

Only 50 per cent of capital gains arising from the sale of active small business assets are subject to capital gains tax.

D38 Small business CGT roll-over

Introduced in 1997. Legislative reference: Division 152 ITAA97. 2001 TES reference code: D41.

Individuals receive a capital gains tax roll-over on the disposal of active small business assets if they use the proceeds of the sale to purchase other active small business assets.

D39 Small business CGT partial exemption for goodwill

Introduced in 1986. Legislative reference: Sections 118-250 and 118-255 ITAA97. 2001 TES reference code: D42.

Where an individual disposes of a business with net business interests of less than \$2.2 million, only 50 per cent of any capital gain that is attributable to goodwill is subject to CGT. This measure only applies to disposals before 21 September 1999, as it was replaced by the small business 50 per cent CGT exemption for sale of active business assets (D35) on 21 September 1999.

D40 Exemption from reducing the cost base of trusts for CGT purposes

Introduced in 1986. Legislative reference: Subsection 104-70(7) ITAA97. 2001 TES reference code: D43.

Certain payments do not reduce the cost base of trusts for CGT purposes.

D41 CGT discount for individuals and trusts

Introduced in 1999. Legislative reference: Section 115-10 and paragraph 115-100(a) ITAA97. 2001 TES reference code: D44.

An individual or trust that disposes of an asset owned for at least one year only includes 50 per cent of any nominal capital gain in their assessable income. For assets acquired prior to 21 September 1999, and held for one year or more, an

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individual or trust may instead choose to include the whole difference between the disposal price and the frozen indexed cost base as at 30 September 1999.

The tax expenditure for this measure from 2000-01 reflects the cost of the concession, relative to the capital gains tax benchmark of full nominal taxation. As outlined in chapter 1.4, the estimate assumes that the same level of realisations would occur if capital gains were taxed at the full rate.

D42 CGT scrip-for-scrip roll-over relief

Introduced in 1999. Legislative reference: Subdivision 124-M ITAA97. 2001 TES reference code: D45.

Capital gains tax roll-over relief is available for capital gains arising from an exchange of interests in companies or fixed trusts, for example because of a takeover. As a result, the capital gains tax liability is deferred from the time of the takeover until the ultimate disposal of the replacement asset.

D43 CGT roll-over for assets compulsorily acquired, lost or destroyed

Introduced before 1985. Legislative reference: Subdivision 124-B ITAA97. 2001 TES reference code: D46.

Taxpayers are eligible for a roll-over of capital gains or losses to a replacement asset where an asset is compulsorily acquired, lost or destroyed.

D44 CGT discount for investors in listed investment companies (LICs)

Introduced in 2001. Legislative reference: Subdivision 115D ITAA97. 2001 TES reference code: D47.

Individual shareholders of LICs will benefit from the 50 per cent CGT discount on distributions of eligible capital gains derived at the LIC level. LICs will continue to be assessed for income tax under the company tax provisions.

D45 Non-imposition of CGT on capital gains that accrue before an asset becomes a segregated pension asset but are realised after the asset becomes a segregated pension asset.

Introduced in 1988. Legislative reference: s282B, s283 ITAA36. 2001 TES reference code: D48.

This tax expenditure relates to unrealised capital gains that accrue to complying superannuation funds on assets before the assets become segregated pension assets. When an asset becomes a segregated pension asset and is subsequently realised, the accrued unrealised capital gain is not subject to CGT.

D46 Taxation relief for demergers

Announced in 2002. 2001 TES reference code: na.

Upon enactment of the relevant legislation, tax relief will be provided for demergers that occur on or after 1 July 2002, that involve a restructuring of a corporate or a trust group by splitting the group into two or more entities or groups.

D47 Removal of taxation of financial instruments at point of conversion or exchange

Announced in 2002. 2001 TES reference code: na.

Upon enactment and commencement of relevant legislation, investors who hold financial instruments through conversion or exchange will not be subject to income tax until the instruments are ultimately sold. Investors will also be able to qualify for capital gains tax treatment over the entire holding period of this type of investment if the gain or loss on disposal is of a capital nature.

