

# 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.

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.

<b>Benchmark</b>	<b>Specific benchmark category</b>	<b>Subject category</b>	<b>TES reference code</b>
<b>INCOME TAX (A – E)</b>	Personal income (A) <sup>1</sup>	General public services	A1 – A7
		Defence	A8 – A16
		Education	A17 – A19
		Health	A20 – A26
		Social security and welfare	A27
		Tax concessions for certain taxpayers	A28 – A38
		Certain government income support payments	A39 – A47
		Housing and community amenities	A48 – A49
		Recreation and culture	A50
		Other economic affairs	A51 – A59
		Substantiation provisions for employment-related expenses	A60 – A62
		Miscellaneous	A63 – A70

---

1 Personal income tax expenditures are generally grouped according to their functional group. Tax expenditures that relate to employment-related expenses are grouped separately.

*Tax Expenditures Statement*

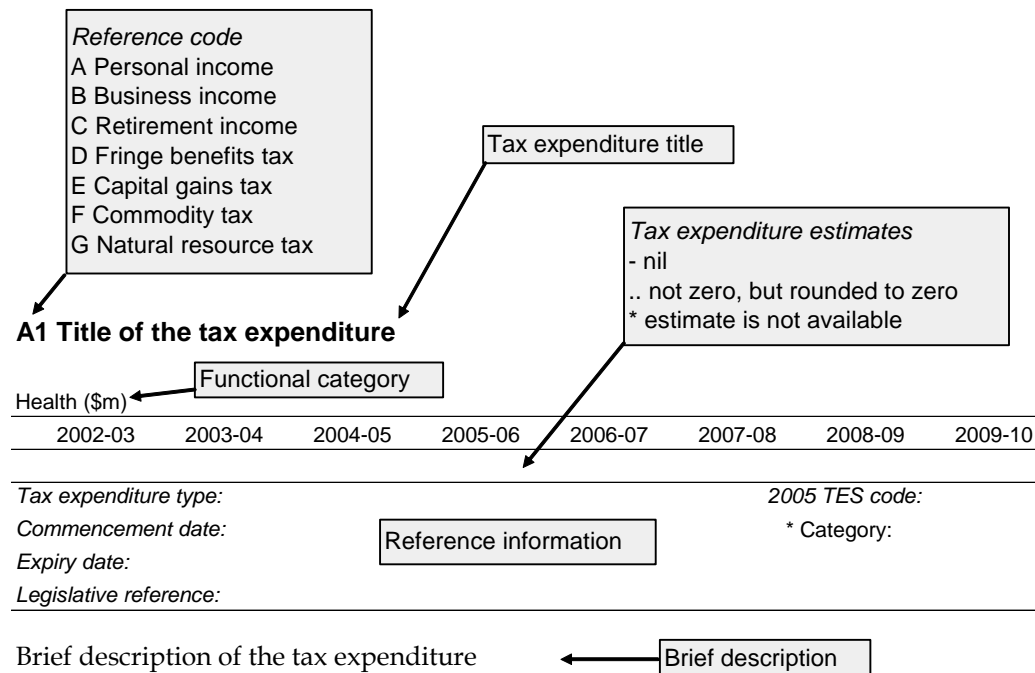
<b>Benchmark</b>	<b>Specific benchmark category</b>	<b>Subject category</b>	<b>TES reference code</b>
<b>INCOME TAX (A – E)</b> (continued)	Business income (B) <sup>2</sup>	General public services	B1
		Health	B2 – B3
		Social security and welfare	B4 – B7
		Tax concessions for certain taxpayers	B8 – B9
		Government income support payments	B10 – B11
		Recreation and culture	B12 – B15
		Other economic affairs	B16 – B30
		Capital expenditure, effective life and depreciation	B31 – B61
		Prepayments and advance expenditures	B62 – B66
		International tax expenditures	B67 – B81
		Agriculture, forestry and fishing	B82 – B89
		Manufacturing and mining	B90 – B91
		Miscellaneous	B92 – B97
		Retirement income (C)	Social security and welfare
	Other economic affairs		C7 – C9
	Fringe benefits tax (D)	General public services	D1
		Defence	D2 – D4
		Education	D5
		Health	D6 – D7
		Social security and welfare	D8 – D13
		Housing and community amenities	D14 – D15
		Other economic affairs	D16 – D26
		Transport and communications	D27– D29
	Capital gains tax (E)	Miscellaneous	D30 – D50
		Defence	E1
		Housing and community amenities	E2 – E4
		Recreation and culture	E5
		Other economic affairs	E6 – E23

2 Business income tax expenditures are generally grouped according to their functional group. Tax expenditures that relate to capital expenditures, prepayments and international taxation have been grouped separately. In addition, business income tax expenditures for agriculture, forestry and fishing are also reported under 'Tax expenditures relating to capital expenditure, effective life and depreciation'.

<b>Benchmark</b>	<b>Specific benchmark category</b>	<b>Subject category</b>	<b>TES reference code</b>
<b>COMMODITY (F)</b>	Consumption taxes	Other economic affairs	F1
		Fuel	F2 – F6
		Tobacco	F7 – F8
		Alcohol	F9 – F18
		Motor vehicles	F19
		General consumption	F20 – F21
<b>NATURAL RESOURCE TAXES (G)</b>		Manufacturing and mining	G1
		Petroleum	G2

## Tax Expenditures Statement

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.



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 (for those introduced after 1985);
- the year a tax expenditure will cease to operate (if applicable);
- where to find the provisions implementing the tax expenditure in the legislation;
- the 2005 *Tax Expenditures Statement* reference code for a tax expenditure that is not new; 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 ‘type of tax expenditure’ 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. As such, 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.

<b>Order of Magnitude Range</b>	
<b>Category</b>	<b>Expected Tax Expenditure (\$m)</b>
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

### *Tax Expenditures Statement*

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. Lastly, for a tax expenditure where neither an estimate, nor an order of magnitude could be assigned, a 'na' classification has been adopted.

## 6.2 Income tax benchmark

### PERSONAL INCOME

#### Tax expenditures for general public services

##### A1 Exemption of official salaries and certain other income of the Governor-General and Governor of any State

General public services (A) (\$m)								
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	
..	..	..	-	-	-	-	-	
<i>Tax expenditure type:</i>	Exemption					<i>2005 TES code:</i>	A1	
<i>Commencement date:</i>	Introduced before 1985							
<i>Expiry date:</i>	No longer available for appointments after 28 June 2001							
<i>Legislative reference:</i>	Section 51-15 ITAA97							

The ordinary and statutory income of the Governor-General and State Governors derived from a source outside Australia, along with their official salaries, were exempt from income tax. This exemption is not available for appointments made after 28 June 2001.

##### A2 Deduction for expenses incurred by election candidates

General public services (A) (\$m)								
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	
3	2	2	3	3	3	4	3	
<i>Tax expenditure type:</i>	Deduction					<i>2005 TES code:</i>	A2	
<i>Commencement date:</i>	Introduced before 1985 (local government provisions introduced in 1985)							
<i>Expiry date:</i>								
<i>Legislative reference:</i>	Section 25-60 ITAA97 and Section 74A ITAA36 (local government provisions)							

Certain expenses incurred by candidates contesting federal, state and territory government elections are deductible. Expenses of up to \$1,000 per election incurred by candidates contesting local government elections are also deductible. Candidates are eligible for the deduction irrespective of whether they successfully contest the election.

*Tax Expenditures Statement*

**A3 Exemption of official salary and emoluments of officials of prescribed international organisations**

General public services (C) (\$m)							
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption					<i>2005 TES code:</i>	A3
<i>Commencement date:</i>	Introduced before 1985					<i>* Category:</i>	1+
<i>Expiry date:</i>							
<i>Legislative reference:</i>	<i>International Organisations (Privileges and Immunities) Act 1963</i>						

The official salary and emoluments of officials of prescribed international organisations may be exempt from income tax as part of the privileges and immunities required under the terms of certain international agreements. Prescribed international organisations include the United Nations organisations, the OECD, the International Court of Justice and the International Atomic Energy Agency.

**A4 Exemption of income of certain visitors to Australia**

General public services (C) (\$m)							
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
1	1	1	1	1	1	1	1
<i>Tax expenditure type:</i>	Exemption					<i>2005 TES code:</i>	A4
<i>Commencement date:</i>	Introduced before 1985						
<i>Expiry date:</i>							
<i>Legislative reference:</i>	Sections 23(b), 23(c)(iii), 23(c)(iv), 23(c)(v) and 23(v) ITAA36						

The earnings of certain non-residents and visitors to Australia are exempt from income tax.

This exemption generally includes income earned by non-residents:

- for provision of expert advice to the Australian Government or State Governments;
- in an official capacity by visiting foreign government representatives;
- for conducting research or attending conferences on behalf of educational, scientific or philanthropic societies;
- for overseas press coverage of events relating to the visit of a non-resident referred to in one of the preceding points; or
- for provision of advice to the Australian Government regarding Australia's defence (subject to approval by the Treasurer).



### A5 Exemption of income earned by Australians from working on approved overseas projects

General public services (C) (\$m)								
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	
450	430	420	430	450	450	490	540	
<i>Tax expenditure type:</i>		Exemption				<i>2005 TES code:</i>		A5
<i>Commencement date:</i>		Introduced before 1985						
<i>Expiry date:</i>								
<i>Legislative reference:</i>		Section 23AF ITAA36						

Note: estimates include tax expenditures A5 and A6.

Income earned, by Australians, from working on certain overseas approved projects for a continuous period of 91 days or more may be exempt from income tax. To be approved, projects must be considered to be in the national interest by the Minister for Trade (or the Minister's delegate).

### A6 Exemption of income earned by Australians working in a foreign country

General public services (C) (\$m)								
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	
Included in A5								
<i>Tax expenditure type:</i>		Exemption				<i>2005 TES code:</i>		A6
<i>Commencement date:</i>		1986						
<i>Expiry date:</i>								
<i>Legislative reference:</i>		Section 23AG ITAA36						

Foreign earnings derived while engaged in foreign service for a continuous period of 91 days or more may be exempt from income tax. This exemption does not apply where the foreign earnings are exempt from income tax in the foreign country for certain reasons.

### A7 Exemption from income tax and Medicare levy of residents of Norfolk Island

General public services (E) (\$m)								
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	
10	10	11	11	12	13	13	14	
<i>Tax expenditure type:</i>		Exemption				<i>2005 TES code:</i>		A7
<i>Commencement date:</i>		Introduced before 1985						
<i>Expiry date:</i>								
<i>Legislative reference:</i>		Section 24G and Section 251U ITAA36						

Income earned by residents of Norfolk Island is exempt from income tax and Medicare levy.

*Tax Expenditures Statement*

**Tax expenditures for defence**

**A8 Exemption of pay and allowances for part-time Australian Defence Force Reserve personnel**

Defence (\$m)							
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
30	30	30	30	30	30	30	25
<i>Tax expenditure type:</i>	Exemption					<i>2005 TES code:</i>	A8
<i>Commencement date:</i>	Introduced before 1985						
<i>Expiry date:</i>							
<i>Legislative reference:</i>	Section 51-5 ITAA97						

The pay and allowances of part-time Australian Defence Force Reserve personnel are exempt from income tax.

**A9 Exemption of certain allowances and bounties and the value of certain rations and quarters to Australian Defence Force personnel**

Defence (\$m)							
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
8	10	10	10	10	10	10	11
<i>Tax expenditure type:</i>	Exemption					<i>2005 TES code:</i>	A9
<i>Commencement date:</i>	Introduced before 1985						
<i>Expiry date:</i>							
<i>Legislative reference:</i>	Section 51-5 ITAA97						

Certain allowances and bounties payable to Australian Defence Force personnel are exempt from income tax. These include the following allowances – separation, living out, living away from home, child education, scholarship, retention of lodging, disturbance, transfer and deployment allowances – and re-engagement bounties.

In the case of living away from home allowances and living allowances paid to Australian Defence Force personnel, the benchmark treatment is compensation for the actual additional cost faced by employees in living away from their homes. Accordingly, this tax expenditure relates solely to that part of the allowance that is in excess of this compensation.

The market value of rations and quarters supplied without charge to Australian Defence Force personnel is exempt from income tax.

**A10 Exemption of pay and allowances earned in Australia by foreign forces**

Defence (\$m)							
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
..	..	..	..	..	..	..	..
<i>Tax expenditure type:</i>	Exemption					<i>2005 TES code:</i>	A10
<i>Commencement date:</i>	Introduced before 1985						
<i>Expiry date:</i>							
<i>Legislative reference:</i>	Subsection 23(u) ITAA36						

Pay and allowances earned in Australia by foreign forces are exempt from income tax. This does not apply if the Australian Government makes the payment.

**A11 Exemption of compensation for loss of pay and allowances paid to Australian Defence Force Reserve personnel**

Defence (\$m)							
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
..	..	..	..	..	..	..	..
<i>Tax expenditure type:</i>	Exemption					<i>2005 TES code:</i>	A11
<i>Commencement date:</i>	1996						
<i>Expiry date:</i>							
<i>Legislative reference:</i>	Section 51-33 ITAA97						

Australian Defence Force Reserve personnel who are forced to resign due to injuries sustained whilst employed by the Reserves may receive compensation for the loss of pay and allowances. Such compensation payments are exempt from income tax. This exemption, legislated in 2003, applies to assessments for the 1996-97 and later income years.

**A12 Exemption of compensation for loss of deployment allowance paid to Australian Defence Force members**

Defence (\$m)							
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption					<i>2005 TES code:</i>	A12
<i>Commencement date:</i>	1996					<i>* Category:</i>	1+
<i>Expiry date:</i>							
<i>Legislative reference:</i>	Section 51-32 ITAA97						

Australian Defence Force personnel may receive compensation for the loss of deployment allowance where the deployment allowance ceases to be paid upon repatriation to Australia due to injuries sustained in a warlike situation. Such compensation payments are exempt from income tax. This exemption, legislated in 2003, applies to assessments for the 1996-97 and later income years.

*Tax Expenditures Statement*

**A13 Exemption of pay and allowances earned by members of the Australian Defence Force in operational areas**

Defence (\$m)								
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	
30	17	18	17	16	16	16	16	
<i>Tax expenditure type:</i>		Exemption				<i>2005 TES code:</i>		A13
<i>Commencement date:</i>		Introduced before 1985						
<i>Expiry date:</i>								
<i>Legislative reference:</i>		Sections 23AC and 23AD ITAA36						

Pay and allowances made to Australian Defence Force personnel during a period of service in an operational area are exempt from income tax.

**A14 Exemption of some payments to Australian Federal Police and civilian personnel in service with an armed force of the United Nations**

Defence (\$m)								
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	
..	..	..	..	..	..	..	..	
<i>Tax expenditure type:</i>		Exemption				<i>2005 TES code:</i>		A14
<i>Commencement date:</i>		Introduced before 1985						
<i>Expiry date:</i>								
<i>Legislative reference:</i>		Sections 23AB(5), 23AB(10) and 23AB(6) ITAA36						

Australian Federal Police and civilian personnel contributed by Australia to an armed force of the United Nations may receive compensation in respect of death, impairment or incapacity resulting from their service. Such compensation payments are exempt from income tax. The estate of a deceased civilian who has performed United Nations service may also receive relief from unpaid tax in respect of pay and allowances. In addition, a partial income tax exemption applies to living allowances paid to civilians who died during periods of United Nations service.

