

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 *2006 Tax Expenditures Statement*. Since the 2006 Statement, 18 new tax expenditures have been added, 38 tax expenditures have been modified and 2 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 *2006 Tax Expenditures Statement* up to the date of finalisation of the *Pre-election Economic and Fiscal Outlook 2007*. 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
CONSUMPTION		
Commodity taxes		
F22	Certain goods imported into Australia are subject to customs duty.	Existing measure not previously recognised as a tax expenditure.
Natural resource taxes		
G3	Exploration expenditure can be transferred, under certain circumstances, between projects for petroleum resource rent tax (PRRT) purposes.	Existing measure not previously recognised as a tax expenditure.
G1	The gas transfer price regulations provide an allowance for capital expenditure which is based on the long term bond rate plus 7 per cent rather than the benchmark rate (long term bond rate plus 5 per cent).	Existing measure not previously recognised as a tax expenditure.
INCOME TAX		
Business income		
B86	Expenditure incurred in constructing capital works, including buildings and structural improvements and environment protection earthworks, is deductible at a rate of 2.5 per cent or 4 per cent depending on when the construction started and how the capital works are used.	Existing measure not previously recognised as a tax expenditure.

Tax Expenditures Statement

Table 5.1: New tax expenditures (continued)

TES code	Tax expenditure description	Reason for new tax expenditure
Business income (continued)		
B90	The establishment cost for carbon sinks incurred between the 2007-08 and 2011-12 income years is immediately tax deductible and, thereafter will be depreciated in line with horticultural plant provisions.	New policy measures reported in the 2007-08 Budget and the <i>Mid-Year Economic and Fiscal Outlook 2007-08</i> .
B101	Initial investors in forestry managed investment schemes will receive a tax deduction equal to 100 per cent of their contributions provided certain conditions are met.	New policy measure reported in the 2007-08 Budget
B25	Tobacco growers who receive a Restructuring Grant of up to \$150,000 under the Tobacco Growers Adjustment Assistance Programme 2006 will have the grant exempt from tax if they undertake to exit all agricultural enterprises for at least five years.	New policy measure reported in the 2007-08 Budget
B44	The Australian Government is providing tax free re-establishment grants of up to \$75,000 tax free under the Farm Help program to eligible farmers who choose to sell their farm and exit farming for at least five years.	Existing measure not previously recognised as a tax expenditure.
B54	An uplift in the costs of assets for tax purposes will not be allowed for an entity that joins a consolidated group following a capital gains tax roll-over affecting the membership interests of the joining entity, from 12 October 2007.	New policy measures reported in the <i>Mid-Year Economic and Fiscal Outlook 2007-08</i> and the <i>Pre-election Economic and Fiscal Outlook 2007</i> .
Capital Gains Tax		
E23	The capital gains tax market value substitution rule will not apply when CGT event C2 occurs in relation to membership interests in widely-held entities.	Modification to an existing tax expenditure as a result of policy measure reported in the <i>Pre-election Economic and Fiscal Outlook 2007</i> .
E24	A full or partial roll-over is provided where one or more licences are issued in consequence of the ending of an existing licence	Existing measure not previously recognised as a tax expenditure and modified as a result of policy measure reported in the <i>Mid-Year Economic and Fiscal Outlook 2007-08</i> .
E25	Capital losses may only be offset against capital gains, which means they are quarantined from ordinary income.	Existing measure not previously recognised as a tax expenditure.
E2	A capital gains tax roll-over is available for capital gains arising from the exchange of a membership interest in a medical defence organisation for a similar interest in another medical defence organisation where both organisations are companies limited by guarantee.	New policy measure reported in the 2007-08 Budget
E21	When calculating a capital gain, the cost base of a capital gains tax asset may be indexed (by reference to the consumer price index) up until 30 September 1999.	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
Capital Gains Tax (continued)		
E22	Policyholders of a health insurer which demutualises will not be subject to capital gains tax (CGT) on any capital gains or losses that they realise on the exchange of rights in the insurer for shares in the demutualised entity.	New policy measure reported in the <i>Pre-election Economic and Fiscal Outlook 2007</i> .
Personal income		
A27	From 1 July 2007 families will receive the Child Care Tax Rebate as a direct payment. The direct payment of the Child Care Tax Rebate will be exempt from income tax.	New policy measure reported in the 2007-08 Budget.
A49	The Prime Minister's Prize for Australian History and Prize for Science will be exempt from income tax.	New policy measure reported in the <i>Mid-Year Economic and Fiscal Outlook 2007-08</i> .
Retirement savings		
C19	All existing balances and future superannuation contributions for temporary residents will be transferred to the Australian Government, effective 1 July 2008.	New policy measure reported in the <i>Mid-Year Economic and Fiscal Outlook 2007-08</i> .