Deductions benchmark

D48 Tax incentives for film investment

Introduced before 1985. Legislative reference: Divisions 10B and 10BA ITAA36. 2001 TES reference code: D49.

Capital expenditure incurred in acquiring an interest in the initial copyright of a new Australian film receives an immediate deduction (for certain types of film) or a write-off over two years.

The estimates for this tax expenditure reflect the fact that the measure brings forward the timing of tax deductions relative to deductions available under the effective life benchmark. Previous *Tax Expenditure Statement* estimates assumed deductions would not be available under the benchmark.

D49 Film Licensed Investment Companies

Introduced in 1998. Legislative reference: Sections 375-850 to 375-880 ITAA97. 2001 TES reference code: D50.

Amounts paid by an investor in the 1998-99 and 1999-2000 income years for shares in a Film Licensed Investment Company are immediately deductible.

D50 Refundable tax offset for large scale film production

Introduced in 2001. Legislative reference: Division 376 ITAA97. 2001 TES reference code: D51.

Producers of eligible large scale films will be able to receive a refundable tax offset equivalent to 12.5 per cent of qualifying Australian expenditure on the film. The offset will be paid through the tax system directly to producers. To be eligible, films need at least \$15 million of qualifying Australian expenditure, and for that expenditure to amount to at least 70 per cent of the production cost. If qualifying Australian expenditure is over \$50 million, the 70 per cent criterion does not apply.

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D51 Accelerated depreciation for water management costs

Introduced before 1985. Legislative reference: Subdivision 40-F ITAA97. 2001 TES reference code: D52.

The capital costs of investment for conserving or conveying water can be deducted by primary producers over 3 years.

D52 Landcare deduction

Introduced before 1985. Legislative reference: Sections 40-630 to 40-640 ITAA97. 2001 TES reference code: D53.

Primary producers and users of rural land can claim an immediate deduction for capital expenditure on soil conservation, prevention of land degradation and related measures.

D53 Landcare offset

Introduced in 1998. Legislative reference: Former Division 388 ITAA97. 2001 TES reference code: D54.

Primary producers and users of rural land, with taxable income of up to \$20,000 a year, can claim a 30 cents in the dollar tax offset for capital expenditure on soil conservation, prevention of land degradation and related measures. This measure can be claimed as an alternative to the landcare deduction (D53).

This measure has ceased to apply to expenditure incurred from 1 July 2001 onwards. The offset will continue to apply after 1 July 2002 to expenditure incurred before that date where the offset is apportioned over three years, or where taxpayers had insufficient tax payable to claim the entire offset in earlier income years.

D54 Deduction for horse breeding stock

Introduced in 1992. Legislative reference: Sections 70-60, 70-65 ITAA97. 2001 TES reference code: D55.

Taxpayers can elect to write-off horse breeding stock acquired on or after 19 August 1992 on a prime cost basis. Up to 25 per cent of the cost of sires and up to 33 1/3 per cent of the cost of mares can be written off per annum.

D55 Depreciation of the capital cost of telephone lines and mains electricity

Introduced before 1985. Legislative reference: Sections 40-645 to 40-655 ITAA97. 2001 TES reference code: D56 and D75.

Capital expenditure incurred on extending telephone lines to a primary production property and capital expenditure incurred on connecting or upgrading mains electricity to a property on which a business is conducted can be depreciated on a ten-year prime cost basis.

D56 Tax write-off for horticultural plants

Introduced in 1995. Legislative reference: Division 40-F ITAA97. 2001 TES reference code: D57.

An accelerated depreciation regime is available for capital expenditure incurred in establishing horticultural plants, with deductions available from the first commercial season.

D57 Accelerated depreciation for grapevine plantings

Introduced in 1993. Legislative reference: Division 40-F ITAA97. 2001 TES reference code: D58.

Expenditure incurred in acquiring and establishing grape vines can be written off on a prime cost basis over four years, with the deductions being available from the time the vines are planted.