**A15 Tax offsets for Australian Defence Force personnel serving overseas and for Australian Federal Police and civilians serving with United Nations forces**

Defence (\$m)								
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	
Included in A48								
<i>Tax expenditure type:</i>		Offset				<i>2005 TES code:</i>		A15
<i>Commencement date:</i>		Introduced before 1985						
<i>Expiry date:</i>								
<i>Legislative reference:</i>		Section 79B ITAA36 and Section 23AB(7) ITAA36						

Australian Defence Forces personnel who serve overseas and civilian personnel contributed by Australia to an armed force of the United Nations may be eligible for a

tax offset. Personnel or civilians qualify for the full offset amount if their total period of overseas service is more than half the income year or if they die while on service. Personnel or civilians who serve for less than half the income year receive a proportion of the full amount. The offset is made up of a base amount with additional entitlements for individuals who maintain dependants.

### **A16 Exemption from the Medicare levy for Australian Defence Force members and their relatives and associates**

Defence (\$m)								
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	
35	40	40	45	45	45	50	50	
<i>Tax expenditure type:</i>		Exemption				<i>2005 TES code:</i>		A16
<i>Commencement date:</i>		Introduced before 1985						
<i>Expiry date:</i>								
<i>Legislative reference:</i>		Section 251U ITAA36						

Income earned by Australian Defence Forces personnel (or people who are entitled to free medical treatment because they are relatives of, or individuals otherwise associated with, Australian Defence Force personnel) is generally exempt from the Medicare levy.

## **Tax expenditures for education**

### **A17 Exemption of income from certain educational scholarships or similar forms of assistance**

Education (\$m)								
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	
6	6	6	8	11	11	11	12	
<i>Tax expenditure type:</i>		Exemption				<i>2005 TES code:</i>		A17
<i>Commencement date:</i>		Introduced before 1985						
<i>Expiry date:</i>								
<i>Legislative reference:</i>		Section 23(ya) ITAA36 and Section 51-10 ITAA97						

Income derived by way of scholarships, bursaries or other educational allowances to a student receiving full-time education at a school, college or university may be exempt from income tax. Income derived as part of an Australian Government scheme to assist secondary education or the education of isolated children is exempt from income tax, excluding federal education or training payments or education entry payments provided under the *Social Security Act 1991*.

Income derived by way of scholarships, allowances, bursaries or other education allowances provided by the Australian Government to an overseas student may also be exempt from income tax.

## Tax Expenditures Statement

Grants from the Australian American Educational Foundation (that is, Fulbright Scholarships) are exempt if they are from funds made available to the Foundation under the agreement establishing it.

Commonwealth Trade Learning Scholarships are also exempt. These are payments of \$500 which are made to eligible new apprentices on successful completion of the first and second years of a new apprenticeship in a skill shortage trade, from 1 July 2005.

### A18 Threshold for the deductibility of self-education expenses

Education (\$m)							
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
-10	-10	-9	-10	-9	-9	-9	-9
<i>Tax expenditure type:</i>	Denial of deduction					<i>2005 TES code:</i>	A18
<i>Commencement date:</i>	Introduced before 1985						
<i>Expiry date:</i>							
<i>Legislative reference:</i>	Section 82A ITAA36						

Self-education expenses are deductible if the purpose of the self-education is to maintain or improve skills or knowledge which the taxpayer uses in income earning activities. In certain circumstances taxpayers may have to reduce their allowable self-education expenses by \$250, which may reduce the deduction that they can claim for self-education expenses. Self-education expenses that are non-deductible, such as child care costs and non-deductible travel expenses which relate to self-education, can be offset against the \$250 threshold.

### A19 Denial of deductibility for certain self-education expenses

Education (\$m)							
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Denial of deduction					<i>2005 TES code:</i>	New
<i>Commencement date:</i>	1989					<i>* Category:</i>	3-
<i>Expiry date:</i>							
<i>Legislative reference:</i>	Section 26-20 ITAA97						

Course fees and interest repayments for a Higher Education Contribution Scheme Higher Education Loan Programme (HECS-HELP) place funded by the individual are not tax deductible, even for the proportion that relates to income earning activities.

Self-education expenses would otherwise be deductible to the extent that the self-education is to maintain or improve skills or knowledge which the taxpayer uses in income earning activities.

## Tax expenditures for health

### A20 Exemption from the Medicare levy for residents with a taxable income below a threshold

Health (\$m)								
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	
360	380	400	420	460	470	470	470	
<i>Tax expenditure type:</i>		Exemption				<i>2005 TES code:</i>		A19
<i>Commencement date:</i>		1986						
<i>Expiry date:</i>								
<i>Legislative reference:</i>		Section 7 of the Medicare Levy Act 1986						

The Medicare levy generally applies at a flat rate to a taxpayer's whole taxable income. Residents whose taxable income falls below a threshold are exempt from the Medicare levy, with the levy phased in once the taxpayer's income exceeds the threshold.

### A21 Medical expenses tax offset

Health (\$m)								
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	
185	220	270	320	340	380	430	490	
<i>Tax expenditure type:</i>		Offset				<i>2005 TES code:</i>		A20
<i>Commencement date:</i>		Introduced before 1985						
<i>Expiry date:</i>								
<i>Legislative reference:</i>		Section 159P ITAA36						

A tax offset is available to a taxpayer whose net medical expenses in the income year exceed a certain threshold. Qualifying medical expenses may relate both to resident taxpayers and any resident dependants but are net of available reimbursements, such as Medicare and private health insurance refunds. The value of the offset is currently 20 per cent of the excess of net medical expenses above a threshold of \$1,500.

### A22 Medicare levy exemption for non-residents, repatriation beneficiaries and foreign government representatives

Health (\$m)								
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	
65	65	70	75	85	85	95	100	
<i>Tax expenditure type:</i>		Exemption				<i>2005 TES code:</i>		A21
<i>Commencement date:</i>		1986						
<i>Expiry date:</i>								
<i>Legislative reference:</i>		Section 251U ITAA36						

The income of non-residents, repatriation beneficiaries and foreign government representatives is exempt from the Medicare levy.

*Tax Expenditures Statement*

**A23 Exemption of 30 per cent private health insurance refund, including expense equivalent**

Health (\$m)							
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
680	740	810	900	950	930	1,000	1,060
<i>Tax expenditure type:</i>		Exemption			<i>2005 TES code:</i>		A22
<i>Commencement date:</i>		1998					
<i>Expiry date:</i>							
<i>Legislative reference:</i>		Section 52-125 ITAA97					

Taxpayers can receive a 30 per cent refund on the costs of private health insurance either as a refundable tax offset, direct payment or through reduced premiums. These payments are exempt from income tax.

From 1 April 2005, the refund has been increased from 30 per cent to 35 per cent for individuals aged between 65 and 69 years, and to 40 per cent for individuals aged 70 years and over.

**A24 Medicare levy surcharge on income earners who do not hold private health insurance**

Health (\$m)							
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
-120	-150	-190	-250	-330	-410	-510	-620
<i>Tax expenditure type:</i>		Increased rate			<i>2005 TES code:</i>		A23
<i>Commencement date:</i>		1997					
<i>Expiry date:</i>							
<i>Legislative reference:</i>		Sections 8B to 8D of the <i>Medicare Levy Act 1986</i>					

Individuals and couples who do not have private health insurance and whose income exceeds a threshold are subject to an increased Medicare levy. The Medicare levy surcharge of one per cent is payable by single individuals with total taxable income for surcharge purposes in excess of \$50,000 and couples and families with combined taxable income for surcharge purposes in excess of \$100,000. The surcharge has applied since 1 July 1997 and is a negative tax expenditure.



**A25 Deduction for payment of United Medical Protection Limited support payments**

Health (\$m)								
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	
-	-	..	..	1	..	-	-	
<i>Tax expenditure type:</i>		Deduction				<i>2005 TES code:</i>		A24
<i>Commencement date:</i>		2003						
<i>Expiry date:</i>								
<i>Legislative reference:</i>		Section 25-105 ITAA97						

From 2003-04, a specific tax deduction is available for all medical practitioners (including retirees) who are required to pay United Medical Protection Limited (UMP) support payments, equal to the full amount of the payment. UMP support payments are required of medical practitioners to fund the Australian Government's assumption of certain medical indemnity liabilities from medical defence organisations.

**A26 Medicare levy surcharge lump sum payment in arrears offset**

Health (\$m)								
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	
-	-	-	-	..	..	..	..	
<i>Tax expenditure type:</i>		Offset				<i>2005 TES code:</i>		A25
<i>Commencement date:</i>		1 July 2005						
<i>Expiry date:</i>								
<i>Legislative reference:</i>		Subdivision 61-L ITAA97						

From 2005-06, concessional Medicare levy surcharge treatment has been provided to eligible taxpayers who receive certain lump sum payments in arrears. This measure allows taxpayers who have a Medicare levy surcharge liability, or an increased liability, as a result of certain lump sum payments in arrears to receive concessional treatment in respect of their surcharge liability.

**Tax expenditures for social security and welfare****A27 Exemption of the Maternity Payment**

Social security and welfare (\$m)								
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	
-	-	105	110	125	125	155	160	
<i>Tax expenditure type:</i>		Exemption				<i>2005 TES code:</i>		A26
<i>Commencement date:</i>		1 July 2004						
<i>Expiry date:</i>								
<i>Legislative reference:</i>		Section 52-150 ITAA97						

Maternity payments are exempt from income tax. The Maternity Payment is available in respect of children born or adopted from 1 July 2004.

## Tax concessions for certain taxpayers

### A28 Tax offsets for taxpayers supporting a parent, parent-in-law, or invalid relative

Social security and welfare (\$m)								
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	
13	15	20	20	20	25	25	25	
<i>Tax expenditure type:</i>		Offset				<i>2005 TES code:</i>		A27
<i>Commencement date:</i>		Introduced before 1985						
<i>Expiry date:</i>								
<i>Legislative reference:</i>		Section 159J ITAA36						

A taxpayer who contributes to the maintenance of one or more dependants may be entitled to a tax offset. Dependants must be Australian residents and be either an invalid relative or a parent (or parent-in-law).

### A29 Tax offset for recipients of certain social security benefits, pensions or allowances

Social security and welfare (\$m)								
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	
1,030	1,140	1,220	1,100	1,150	1,200	1,260	1,330	
<i>Tax expenditure type:</i>		Offset				<i>2005 TES code:</i>		A28
<i>Commencement date:</i>		Introduced before 1985						
<i>Expiry date:</i>								
<i>Legislative reference:</i>		Section 160AAA ITAA36						

Taxpayers who receive certain social security benefits, pensions or allowances may be eligible for a tax offset (the beneficiary or the pensioner tax offsets). Qualifying government payments include:

- various income support payments (for example, Newstart or Sickness Allowance);
- various pensions (for example, age pension (where not eligible for the Senior Australians' Tax Offset) and carer payment);
- Australian Government education and training payments (for example, Youth Allowance); and
- various other payments (for example, payments to Community Development Employment Project (CDEP) participants and exceptional circumstances relief payments).

**A30 Senior Australians' Tax Offset**

Social security and welfare (\$m)								
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	
1,620	1,800	1,920	1,830	1,870	1,910	2,010	2,110	
<i>Tax expenditure type:</i>		Offset				<i>2005 TES code:</i>		A29
<i>Commencement date:</i>		1996						
<i>Expiry date:</i>								
<i>Legislative reference:</i>		Sections 160AAAA and 160AAAB ITAA36						

The Senior Australians' Tax Offset (SATO) may be available to taxpayers who are eligible to receive the age pension or a veterans' benefit, pension or allowance. This includes individuals who qualify for but do not receive a benefit (for example, because they do not meet the means testing criteria).

**A31 Tax offsets for dependent spouse, child-housekeeper and housekeeper who cares for a prescribed dependant**

Social security and welfare (\$m)								
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	
360	370	390	390	380	390	400	410	
<i>Tax expenditure type:</i>		Offset				<i>2005 TES code:</i>		A30
<i>Commencement date:</i>		Introduced before 1985						
<i>Expiry date:</i>								
<i>Legislative reference:</i>		Sections 159J and 159L ITAA36						

A taxpayer may be entitled to claim one of the following tax offsets:

- a tax offset for the maintenance of a dependent spouse where there are no dependent children;
- a tax offset for the maintenance of a child housekeeper, where a dependent spouse is not maintained and neither the taxpayer nor the taxpayer's spouse is eligible for Family Tax Benefit Part B; or
- a tax offset for the maintenance of a housekeeper caring for one or more dependants, where a dependent spouse is not maintained and neither the taxpayer nor the taxpayer's spouse is eligible for Family Tax Benefit Part B.

*Tax Expenditures Statement*

**A32 Tax offset for low-income earners**

Social security and welfare (\$m)								
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	
410	400	670	670	640	2,360	2,360	2,340	
<i>Tax expenditure type:</i>		Offset				<i>2005 TES code:</i>		A31
<i>Commencement date:</i>		1993						
<i>Expiry date:</i>								
<i>Legislative reference:</i>		Section 159N ITAA36						

A taxpayer whose taxable income falls below the relevant threshold is eligible for the low-income tax offset. From 1 July 2006, the maximum low-income tax offset is \$600 and this amount decreases at a rate of four cents for each dollar above \$25,000.

**A33 Release from particular tax liabilities in cases of serious hardship**

Social security and welfare (\$m)								
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	
*	*	*	*	*	*	*	*	
<i>Tax expenditure type:</i>		Exemption				<i>2005 TES code:</i>		A32
<i>Commencement date:</i>		Introduced before 1985				<i>* Category:</i>		2+
<i>Expiry date:</i>								
<i>Legislative reference:</i>		Division 340 of Schedule 1 to the <i>Tax Administration Act 1953</i> (formerly Section 265 of ITAA36, which was repealed from 1 September 2003)						

An individual taxpayer can be released from a tax liability where payment of the liability would cause serious hardship. This release from tax liability acts like a tax exemption.

**A34 Deduction for tax agent fees for Family Tax Benefit claims lodged through Centrelink**

Social security and welfare (\$m)								
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	
-	-	..	-	-	-	-	-	
<i>Tax expenditure type:</i>		Deduction				<i>2005 TES code:</i>		A33
<i>Commencement date:</i>		2003						
<i>Expiry date:</i>		2004						
<i>Legislative reference:</i>		Section 25-7 ITAA97						

A tax deduction was available for tax agent fees for Family Tax Benefit claims relating to the 2001-02 income year lodged through Centrelink between 1 July 2003 and 30 June 2004.

Claims made in 2003-04 relating to the 2001-02 income year could only be lodged through Centrelink, not the Australian Taxation Office.

**A35 Mature Age Worker Tax Offset**

Other economic affairs (B) (\$m)								
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	
-	-	-	440	490	490	500	500	
<i>Tax expenditure type:</i>		Offset				<i>2005 TES code:</i>		A34
<i>Commencement date:</i>		2004						
<i>Expiry date:</i>								
<i>Legislative reference:</i>		Subdivision 61-K ITAA97						

Workers aged 55 years and over may be entitled to a tax offset, based on the amount of their net income from working. The offset applies from the 2004-05 income year. A maximum offset amount of \$500 is payable on assessment.