5.2 Modified tax expenditures

Table 5.2 reports tax expenditures that have been modified since they were last reported in the *2006 Tax Expenditures Statement* (the respective tax expenditure reference codes from this Statement and the *2006 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.

Tax Expenditures Statement

Table 5.2: Modified tax expenditures

TES code		2007	2006	Modification to the tax expenditure	Nature of modification
INCOME TAX					
Business income					
B40	B83			Alignment of the early withdrawal requirements of the Farm Management Deposit Scheme with the exceptional circumstances guidelines.	Modification to an existing tax expenditure as a result of policy measure reported in the <i>Mid-Year Economic and Fiscal Outlook 2007-08</i> .
B34	B62			STS superceded by allowing access to individual components separately.	Reporting modification.
B33	B66			Expiry of the 12 month prepayment rule for investments in forestry managed investment schemes with effect from 30 June 2008.	Existing tax expenditure due to expire (replaced by new tax expenditure).
B64	B32			The Film Licensed Investment Company scheme will not be renewed beyond its current expiry date of 30 June 2007.	Modification to an existing tax expenditure as a result of policy measure reported in the 2007-08 Budget.
B93	B58			The measure extending the premium 175 per cent R&D tax concession was modified to incorporate transitional arrangements, allow new entrants immediate access to the concession and make other technical changes to the measure. In addition, companies that undertake research and development (R&D) on behalf of a grouped foreign company are eligible for the premium 175 per cent R&D tax concession.	Modification to an existing tax expenditure as a result of policy measures reported in the 2007-08 Budget and the <i>Mid-Year Economic and Fiscal Outlook 2007-08</i> .
B84	B51			The statutory cap for tractors and harvesters has been legislated.	Modification to an existing tax expenditure as a result of policy measure reported in the 2007-08 Budget.
B65	B31			Tax incentives for film investment under Division 10B and 10BA of the ITAA1936 will be phased out.	Modification to an existing tax expenditure as a result of policy measure reported in the 2007-08 Budget.
B28	B15			A producer may be entitled to one of three refundable film production tax offsets under Division 376 - the producer tax offset, the location offset or post, digital and visual effects offset. Payments made under these offsets are exempt from tax.	Modification to an existing tax expenditure as a result of policy measure reported in the 2007-08 Budget.
B97	B55			Simplified Tax System superseded by allowing access to individual components separately.	Reporting modification.
B96	B55			Simplified trading stock rules for small business. STS superseded by allowing access to individual components separately.	Reporting modification.
B95	B55			Simplified depreciation deduction regime for small businesses. STS superseded by allowing access to individual components separately.	Reporting modification.