D58 Drought investment allowance

Introduced in 1995. Legislative reference: Part IX of the ITAA36. 2001 TES reference code: D59.

An immediate deduction of 10 per cent (up to a total deduction of \$5,000) of capital expenditure on drought preparedness assets is available. This allowance is in addition to depreciation deductions that can be claimed for the assets. This measure ceased to apply to expenditure incurred from 1 July 2000.

D59 Development allowance

Introduced in 1992. Legislative reference: Sections 15, 27 and 40 of *Development Allowance Authority Act 1992*. 2001 TES reference code: D60.

For major projects approved by the Development Allowance Authority, 10 per cent of the value of plant and equipment, including motor vehicles and primary production, can be immediately deducted. Registrations for projects closed on 31 July 1996.

D60 Capital expenditure deduction for mining, quarrying and petroleum operations

Introduced before 1985. Legislative reference: Subdivision 40-B ITAA97 as adjusted by sections 40-35, 40-40 and 40-75 IT(TP)97. 2001 TES reference code: D61.

Certain capital expenditure incurred before 1 July 2001, or relating to a depreciating asset (not plant or equipment) acquired before 1 July 2001, in carrying on a prescribed mining, petroleum or quarrying operation can be deducted over the lesser of the life of the project or 10 years (20 years for quarrying).

This treatment has only ongoing transitional application. Capital expenditure incurred after 1 July 2001 that cannot be included in the cost of a depreciating asset acquired before 1 July 2001 (used in carrying on a prescribed mining, petroleum or

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quarrying operation (except plant and equipment)) is deductible over the life of the project.

D61 Deduction for patents, designs and copyrights

Introduced before 1985. Legislative reference: Former Division 373 ITAA97. 2001 TES reference code: D62.

Expenditure incurred in obtaining, or seeking to obtain, the registration or extension of a patent, design or copyright is immediately deductible.

This treatment does not apply to expenditure incurred after 1 July 2001. From 1 July 2001, this expenditure is deductible over the life of the underlying intellectual property.

D62 Exploration and prospecting deduction

Introduced before 1985. Legislative reference: Subsection 40-80(1) and section 40-730 ITAA97. 2001 TES reference code: D63.

Capital expenditure used for exploration or prospecting by general and petroleum miners and in quarrying is immediately deductible.

D63 Deduction for expenditure on environmental impact studies

Introduced in 1991. Legislative reference: Section 40-B ITAA97 as adjusted by section 40-55 IT(TP)97. 2001 TES reference code: D64.

Expenditure incurred on an eligible environmental impact study can be deducted over the lesser of 10 years or the life of the project to which it relates.

This treatment does not apply to expenditure incurred after 1 July 2001. From 1 July 2001, this expenditure can only be deducted over the life of the project.

D64 Deduction for environmental protection activities

Introduced in 1992. Legislative reference: Sections 40-75 and 40-760 ITAA97. 2001 TES reference code: D65.

Expenditure used to control pollution and manage waste, where the waste or pollution was produced by, or is on the site of, the taxpayer's business is immediately deductible.

D65 Depreciation to nil value rather than estimated scrap value

Introduced before 1985. Legislative reference: Division 40 ITAA97. 2001 TES reference code: D66.

D66 Depreciation balancing adjustment roll-over relief

Introduced before 1985. Legislative reference: Section 40-340 ITAA97. 2001 TES reference code: D67.

The tax liability for balancing adjustments arising from the disposal of depreciating assets can be deferred. The liability can be used to reduce future capital allowance deductions. Roll-over relief is available for balancing adjustments arising from certain changes in ownership interests in depreciating assets, such as disposal within a wholly-owned group or as a result of a marriage breakdown.

Prior to 21 September 1999, roll-over relief was also available when replacement items of plant and equipment were acquired. This treatment continued to be available to businesses with turnover of less than \$1 million until 1 July 2001 (see D76).

D67 Balancing charge roll-over relief for exploration, mining and quarrying activities

Introduced before 1985. Legislative reference: Sections 330-540 to 330-552 ITAA97. 2001 TES reference code: D68.