**A36 Tax rebate for child care**

Social security and welfare (\$m)								
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	
-	-	-	-	325	380	425	475	
<i>Tax expenditure type:</i>		Offset				<i>2005 TES code:</i>		A35
<i>Commencement date:</i>		2004						
<i>Expiry date:</i>								
<i>Legislative reference:</i>		Subdivision 61-IA ITAA97						

Taxpayers who receive Child Care Benefit (CCB) for approved child care and meet the CCB work/training/study test (or are otherwise eligible for up to 50 hours of CCB) may be eligible for a 30 per cent rebate for out-of-pocket expenses, up to a maximum of \$4,000 per child per year. Taxpayers can claim the rebate in the tax year after child care expenses have been incurred.

**A37 Asian Development Bank – Income tax exemption for Australian staff**

Other economic affairs (C) (\$m)								
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	
-	-	-	..	..	..	..	..	
<i>Tax expenditure type:</i>		Exemption				<i>2005 TES code:</i>		A36
<i>Commencement date:</i>		17 September 2005						
<i>Expiry date:</i>								
<i>Legislative reference:</i>		Asian Development Bank (Privileges and Immunities) Regulations 1967						

The income of Australian resident officers of the Asian Development Bank (ADB) is exempt from tax. This exemption is part of the broader arrangement with the ADB that will facilitate the day-to-day running of the Australian office which will service the needs of the Pacific Island countries.

*Tax Expenditures Statement*

**A38 International taxation – foreign income exemption for temporary residents**

Other economic affairs (C) (\$m)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
	-	-	-	-	-	35	35	40
<i>Tax expenditure type:</i>	Exemption					<i>2005 TES code:</i>		A37
<i>Commencement date:</i>	1 July 2006							
<i>Expiry date:</i>								
<i>Legislative reference:</i>	Subdivision 768-R ITAA97							

The majority of foreign source income of temporary residents is exempt from income tax and capital gains on only some Australian assets are taxed. Gains or losses made on employee shares or rights are disregarded unless they relate to employment in Australia. Interest paid to foreign lenders by temporary residents is exempt from withholding tax.

**Tax exemptions for certain government income support payments**

**A39 Exemption of certain income support benefits, pensions or allowances**

Social security and welfare (\$m)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
	940	980	990	940	970	1,000	1,040	1,080
<i>Tax expenditure type:</i>	Exemption					<i>2005 TES code:</i>		A38
<i>Commencement date:</i>	Introduced before 1985							
<i>Expiry date:</i>								
<i>Legislative reference:</i>	Sections 52-5 to 52-40 ITAA97							

Certain social security pensions, benefits and allowances and certain repatriation pensions paid under the *Social Security Act 1991* and the *National Health Act 1953* are exempt from income tax.

**A40 Exemption of Family Tax Benefit, Parts A and B, including expense equivalent**

Social security and welfare (\$m)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
	1,720	2,560	2,370	2,400	2,430	2,560	2,670	2,720
<i>Tax expenditure type:</i>	Exemption					<i>2005 TES code:</i>		A39
<i>Commencement date:</i>	2000							
<i>Expiry date:</i>								
<i>Legislative reference:</i>	Section 52-150 ITAA97							

Taxpayers can receive the Family Tax Benefit either as a direct payment or as a refundable tax offset. Payments are exempt from income tax regardless of delivery method.

**A41 Exemption of rent subsidy payments under the Commonwealth/State mortgage and rent relief schemes**

Social security and welfare (\$m)								
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	
13	13	13	13	12	12	13	13	
<i>Tax expenditure type:</i>		Exemption				<i>2005 TES code:</i>		A40
<i>Commencement date:</i>		Introduced before 1985						
<i>Expiry date:</i>								
<i>Legislative reference:</i>		Section 51-30 ITAA97						

Rent subsidy payments received by renters and paid under the Mortgage and Rent Relief Scheme by an Australian Government agency are exempt from income tax.

**A42 Exemption of Child Care Benefit**

Social security and welfare (\$m)								
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	
360	360	380	390	410	440	470	500	
<i>Tax expenditure type:</i>		Exemption				<i>2005 TES code:</i>		A41
<i>Commencement date:</i>		2000						
<i>Expiry date:</i>								
<i>Legislative reference:</i>		Section 52-150 ITAA97						

Child Care Benefit paid by the Australian Government is exempt from income tax.

Child Care Benefit can be paid directly to child care service providers to reduce the fees charged. Alternatively, the payment can be made directly to parents as a lump sum at the end of the income year.

**A43 Exemption of Utilities Allowance and Seniors Concession Allowance**

Social security and welfare (\$m)								
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	
-	-	-	15	40	25	25	25	
<i>Tax expenditure type:</i>		Exemption				<i>2005 TES code:</i>		A43
<i>Commencement date:</i>		2004						
<i>Expiry date:</i>								
<i>Legislative reference:</i>		Sections 52-10 and 52-65 ITAA97						

Utilities Allowances and Seniors Concession Allowances payable to senior Australians are exempt from income tax.

*Tax Expenditures Statement*

**A44 Exemption of the Baby Bonus**

Social security and welfare (\$m)								
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	
7	19	30	35	25	17	9	2	
<i>Tax expenditure type:</i>	Exemption					<i>2005 TES code:</i>	A44	
<i>Commencement date:</i>	2002							
<i>Expiry date:</i>	Children born (or legal responsibility gained) on or before 30 June 2004							
<i>Legislative reference:</i>	Subdivision 61-I ITAA97							

Baby Bonus payments are exempt from income tax. The Baby Bonus is available to parents who gained legal responsibility for a child between 1 July 2001 and 30 June 2004.

**A45 Exemption of certain war-related payments and pensions**

Social security and welfare (\$m)								
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	
410	420	440	440	440	450	450	450	
<i>Tax expenditure type:</i>	Exemption					<i>2005 TES code:</i>	A45	
<i>Commencement date:</i>	Introduced before 1985							
<i>Expiry date:</i>								
<i>Legislative reference:</i>	Section 52-60 to 52-110 ITAA97							

Note: estimates include tax expenditures A45 and A46.

Repatriation pensions, or pensions, allowances and payments of a similar nature, and certain war-related payments and pensions are exempt from income tax.

**A46 Exemption of certain pensions, annuities or allowances paid for persecution**

Social security and welfare (\$m)								
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	
Included in A45								
<i>Tax expenditure type:</i>	Exemption					<i>2005 TES code:</i>	A46	
<i>Commencement date:</i>	Introduced before 1985							
<i>Expiry date:</i>								
<i>Legislative reference:</i>	Sections 23(kc), 23(kca) and 23AL ITAA36							

From 2001-02, certain foreign source World War II payments are exempt from income tax. This applies where the payment is in connection with:

- any wrong or injury;
- loss of, or damage to, property; or
- any other detriment;



suffered as a result of:

- persecution by an enemy of the Commonwealth, or enemy associated regime, during World War II;
- flight from such persecution; or
- participation in a resistance movement against such forces.

Prior to 2001-02, certain pensions, annuities and allowances paid by the Federal Republic of Germany and the Kingdom of the Netherlands, as compensation for persecution or disability arising during World War II, were exempt from income tax.

#### **A47 Income tax exemption for certain pensions received by residents of Papua New Guinea**

Social security and welfare (\$m)							
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption					<i>2005 TES code:</i>	A47
<i>Commencement date:</i>	Introduced before 1985					<i>* Category:</i>	1+
<i>Expiry date:</i>							
<i>Legislative reference:</i>	Section 23(kd) ITAA36						

Pensions received from Australia by Papua New Guinea residents are exempt from income tax providing Papua New Guinea has a reciprocal exemption in place.

### **Tax expenditures for housing and community amenities**

#### **A48 Zone tax offsets**

Housing and community amenities (\$m)							
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
180	185	190	195	190	185	190	195
<i>Tax expenditure type:</i>	Offset					<i>2005 TES code:</i>	A48
<i>Commencement date:</i>	Introduced before 1985						
<i>Expiry date:</i>							
<i>Legislative reference:</i>	Section 79A ITAA36						

Note: estimates include tax expenditures A15 and A48.

Taxpayers who live in prescribed remote areas of Australia are eligible for a tax offset.

*Tax Expenditures Statement*

**A49 Exemption of payments made under the First Home Owners Grant Scheme**

Housing and community amenities (\$m)								
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	
450	290	250	290	320	320	330	330	
<i>Tax expenditure type:</i>	Exemption					<i>2005 TES code:</i>		A49
<i>Commencement date:</i>	2000							
<i>Expiry date:</i>								
<i>Legislative reference:</i>	A New Tax System (Commonwealth State Financial Arrangements) Act 1999 Appendix D, Intergovernmental Agreement on Commonwealth State Financial Relations, Appropriation Act (No. 2) 2001-02 (for the additional grant) and relevant state legislation							

Payments made under the First Home Owners Grant Scheme are exempt from tax. Eligible applicants purchasing or building their first home from 1 July 2000 are entitled to \$7,000 assistance to compensate for the impact of the GST and tax reform on the price of houses. The Australian Government announced an additional \$7,000 grant where a first homeowner built their first home or purchased a new, but previously unoccupied home, between 9 March 2001 and 31 December 2001. From 1 January 2002 until 30 June 2002 inclusive, the additional grant was reduced to \$3,000.

**Tax expenditures for recreation and culture**

**A50 Income averaging for authors, inventors, performing artists, production associates and sportspersons**

Recreation and culture (\$m)								
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	
7	8	7	8	8	9	9	10	
<i>Tax expenditure type:</i>	Concessional rate					<i>2005 TES code:</i>		A50
<i>Commencement date:</i>	Introduced before 1985							
<i>Expiry date:</i>								
<i>Legislative reference:</i>	Division 405 ITAA97							

Authors (including composers and artists), inventors, performing artists, production associates and sportspersons can be subject to significant fluctuations in their income. These taxpayers may be eligible for an income averaging scheme that provides concessional rates of tax for abnormal receipts above average income.

## Tax expenditures for other economic affairs

### A51 Tax deferral advantage arising from return of after-tax contributions to a pension or annuity

Other economic affairs (B) (\$m)							
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Deferral					<i>2005 TES code:</i>	A51
<i>Commencement date:</i>	Introduced before 1985					<i>* Category:</i>	na
<i>Expiry date:</i>							
<i>Legislative reference:</i>	Section 27H ITAA36						

The value of a pension or annuity may partly consist of contributions towards the income stream from the recipient's after-tax income. This part of the income stream is not taxed again when it is returned in the form of pension or annuity payments. A tax expenditure arises because the tax-free part of a pension or annuity is apportioned evenly over the term of the income stream, providing a tax deferral advantage.

### A52 Increased tax rates for certain minors

Other economic affairs (C) (\$m)							
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
-5	-5	-5	-6	-6	-7	-7	-8
<i>Tax expenditure type:</i>	Increased rate					<i>2005 TES code:</i>	A52
<i>Commencement date:</i>	Introduced before 1985						
<i>Expiry date:</i>							
<i>Legislative reference:</i>	Division 6AA ITAA36						

Higher rates of taxation apply to the 'unearned income' of certain minors. 'Unearned income' includes dividend, interest, rent, royalties and other income from property. The special rates do not apply to minors classed as being in a full-time occupation.

### A53 Deductibility of union dues and subscriptions to business associations

Other economic affairs (B) (\$m)							
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Deduction					<i>2005 TES code:</i>	A53
<i>Commencement date:</i>	Introduced before 1985					<i>* Category:</i>	1+
<i>Expiry date:</i>							
<i>Legislative reference:</i>	Section 25-55 ITAA97						

Union dues and subscriptions to trade, business or professional associations are specifically tax deductible up to a maximum amount of \$42. This deduction is available in addition to any work-related expense deduction.

*Tax Expenditures Statement*

**A54 Part-year tax-free threshold**

Other economic affairs (C) (\$m)								
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	
-20	-20	-35	-40	-35	-35	-40	-40	
<i>Tax expenditure type:</i>		Increased rate				<i>2005 TES code:</i>		A54
<i>Commencement date:</i>		1986						
<i>Expiry date:</i>								
<i>Legislative reference:</i>		Sections 16 to 20 of the <i>Income Tax Rates Act 1986</i>						

Taxpayers who become an Australian resident for the first time, or cease to be an Australian resident, receive a pro-rated tax-free threshold. This corresponds to the number of months that the taxpayer is an Australian resident.

**A55 Deferral of tax and exemption for share discounts on qualifying employee share acquisition schemes**

Other economic affairs (B) (\$m)								
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	
*	*	*	*	*	*	*	*	
<i>Tax expenditure type:</i>		Deferral, exemption				<i>2005 TES code:</i>		A55
<i>Commencement date:</i>		1995						
<i>Expiry date:</i>								
<i>Legislative reference:</i>		Section 26AAC and Division 13A ITAA36						

Discounts on shares (or rights to acquire shares) acquired under an employee share acquisition scheme are generally included in the taxpayer's assessable income in the year in which the share or right was acquired. A taxpayer may defer the inclusion of discounts on qualifying shares or rights for up to 10 years. Alternatively, the taxpayer may elect to bring the discount on qualifying shares or rights to assessment in the year of acquisition and benefit from an exemption on the first \$1,000. These concessions apply under certain conditions, in particular the share or right must be acquired after 28 March 1995. The concessions also apply to stapled securities that include an ordinary share and are listed on the Australian Stock Exchange with effect from 1 July 2006. Certain other shares or rights acquired before 28 March 1995 were eligible for an exemption on the first \$200 of the discount.

**A56 Denial of deductions for illegal activities**

Other economic affairs (C) (\$m)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
	*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Deduction						<i>2005 TES code:</i>	A56
<i>Commencement date:</i>	1 July 1999						<i>* Category:</i>	1-
<i>Expiry date:</i>								
<i>Legislative reference:</i>	Sections 26-52, 26-53 and 26-54 ITAA97							

Deductibility is denied for a loss or outgoing that is a bribe to a public official, including a foreign public official.

From 30 April 2005, deductions are also denied for expenditure to the extent it is incurred in the furtherance of, or directly in relation to, activities in respect of which the taxpayer has been convicted of an indictable offence. Indictable offences are those punishable by imprisonment for at least one year.

**A57 Distributions to charitable funds**

Other economic affairs (C) (\$m)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
	-	-	-	-	*	*	*	*
<i>Tax expenditure type:</i>	Exemption						<i>2005 TES code:</i>	A57
<i>Commencement date:</i>	1 July 2005						<i>* Category:</i>	2+
<i>Expiry date:</i>								
<i>Legislative reference:</i>	Section 50-60 ITAA97							

Note: estimates include tax expenditures A57, A58 and A59.

Charitable funds can claim income tax exemptions where they provide money, property and benefits solely to charities based in Australia, or solely to deductible gift recipients, or to a combination of these.

**A58 Income tax exemption for funds that distribute to certain entities**

Other economic affairs (C) (\$m)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
	Included in A57							
<i>Tax expenditure type:</i>	Exemption						<i>2005 TES code:</i>	A58
<i>Commencement date:</i>	1 July 2005							
<i>Expiry date:</i>								
<i>Legislative reference:</i>	Section 50-20 ITAA97							

Non-charitable public ancillary funds and prescribed private funds that provide money, property and benefits solely to income tax exempt deductible gift recipients will qualify for income tax exemptions where the Commissioner of Taxation has endorsed these funds as being eligible for tax exemptions.

*Tax Expenditures Statement*

**A59 Refund of franking credits for eligible funds**

Other economic affairs (C) (\$m)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
	Included in A57							
<i>Tax expenditure type:</i>	Rebate					<i>2005 TES code:</i>		A59
<i>Commencement date:</i>	1 July 2005							
<i>Expiry date:</i>								
<i>Legislative reference:</i>	Section 207-115 ITAA97							

Non-charitable public ancillary funds and prescribed private funds that provide money, property and benefits solely to income tax exempt deductible gift recipients can claim a refund on franking credits where the Commissioner of Taxation has endorsed these funds as being eligible for tax exemptions.

