

CHAPTER 6: TAX EXPENDITURES

6.1 Introduction

This chapter provides information on all Australian Government tax expenditures. Details include a description of the tax expenditure, its commencement date and (where applicable) its expiry date, legislative references for the tax expenditure and estimates of the annual benefit derived by the recipients of the tax expenditure, including the reliability of those estimates (where quantified).

Tax expenditures are grouped according to the benchmark against which they are estimated and by the broad subject category to which they relate. The table below provides details of how this chapter is organised.

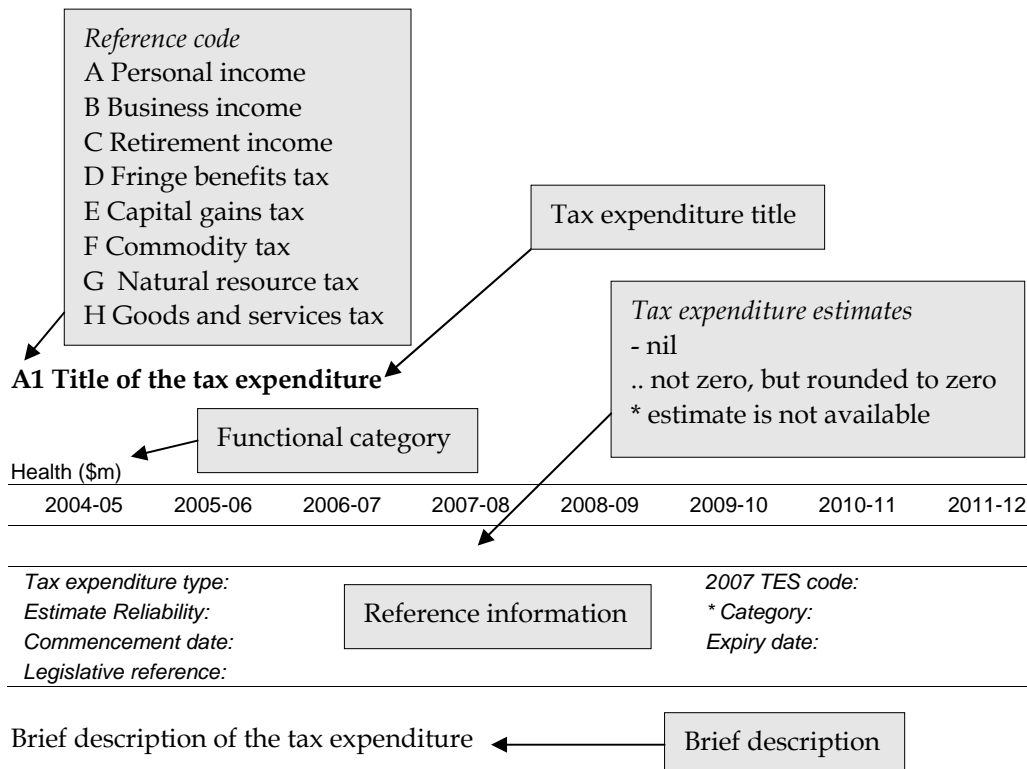
Benchmark	Specific benchmark category	Subject category	TES reference code
Income tax (A – E)	Personal income (A)	Tax expenditures for general public services	A1-A7
		International tax expenditures	A8
		Tax expenditures for defence	A9-A17
		Tax expenditures for education	A18-A21
		Tax expenditures for health	A22-A28
		Tax expenditures for social security and welfare	A29-A31
		Tax concessions for certain taxpayers	A32-A41
		Tax exemptions for certain government income support payments	A42-A49
		Tax expenditures for housing and community amenities	A50-A51
		Tax expenditures for recreation and culture	A52-A53
		Tax expenditures for other economic affairs	A54-A62
		Concessions under the substantiation provisions for employment-related expenses	A63-A65
		Miscellaneous tax expenditures	A66-A75