Balancing adjustments arising from certain changes in ownership interests in property, such as disposal of an asset within a wholly-owned group or as a result of a marriage breakdown, can be rolled over.

With the introduction of the uniform capital allowance system on 1 July 2001 this specific treatment is no longer available. In certain circumstances the general balancing adjustment roll-over relief (see D66) will provide some of the treatment previously provided by this measure.

D68 Absence of cost base recapture for certain assets

Introduced before 1985. Legislative reference: Division 43 and Section 110-45 ITAA97. 2001 TES reference code: D69.

Certain buildings and structures receive deductions which are not recaptured on disposal of the asset, in that the cost base of the asset is not reduced by the amount of deductions obtained. This measure ended for assets acquired after 13 May 1997.

D69 Accelerated depreciation allowance for plant and equipment

Introduced in 1992. Legislative reference: Former Division 42 and Subdivision 40-B ITAA97 as adjusted by sections 40-10 and 40-12 IT(TP)97. 2001 TES reference code: D70.

An accelerated depreciation allowance was provided for plant and equipment acquired under contract, or commenced to be constructed, on or after 27 February 1992. This concession was removed for individuals and businesses with a turnover of \$1 million or more per annum on 21 September 1999.

This treatment was further removed from businesses with a turnover of less than \$1 million from 1 July 2001. These businesses can opt to enter the simplified tax system from this time and utilise the simplified capital allowances system (see D75).

This tax expenditure brings forward the timing of tax deductions relative to deductions available under the effective life benchmark. It becomes a negative tax expenditure from 2002-03 because, for investments made before accelerated depreciation was abolished, deductions in coming years will be lower than they

Tax Expenditures Statement

would have been under the benchmark as these deductions have already been claimed.

D70 Accelerated depreciation for employees' amenities

Introduced in 1994. Legislative reference: Former section 42-150 and Subdivision 40-B ITAA97 as adjusted by sections 40-10 and 40-12 IT(TP)97. 2001 TES reference code: D71.

Plant, including plumbing fixtures and fittings, acquired for providing meals, meal facilities, clothing cupboards, first aid, restrooms or recreational facilities for employees (or their children) of a business, is depreciable over three years. This concession was removed for individuals and businesses with a turnover of \$1 million or more per annum on 21 September 1999.

This treatment was further removed from businesses with turnovers of less than \$1 million from 1 July 2001. These businesses can opt to enter the simplified tax system from this time and utilise the simplified capital allowances system (see D75).

D71 Accelerated depreciation for mining buildings

Introduced in 1982. Legislative reference: Former Subdivision 330-C and Subdivision 40-B ITAA97 as adjusted by 40-35 *Income Tax (Transitional Provisions) Act 1997*. 2001 TES reference code: D72.

Buildings used to carry on mining and quarrying operations and for housing and welfare in relation to carrying on mining operations can be deducted over the lesser of the life of the project or ten years (20 years for quarrying).

This concession was removed on 1 July 2001 for buildings constructed or acquired after this date.

D72 Depreciation pooling for low-value assets

Introduced in 2000. Legislative reference: Subdivision 40-E ITAA97. 2001 TES reference code: D73.

Assets costing less than \$1,000 are written off at the declining balance rate of 37 ½ per cent, through a low-value asset pool. Once an election to create a low-value pool is made, all assets costing less than \$1,000 are provided this treatment. This measure applies to taxpayers who choose not to, or are ineligible to, enter the simplified tax system.

D73 Accelerated depreciation for Australian trading ships

Introduced before 1985. Legislative reference: Section 53I(2), 57AM ITAA36. 2001 TES reference code: D74.

Australian trading ships commissioned on or after 29 July 1977 can be depreciated on a prime cost basis over five years. This concession is not available for ships commissioned after 1 July 1997.

The estimates for this tax expenditure reflect the fact that the measure brings forward the timing of tax deductions relative to deductions available under the effective life benchmark.