**Concessions under the substantiation provisions for employment-related expenses**

**A60 A reasonable overtime meal allowance**

Not allocated to function (\$m)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	
	*	*	*	*	*	*	*	*	
<i>Tax expenditure type:</i>	Deduction					<i>2005 TES code:</i>		A60	
<i>Commencement date:</i>	1987							<i>* Category:</i>	0
<i>Expiry date:</i>									
<i>Legislative reference:</i>	Section 900-60 ITAA97								

A taxpayer is able to claim a deduction for a 'reasonable' overtime meal allowance expense payable under an industrial instrument.

**A61 Certain travel expenses in and outside Australia**

Not allocated to function (\$m)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	
	*	*	*	*	*	*	*	*	
<i>Tax expenditure type:</i>	Deduction					<i>2005 TES code:</i>		A61	
<i>Commencement date:</i>	1987							<i>* Category:</i>	0
<i>Expiry date:</i>									
<i>Legislative reference:</i>	Sections 900-50 and 900-55 ITAA97								

A taxpayer is able to claim a deduction in relation to a travel allowance for reasonable expenses on accommodation, meals and incidental costs of travel in Australia, and meals and incidental costs of travel outside Australia.

**A62 Alternatives to the logbook method of substantiating car expenses**

Not allocated to function (\$m)							
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Deduction					<i>2005 TES code:</i>	A62
<i>Commencement date:</i>	1987					<i>* Category:</i>	na
<i>Expiry date:</i>							
<i>Legislative reference:</i>	Sections 900-70 and 900-75 ITAA97						

Three alternative methods to the logbook method (which is based on actual expenditure) are available to value car expense deductions:

- the one-third of actual expenses method (only available if business use exceeds 5,000 kilometres);
- the 12 per cent of original value method (only available if business use exceeds 5,000 kilometres); and
- the cents per kilometre method (only available up to a maximum of 5,000 business kilometres).

**Miscellaneous tax expenditures****A63 Tax offset on certain payments of income received in arrears**

Not allocated to function (\$m)							
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
3	5	4	4	4	4	4	4
<i>Tax expenditure type:</i>	Offset					<i>2005 TES code:</i>	A63
<i>Commencement date:</i>	1986						
<i>Expiry date:</i>							
<i>Legislative reference:</i>	Sections 159ZR to 159ZRD ITAA36						

Individual taxpayers that receive lump sum payments of certain income that accrued in earlier income years may be entitled to a tax offset. Income that qualifies for the tax offset includes certain back payments of salary or wages, lump sum payments of workers or accident compensation, and social security and other benefits, received on or after 1 July 1986.

*Tax Expenditures Statement*

**A64 Deduction for gifts to approved donees**

Not allocated to function (\$m)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
	460	540	580	730	640	710	790	890
<i>Tax expenditure type:</i>	Deduction						<i>2005 TES code:</i>	A64
<i>Commencement date:</i>	Introduced before 1985							
<i>Expiry date:</i>								
<i>Legislative reference:</i>	Division 30 ITAA97							

Gifts of cash and property (subject to certain conditions) of a value of \$2 or more to certain approved recipients are tax-deductible. Eligible recipients are listed in tables in Subdivision 30-B of the ITAA97.

**A65 Deduction for contributions with an associated minor benefit**

Not allocated to function (\$m)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
	-	-	-	3	3	5	9	9
<i>Tax expenditure type:</i>	Deduction						<i>2005 TES code:</i>	A65
<i>Commencement date:</i>	1 July 2004							
<i>Expiry date:</i>								
<i>Legislative reference:</i>	Division 30 ITAA97							

Individual taxpayers may claim an income tax deduction for the net amount of contributions made to a deductible gift recipient even though the taxpayer receives an associated minor benefit (subject to certain conditions). The deduction available is the contribution less the market value of the minor benefit.

From 1 January 2007, the thresholds of the minor benefits provision will be changed to improve the measure's accessibility and allow a larger benefit to be received. The minimum contribution an individual must make to be eligible for a deduction is reduced from \$250 to \$150, and the value of the benefit that can be received is increased from 10 to 20 per cent of the contribution. The maximum capped benefit allowed for each contribution is increased from \$100 to \$150.



**A66 Deduction for donations to prescribed private funds**

Not allocated to function (\$m)								
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	
20	20	60	70	75	80	90	105	
<i>Tax expenditure type:</i>		Deduction				<i>2005 TES code:</i>		A66
<i>Commencement date:</i>		2001						
<i>Expiry date:</i>								
<i>Legislative reference:</i>		Division 30 ITAA97 and Regulations to the ITAA97						

Donations of \$2 or more to approved prescribed private funds are tax-deductible. Complying funds are prescribed in regulations under the *Income Tax Assessment Act 1997*.

Prescribed private funds allow businesses, families and individuals to establish and donate to a charitable or discretionary trust, for the purpose of disbursing funds to a range of other deductible gift recipients.

**A67 Exemption of post-judgment interest awards in personal injury compensation cases**

Not allocated to function (\$m)								
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	
2	2	2	2	2	2	2	2	
<i>Tax expenditure type:</i>		Exemption				<i>2005 TES code:</i>		A67
<i>Commencement date:</i>		1992						
<i>Expiry date:</i>								
<i>Legislative reference:</i>		Section 51-57 ITAA97						

Interest may accrue on a judgment debt arising in personal injury compensation cases relating to the period between the original judgment and when the judgment is finalised. Such interest is exempt from tax.

The provisions, introduced in 1999-00, apply to compensation paid in the 1992-93 and later income years.

*Tax Expenditures Statement*

**A68 Tax offset of interest on certain government securities**

Not allocated to function (\$m)									
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10		
..	..	..	-	-	-	-	-		
<i>Tax expenditure type:</i>	Offset					<i>2005 TES code:</i>		A68	
<i>Commencement date:</i>	Introduced before 1985								
<i>Expiry date:</i>									
<i>Legislative reference:</i>	Section 160AB ITAA36								

Taxpayers are entitled to a tax offset equal to 10 cents for each dollar of interest on certain government or semi-government securities issued before 1 November 1968.

**A69 Exemption for structured settlements and structured orders**

Not allocated to function (\$m)									
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10		
1	3	4	5	6	7	8	9		
<i>Tax expenditure type:</i>	Exemption					<i>2005 TES code:</i>		A69	
<i>Commencement date:</i>	2001								
<i>Expiry date:</i>									
<i>Legislative reference:</i>	Section 54 ITAA97								

Certain annuities provided to personal injury victims under structured settlements and structured orders are exempt from income tax. These provisions allow personal injury victims who would be eligible to receive large tax-free lump sum compensation payments to receive all or part of their compensation in the form of a tax-free annuity or annuities.

**A70 Immediate deduction for low-value depreciating assets not used in business**

Not allocated to function (\$m)									
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10		
*	*	*	*	*	*	*	*		
<i>Tax expenditure type:</i>	Deduction					<i>2005 TES code:</i>		A70	
<i>Commencement date:</i>	2001					<i>* Category:</i>		3+	
<i>Expiry date:</i>									
<i>Legislative reference:</i>	Subsection 40-80(2) ITAA97								

An immediate deduction is available for depreciating assets costing \$300 or less where those assets are used predominantly for the purpose of producing assessable income and where that income is not income from carrying on a business.

## BUSINESS INCOME

### Tax expenditures for general public services

#### B1 Exemption for certain payments made out of the National Guarantee Fund

General public services (B) (\$m)								
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	
-	-	2	-	-	-	-	-	
<i>Tax expenditure type:</i>		Exemption				<i>2005 TES code:</i>		B1
<i>Commencement date:</i>		2003						
<i>Expiry date:</i>								
<i>Legislative reference:</i>		Taxation Laws (Clearing and Settlement Facility Support) Act 2004						

No income tax consequences arise when certain payments are made out of the National Guarantee Fund.

Up until 31 March 2005 the National Guarantee Fund undertook the dual roles of investor protection and clearing support for the Australian Stock Exchange. The *Corporations Act 2001* provides for the splitting of these functions by allowing the transfer of funds for clearing and settlement system support to another entity. A tax expenditure arises because these transfers are permitted free of tax consequences.

### Tax expenditures for health

#### B2 Income tax exemption for registered health benefit organisations

Health (\$m)								
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	
30	45	105	150	160	165	175	185	
<i>Tax expenditure type:</i>		Exemption				<i>2005 TES code:</i>		B2
<i>Commencement date:</i>		Introduced before 1985						
<i>Expiry date:</i>								
<i>Legislative reference:</i>		Section 50-30 ITAA97						

The income of health benefit organisations registered under the *National Health Act 1953* is exempt from income tax. This exemption is only available where the organisations are not operated for the gain or profit of their individual members.

*Tax Expenditures Statement*

**B3 Income tax exemption for public and non-profit hospitals**

Health (\$m)							
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption					<i>2005 TES code:</i>	B3
<i>Commencement date:</i>	Introduced before 1985					<i>* Category:</i>	1+
<i>Expiry date:</i>							
<i>Legislative reference:</i>	Section 50-30 ITAA97						

The income of public hospitals as well as hospitals operated by a society or association, provided they are not operated for gain or profit of their individual members, is exempt from income tax. Furthermore, these hospitals must incur expenditure principally in Australia.

**Tax expenditures for social security and welfare**

**B4 Income tax exemption for religious, scientific, charitable or public educational institutions**

Social security and welfare (\$m)							
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption					<i>2005 TES code:</i>	B4
<i>Commencement date:</i>	Introduced before 1985					<i>* Category:</i>	3+
<i>Expiry date:</i>							
<i>Legislative reference:</i>	Section 50-5 ITAA97						

The income of the following organisations is exempt from tax:

- religious, scientific, charitable and public educational institutions;
- funds established by will or trust for public charitable purposes;
- funds established to enable scientific research to be conducted by or in conjunction with a public university or public hospital; and
- non-profit societies, associations or clubs established for the encouragement of science.

These funds, societies, associations or clubs must satisfy certain conditions to qualify for this exemption.

### B5 Concessional taxation treatment of mining payments made in respect of mining and exploration activities on Aboriginal land

Social security and welfare (\$m)							
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>		Exemption			<i>2005 TES code:</i>		B5
<i>Commencement date:</i>		2000			<i>* Category:</i>		1+
<i>Expiry date:</i>							
<i>Legislative reference:</i>		Section 59-15 ITAA97					

Certain mining payments to Aboriginal and Torres Strait Islander persons or certain distributing bodies are exempt from income tax where those payments have already attracted mining withholding tax. Payments that are subject to the mining withholding tax of four per cent include royalties for mining on Aboriginal land and payments to Aboriginal Land Councils.

### B6 Concessional taxation of life insurance investment income

Social security and welfare (\$m)							
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>		Concessional rate, offset, exemption			<i>2005 TES code:</i>		B6
<i>Commencement date:</i>		2000			<i>* Category:</i>		2+
<i>Expiry date:</i>							
<i>Legislative reference:</i>		Sections 26AH and 160AAB ITAA36					

Some life insurance investment policyholders receive a concessional rate of tax because the policyholders' undistributed income is taxed at the company rate.

When a life insurance policy matures, is forfeited, or is surrendered the income distributed is known as a reversionary bonus. Reversionary bonuses that are distributed to policyholders more than 10 years after the commencement of the policy are exempt from further tax. If the bonuses are distributed in the ninth or tenth year after commencement of the policy, then only a fraction (two-thirds or one-third respectively) of the bonuses are taxable. If the bonuses are distributed within eight years of the commencement of the policy, they are fully taxable. To the extent that reversionary bonuses are taxable, then policyholders are allowed a rebate at the company rate of tax.

This tax expenditure ensures that reversionary bonuses, on which a life insurance company has paid tax, are not subject to a form of double taxation when paid to policyholders during the taxable period of a policy.

*Tax Expenditures Statement*

**B7 Deductibility of charitable entertainment**

Social security and welfare (\$m)							
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Deduction				<i>2005 TES code:</i>	B7	
<i>Commencement date:</i>	1985				<i>* Category:</i>	na	
<i>Expiry date:</i>							
<i>Legislative reference:</i>	Section 32-50 ITAA97						

The cost of gratuitous entertainment provided to members of the public who are sick, disabled, poor or otherwise disadvantaged is tax-deductible.

**Tax concessions for certain taxpayers**

**B8 Exemption of foreign currency gains and losses from certain low balance accounts**

Other economic affairs (C) (\$m)							
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
-	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption				<i>2005 TES code:</i>	B8	
<i>Commencement date:</i>	1 July 2003				<i>* Category:</i>	2+	
<i>Expiry date:</i>							
<i>Legislative reference:</i>	Subdivision 775-D ITAA97						

Taxpayers with low balance bank accounts or credit card accounts denominated in a foreign currency may elect to disregard gains and losses attributable to changes in exchange rates (made in respect of the account). This option is available to all taxpayers other than authorised deposit taking institutions (ADIs) and non-ADI financial institutions. Accounts with a combined credit or debit balance that does not exceed the foreign currency equivalent of A\$250,000 will generally be eligible.

This exception was introduced to reduce compliance costs, as part of a comprehensive regime for the taxation of foreign currency gains and losses introduced on 1 July 2003.

**B9 Off-market share buy-backs**

Other economic affairs (C) (\$m)								
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	
80	276	551	452	*	*	*	*	
<i>Tax expenditure type:</i>	Offset					<i>2005 TES code:</i>	B9	
<i>Commencement date:</i>	1990					<i>* Category:</i>	3+	
<i>Expiry date:</i>								
<i>Legislative reference:</i>	Common law and Sections 159GZZZP; 159GZZZQ ITAA36 and 177EA ITAA36							

The proceeds paid to shareholders who participate in off-market share buy-backs are split into a dividend component and a capital component. The dividend component of the buy-back proceeds may be fully franked. This allows companies that undertake off-market share buy-backs to distribute franking credits to participating shareholders beyond the level that would normally be available. Treating part of the proceeds as a dividend makes off-market share buy-backs more attractive to low rate taxpayers. This facilitates streaming of franking credits to those shareholders that can obtain the most benefit with the tax expenditure equal to the difference in tax payable had those franking credits been distributed uniformly to all shareholders.

The tax expenditure from off-market share buy-backs may be partly offset by the anti-streaming provisions in the income tax law that operate to ensure that part of the buy-back proceeds are treated as capital (and therefore give rise to a capital gain or a capital loss rather than a franked dividend).

Projections beyond 2005-06 are not reported because of the likely volatility of this item.

**Tax exemptions for certain government income support payments****B10 Business Assistance Fund for disasters**

Other economic affairs (B) (\$m)								
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	
-	-	-	-	10	11	8	5	
<i>Tax expenditure type:</i>	Exemption					<i>2005 TES code:</i>	New	
<i>Commencement date:</i>	22 March 2006							
<i>Expiry date:</i>	30 June 2007							
<i>Legislative reference:</i>	Tax Laws Amendment (2006 Measures No. 3) Act 2006							

Payments from the Business Assistance Fund to businesses adversely affected by Cyclone Larry or flooding owing to the cumulative effects of Cyclones Larry and Monica are exempt from tax.

