

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 *2005 Tax Expenditures Statement*. Since the 2005 Statement, 10 new tax expenditures have been added and seven tax expenditures have been deleted. In addition, thirty-two tax expenditures have been modified.

5.1 New tax expenditures

Table 5.1 reports new tax expenditure items arising from measures that have been announced or legislated since the *2005 Tax Expenditures Statement* up to the date of finalisation of the *Mid-Year Economic and Fiscal Outlook 2006-07*. 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		
Personal		
A19	Course fees and interest repayments for a HECS-HELP place funded by the individual are not tax deductible, even for the proportion that relates to their income earning activities.	Existing measure not previously recognised as a tax expenditure.
Business		
B10	Certain government grants paid to taxpayers adversely affected by Cyclone Larry or flooding due to the combined effects of Cyclones Larry and Monica are exempt from income tax.	New policy measure reported in the 2006-07 Budget.
B11	Businesses adversely affected by Cyclone Larry are exempt from tax on reimbursements for excise paid on diesel or petrol used for generating their own electricity until normal services were restored.	New policy measure reported in the 2006-07 Budget.
B25	Resident and foreign partners are exempt from tax on revenue and capital gains derived in respect of their eligible investments in early stage venture capital limited partnerships.	New policy measure reported in the 2006-07 Budget.
B26	Lower tier 2 instruments will not be precluded from debt treatment under debt-equity rules.	Existing measure not previously recognised as a tax expenditure.
B27	Interest payable on loans associated with capital protected borrowings can be claimed as a deduction.	Existing measure not previously recognised as a tax expenditure.

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Table 5.1: New tax expenditures (continued)

TES code	Tax expenditure description	Reason for new tax expenditure
Business (continued)		
B28	Family trusts are not subject to the trust loss measures, other than the income injection test, which prevent the deduction of tax losses and certain debt deductions.	New policy measure reported in the 2006-07 Budget.
B29	Deductions for non-business expenditure on boats were denied but will now be quarantined against boating income.	Existing measure not previously recognised as a tax expenditure.
Retirement income		
C7	Capital gains tax (CGT) roll-over is available for the transfer of CGT assets from the Commonwealth Superannuation Scheme (CSS) to the Public Sector Superannuation Investments Trust as part of a restructure of the CSS.	New policy measure reported in the 2006-07 Budget.
CONSUMPTION		
Commodity taxes		
F1	All fuels are now subject to an excise rate of 38.143 cents per litre with relief, in certain instances, delivered through fuel tax credits.	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 *2005 Tax Expenditures Statement* (the respective tax expenditure reference codes from this Statement and the *2005 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 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
2006	2005		
INCOME			
Personal			
A13	A13	Exemption from taxation of pay and allowances earned by members of the Australian Defence Force involved in Operation Palate 2.	Modification to an existing tax expenditure as a result of policy measures reported in the 2006-07 Budget.
A20	A19	Increase in the low-income thresholds for the Medicare levy as well as a change in the phase out rate.	Modification to an existing tax expenditure as a result of policy measures reported in the 2006-07 Budget.
A29	A28	Application of the beneficiary tax offset to recipients of the Cyclone Larry and Cyclone Monica payments.	Modification to an existing tax expenditure as a result of policy measures reported in the <i>Mid-Year Economic and Fiscal Outlook 2006-07</i> .
A32	A31	Increases in the income tax thresholds and value of the low income tax offset.	Modification to an existing tax expenditure as a result of policy measures reported in the 2006-07 Budget.
A51	A51	Simplified Superannuation reforms will take effect from 1 July 2007. This will include a change to the method of calculating the tax-free part of a pension or annuity.	Modification to an existing tax expenditure as a result of policy measures reported in the <i>Mid-Year Economic and Fiscal Outlook 2006-07</i> .
A54	A54	Removal of the part-year tax-free threshold for taxpayers ceasing full-time education.	Modification to an existing tax expenditure as a result of policy measures reported in the 2006-07 Budget.
A55	A55	Extension of current employee share scheme concessions to include applying to stapled securities.	Modification to an existing tax expenditure as a result of policy measures reported in the 2006-07 Budget.
A56	A56	Denial of deductions for bribes.	Modification to an existing tax expenditure as a result of existing measure not previously recognised as a tax expenditure.
A64	A64	Change to allow taxpayers to claim a tax deduction for the donation to a deductible gift recipient of publicly listed shares that have been held for at least 12 months and are valued at \$5,000 or less. Changes to the objectives of the Foundation for Rural and Regional Renewal to allow it to receive tax deductible donations from regional community foundations and other donors, and to use these funds exclusively for projects in those regions. Increases in the tax deductible threshold for contributions to political parties from \$100 to \$1,500.	Modification to an existing tax expenditure as a result of policy measures reported in the <i>Mid-Year Economic and Fiscal Outlook 2005-06</i> and in the 2006-07 Budget.