D74 Statutory effective life caps

Introduced in 2002. Legislative reference: Section 40-102 ITAA97. 2001 TES reference code: na.

Statutory effective life caps for a range of assets used in the oil, gas and airline industries allow businesses to claim larger capital allowance deductions than those available under the Commissioner of Taxation's effective life determinations.

D75 The Simplified Tax System

Introduced in 2001. Legislative reference: Division 328 ITAA97. 2001 TES reference code: D76.

Businesses with an average annual turnover of less than \$1 million can elect to join the Simplified Tax System (STS). The STS provides a simpler means of managing their bookkeeping and income tax compliance requirements. They will also receive income tax benefits from being able to immediately write off purchases costing less than \$1,000, and writing off assets that cost \$1,000 or more at accelerated rates.

D76 Transitional exemption of small business from abolition of accelerated depreciation, balancing charge offset and low-value pooling

Introduced in 1999. Legislative reference: Subdivision 42-K ITAA97. 2001 TES reference code: D77.

For eligible businesses, a range of accelerated depreciation measures that were terminated as of 21 September 1999 were retained until the commencement of the Simplified Tax System (STS) on 1 July 2001. Eligible businesses were those with three-year annual turnovers of less than \$1 million. The measures that continue to apply to these eligible businesses were accelerated depreciation, the balancing charge offset, the pooling of low-value depreciable assets, and the immediate deductibility of plant items costing up to \$300.

The estimates for this tax expenditure reflect the fact that the measure brings forward the timing of tax deductions relative to deductions available under the effective life benchmark.

D77 Research and development (R&D) refundable tax offset for small companies

Announced in 2001. Legislative reference: Section 73I ITAA36. 2001 TES reference code: D78.

Companies with annual turnover of less than \$5 million that undertake up to \$1 million of R&D are eligible to receive a refundable tax offset, equivalent to the value of the R&D tax concession.

Tax Expenditures Statement

This is available from the first income year starting after 30 June 2001.

D78 Research and development (R&D) tax concession

Introduced in 1985. Legislative reference: Sections 73B and 73BA ITAA36. 2001 TES reference code: D79.

Eligible expenditure on R&D activities generally receives an immediate 125 per cent deduction. Until 29 January 2001, eligible expenditure on R&D plant was deductible at 125 per cent over three years. From that date, expenditure on plant used in R&D activities is deductible over its effective life with a 25 per cent loading. Expenditure on 'core technology' which relates to R&D activities is deductible at a rate of 100 percent over the period of the related R&D activities.

D79 Premium tax concession for additional research and development (R&D) expenditure

Introduced in 2001. Legislative reference: Section 73Q to 73Y ITAA36. 2001 TES reference code: D80.

Companies that increase certain R&D expenditure are eligible to receive a 175 per cent concession. The 175 per cent premium covers all additional R&D expenditure excluding plant, pilot plant, contracted plant, plant leases, core technology, R&D related interest and items excluded from the 125 per cent R&D tax concession.

This is available from the first income year starting after 30 June 2001.

D80 Accelerated depreciation for software

Introduced in 1998. Legislative reference: Subdivision 40-E ITAA97. 2001 TES reference code: D82.

Expenditure incurred in acquiring, developing or commissioning software that is mainly used in performing the functions for which the software was developed is depreciable over 2½ years.

D81 Immediate deduction relating to Y2K upgrades

Introduced in 1998. Legislative reference: Sections 46-1 to 46-110 ITAA97. 2001 TES reference code: D83.

Expenditure on software related to Y2K upgrades is immediately deductible if it was incurred between 11 May 1998 and 1 July 1999.

The estimates for this tax expenditure reflect the fact that the measure brings forward the timing of tax deductions relative to deductions available under the effective life benchmark.

D82 Immediate deductibility for GST-related plant and software

Introduced in 2000. Legislative reference: Sections 25-80, 42-168 ITAA97. 2001 TES reference code: D84.