## Tax Expenditures Statement

### B11 Cyclone Larry – fuel excise relief

Other economic affairs (C) (\$m)

2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
-	-	-	-	1	..	..	..
<i>Tax expenditure type:</i>	Exemption					<i>2005 TES code:</i>	New
<i>Commencement date:</i>	26 March 2006						
<i>Expiry date:</i>	30 June 2007						
<i>Legislative reference:</i>	Tax Laws Amendment (2006 Measures No. 3) Act 2006						

Taxpayers are exempt from tax on Government reimbursements for fuel excise paid to businesses adversely affected by Cyclone Larry.

The Government reimbursed taxpayers for any excise paid on diesel or petrol fuel used by businesses adversely affected by Cyclone Larry for generating their own electricity, until normal services were restored.

### Tax expenditures for recreation and culture

#### B12 Income tax exemption for certain not-for-profit societies

Recreation and culture (\$m)

2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
15	10	15	20	15	15	15	15
<i>Tax expenditure type:</i>	Exemption					<i>2005 TES code:</i>	B10
<i>Commencement date:</i>	Introduced before 1985						
<i>Expiry date:</i>							
<i>Legislative reference:</i>	Sections 50-45 and 50-10 ITAA97						

Subject to certain conditions, the income of not-for-profit societies, associations or clubs established for the encouragement of sport or games, music, art, animal racing, literature, or for community service purposes is exempt from income tax.

For those not-for-profit societies, associations or clubs to which the 'mutuality principle' applies, this tax expenditure exempts from income tax those amounts that are not already excluded by the 'mutuality principle'. (For a brief explanation of the 'mutuality principle', refer to Section 4.2 of the Benchmarks chapter.)



**B13 Income tax exemption for the Australian Film Finance Corporation**

Recreation and culture (\$m)							
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
..	..	..	..	..	..	..	..
<i>Tax expenditure type:</i>	Exemption					<i>2005 TES code:</i>	B11
<i>Commencement date:</i>	1988						
<i>Expiry date:</i>							
<i>Legislative reference:</i>	Section 50-45 ITAA97						

An income tax exemption applies to income earned by the Australian Film Finance Corporation. This exemption is consistent with the exemption provided to cultural organisations generally.

**B14 Income tax exemption for certain promotion and development not-for-profit societies**

Recreation and culture (\$m)							
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
25	25	25	25	25	30	30	30
<i>Tax expenditure type:</i>	Exemption					<i>2005 TES code:</i>	B12
<i>Commencement date:</i>	Introduced before 1985						
<i>Expiry date:</i>							
<i>Legislative reference:</i>	Section 50-40 ITAA97						

An income tax exemption applies to the income of not-for-profit societies or associations predominantly devoted to promoting the development of aviation or tourism, or of agricultural, pastoral, horticultural, viticultural, manufacturing or industrial resources of Australia. This expenditure includes the income tax exemption applying to not-for-profit societies or associations established for the purpose of promoting the development of Australian information and communication technology resources.

For those not-for-profit societies, associations or clubs to which the 'mutuality principle' applies, this tax expenditure exempts from income tax those amounts that are not already excluded by the 'mutuality principle'. (For a brief explanation of the 'mutuality principle', refer to Section 4.2 of the Benchmarks chapter.)

## Tax Expenditures Statement

### B15 Exemption of Refundable Film Tax Offset payments

Recreation and culture (\$m)							
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
1	3	16	7	14	16	17	19
<i>Tax expenditure type:</i>	Exemption					<i>2005 TES code:</i>	B13
<i>Commencement date:</i>	2001						
<i>Expiry date:</i>							
<i>Legislative reference:</i>	Division 376 ITAA97						

Payments made under the refundable tax offset for large scale film production are exempt from tax. Producers of qualifying large scale films are eligible to receive a refundable tax offset equivalent to 12.5 per cent of qualifying Australian production expenditure on a film. The offset is paid through the tax system directly to producers.

From 1 July 2004, qualifying television series are also eligible for the refundable tax offset.

### Tax expenditures for other economic affairs

#### B16 Capital gains tax concession for carried interests paid to venture capital managers

Other economic affairs (C) (\$m)							
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
-	3	35	9	10	10	10	10
<i>Tax expenditure type:</i>	Concessional rate, deferral					<i>2005 TES code:</i>	E6
<i>Commencement date:</i>	2002						
<i>Expiry date:</i>							
<i>Legislative reference:</i>	Sections 104-255 and 118-21 ITAA97						

Venture capital fund managers may be paid a performance-based share of partnership profits by investors. Such performance payments are 'carried interests'. An entitlement to receive a carried interest is a capital gains tax event in the hands of venture capital fund managers and is not treated as income. Consequently, taxation of the income is deferred until the gains are realised and the individual managers are eligible for the 50 per cent discount on their carried interest.

**B17 Income tax exemption for trade unions and registered organisations**

Other economic affairs (B) (\$m)								
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	
10	10	10	10	10	10	10	10	
<i>Tax expenditure type:</i>		Exemption				<i>2005 TES code:</i>		B14
<i>Commencement date:</i>		Introduced before 1985						
<i>Expiry date:</i>								
<i>Legislative reference:</i>		Section 50-15 ITAA97						

Subject to certain conditions, the income of trade unions and registered associations of employers and employees is exempt from income tax. For those trade unions and registered associations of employers and employees to which the 'mutuality principle' applies, this tax expenditure exempts from income tax those amounts that are not already excluded by the 'mutuality principle'. (For a brief explanation of the 'mutuality principle', refer to Section 4.2 of the Benchmarks chapter.)

**B18 Income tax exemptions for foreign superannuation funds**

Other economic affairs (C) (\$m)								
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	
*	*	*	*	*	*	*	*	
<i>Tax expenditure type:</i>		Exemption				<i>2005 TES code:</i>		B16
<i>Commencement date:</i>		Introduced before 1985						
<i>Expiry date:</i>								
<i>Legislative reference:</i>		Paragraphs 23(jb) and 128B (3)(a) ITAA36						

Interest income and dividends received by foreign superannuation funds are exempt from income tax. This income is also exempt from interest and dividend withholding taxes if it is exempt from income tax in the country in which the foreign superannuation fund resides.

**B19 Concessional tax treatment for Pooled Development Funds**

Other economic affairs (C) (\$m)								
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	
6	7	8	7	8	11	10	8	
<i>Tax expenditure type:</i>		Concessional rate, exemption				<i>2005 TES code:</i>		B17
<i>Commencement date:</i>		1992						
<i>Expiry date:</i>								
<i>Legislative reference:</i>		Sections 46(1), (2), (7), (7A); 46A(1), (5), (9), (10); Division 10E of Part III and Division 12A of Part IIIA of the ITAA36; and Sections 3(1); 23(4C), (4D) of the <i>Income Tax Rates Act 1986</i>						

Note: estimates include tax expenditures B19 and B20.

Concessional taxation treatment is available to investment companies that are established and registered as Pooled Development Funds (PDFs). Income arising from investments in small to medium enterprises is taxed at 15 per cent and other income is

## Tax Expenditures Statement

taxed at 25 per cent. These concessional tax rates are designed to encourage PDFs to invest in small to medium enterprises. In addition, investors who invest in PDFs are not liable for tax either on dividends paid by the PDF or on capital gains made on the sale of their shares in the PDF.

The PDF programme will be progressively replaced by the new early stage venture capital limited partnership investment vehicle.

### **B20 Exemption for superannuation funds that invest through Pooled Development Funds in venture capital**

Other economic affairs (C) (\$m)								
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	
Included in B19								
<i>Tax expenditure type:</i>	Exemption					<i>2005 TES code:</i>	B18	
<i>Commencement date:</i>	1992							
<i>Expiry date:</i>								
<i>Legislative reference:</i>	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) of the <i>Income Tax Rates Act 1986</i>							

Australian superannuation funds and related entities that invest in venture capital through Pooled Development Funds (PDFs) are eligible for a tax exemption on certain franked dividends. Specifically, capital gains and dividends paid to superannuation funds by PDFs are exempt from tax. Superannuation funds that invest in venture capital through PDFs are also entitled to a refundable imputation credit for the tax paid by the PDF. This exemption is designed to encourage investment in venture capital by superannuation funds.

### **B21 Tax exemption for small credit unions**

Other economic affairs (C) (\$m)								
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	
..	..	..	..	..	..	..	..	
<i>Tax expenditure type:</i>	Exemption					<i>2005 TES code:</i>	B19	
<i>Commencement date:</i>	Introduced before 1985							
<i>Expiry date:</i>								
<i>Legislative reference:</i>	Section 23G ITAA36 and Section 23(6) of the <i>Income Tax Rates Act 1986</i>							

Interest income derived from loans to members by small credit unions is exempt from income tax. Small credit unions have a notional taxable income less than \$50,000. This exemption does not extend to other income. A credit union that is treated in this way is not eligible for assessment as a co-operative company.

## B22 Concessions resulting from the clarification of the debt or equity treatment of perpetual subordinated debt

Other economic affairs (C) (\$m)							
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Deduction					<i>2005 TES code:</i>	B20
<i>Commencement date:</i>	2001					<i>* Category:</i>	2+
<i>Expiry date:</i>							
<i>Legislative reference:</i>	Division 974 ITAA97						

Banks issue financial instruments such as equity or debt in order to raise capital. The benchmark treatment of these financial instruments depends on whether they are classified as debt or equity according to certain tests. Perpetual subordinated debt (PSD) is a form of financial instrument that, according to these tests, would typically be classified as equity. Under certain circumstances, Upper Tier 2 PSD and similar instruments may be treated as debt for tax purposes, thereby allowing the issuer of the PSD to claim a deduction.

This tax expenditure is principally designed to enable Australian banks to raise capital in international capital markets on competitive terms with banks in other jurisdictions.

## B23 Exemption of refundable research and development tax offset payments

Other economic affairs (C) (\$m)							
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
60	40	-10	-40	-70	-90	-100	-100
<i>Tax expenditure type:</i>	Exemption					<i>2005 TES code:</i>	B21
<i>Commencement date:</i>	2001						
<i>Expiry date:</i>							
<i>Legislative reference:</i>	Section 73I ITAA36						

Companies with an annual turnover of less than \$5 million that undertake up to \$1 million of research and development (R&D) are eligible to receive a refundable tax offset equivalent to the value of the R&D tax concession, that is, at the rate of either 125 per cent or 175 per cent. The tax offset enables small companies to receive support for undertaking R&D.

The refundable R&D tax offset is treated as an expense item and accordingly does not appear as a tax expenditure in its own right. However, payments made under the refundable R&D offset are exempt from tax.

In addition, companies that claim the refundable R&D tax offset are unable to claim deductions for the R&D expenditures concerned. This is because the refundable R&D tax offset has already provided these companies with a benefit equivalent to the value of these deductions. The absence of these deductions constitutes a negative tax expenditure and explains why the estimates become negative from 2004-05.

*Tax Expenditures Statement*

**B24 Immediate deduction for expenditure on core technology related to research and development activities**

Other economic affairs (C) (\$m)							
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
Included in B57							
<i>Tax expenditure type:</i>	Deduction					<i>2005 TES code:</i>	B22
<i>Commencement date:</i>	1996						
<i>Expiry date:</i>							
<i>Legislative reference:</i>	Sections 73B(12) to 73B(12C) ITAA36						

Expenditure on core technology, except where incurred by companies in partnerships, is deductible at a rate of 100 per cent over the period of related research and development activities. This deduction is only available if the deduction is not greater than one-third of the firm's expenditure on related research and development. The benchmark treatment for such expenditure is that it is deductible over its effective life and consequently the scope for the 100 per cent rate potentially allows a greater rate of deduction than the benchmark.

**B25 Exemption for early stage venture capital limited partnerships**

Other economic affairs (C) (\$m)							
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
-	-	-	-	-	2	4	10
<i>Tax expenditure type:</i>	Exemption					<i>2005 TES code:</i>	New
<i>Commencement date:</i>	1 July 2006						
<i>Expiry date:</i>							
<i>Legislative reference:</i>	Not yet legislated						

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.

An early stage venture capital limited partnership is a flow-through investment vehicle that is progressively replacing the pooled development fund programme.

To qualify as an early stage venture capital limited partnership, the size of the fund cannot exceed \$100 million and the total assets of investee companies cannot exceed \$50 million immediately prior to investment. The early stage venture capital limited partnership must divest itself of any holdings once the total assets of the investee company exceed \$250 million.

**B26 Certain term subordinated notes**

Other economic affairs (C) (\$m)							
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Deduction					<i>2005 TES code:</i>	New
<i>Commencement date:</i>	1 July 2001					<i>* Category:</i>	2+
<i>Expiry date:</i>							
<i>Legislative reference:</i>	Division 974 ITAA97						

'Solvency clauses' within the debt-equity rules will not preclude certain term subordinated notes from being classed as debt. The solvency clauses allow the issuer to defer payment if the payment would cause insolvency.

**B27 Capital protected borrowings**

Other economic affairs (C) (\$m)							
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
15	15	20	25	35	40	45	55
<i>Tax expenditure type:</i>	Deduction					<i>2005 TES code:</i>	New
<i>Commencement date:</i>	16 April 2003						
<i>Expiry date:</i>							
<i>Legislative reference:</i>	Not yet legislated						

Taxpayers are able to claim a deduction for some or all of the cost of the capital protection associated with capital protected borrowings.

The cost of capital protected borrowings includes the cost of borrowing and the cost of capital protection. Under the benchmark, the cost of borrowing is deductible, however the cost of capital protection where it is considered capital in nature is not deductible but instead included in the cost base of the asset.

**B28 Trust loss rules – family trusts**

Other economic affairs (C) (\$m)							
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Deduction					<i>2005 TES code:</i>	New
<i>Commencement date:</i>	9 May 1995					<i>* Category:</i>	2+
<i>Expiry date:</i>							
<i>Legislative reference:</i>	Subdivision 272-D of Schedule 2F ITAA36						

The family trust rules provide a concession to the 'test individual' of a family trust, and their family group, by allowing the transfer of losses and debt deductions to members of the family trust.

## Tax Expenditures Statement

The trust loss rules - the benchmark - restrict trust losses and debt deductions from being transferred to persons who did not bear the economic burden. This is achieved by imposing tests on trusts to determine if any losses and debt deductions can be claimed. The tests examine whether there has been a change in underlying ownership or control of a trust and whether certain schemes have been entered into in order to take advantage of losses or debt deductions. Family trusts have to satisfy only the income injection test. The income injection test relates to schemes where persons outside the defined family group inject income into the trust to take advantage of trust losses and debt deductions. Any distributions of trust income or capital made outside the family group will be subject to a family trust distribution tax.

### B29 Deductions for boat expenditure

Other economic affairs (A) (\$m)							
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
-9	-7	-5	-5	-5	-5	..	..
<i>Tax expenditure type:</i>	Denial of deduction, deferral of deduction					<i>2005 TES code:</i>	New
<i>Commencement date:</i>	Introduced before 1985						
<i>Expiry date:</i>							
<i>Legislative reference:</i>	Section 26-50 ITAA97						

Taxpayers cannot claim deductions between 1 July 1974 and 1 July 2007 for boat expenditure unless they can demonstrate that they were carrying on an active business using a boat.

From 1 July 2007, taxpayers will be allowed to claim deductions for the costs associated with hiring out their boats even though they cannot demonstrate that they are carrying on an active business using a boat. These non-business deductions will be quarantined against boating income.