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TES code		Modification to the tax expenditure	Nature of modification
2006	2005		
Personal (continued)			
A65	A65	The thresholds of the minor benefits provision will be changed to improve its accessibility and allow a larger nominal relative benefit. The changes will reduce the minimum contribution threshold to \$150 (previously \$250), which will allow a greater number of charities to use the measure for fundraising. The value of the minor benefit allowed will be increased to 20 per cent of the value of the contribution or a maximum of \$150, whichever is the less (previously 10 per cent not exceeding \$100).	Modification to an existing tax expenditure as a result of policy measures reported in the <i>Mid-Year Economic and Fiscal Outlook 2006-07</i> .
A66	A66	Change to allow non-charitable prescribed private funds and public ancillary funds to obtain an Australian Business Number (ABN).	Modification to an existing tax expenditure as a result of policy measures reported in the 2006-07 Budget.
Business			
B19	B17	Pooled Development Funds will be progressively replaced by the new early stage venture capital limited partnership investment vehicle.	Modification to an existing tax expenditure as a result of policy measures reported in the 2006-07 Budget.
B55	B51	From 1 July 2007, the Simplified Tax System (STS) will be replaced by the Small Business Framework (SBF). The SBF allows businesses with average annual turnover of less than \$2 million to choose which STS concessions to use, as well as allowing the choice of a number of other small business concessions.	Modification to an existing tax expenditure as a result of policy measures reported in the 2006-07 Budget.
Retirement savings			
C1	C1	Simplified Superannuation reforms will take effect from 1 July 2007. This will include the removal of tax on superannuation benefits paid from a taxed source to persons aged 60 or over, and a 10 per cent tax offset for pensions paid from an untaxed source for persons aged 60 or over.	Modification to an existing tax expenditure as a result of policy measures reported in the <i>Mid-Year Economic and Fiscal Outlook 2006-07</i> .
C2	C2	Simplified Superannuation reforms will take effect from 1 July 2007. This will include a more concessional tax treatment of unfunded lump sums for persons aged 60 or over, and a 10 per cent tax offset for pensions paid from an untaxed source for persons aged 60 or over.	Modification to an existing tax expenditure as a result of policy measures reported in the <i>Mid-Year Economic and Fiscal Outlook 2006-07</i> .
C3	C3	Simplified Superannuation reforms will take effect from 1 July 2007. This will include a simplification of the taxation of employer eligible termination payments.	Modification to an existing tax expenditure as a result of policy measures reported in the <i>Mid-Year Economic and Fiscal Outlook 2006-07</i> .