Expenditure incurred by small and medium size businesses on acquiring plant or software (including upgrades) for the purpose of implementing the GST is immediately deductible. This deduction is available for the year ending 30 June 2000 even if the equipment is not installed for use by 30 June 2000, provided that the equipment is ordered by 30 June 2000 and installed by 30 June 2001. To qualify for the extension, taxpayers had to have ordered the equipment (through entering into a legally binding agreement to purchase) before 30 June 2000, although it need not have been paid for by that date.

The estimates for this tax expenditure reflect the fact that the measure brings forward the timing of tax deductions relative to deductions available under the effective life benchmark.

D83 Prepayment rule for Simplified Tax System (STS) taxpayers and non-business expenditure by individuals

Introduced in 2001. Legislative reference: Section 82 KZM ITAA36. 2001 TES reference code: D85.

Advance expenditure by STS taxpayers and non-business prepayments of individuals are immediately deductible where incurred in respect of services to be provided over a period not exceeding 12 months and not extending beyond the income year in which the expenditure is incurred. This provision replaced the remaining applications of the 13 month rule, which was previously removed (21 September 1999) for businesses with a turnover of \$1 million or more per annum.

D84 Transitional arrangements for prepayments

Introduced in 1999. Legislative reference: Division 3 Part III Sections 82 KZMB, KZMC, 82 KZL (1) ITAA36. 2001 TES reference code: D86.

Five year transitional rules are available to phase-in the impact of removing the 13-month rule for advance expenditure.

The tax expenditure estimates are positive in 1999-2000 and 2000-01 and negative in the following years, reflecting the effect of spreading the revenue impact that would otherwise occur in 1999-2000 and, in particular, 2000-01 over a five year period.

D85 The 10-year rule for prepayments

Introduced in 1988. Legislative reference: Subsection 82 KZL (1) ITAA36. 2001 TES reference code: D87.

The deduction for advance expenditure in respect of services to be provided over an indeterminate period (for example, life membership) or exceeding 10 years can be spread evenly over the first 10 years of that period.

D86 Exemption from the tax shelter prepayments measure for passive investments

Introduced in 1988. Legislative reference: Section 82 KZME ITAA36. 2001 TES reference code: D88.

Tax Expenditures Statement

Advance expenditure in relation to investments in infrastructure bonds, shares, units, rental property and arrangements entered into before 1 July 2000, to which product rulings apply, continue to be immediately deductible. This is provided that the expenditure meets the requirements of the prepayment rule applying to STS taxpayers and non-business expenditure by individuals.

D87 Prepayment rule for forestry managed investments

Announced in 2001. Legislative reference: Section 82KZMG ITAA36 2001 TES reference code: D89.

For investors in forestry managed investment schemes, advance expenditure on seasonally dependent agronomic operations in the establishment of a forestry plantation is immediately deductible, where the work is to be completed within 12 months and by the end of the year following that in which the expenditure is incurred. The gross income received by the managed investment provider is assessable in the period the expenditure is incurred by the investor, rather than when the work is done on the investor's behalf. A once-off transitional arrangement applies in 2001-02 and 2002-03 to spread the income associated with the bring forward in the first year of use by the company over two years.

D88 Capitalisation of ownership costs of assets held partly for private use

Introduced in 1991. Legislative reference: Subsection 110-25(4) ITAA97. 2001 TES reference code: D90.

Where an asset, other than a collectible or personal use asset, is acquired after 20 August 1991, non-capital costs of ownership such as interest, maintenance and repairs, insurance and rates can be included in the cost base of the asset if not otherwise deductible. Inclusion of such costs in the cost base of property held for private use is inconsistent with the benchmark.

D89 Exemption from non-commercial losses provisions (primary producers and artists)

Introduced in 2000. Legislative reference: Subsections 35-10 (4) and (5) ITAA97. 2001 TES reference code: D91.

Primary producers and artists with other assessable income of less than \$40,000 are exempt from the non-commercial losses measure. This exemption allows an immediate deduction for losses from primary production and art businesses that are of a non-commercial nature.