### B30 25 per cent entrepreneurs' tax offset

Other economic affairs (C) (\$m)							
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
-	-	-	-	370	400	400	400
<i>Tax expenditure type:</i>	Offset					<i>2005 TES code:</i>	B23
<i>Commencement date:</i>	2005						
<i>Expiry date:</i>							
<i>Legislative reference:</i>	Subdivision 61-J ITAA97						

Small businesses in the Simplified Tax System that have an annual turnover of \$50,000 or less are eligible for a tax offset of 25 per cent of their income tax liability to their business income. The offset phases out for annual turnover between \$50,001 and \$75,000.



From 1 July 2007, any small business with an annual turnover of less than \$75,000 will be able to access this concession under the Small Business Framework (B55).

## Tax expenditures relating to capital expenditure, effective life and depreciation

### B31 Tax incentives for film investment

Recreation and culture (\$m)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
	2	2	-1	..	-3	-7	-11	-11
<i>Tax expenditure type:</i>	Deduction, accelerated write-off					2005 TES code:		B24
<i>Commencement date:</i>	Introduced before 1985							
<i>Expiry date:</i>								
<i>Legislative reference:</i>	Divisions 10B and 10BA ITAA36							

Capital expenditure incurred in acquiring an interest in the initial copyright of a new Australian film can be either deducted immediately (for certain types of film) or written off over two years.

### B32 Film Licensed Investment Company Scheme – two year extension

Recreation and culture (\$m)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
	-	-	-	-	4	4	-	-
<i>Tax expenditure type:</i>	Deduction					2005 TES code:		B25
<i>Commencement date:</i>	1 July 2005							
<i>Expiry date:</i>	30 June 2007							
<i>Legislative reference:</i>	Sections 375-850 to 375-880 ITAA97							

Amounts paid by investors in 2005-06 and 2006-07 for shares in a Film Licensed Investment Company are immediately deductible.

### B33 Three year write-off for expenditure on water facilities for primary producers

Agriculture, forestry and fishing (\$m)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
	25	25	25	30	30	30	35	35
<i>Tax expenditure type:</i>	Accelerated write-off					2005 TES code:		B26
<i>Commencement date:</i>	Introduced before 1985							
<i>Expiry date:</i>								
<i>Legislative reference:</i>	Subdivision 40-F ITAA97							

Note: estimates include tax expenditures B33, B34 and B35.

Primary producers can claim a deduction for capital expenditure on water facilities over three years. Water facilities include dams, earth tanks, underground tanks,

### *Tax Expenditures Statement*

concrete or metal tanks, tank stands, bores, wells, irrigation channels or similar improvements, pipes, pumps, water towers, and windmills. One-third of the expenditure is deductible in the income year in which it is incurred, and one-third is deductible in each of the following two years. The expenditure must be incurred primarily for conserving and conveying water for use in primary production.

#### **B34 Landcare deduction for primary producers**

Agriculture, forestry and fishing (\$m)

2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
Included in B33							
<i>Tax expenditure type:</i>	Deduction					<i>2005 TES code:</i>	B27
<i>Commencement date:</i>	Introduced before 1985						
<i>Expiry date:</i>							
<i>Legislative reference:</i>	Sections 40-630 to 40-640 ITAA97						

Primary producers and users of rural land can claim a deduction for capital expenditure on a landcare operation in the year that it is incurred. Landcare operations may include soil conservation, prevention of land degradation or other related measures.

#### **B35 Water facilities and land care concession for irrigation water providers**

Agriculture, forestry and fishing (\$m)

2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
Included in B33							
<i>Tax expenditure type:</i>	Deduction					<i>2005 TES code:</i>	B28
<i>Commencement date:</i>	1 July 2004						
<i>Expiry date:</i>							
<i>Legislative reference:</i>	Subdivisions 40-F and 40-G of the ITAA97						

Certain irrigation water providers can claim an immediate deduction for capital expenditure on landcare activities and claim a deduction for capital expenditure on water facilities over three years. The measure aligns the deductions available to primary producers and businesses using rural land with deductions available to irrigation water providers which supply those primary producers and businesses with water.

**B36 Landcare and water facility offset**

Agriculture, forestry and fishing (\$m)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
	..	..	..	..	..	..	..	..
<i>Tax expenditure type:</i>	Offset						<i>2005 TES code:</i>	B29
<i>Commencement date:</i>	1998							
<i>Expiry date:</i>	2001							
<i>Legislative reference:</i>	Former Subdivision 388 ITAA97							

Primary producers and users of rural land with taxable incomes of up to \$20,000 a year were able to claim a 30 per cent tax offset for capital expenditure on soil conservation, prevention of land degradation and related measures incurred until the end of the 2000-01 income year. This concession was claimed as an alternative to the landcare deduction (B34). The tax offset was based on one-third of the eligible expenditure and was available in the year the expenditure was incurred and in each of the subsequent two years.

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.

**B37 Deduction for horse breeding stock**

Agriculture, forestry and fishing (\$m)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
	*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Accelerated write-off						<i>2005 TES code:</i>	B30
<i>Commencement date:</i>	1992						<i>* Category:</i>	na
<i>Expiry date:</i>								
<i>Legislative reference:</i>	Sections 70-60, 70-65 ITAA97							

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.

*Tax Expenditures Statement*

**B38 Deduction of the capital cost of telephone lines and electricity connections**

Agriculture, forestry and fishing (\$m)

2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	
13	13	13	13	13	13	13	13	
<i>Tax expenditure type:</i>		Accelerated write-off				<i>2005 TES code:</i>		B31
<i>Commencement date:</i>		Introduced before 1985						
<i>Expiry date:</i>								
<i>Legislative reference:</i>		Sections 40-645 to 40-655 ITAA97						

Capital expenditure incurred in connecting a telephone line to a primary production property and capital expenditure incurred in connecting or upgrading mains electricity to a property on which a business is conducted can be deducted in equal instalments over ten years.

**B39 Tax write-off for horticultural plants**

Agriculture, forestry and fishing (\$m)

2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	
4	5	5	5	4	5	7	8	
<i>Tax expenditure type:</i>		Accelerated write-off				<i>2005 TES code:</i>		B32
<i>Commencement date:</i>		1995						
<i>Expiry date:</i>								
<i>Legislative reference:</i>		Subdivision 40-F ITAA97						

Capital expenditure incurred in establishing horticultural plants can be written off using an accelerated depreciation regime, with deductions available from the first commercial season. The cost of establishing plants with an effective life of less than three years can be written off in the first commercial year. Plants with an effective life of more than three years can be depreciated over a shorter period than their effective life using the maximum write-off periods set out in the legislation.

**B40 Accelerated depreciation for grapevine plantings**

Agriculture, forestry and fishing (\$m)

2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	
9	10	11	9	5	1	-4	-7	
<i>Tax expenditure type:</i>		Accelerated write-off				<i>2005 TES code:</i>		B33
<i>Commencement date:</i>		1993						
<i>Expiry date:</i>		Not available for grapevines planted after 1 October 2004						
<i>Legislative reference:</i>		Subdivision 40-F ITAA97						

Prior to 1 October 2004, capital expenditure incurred in acquiring and establishing grapevines could be written off on a prime cost basis over four years, with the deductions being available from the time the vines were planted. Since 1 October 2004, new grapevine plantings are subject to the capital allowances regime applicable to horticultural plants. That is, the establishment costs of the grapevine may be written

off at 13 per cent per annum (the write-off rate applicable to a plant with an effective life of 13 years to fewer than 30 years) with deductions available from the income year in which the grapevine's first commercial season starts.

#### **B41 Development allowance**

Manufacturing and mining (\$m)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	
	115	60	35	25	10	2	-	-	
<i>Tax expenditure type:</i>	Deduction						<i>2005 TES code:</i>	B35	
<i>Commencement date:</i>	1992								
<i>Expiry date:</i>	1996								
<i>Legislative reference:</i>	Sections 82AAAA to 82AQ ITAA36 and Sections 15, 27 and 40 <i>Development Allowance Authority Act 1992</i>								

For major projects approved by the Development Allowance Authority, 10 per cent of capital expenditure on plant and equipment, including motor vehicles and primary production, was immediately deductible. Registrations for projects closed on 31 July 1996 for plant and equipment that was first used or installed ready for use before 1 July 2002.

#### **B42 Capital expenditure deduction for mining, quarrying and petroleum operations**

Manufacturing and mining (\$m)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	
	30	20	20	20	20	20	10	10	
<i>Tax expenditure type:</i>	Accelerated write-off						<i>2005 TES code:</i>	B36	
<i>Commencement date:</i>	Introduced before 1985								
<i>Expiry date:</i>	2001								
<i>Legislative reference:</i>	Subdivision 40-B ITAA97 as adjusted by Sections 40-35, 40-40 and 40-75 <i>Income Tax (Transitional Provisions) Act 1997</i>								

Certain capital expenditure incurred 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). The deduction is available for expenditure incurred before 1 July 2001 or expenditure relating to a depreciating asset acquired before 1 July 2001 (excluding plant and equipment).

Expenditure incurred on or after 1 July 2001 can be deducted over the life of the project.

*Tax Expenditures Statement*

**B43 Exploration and prospecting deduction**

Manufacturing and mining (\$m)							
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Deduction					<i>2005 TES code:</i>	B38
<i>Commencement date:</i>	Introduced before 1985					<i>* Category:</i>	na
<i>Expiry date:</i>							
<i>Legislative reference:</i>	Subsection 40-80(1) and Section 40-730 ITAA97						

Expenditure on exploration or prospecting for the purpose of mining and quarrying is immediately deductible. The immediate deduction does not extend to capital expenditure on depreciating assets.

**B44 Deduction for expenditure on environmental impact studies**

Manufacturing and mining (\$m)							
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
Included in B45							
<i>Tax expenditure type:</i>	Accelerated write-off					<i>2005 TES code:</i>	B39
<i>Commencement date:</i>	1991						
<i>Expiry date:</i>	2001						
<i>Legislative reference:</i>	Subdivision 40-1 ITAA97 as adjusted by Section 40-55 <i>Income Tax (Transitional Provisions) Act 1997</i>						

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 deduction applies to expenditure incurred before 1 July 2001. Expenditure incurred on or after 1 July 2001 can be deducted over the life of the project.

**B45 Deduction for environmental protection activities**

Manufacturing and mining (\$m)							
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
11	11	5	4	4	4	4	4
<i>Tax expenditure type:</i>	Deduction					<i>2005 TES code:</i>	B40
<i>Commencement date:</i>	1992						
<i>Expiry date:</i>							
<i>Legislative reference:</i>	Sections 40-755 and 40-760 ITAA97						

Note: estimates include tax expenditures B44 and B45.

Expenditure used to control pollution or manage waste is immediately deductible if the pollution or waste is a result of the taxpayer's business or is on the site of the taxpayer's business. Expenditure to prevent pollution that is likely to occur is also immediately deductible.

**B46 Absence of depreciation recapture for certain assets**

Manufacturing and mining (\$m)							
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Deduction					<i>2005 TES code:</i>	B42
<i>Commencement date:</i>	Introduced before 1985					<i>* Category:</i>	na
<i>Expiry date:</i>							
<i>Legislative reference:</i>	Division 43 and Section 110-45 ITAA97						

Certain buildings and structures receive deductions that are not recaptured by balancing adjustment on disposal of the asset. This tax expenditure is offset by reductions in the capital gains tax cost base of the assets concerned.

**B47 Accelerated depreciation allowance for plant and equipment**

Manufacturing and mining (\$m)							
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
-200	-680	-850	-890	-840	-800	-750	-660
<i>Tax expenditure type:</i>	Accelerated write-off					<i>2005 TES code:</i>	B43
<i>Commencement date:</i>	1992						
<i>Expiry date:</i>	2001						
<i>Legislative reference:</i>	Former Division 42 and Subdivision 40-B ITAA97 as adjusted by Sections 40-10 and 40-12 <i>Income Tax (Transitional Provisions) Act 1997</i>						

Note: estimates include tax expenditures B47 and B48.

Accelerated depreciation allows deductions at a higher rate than the expected decline in value of the asset.

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 an annual turnover of \$1 million or more on 21 September 1999. This treatment was removed for individuals and businesses with annual turnovers under \$1 million from 1 July 2001, when they could elect to enter the Simplified Taxation System and use the simplified capital allowances system (B55).

The negative tax expenditure estimates for this tax expenditure stem from the fact that accelerated depreciation allows greater deductions early in an asset's effective life, offset by smaller deductions later in its effective life. With the removal of accelerated depreciation, the tax expenditure estimates become negative from 2002-03. This is because, from that date, deductions for assets acquired before accelerated depreciation was abolished are lower than they would have been if depreciation were calculated over the effective life of the asset.

*Tax Expenditures Statement*

This tax expenditure will have an ongoing impact until all plant and equipment that utilised this concession would have otherwise been fully depreciated under the uniform capital allowance.

**B48 Accelerated depreciation for employees' amenities**

Manufacturing and mining (\$m)							
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
Included in B47							
<i>Tax expenditure type:</i>	Accelerated write-off				<i>2005 TES code:</i>		B44
<i>Commencement date:</i>	1994						
<i>Expiry date:</i>	2001						
<i>Legislative reference:</i>	Former Section 42-150 and Subdivision 40-B ITAA97 as adjusted by Sections 40-10 and 40-12 <i>Income Tax (Transitional Provisions) Act 1997</i>						

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, was deductible 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 removed for individuals and businesses with turnovers of less than \$1 million per annum from 1 July 2001. These businesses can elect to enter the simplified tax system from this time and use the simplified capital allowances system (see B55). This tax expenditure will have a transitional impact until all eligible plant expenditure has been fully depreciated.

**B49 Accelerated depreciation for mining buildings**

Manufacturing and mining (\$m)							
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
400	360	310	260	220	170	90	..
<i>Tax expenditure type:</i>	Accelerated write-off				<i>2005 TES code:</i>		B45
<i>Commencement date:</i>	1982						
<i>Expiry date:</i>	2001						
<i>Legislative reference:</i>	Former Subdivision 330-C and Subdivision 40-B ITAA97 as adjusted by Section 40-35 of the <i>Income Tax (Transitional Provisions) Act 1997</i>						

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 10 years (20 years for quarrying). This concession was removed from 1 July 2001 for buildings constructed or acquired on or after this date. This tax expenditure will have a transitional impact until all eligible capital expenditure incurred before 1 July 2001 has been fully depreciated.



**B50 Accelerated depreciation for Australian trading ships**

Manufacturing and mining (\$m)							
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
-17	-14	-11	-9	-8	-7	-6	-5
<i>Tax expenditure type:</i>	Accelerated write-off					<i>2005 TES code:</i>	B46
<i>Commencement date:</i>	Introduced before 1985						
<i>Expiry date:</i>	1997						
<i>Legislative reference:</i>	Sections 53I(2) and 57AM ITAA36						

Australian trading ships, commissioned between 29 July 1977 and 1 July 1997, can be depreciated on a prime cost basis over five years. The estimates for this tax expenditure reflect the fact that it brings forward the timing of tax deductions relative to deductions available under the effective life benchmark. This tax expenditure will have a transitional impact until all trading ships that utilised this concession have been fully depreciated.

**B51 Statutory effective life caps**

Transport and communications (\$m)							
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
*	*	130	175	230	310	360	390
<i>Tax expenditure type:</i>	Accelerated write-off					<i>2005 TES code:</i>	B47
<i>Commencement date:</i>	2002, 2004					<i>* Category:</i>	na
<i>Expiry date:</i>							
<i>Legislative reference:</i>	Section 40-102 ITAA97						

'Statutory effective life caps' act to override the Commissioner of Taxation's determinations of the 'safe harbour' effective life of assets in certain cases. This provides a shorter write-off period for those assets subject to a statutory cap where the effective life determined by the Commissioner exceeds the cap.