Chapter 5: New, modified and deleted tax expenditures

TES code		Modification to the tax expenditure	Nature of modification
2006	2005		
Retirement savings (continued)			
C6	C6	The Government will improve access to the capital gains tax small business retirement exemption. From 1 July 2007 an eligible small business will be one where the net value of assets that taxpayer and connected entities own is no more than \$6 million.	Modification to an existing tax expenditure as a result of policy measures reported in the 2006-07 Budget.
C8	C7	The Government will improve access to the capital gains tax small business 15 year exemption. From 1 July 2007 an eligible small business will be one where the net value of assets that taxpayer and connected entities own is no more than \$6 million.	Modification to an existing tax expenditure as a result of policy measures reported in the 2006-07 Budget.
Fringe Benefits Tax			
D14	D14	Broadening the definition of remote to include forms of distances measured by the shortest practical route over water.	Modification to an existing tax expenditure as a result of policy measures reported in the 2006-07 Budget.
D15	D15	Broadening the definition of remote to include forms of distances measured by the shortest practical route over water.	Modification to an existing tax expenditure as a result of policy measures reported in the 2006-07 Budget.
D35	D35	Increasing the in-house fringe benefits tax-free threshold from \$500 to \$1,000 per employee.	Modification to an existing tax expenditure as a result of policy measures reported in the 2006-07 Budget.
D40	D40	Broadening the definition of remote to include forms of distances measured by the shortest practical route over water.	Modification to an existing tax expenditure as a result of policy measures reported in the 2006-07 Budget.
D41	D41	Increasing the minor benefits tax-free threshold from \$100 to \$300 per employee.	Modification to an existing tax expenditure as a result of measures reported in the 2006-07 Budget.
Capital Gains Tax			
E4	E3	In certain circumstances a taxpayer is able to derive assessable income from their dwelling and still be entitled to treat it as their main residence for capital gains tax purposes.	Reporting modification.
E11	E12	Tax exemption for certain foreign investment in venture capital.	Modification to an existing tax expenditure as a result of measures reported in the 2006-07 Budget.
E12	E13	Improved access to the capital gains tax small business 50 per cent reduction concession. From 1 July 2007 an eligible small business will be one where the net value of assets that taxpayer and connected entities own is no more than \$6 million.	Modification to an existing tax expenditure as a result of measures reported in the 2006-07 Budget.

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TES code		Modification to the tax expenditure	Nature of modification
2006	2005		
Capital Gains Tax (continued)			
E13	E14	The Government will improve access to the capital gains tax small business roll-over. From 1 July 2007 an eligible small business will be one where the net value of assets that taxpayer and connected entities own is no more than \$6 million.	Modification to an existing tax expenditure as a result of measures reported in the 2006-07 Budget.
CONSUMPTION			
Commodity taxes			
F2	F1	The excise differential on leaded petrol was removed on 1 July 2006.	Modification to an existing tax expenditure as a result of policy measures reported in the <i>Mid-Year Economic and Fiscal Outlook 2006-07</i> .
F3	F2	The excise differential on high sulphur diesel was removed on 1 July 2006.	Modification to an existing tax expenditure as a result of policy measures reported in the <i>Mid-Year Economic and Fiscal Outlook 2006-07</i> .
F4	F3	Fuel oil, heating oil and kerosene are now subject to an excise rate of 38.143 cents per litre.	Modification to an existing tax expenditure as a result of policy measures reported in the <i>Mid-Year Economic and Fiscal Outlook 2004-05</i> .
F8	F8	Snuff is now excised at the same rate as other tobacco.	Modification to an existing tax expenditure as a result of policy measures reported in the <i>Mid-Year Economic and Fiscal Outlook 2006-07</i> .
F16	F16	Extension of the wine producer rebate to the first \$500,000 of wine equalisation tax paid.	Modification to an existing tax expenditure as a result of measures reported in the 2006-07 Budget.

5.3 Deleted tax expenditures

Table 5.3 reports tax expenditures that have been deleted since the 2005 *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 this publication, which is from 2002-03 to 2009-10. 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
2005		
A42	Exemption from income tax of one-off payments made to eligible senior Australians.	This no longer has an impact over the reported time horizon.
B15	Income tax exemption for Commonwealth Rebate for Apprenticeship Full-time Training.	This no longer has an impact over the reported time horizon.
B34	Immediate deduction of 10 per cent on expenditure for drought preparedness assets.	This no longer has an impact over the reported time horizon.
B37	Deductions for patents, designs and copyrights.	This no longer has an impact over the reported time horizon.
B41	Balancing charge roll-over relief for exploration, mining and quarrying activities.	This no longer has an impact over the reported time horizon.
B84	Transitional trading stock rules for oyster farmers.	This no longer has an impact over the reported time horizon.
F4	Increased excise rate on diesel from 1 January 2007 for 2 years.	The Government has decided not to proceed with this measure. Policy measure reported in the <i>Mid-Year Economic and Fiscal Outlook 2006-07</i> .