D90 Deductibility of expenses incurred in providing entertainment free to members of the public who are sick, disabled, poor or otherwise disadvantaged

Introduced in 1985. Legislative reference: Section 32-50 ITAA97. 2001 TES reference code: D92.

D91 Income Equalisation Deposits (IED) scheme

Introduced before 1985. Legislative reference: Sections 3, 4B(5), 18, 19, 20A, and 20B of *Loan (Income Equalization Deposits) Act 1976*. 2001 TES reference code: D93.

Investments by primary producers made under the IED scheme are deductible, with subsequent withdrawals being assessable. The IED scheme had a maximum limit on deposits of \$300,000. 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. These schemes were replaced by the Farm Management Deposit scheme from 2 January 1999.

D92 Farm Management Deposit (FMD) scheme

Introduced in 1999. Legislative reference: Schedule 2G, Sections 393-10 to 393-65 ITAA36. 2001 TES reference code: D94.

Investments by primary producers made under the FMD scheme are deductible, with subsequent withdrawals being assessable. The FMD has a maximum limit on deposits of \$300,000. The FMD scheme replaced the Income Equalisation Deposits and Farm Management Bonds schemes.

The growth in the estimates reflects increased investments by primary producers. Projections beyond 2003-04 are not reported as the tax expenditure is extremely sensitive to variations in the amounts deposited and withdrawn in any year, which are highly volatile as they depend on a number of external factors.

D93 Deduction to co-operative companies

Introduced before 1985. Legislative reference: Section 120 ITAA36. 2001 TES reference code: D95.

Deductions are provided to co-operative companies for the repayment of principal of certain Commonwealth and State government loans.

International benchmark

D94 Income tax exemption for prescribed international organisations

Introduced before 1985. Legislative reference: Section 6 of *International Organisations (Privileges and Immunities) Act 1963*. 2001 TES reference code: D96.

The income of prescribed international organisations (eg UN, WTO, and OECD) is exempt from income tax.

D95 IWT exemption for certain overseas organisations

Introduced before 1985. Legislative reference: Paragraph 128B(3)(a) ITAA36. 2001 TES reference code: D97.

Tax Expenditures Statement

Interest received by certain organisations, which are exempt from tax in their home country, is exempt from interest withholding tax (IWT).

D96 DWT exemption for certain overseas organisations

Introduced before 1985. Legislative reference: Paragraph 128B(3)(a) ITAA36. 2001 TES reference code: D98.

Dividends received by certain organisations, which are exempt from tax in their home country, are exempt from dividend withholding tax (DWT).

D97 IWT and DWT exemptions for prescribed international organisations

Introduced before 1985. Legislative reference: Section 6 of the *International Organisations (Privileges and Immunities) Act 1963*. 2001 TES reference code: D99.

Interest and dividends received by prescribed international organisations which, under the *International Organisations (Privileges and Immunities) Act*, are exempt from the ordinary provisions of the ITAA, are exempt from both interest withholding tax and dividend withholding tax.

D98 Tax sparing provisions in Australia's double tax agreements (DTAs)

Date of effect depends on the date of effect of the DTA. Legislative reference: provided for in DTAs. 2001 TES reference code: D100.

Tax sparing provisions in Australia's DTAs apply to specific investment tax incentives (eg tax holidays) offered by developing countries. Under tax sparing, the tax forgone by the country in providing the tax concession to Australian resident investors is deemed to have been paid for the purposes of Australia's foreign tax credit system, enabling the Australian residents to claim a tax credit for the foreign tax forgone in relation to their investments. The Government has announced that tax sparing will generally not be provided or renewed in future agreements.

D99 Exemption for branch profits from foreign tax credit system

Introduced in 1990. Legislative reference: Section 23AH ITAA36. 2001 TES reference code: D101.

Most income from a business carried on by an Australian company through a permanent establishment (branch) in a listed country is exempt from Australian tax. The exempt income broadly comprises operating profits and capital gains in the case of a permanent establishment in a limited exemption-listed country and most passive and other tainted income, as well as in the case of a permanent establishment in a broad exemption-listed country.