Statutory caps exist for a range of assets, including:

- aircraft and certain assets used in the oil and gas industries (effective from 1 July 2002);
- trucks, truck trailers, buses and light commercial vehicles (effective from 1 January 2005); and
- tractors and harvesters (not yet effective).

*Tax Expenditures Statement*

**B52 Depreciation to nil value rather than estimated scrap value**

Other economic affairs (C) (\$m)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
	*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Deferral					<i>2005 TES code:</i>		B48
<i>Commencement date:</i>	Introduced before 1985					<i>* Category:</i>		1+
<i>Expiry date:</i>								
<i>Legislative reference:</i>	Division 40 ITAA97							

Taxpayers are entitled to write-off the cost of depreciating assets to zero value, rather than to the estimated disposal value of the asset. Any gain on disposal of the asset is assessed as income at the time of disposal through a balancing adjustment. This results in a tax deferral.

**B53 Depreciation balancing adjustment roll-over relief**

Other economic affairs (C) (\$m)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
	*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Deferral					<i>2005 TES code:</i>		B49
<i>Commencement date:</i>	Introduced before 1985					<i>* Category:</i>		1+
<i>Expiry date:</i>								
<i>Legislative reference:</i>	Section 40-340 ITAA97							

'Balancing adjustments' arise when the disposal value of a depreciating asset varies from its depreciated value. The tax liability for such balancing adjustments can be deferred where the balancing adjustment arises from certain changes in ownership, such as disposal as a result of a marriage breakdown. The transferee is taken to acquire the asset at the written down value and must depreciate the asset in the same way as the transferor.

Prior to 21 September 1999, balancing adjustment offsets were also available when replacement items of plant and equipment were acquired. This treatment is available to businesses with turnover of less than \$1 million for assets acquired before 1 July 2001 (B56).

**B54 Depreciation pooling for low value assets**

Other economic affairs (C) (\$m)								
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	
80	100	100	100	90	90	80	80	
<i>Tax expenditure type:</i>		Accelerated write-off				<i>2005 TES code:</i>		B50
<i>Commencement date:</i>		2000						
<i>Expiry date:</i>								
<i>Legislative reference:</i>		Subdivision 40-E ITAA97						

Assets costing less than \$1,000 can be written off at the declining balance rate of 37.5 per cent through a low value asset pool. Once a taxpayer elects to create a low value pool, all assets that cost less than \$1,000 are subject to the declining balance rate treatment. A low value asset pool is available to taxpayers who choose not to, or are ineligible to, enter the Simplified Tax System.

A low value pool mechanism for the depreciation of assets was introduced to reduce taxpayers' compliance costs by removing the need to track individual items for depreciation purposes.

**B55 The Simplified Tax System and Small Business Framework**

Other economic affairs (C) (\$m)								
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	
430	420	250	250	210	260	290	300	
<i>Tax expenditure type:</i>		Deduction, deferral, accelerated write-off				<i>2005 TES code:</i>		B51
<i>Commencement date:</i>		2001						
<i>Expiry date:</i>								
<i>Legislative reference:</i>		Division 328 ITAA97						

The Simplified Tax System (STS) is available for eligible small businesses, allowing them access to the following concessions:

- a simplified trading stock regime where, in certain circumstances, changes in the value of trading stock do not have to be accounted for and stocktaking is not required at the end of the income year;
- a simplified capital allowances regime which allows small businesses to write-off immediately purchases costing less than \$1,000 and depreciate assets that cost \$1,000 or more at accelerated rates under a pooled arrangement;
- STS taxpayers may be eligible for the entrepreneurs' tax offset (B30); and
- the prepayment rule for small business taxpayers (B62).

## Tax Expenditures Statement

For income years commencing prior to 1 July 2007, businesses must have an average annual turnover of less than \$1 million and depreciating assets with a written down value of less than \$3 million to be eligible to enter the STS.

From 1 July 2007 the Small Business Framework (SBF) will apply. Under the SBF businesses with average annual turnover of less than \$2 million will be able to choose which of the STS small business concessions they wish to utilise as well as being eligible to utilise a number of other small business concessions, including:

- the four capital gains tax small business concessions (C6, C8, E12 and E13), without having to otherwise satisfy the net value of assets test; and
- the fringe benefits tax exemption for small business employee car parking (D26).

### **B56 Transitional exemption of small business from abolition of accelerated depreciation, balancing adjustment offset and low value pooling**

Other economic affairs (C) (\$m)

2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
-260	-90	-60	-40	-	-	-	-
<i>Tax expenditure type:</i>	Accelerated write-off			<i>2005 TES code:</i>		B52	
<i>Commencement date:</i>	1999						
<i>Expiry date:</i>	2001						
<i>Legislative reference:</i>	Subdivision 42-K ITAA97						

A range of accelerated depreciation measures that were terminated as of 21 September 1999 were retained for eligible businesses until the commencement of the Simplified Tax System on 1 July 2001. Eligible businesses were those with three-year average annual turnovers of less than \$1 million. As well as accelerated depreciation, other concessions available to eligible businesses include the balancing adjustment offset, the pooling of low value depreciating assets, and the immediate deductibility of plant items costing up to \$300.

### **B57 Research and development tax concession**

Other economic affairs (C) (\$m)

2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
280	320	320	350	380	410	440	480
<i>Tax expenditure type:</i>	Deduction, accelerated write-off			<i>2005 TES code:</i>		B53	
<i>Commencement date:</i>	1985						
<i>Expiry date:</i>							
<i>Legislative reference:</i>	Sections 73B and 73BA ITAA36						

Note: estimates include tax expenditures B24 and B57.

Certain taxpayers are entitled to a deduction at the rate of 125 per cent of their eligible expenditure on research and development (R&D) activities. Until 29 January 2001,

eligible expenditure on R&D plant was deductible at 125 per cent over three years. Expenditure on plant used in R&D activities after 29 January 2001 is deductible at 125 per cent over its effective life.

### **B58 Premium tax concession for additional research and development expenditure**

Other economic affairs (C) (\$m)

2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	
50	85	100	115	125	140	155	170	
<i>Tax expenditure type:</i>		Deduction				<i>2005 TES code:</i>		B54
<i>Commencement date:</i>		2001						
<i>Expiry date:</i>								
<i>Legislative reference:</i>		Section 73Q to 73Y ITAA36						

Companies that increase certain labour related components of research and development (R&D) expenditure are eligible to receive an incremental 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 deduction has been available since the first income year starting after 30 June 2001.

This tax expenditure was introduced to provide an incentive for those companies that increase their level of expenditure on R&D labour in order to increase the benefits of R&D expenditure flowing to the whole economy.

### **B59 Accelerated depreciation for software**

Not allocated to function (\$m)

2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	
310	270	150	60	15	30	55	75	
<i>Tax expenditure type:</i>		Accelerated write-off				<i>2005 TES code:</i>		B55
<i>Commencement date:</i>		1998						
<i>Expiry date:</i>								
<i>Legislative reference:</i>		Subdivision 40-E ITAA97						

Expenditure incurred in acquiring, developing or commissioning software that is mainly used in performing the functions for which the software was developed can be depreciated over 2.5 years instead of the effective life of the software. This gives rise to a tax expenditure in relation to software which has an effective life greater than 2.5 years.

*Tax Expenditures Statement*

**B60 Immediate deduction relating to Year 2000 upgrades**

Not allocated to function (\$m)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
	*	*	-	-	-	-	-	-
<i>Tax expenditure type:</i>	Accelerated write-off					<i>2005 TES code:</i>		B56
<i>Commencement date:</i>	1998					<i>* Category:</i>		2-
<i>Expiry date:</i>	1999							
<i>Legislative reference:</i>	Sections 46-1 to 46-110 ITAA97							

Expenditure on software related to Year 2000 upgrades was immediately deductible if it was incurred between 11 May 1998 and 1 July 1999. The estimates for this tax expenditure reflect that it brings forward the timing of tax deductions relative to deductions available under the effective life benchmark. This tax expenditure has a transitional impact until all eligible software acquired between 11 May 1998 and 1 July 1999 would have otherwise been fully depreciated.

**B61 Immediate deductibility for GST related plant and software**

Not allocated to function (\$m)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
	-50	-40	-35	-10	-	-	-	-
<i>Tax expenditure type:</i>	Accelerated write-off					<i>2005 TES code:</i>		B57
<i>Commencement date:</i>	2000							
<i>Expiry date:</i>	2000							
<i>Legislative reference:</i>	Sections 25-80 and 42-168 ITAA97							

Expenditure incurred by small and medium size businesses on acquiring plant or software (including upgrades) for the purpose of implementing the GST was immediately deductible. This deduction was available for the year ending 30 June 2000, provided that the equipment was ordered by 30 June 2000 and installed by 30 June 2001.

The estimates for this tax expenditure reflect that it brings forward the timing of tax deductions relative to deductions available under the effective life benchmark. This tax expenditure has a transitional impact until all eligible GST-related plant and software would have otherwise been fully depreciated.

## Tax expenditures relating to prepayments and advance expenditures

### B62 Prepayment rule for Simplified Tax System taxpayers and non-business expenditure by individuals

Other economic affairs (C) (\$m)							
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Accelerated write-off				<i>2005 TES code:</i>	B58	
<i>Commencement date:</i>	2001				<i>* Category:</i>	2+	
<i>Expiry date:</i>							
<i>Legislative reference:</i>	Section 82KZM ITAA36						

Prepayments by Simplified Tax System taxpayers and non-business prepayments by individual taxpayers are immediately deductible. This is conditional upon the service being provided over a period not exceeding 12 months and ending at the end of the income year following the income year in which the prepayment expenditure is incurred. This provision replaced the remaining applications of the '13 month rule' (described in B59), which was previously removed on 21 September 1999 for businesses with a turnover of \$1 million or more per annum.

From 1 July 2007, small businesses with average annual turnover of less than \$2 million will be able to access this concession under the Small Business Framework (B55).

### B63 Transitional arrangements for prepayments

Other economic affairs (C) (\$m)							
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
-215	-165	-40	-15	-	-	-	-
<i>Tax expenditure type:</i>	Accelerated write-off				<i>2005 TES code:</i>	B59	
<i>Commencement date:</i>	21 September 1999						
<i>Expiry date:</i>	30 June 2003						
<i>Legislative reference:</i>	Sections 82KZL(1), 82KZMB and 82KZMC ITAA36						

Prior to 21 September 1999, an immediate prepayment deduction was available for expenditure for services provided within 13 months after the prepayment expenditure was incurred. This immediate deduction subsequently was removed and a five-year transitional rule was introduced to phase in the impact of its removal. The benchmark treatment of prepayments is that they are deductible over the period of the expenditure. The negative tax expenditure in the transitional period reflects the phasing in of the removal of the immediate prepayment deduction.

*Tax Expenditures Statement*

**B64 The 10-year rule for prepayments**

Other economic affairs (C) (\$m)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
	*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Accelerated write-off					<i>2005 TES code:</i>		B60
<i>Commencement date:</i>	1988					<i>* Category:</i>		na
<i>Expiry date:</i>								
<i>Legislative reference:</i>	Subsection 82KZL(1) ITAA36							

A prepayment for services to be provided over a period of 10 years or more (for example, life membership) is evenly deducted over the first 10 years of that period. The benchmark treatment of prepayments is that they are deductible over the period of the expenditure. This allows deductions to be spread over a shorter period and consequently it allows greater deductions in the first 10 years than the benchmark treatment.

**B65 Exemption from the tax shelter prepayments measure for certain passive investments**

Other economic affairs (C) (\$m)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
	*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Accelerated write-off					<i>2005 TES code:</i>		B61
<i>Commencement date:</i>	1988					<i>* Category:</i>		na
<i>Expiry date:</i>								
<i>Legislative reference:</i>	Section 82KZME ITAA36							

A prepayment in relation to investments in infrastructure bonds, shares, units, rental property and arrangements entered into before 1 July 2000, to which product rulings apply, continues to be immediately deductible. This is conditional upon the prepayment expenditure meeting the requirements described in B62. The benchmark treatment of prepayments is that they are deductible over the period of the expenditure. This allows deductions to be spread over a shorter period and consequently it allows greater deductions than the benchmark treatment.



**B66 Prepayment rule for forestry managed investments**

Other economic affairs (C) (\$m)								
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	
55	-15	40	40	-10	10	10	-115	
<i>Tax expenditure type:</i>		Accelerated write-off				<i>2005 TES code:</i>		B62
<i>Commencement date:</i>		2001						
<i>Expiry date:</i>								
<i>Legislative reference:</i>		Section 82KZMG ITAA36						

Prepayments on seasonally dependent agronomic operations in the establishment of a forestry plantation are immediately deductible. This is conditional upon the prepayment expenditure meeting the requirement described in B63. This tax expenditure is available for investors in forestry managed investment schemes. The benchmark treatment of prepayments is that they are deductible over the period of the expenditure. This allows deductions to be spread over a shorter period and consequently it allows greater deductions than the benchmark treatment.

In the 2005-06 Budget the Government announced an extension of the prepayment rule until 30 June 2008, while a review is conducted into support for the plantation timber industry.

**International tax expenditures****B67 Exemptions for prescribed international organisations**

General public services (C) (\$m)								
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	
*	*	*	*	*	*	*	*	
<i>Tax expenditure type:</i>		Exemption				<i>2005 TES code:</i>		B63
<i>Commencement date:</i>		1963						
<i>Expiry date:</i>								
<i>Legislative reference:</i>		Section 6, <i>International Organisations (Privileges and Immunities) Act 1963</i>						

The income of certain international organisations is exempt from income tax. Furthermore, interest and dividends received by these organisations are exempt from the interest and dividend withholding tax, respectively. Prescribed international organisations include the United Nations, the World Trade Organization, the Organization for Economic Cooperation and Development and various United Nations specialised agencies.

*Tax Expenditures Statement*

**B68 Interest withholding tax and dividend withholding tax exemptions for overseas charitable institutions**

General public services (C) (\$m)							
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>		Exemption			<i>2005 TES code:</i>		B64
<i>Commencement date:</i>		1936			<i>* Category:</i>		2+
<i>Expiry date:</i>							
<i>Legislative reference:</i>		Paragraph 128B(3)(aa) ITAA36					

Interest and dividends received by certain overseas charitable institutions are exempt from the interest and dividend withholding tax, respectively. This exemption only applies where the institutions are exempt from tax in their home country. Tax exempt organisations generally cannot claim credit for foreign taxes paid.

**B69 Deemed tax credits under tax sparing provisions in Australia's tax treaties**

Other economic affairs (C) (\$m)							
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
15	5	5	5	5	5	5	5
<i>Tax expenditure type:</i>		Exemption			<i>2005 TES code:</i>		B65
<i>Commencement date:</i>		Date of effect depends on the date of effect of the tax treaty					
<i>Expiry date:</i>							
<i>Legislative reference:</i>		Provided for in Australia's tax treaties					

The tax sparing provisions in Australia's tax treaties apply to tax incentives (for example, tax holidays) offered by developing countries to foreign investors. The effect of these tax sparing provisions is that income earned by Australian taxpayers who invest in certain developing countries is effectively subject to a tax exemption. Under tax sparing, the tax forgone by the country providing the tax concession to Australian resident investors is deemed to have been paid for the purposes of Australia's foreign tax credit system. This enables Australian residents to claim a tax credit in relation to their investments despite receiving a tax concession by the foreign country. The Australian Government has announced that tax sparing will generally not be provided or renewed in future agreements. Tax sparing arrangements in most tax treaties have now expired.