Table 5.2: Modified tax expenditures (continued)

TES code		Modification to the tax expenditure	Nature of modification
2007	2006		
Capital Gains Tax			
E28	E12	Allow related entities and partners in partnership access to the small business capital gains tax (CGT) concessions via the 'small business entity' test.	Modification to an existing tax expenditure as a result of policy measure reported in the <i>Pre-election Economic and Fiscal Outlook 2007</i> .
E29	E11	Relaxation of the eligibility requirements for concessional taxation treatment for foreign residents investing in venture capital limited partnerships and venture capital funds of funds. The measure also ensures that investments made by early stage venture capital limited partnerships are directed at early stage venture capital activity.	Modification to an existing tax expenditure as a result of policy measure reported in the 2007-08 Budget.
E13	E13	Allow related entities and partners in partnership access to the small business CGT concessions via the 'small business entity' test.	Modification to an existing tax expenditure as a result of policy measure reported in the <i>Pre-election Economic and Fiscal Outlook 2007</i> .
E19	E8	Extend the roll-over to transfers of assets under a binding financial agreement or an arbitral award entered into under the Family Law Act 1975 or similar arrangements under state, territory or foreign legislation.	Modification to an existing tax expenditure as a result of policy measure reported in the <i>Mid-Year Economic and Fiscal Outlook 2007-08</i> .
Fringe Benefits Tax			
D3	D4	The exemption for certain benefits received by Australian Government employees in receipt of military compensation has been quantified.	Reporting modification.
D2	D2	The exemption for certain benefits provided under the Defence Service Homes Act has been quantified.	Reporting modification.
Personal income			
A18	A17	Exemption from income tax of the wage top-up of \$1,000 per annum that applies from 1 July 2007 for first and second year Australian Apprentices under 30 years of age in skill-shortage trades, of fellowships and awards under the Endeavour Programme, and the Queensland Government's \$1,000 Early Completion Bonus for apprentices.	Modification to an existing tax expenditure as a result of policy measures reported in the <i>Mid-Year Economic and Fiscal Outlook 2007-08</i> and the <i>Pre-election Economic and Fiscal Outlook 2007</i> .
A12	A13	Exemption from taxation of pay and allowances earned by members of the Australian Defence Force in the Australian Training Support Team in East Timor.	Modification to an existing tax expenditure as a result of policy measure reported in the <i>Pre-election Economic and Fiscal Outlook 2007</i> .
A28	A27	Income tax exemption for the Maternity Immunisation Allowance.	Modification to an existing tax expenditure as a result of an existing measure not previously recognised as a tax expenditure.

Tax Expenditures Statement

Table 5.2: Modified tax expenditures (continued)

TES code		Modification to the tax expenditure	Nature of modification
2007	2006		
Personal income (continued)			
A30	A33	The release from particular tax liabilities in cases of serious hardship has been quantified.	Reporting modification.
A33	A29	Application of the beneficiary tax offset to recipients of the wage supplement provided as part of the Equine Influenza assistance package.	Modification to an existing tax expenditure as a result of policy measure reported in the <i>Mid-Year Economic and Fiscal Outlook 2007-08</i> and the <i>Pre-election Economic and Fiscal Outlook 2007</i> .
A34	A31	Increase in the dependent spouse rebate from \$1,655 to \$2,100 with effect from 1 July 2007.	Modification to an existing tax expenditure as a result of policy measures announced in the 2007-08 Budget.
A39	A39	Income tax exemption for crisis, bereavement and related payments under the ABSTUDY scheme.	Modification to an existing tax expenditure as a result of policy measure reported in the <i>Mid-Year Economic and Fiscal Outlook 2007-08</i> .
Retirement savings			
C3	C3	New data has become available which has led to a large increase in the estimate for the concessional taxation of non-superannuation termination benefits.	Reporting modification.
C4	C1	Reporting modification.	Reported as a separate tax expenditure.
C18	C8	Allow related entities and partners in partnership access to the small business capital gains tax (CGT) concessions via the 'small business entity' test.	Modification to an existing tax expenditure as a result of policy measure reported in the <i>Pre-election Economic and Fiscal Outlook 2007</i> .
C1	C6	Allow related entities and partners in partnership access to the small business capital gains tax (CGT) concessions via the 'small business entity' test.	Modification to an existing tax expenditure as a result of policy measure reported in the <i>Pre-election Economic and Fiscal Outlook 2007</i> .
C5	C1	The late payment offset will be extended indefinitely for employers who have made a late contribution to the fund and incurred a superannuation guarantee charge for the quarter.	Modification to an existing tax expenditure as a result of policy measure reported in the <i>Mid-Year Economic and Fiscal Outlook 2007-08</i> . Reported as a separate tax expenditure.
C6	C1	For account-based pensions, only assets included in the income stream account balance are eligible for the tax concessions available to segregated pension assets.	Modification to an existing tax expenditure as a result of policy measure reported in the <i>Mid-Year Economic and Fiscal Outlook 2007-08</i> . Reported as a separate tax expenditure.