Tax Expenditures Statement

Benchmark	Specific benchmark category	Subject category	TES reference code
Income tax (A – E) (continued)	Business income (B)	Tax expenditures for general public services	B1
		International tax expenditures	B2-B16
		Tax expenditures for health	B17-B18
		Tax expenditures for social security and welfare	B19-B22
		Tax concessions for certain taxpayers	B23-B24
		Tax exemptions for certain government income support payments	B25-B27
		Tax expenditures for recreation and culture	B28-B31
		Tax expenditures relating to prepayments and advance expenditures	B32-B36
		Tax expenditures for agriculture, forestry and fishing	B37-B44
		Tax expenditures for manufacturing and mining	B45-B46
		Tax expenditures for transport and communications	B47-B48
		Tax expenditures for other economic affairs	B49-B63
		Tax expenditures relating to capital expenditure, effective life and depreciation	B64-B94
		General consumption tax expenditures	B95
		Miscellaneous tax expenditures	B96-B105
	Retirement savings (C)	Tax expenditures for social security and welfare	C1-C15
		Tax expenditures for other economic affairs	C16-C19
	Fringe Benefits Tax (D)	Tax expenditures for general public services	D1
		Tax expenditures for defence	D2-D4
		Tax expenditures for education	D5
		Tax expenditures for health	D6-D7
		Tax expenditures for social security and welfare	D8-D13
		Tax expenditures for housing and community amenities	D14
		Tax expenditures for transport and communications	D15-D17
		Tax expenditures for other economic affairs	D18-D27
		Miscellaneous tax expenditures	D28-D48
	Capital Gains Tax (E)	Tax expenditures for defence	E1
		Tax expenditures for health	E2
		Tax expenditures for housing and community amenities	E3-E5
		Tax expenditures for recreation and culture	E6
		Tax expenditures for other economic affairs	E7-E29

Benchmark	Specific benchmark category	Subject category	TES reference code
Consumption Tax (F – H)	Commodity taxes (F)	Fuel	F1-F6
		Tobacco	F7-F8
		Alcohol	F9-F18
		Motor vehicles	F19
		General consumption tax expenditures	F20-F22
	Natural resource taxes (G)	Tax expenditures for manufacturing and mining	G1-G3
		Petroleum	G4
	Goods and Services Tax (H)	Tax expenditures for general public services	H1-H7
		International tax expenditures	H8-H11
		Tax expenditures for education	H12
		Tax expenditures for health	H13-H17
		Tax concessions for certain taxpayers	H18-H20
		Tax expenditures for manufacturing and mining	H21
		Tax expenditures for other economic affairs	H22

The descriptions of tax expenditures included in this chapter present a range of information about each identified tax expenditure item. The following example illustrates the information included for a given tax expenditure.



Tax Expenditures Statement

The reference information provides details of:

- the type of expenditure, for instance a tax exemption, deduction or tax offset;
- the year a tax expenditure commenced;
- the year a tax expenditure will cease to operate (if applicable);
- where to find the provisions implementing the tax expenditure in the legislation;
- the *2007 Tax Expenditures Statement* reference code for a tax expenditure that is not new;
- an assessment of the reliability of estimates for a tax expenditure where estimates are available; and
- a category classification for a tax expenditure for which estimates are not available, indicating an order of magnitude range for the likely size of the tax expenditure.

Tax expenditures by functional categories are summarised in Table 2.4. The functional categories are based on an international standard classification of functions of government that is incorporated into the Government Finance Statistics framework.

The 'tax expenditure type' in the reference information classifies tax expenditures according to the way in which they are delivered, for instance, by way of a tax exemption, tax deduction, tax offset, concessional tax rate or deferral of a tax liability.

In the case of fringe benefits tax, tax expenditures may also be delivered through a reduction in taxable value, discounted valuation or record keeping exemption. A reduction in taxable value is a tax expenditure that arises where the taxable value of the fringe benefit is reduced by some factor. A discounted valuation describes provisions where a valuation other than the actual value of the benefit is used as a basis for calculating the tax. Record keeping exemptions arise where an employer is not obliged to maintain current records of benefits to calculate the tax.