D100 Income tax exemption for certain US projects in Australia

Introduced before 1985. Legislative reference: Section 23AA ITAA36. 2001 TES reference code: D102.

The profits and remuneration of US contractors, US armed forces members, or other US residents or citizens in connection with certain US Government projects in Australia are exempt from Australian income tax, providing the income is subject to tax in the US.

D101 Half IWT on foreign bank branch interest payments to the foreign bank

Introduced in 1994. Legislative reference: Section 160ZZZJ ITAA36. 2001 TES reference code: D103.

Only half the notional interest paid to a foreign bank from its Australian branch is subject to the full rate of interest withholding tax.

D102 Deductibility of costs of setting up a regional headquarters

Introduced in 1994. Legislative reference: Sections 82C-CE ITAA36. 2001 TES reference code: D104.

Certain business costs, including relocation and incorporation costs, associated with setting up a regional headquarters (RHQ) in Australia are deductible. These costs must be incurred within a two year period commencing 12 months before and ending 12 months after the RHQ first derives assessable income from the provision of 'regional headquarters support'.

D103 Concessional tax treatment of income of offshore banking units

Introduced in 1992. Legislative reference: Division 9A ITAA36. 2001 TES reference code: D105.

From 1 July 1992, eligible income derived by an offshore banking unit receives a concessional rate of tax (effectively 10 per cent).

D104 DWT exemption for Pooled Development Funds

Introduced in 1992. Legislative reference: Sections 128B(3)(ba), 124ZM ITAA36. 2001 TES reference code: D106.

D105 De minimis exemption for thin capitalisation

Introduced in 2001. Legislative reference: s820-35 ITAA 97 2001 TES reference code: D81.

A taxpayer may claim debt deductions of up to \$250,000 without being subject to thin capitalisation rules. An additional de minimis rule is included in the thin capitalisation regime for outward investing entities where the foreign assets of that entity and its associates represent up to 10 per cent of the total combined assets of that entity and its associates.

D106 Concessional tax treatment for foreign authorised deposit-taking institutions (ADIs)

Introduced in 1993. Legislative reference: Schedule 1 (ss170-33(2)) and Schedule 2 (ss170-133(2)) Financial Corporations (Transfer of Assets and Liabilities) Act 1993. 2001 TES reference code: na.

Amendments have extended the period by two years to transfer a tax loss or net capital loss for banks obtaining ADI authority to be eligible for concessional tax treatment when transferring assets and liabilities from locally incorporated subsidiaries of foreign banks to newly established branches of the parent foreign bank. Moreover, the deadline to effect any subsequent transfer of assets and liabilities has been extended from 30 June 2004 to 30 June 2006.

D107 Exemption of non-portfolio dividends from the foreign tax credit system

Introduced in 1990. Legislative reference: Section 23AJ ITAA36. 2001 TES reference code: D107.

Non-portfolio dividends, where the dividends are paid by a company resident in a listed country to an Australian resident company, are exempt income.

D108 Exemption from accrual taxation for controlled foreign companies

Introduced in 1990. Legislative reference: Subsections 385(1), (2) ITAA36. 2001 TES reference code: D108.

Most tainted income derived by controlled foreign companies in broad exemption-listed countries is exempt from accrual taxation applied to the attributable taxpayer.

D109 Exemption from accrual taxation for transferor trusts

Introduced in 1990. Legislative reference: Paragraph 102AAU(1)(b) ITAA36. 2001 TES reference code: D109.

Most income of transferor trusts in broad exemption-listed countries is exempt from accrual taxation applied to the transferor.

D110 Exemption from IWT on widely held debentures

Introduced before 1985. Legislative reference: Section 128F ITAA36. 2001 TES reference code: D110.

Certain widely spread debentures are exempt from interest withholding tax. This has been extended to publicly offered corporate securities issued in Australia, as well as securities issued by non-resident companies operating through a permanent establishment in Australia. In addition, the requirement to pay IWT on interest on nostro accounts held with foreign banks has been removed.