Table 5.2: Modified tax expenditures (continued)

TES code		Modification to the tax expenditure	Nature of modification
2007	2006		
Retirement savings (continued)			
C7	C2	Changes have been made to the definition of a superannuation interest, valuation of public sector defined benefit pensions, taxation of death benefits paid to non-dependants of military and police personnel killed in the line of duty, taxation of benefits paid to the terminally ill, the proportioning rule for members of the Military Superannuation and Benefits Scheme; and the list of exempt public sector superannuation schemes.	Modification to an existing tax expenditure as a result of policy measure reported in the 2007-08 Budget and the <i>Mid-Year Economic and Fiscal Outlook 2007-08</i> .
C10	C1	Reporting modification.	Reported as a separate tax expenditure.
C9	C1	Reporting modification.	Reported as a separate tax expenditure.
C8	C1	Reporting modification.	Reported as a separate tax expenditure.
C11	C1	Reporting modification.	Reported as a separate tax expenditure.
C14	C1	Changes have been made to the valuation of public sector defined benefit pensions. Changes have been made to the definition of a superannuation interest. For account-based pensions, only assets included in the income stream account balance are eligible for the tax concessions available to segregated pension assets.	Modification to an existing tax expenditure as a result of policy measures reported in the 2007-08 Budget, the <i>Mid-Year Economic and Fiscal Outlook 2007-08</i> and <i>Better Super</i> . Reported as a separate tax expenditure.
C13	C1	Changes have been made to the definition of a superannuation interest, taxation of benefits paid to the terminally ill, and the proportioning rule for members of the Military Superannuation and Benefits Scheme. Lump sum death benefit superannuation payments made to non-dependants of police and military personnel killed in the line of duty receive the same tax treatment as death benefit payments to a dependant.	Modification to an existing tax expenditure as a result of policy measures reported in the 2007-08 Budget, <i>Mid-Year Economic and Fiscal Outlook 2007-08</i> and <i>Better Super</i> . Reported as a separate tax expenditure.
C12	C1	Changes have been made to the definition of a superannuation interest, taxation of benefits paid to the terminally ill, and the proportioning rule for members of the Military Superannuation and Benefits Scheme. Lump sum death benefit superannuation payments made to non-dependants of police and military personnel killed in the line of duty receive the same tax treatment as death benefit payments to a dependant.	Modification to an existing tax expenditure as a result of policy measures reported in the 2007-08 Budget, <i>Mid-Year Economic and Fiscal Outlook 2007-08</i> and <i>Better Super</i> . Reported as a separate tax expenditure.

Tax Expenditures Statement

5.3 Deleted tax expenditures

Table 5.3 reports tax expenditures that have been deleted since the 2006 *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
2006		
INCOME TAX		
Personal income		
A47	Income tax exemption for certain pensions received by residents of Papua New Guinea.	No longer considered to be a tax expenditure.
A32	A taxpayer whose taxable income falls below the relevant threshold is eligible for the low-income tax offset.	The low-income tax offset is now an integral part of the personal tax scales and as such is now incorporated in the income tax benchmark.