Certain tax expenditures relating to depreciation allow for the accelerated write-off of depreciable assets and these tax expenditures are identified as accelerated write-off. In the early years of an asset's life, accelerated write-offs allow larger deductions than the benchmark depreciation treatment. In the later years of an asset's life when the accelerated write-off is complete, deductions that would be allowed under the benchmark are no longer available. Thus, accelerated write-offs act like tax deferrals.

ORDER OF MAGNITUDE RANGE

In many cases, estimates for tax expenditures are not available because of data limitations or because of the nature of the tax expenditure itself. The various modelling techniques used to estimate the value of tax expenditures, which are discussed in detail in Appendix A, are unable to be utilised fully to produce reliable estimates.

The following categories are used to provide an indication of the size of the expenditure for those tax expenditures for which an estimate is not available. A positive sign denotes a positive tax expenditure, while a negative sign denotes a negative tax expenditure.

Order of Magnitude Range	
Category	Expected Tax Expenditure (\$m)
0	0 on average
1	0 – 10
2	10 – 100
3	100 – 1,000
4	1,000 +
na	not available

The category classifications are provided as a broad guide only and have been estimated without the benefit of detailed data. They are based on assumptions and judgment and as such they should be treated with caution. Tax expenditures which are categorised in this way are not included in the aggregate measured tax expenditures reported in Chapter 2.

The category assigned to an unquantifiable tax expenditure refers to the year the tax expenditure is considered to be most significant. The category classification also indicates whether a tax expenditure is positive or negative. For example, reliable estimates for an exemption from fringe benefits tax that applies to benefits provided by certain international organisations (D1) are not available. As such, category 1+ has been allocated to this tax expenditure to indicate the broad range of the size of the tax expenditure. It indicates that this tax expenditure is considered to be up to \$10 million in the year the tax expenditure is most significant.

Where a tax expenditure for which an estimate is not available is small and is expected to average zero over the reporting period, it is classified as category 0. For a tax expenditure where neither an estimate, nor an order of magnitude could be assigned, a 'na' classification has been adopted.

RELIABILITY OF ESTIMATES

Reliability ratings are assigned to quantified tax expenditures. The following table provides indicators for each of the available reliability ratings. The indicators are based on the indicators provided in the ANAO audit report into the *Preparation of the Tax Expenditures Statement*.¹

Reliability rating	Indicators for rating at this level
High	<ul style="list-style-type: none"> • High quality tax data. • Modelling with few or no assumptions. • Well established tax expenditure with stable and predictable taxpayer behaviour.
Medium — High	<ul style="list-style-type: none"> • High quality tax data. • Modelling with few or no assumptions. • May involve a new or changed tax expenditure for which future taxpayer behaviour is fairly predictable.
Medium	<ul style="list-style-type: none"> • Incomplete data, often from other high quality secondary sources, with a number of verifiable assumptions. • New or changed tax expenditure with considerable behavioural changes or dependent on factors outside of the tax system.
Medium — Low	<ul style="list-style-type: none"> • Basic data only, mainly from sources other than tax. Includes important reasonable assumptions that cannot be readily checked. • Significant new tax expenditures or existing tax expenditures for which taxpayer behaviour is hard to predict.
Low	<ul style="list-style-type: none"> • Little data, much of it low quality, with important unverifiable data assumptions. • Taxpayer behaviour is volatile or very dependent on factors outside the tax system.
Very low	<ul style="list-style-type: none"> • Very little data and of poor quality, model relying heavily on data assumptions. • Almost no information on potential taxpayer behaviour.

¹ Australian National Audit Office, Performance Audit Report No. 32 2007-08 — *Preparation of the Tax Expenditures Statement*, p 69.