**B70 Exemption for foreign branch profits from income tax**

Other economic affairs (C) (\$m)							
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption					<i>2005 TES code:</i>	B66
<i>Commencement date:</i>	1990					<i>* Category:</i>	2+
<i>Expiry date:</i>							
<i>Legislative reference:</i>	Section 23AH ITAA36						

In general, income from a business carried on by an Australian company through a permanent establishment (branch) in a foreign country is exempt from income tax. For income years starting before 1 July 2004, the exemption was only available for branches in listed countries. The exempt income broadly comprises operating profits and capital gains but does not include passive or other tainted income where the branch fails an active income test. This is similar to the treatment for controlled foreign companies.

**B71 Interest withholding tax concession on interest payments by Australian branches to foreign banks**

Other economic affairs (C) (\$m)							
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
Included in B81							
<i>Tax expenditure type:</i>	Concessional rate					<i>2005 TES code:</i>	B68
<i>Commencement date:</i>	1994						
<i>Expiry date:</i>							
<i>Legislative reference:</i>	Section 160ZZZJ ITAA36						

The notional interest paid to a foreign bank from its Australian branch attracts a reduced interest withholding tax rate. Tax is paid on only half of the taxable amount. For amounts of interest paid to, and derived by, a foreign bank during an income year that began before 1 July 2001, tax was paid on half of the taxable amount less notional equity requirement. The notional equity requirement was removed with effect from the 2001-02 income year when the new thin capitalisation rules commenced.

*Tax Expenditures Statement*

**B72 Deductibility of costs of setting up a regional headquarters**

Other economic affairs (C) (\$m)									
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10		
..	..	..	..	..	..	..	..	..	
<i>Tax expenditure type:</i>		Deduction				<i>2005 TES code:</i>		B69	
<i>Commencement date:</i>		1994							
<i>Expiry date:</i>									
<i>Legislative reference:</i>		Sections 82C to CE ITAA36							

Eligible regional headquarters (RHQs) are entitled to deductions in respect of set-up costs. Set-up costs include relocation and incorporation costs. 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'.

**B73 Concessional tax treatment of income of offshore banking units**

Other economic affairs (C) (\$m)									
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10		
50	55	75	90	90	90	90	90		
<i>Tax expenditure type:</i>		Concessional rate				<i>2005 TES code:</i>		B70	
<i>Commencement date:</i>		1992							
<i>Expiry date:</i>									
<i>Legislative reference:</i>		Part III, Division 9A ITAA36							

Income (other than capital gains) derived by an offshore banking unit (OBU) from offshore banking activities is taxed at a concessional rate of 10 per cent. Interest paid by an OBU on qualifying offshore borrowings, and gold fees paid by an OBU on certain offshore gold borrowings, are exempt from withholding tax.

**B74 Unfranked dividends paid to foreign shareholders by Pooled Development Funds**

Other economic affairs (C) (\$m)									
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10		
1	1	1	1	1	1	1	1		
<i>Tax expenditure type:</i>		Exemption				<i>2005 TES code:</i>		B71	
<i>Commencement date:</i>		1992							
<i>Expiry date:</i>									
<i>Legislative reference:</i>		Sections 128B(3)(ba) and 124ZM ITAA36							

The unfranked portion of a dividend paid by a Pooled Development Fund to a foreign shareholder is exempt from withholding tax.

**B75 Threshold exemption for thin capitalisation**

Other economic affairs (C) (\$m)							
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Deduction				<i>2005 TES code:</i>		B72
<i>Commencement date:</i>	2001				<i>* Category:</i>		1+
<i>Expiry date:</i>							
<i>Legislative reference:</i>	Sections 820-35 and 820-37 of ITAA97						

A taxpayer may claim debt deductions of up to \$250,000 in any income year without being subject to thin capitalisation rules. An additional rule excludes outward investing entities from the thin capitalisation regime if at least 90 per cent of their assets (excluding those of a private or domestic nature) are Australian assets.

**B76 Concessional tax treatment for foreign authorised deposit-taking institutions**

Other economic affairs (C) (\$m)							
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
*	*	*	*	*	-	-	-
<i>Tax expenditure type:</i>	Concessional rate				<i>2005 TES code:</i>		B73
<i>Commencement date:</i>	1993				<i>* Category:</i>		na
<i>Expiry date:</i>	2006						
<i>Legislative reference:</i>	Part B ITAA36, Sections 7(6)(c), 20(2)(bb)(ii)(B) and 24(2)(bb)(ii)(B), Schedules 1 and 2, Sections 170-33(2) and 170-133(2) <i>Financial Corporations (Transfer of Assets and Liabilities) Act 1993</i>						

Foreign banks can transfer a tax loss or a net capital loss from locally incorporated subsidiaries to their Australian branches. A similar regime applies to other non-bank financial entities. As a result, such banks and financial entities can benefit from a reduced tax liability.

Foreign banks are also able to transfer assets and liabilities from their subsidiaries to their branches without creating a tax liability. The deadline to effect any such transfer was extended from 30 June 2004 to 30 June 2006.

*Tax Expenditures Statement*

**B77 Exemption of inbound non-portfolio dividends from income tax**

Other economic affairs (C) (\$m)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
	80	90	120	150	170	180	180	190
<i>Tax expenditure type:</i>	Exemption					<i>2005 TES code:</i>		B74
<i>Commencement date:</i>	1990							
<i>Expiry date:</i>								
<i>Legislative reference:</i>	Section 23AJ ITAA36							

Non-portfolio dividends are exempt from income tax where they are paid to an Australian resident company by a company resident in a foreign country. For dividends paid on or before 30 June 2004, the exemption only applied for non-portfolio dividends paid from a listed country.

**B78 Exemption from accrual taxation for controlled foreign companies**

Not allocated to function (\$m)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
	*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption					<i>2005 TES code:</i>		B75
<i>Commencement date:</i>	1990					<i>* Category:</i>		2+
<i>Expiry date:</i>								
<i>Legislative reference:</i>	Sections 384 to 385 ITAA36							

Most tainted income derived by controlled foreign companies (CFCs) in broad exemption listed countries is exempt from accrual taxation (applied to the attributable taxpayer) as it is generally comparably taxed. An exemption also applies to CFCs that derive more than 95 per cent of their income from genuine business activities.

**B79 Exemption from accrual taxation for certain transferor trusts**

Other economic affairs (C) (\$m)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
	*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption					<i>2005 TES code:</i>		B76
<i>Commencement date:</i>	1990					<i>* Category:</i>		2+
<i>Expiry date:</i>								
<i>Legislative reference:</i>	Sub-paragraph 102AAT(1)(a)(i)(F) and paragraph 102AAT(1)(c) ITAA36							

The transferor trust rules are intended to prevent Australian residents from deferring tax on income earned in offshore trusts. Transfers made to an offshore discretionary trust are not subject to the rules if the transfer was made before the transferor came to Australia or before the original trust measures were announced, provided the transferor does not control the trust. Accruals taxation would normally be applied to the transferor.

**B80 Income tax exemption for certain US projects in Australia**

Defence (\$m)							
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption					<i>2005 TES code:</i>	B67
<i>Commencement date:</i>	Introduced before 1985					<i>* Category:</i>	1+
<i>Expiry date:</i>							
<i>Legislative reference:</i>	Section 23AA ITAA36						

The profits and remuneration of United States contractors, United States armed forces members, or other United States residents or citizens in connection with certain United States Government projects in Australia are exempt from Australian income tax. This exemption only applies where the income is subject to tax in the United States.

**B81 Exemption from interest withholding tax on widely held debentures**

Other economic affairs (C) (\$m)							
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
750	510	430	490	550	620	700	790
<i>Tax expenditure type:</i>	Exemption					<i>2005 TES code:</i>	B77
<i>Commencement date:</i>	Introduced before 1985						
<i>Expiry date:</i>							
<i>Legislative reference:</i>	Section 128F and 128FA ITAA36						

Note: estimates include tax expenditures B71 and B81.

Certain widely held debentures are exempt from interest withholding tax. This exemption was 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. The exemption is available where it will not be exploited by a group of associated companies seeking to move profits offshore through a series of intra-group loans.

**Tax expenditures for agriculture, forestry and fishing****B82 Income tax averaging for primary producers**

Agriculture, forestry and fishing (\$m)							
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
230	145	105	95	95	*	*	*
<i>Tax expenditure type:</i>	Concessional rate					<i>2005 TES code:</i>	B78
<i>Commencement date:</i>	Introduced before 1985					<i>* Category:</i>	3+
<i>Expiry date:</i>							
<i>Legislative reference:</i>	Division 392 ITAA97						

Primary producers can elect to pay tax at a tax rate based on their average income earned over the previous five income years. If the taxpayer has not been using this

### Tax Expenditures Statement

facility for five years, the tax rate is based on the income years in which averaging has applied, and the previous year. This provides a concession because, on balance, the saving from paying less tax in high income years outweighs additional tax paid in low income years.

Projections beyond 2006-07 are not reported as the tax expenditure is very sensitive to variations in primary production income, which depends on a number of external factors.

#### B83 Farm Management Deposit scheme

Agriculture, forestry and fishing (\$m)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
	410	245	95	115	5(p)	*	*	*
<i>Tax expenditure type:</i>	Deferral					<i>2005 TES code:</i>		B79
<i>Commencement date:</i>	1999					<i>* Category:</i>		na
<i>Expiry date:</i>								
<i>Legislative reference:</i>	Schedule 2G, Division 393 ITAA36							

(p) Preliminary estimate only for 2006-07 due to data limitations.

The Farm Management Deposit (FMD) scheme allows primary producers (with a limited amount of non-primary production income) to defer their income tax liability. Primary producers are able to claim deductions for their FMD made in the year of deposit, with subsequent withdrawals being subject to assessment in the year of withdrawal. The FMD has a maximum limit on deposits of \$400,000. Primary producers in exceptional circumstance areas are able to withdraw their deposits within 12 months while maintaining the concessional tax treatment of the scheme. The FMD scheme replaced the Income Equalisation Deposits and Farm Management Bonds schemes on 2 January 1999.

Projections beyond 2006-07 are not reported as the tax expenditure is very sensitive to variations in the amounts deposited and withdrawn in any year, which are dependent on a number of external factors.

#### B84 Deferral of income from double wool-clips

Agriculture, forestry and fishing (\$m)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
	*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Deferral					<i>2005 TES code:</i>		B80
<i>Commencement date:</i>	Introduced before 1985					<i>* Category:</i>		na
<i>Expiry date:</i>								
<i>Legislative reference:</i>	Section 385-130 ITAA97							

As a consequence of drought, fire or flood, primary producers carrying on a sheep grazing business in Australia may conduct advanced shearing. In these circumstances,



a woolgrower may elect to have the assessment of the profit from advanced shearing deferred to the succeeding income year.

### **B85 Spreading of income from insurance recoveries for loss of timber or livestock**

Agriculture, forestry and fishing (\$m)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
	*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Deferral					<i>2005 TES code:</i>		B81
<i>Commencement date:</i>	Introduced before 1985					<i>* Category:</i>		na
<i>Expiry date:</i>								
<i>Legislative reference:</i>	Section 385-130 ITAA97							

Insurance recoveries may be received in relation to timber lost to fire or livestock lost due to disasters (for example, drought, fire, flood or disease). Primary producers who receive such insurance recoveries can elect to spread the income equally over five income years, resulting in a tax deferral. This concession only applies where the livestock are assets of a primary production business carried on in Australia.

### **B86 Deferral or spreading of income from the forced disposal or death of livestock**

Agriculture, forestry and fishing (\$m)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
	*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Deferral					<i>2005 TES code:</i>		B82
<i>Commencement date:</i>	Introduced before 1985					<i>* Category:</i>		na
<i>Expiry date:</i>								
<i>Legislative reference:</i>	Sections 385-90 to 385-125 ITAA97							

Primary producers are eligible for a tax concession on the forced disposal or death of livestock resulting from certain events. These events include:

- the compulsory acquisition of land;
- destruction of pasture by drought, flood or fire;
- compulsory destruction of livestock for disease control; or
- notification of contamination of property or a cattle tick eradication campaign.

Primary producers who receive income from such disposals or deaths can elect to defer this income and use it to reduce the cost of replacement livestock in the disposal year or in any of the next five income years. Alternatively, primary producers can elect to spread profits between the income year of the disposal or death and the next four

*Tax Expenditures Statement*

income years (or 10 years if the forced disposal was in relation to the control of bovine tuberculosis).

**B87 Valuation of livestock from natural increase**

Agriculture, forestry and fishing (\$m)								
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	
85	105	150	90	90	*	*	*	
<i>Tax expenditure type:</i>	Deferral					<i>2005 TES code:</i>	B83	
<i>Commencement date:</i>	Introduced before 1985					<i>* Category:</i>	2+	
<i>Expiry date:</i>								
<i>Legislative reference:</i>	Section 70-55 ITAA97							

Animals acquired by natural increase (that is, newborn animals) as livestock may be valued at cost, market selling value or replacement value. If valued at cost, the taxpayer can use actual cost or costs prescribed by the regulations. These prescribed costs may be lower than the actual cost of production, giving a concessional tax treatment.

**B88 Income tax exemption for Dairy Exit Program payments**

Agriculture, forestry and fishing (\$m)								
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	
1	..	-	-	-	-	-	-	
<i>Tax expenditure type:</i>	Exemption					<i>2005 TES code:</i>	B85	
<i>Commencement date:</i>	2000							
<i>Expiry date:</i>	2002							
<i>Legislative reference:</i>	Paragraph 118-37(1)(e) ITAA97							

Payments made under the Dairy Exit Program (DEP) were exempt from income tax. Between 2000 and 2002, the DEP provided a grant of up to \$45,000 to farmers in the dairy industry who decided to leave farming. The DEP also provided a retraining grant to eligible farmers to assist them in finding an alternative career after they exited farming.

**B89 Exemption of Sugar Industry Exit grants**

Agriculture, forestry and fishing (\$m)

2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	
-	..	2	3	4	2	-	-	
<i>Tax expenditure type:</i>		Exemption				<i>2005 TES code:</i>		B86
<i>Commencement date:</i>		1 February 2003						
<i>Expiry date:</i>								
<i>Legislative reference:</i>		Section 15-65 and paragraph 118-37(f) ITAA97						

Grants to individuals who exit the sugar industry under the Sugar Industry Reform Program are exempt from tax if the recipient remains out of the agricultural industry for at least five years.

**Tax expenditures for manufacturing and mining****B90 Infrastructure Bonds Scheme**

Manufacturing and mining (\$m)

2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	
20	20	20	20	15	5	5	..	
<i>Tax expenditure type:</i>		Exemption, offset				<i>2005 TES code:</i>		B87
<i>Commencement date:</i>		1992						
<i>Expiry date:</i>		1997						
<i>Legislative reference:</i>		Division 16L ITAA36						

Interest income from loans to eligible infrastructure facilities is exempt from income tax but 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. This scheme was closed to new projects from 14 February 1997, and replaced by the Land Transport Infrastructure Borrowings Tax Offset Scheme in 1998.

**B91 Land Transport Infrastructure Borrowings Tax Offset Scheme**

Manufacturing and mining (\$m)

2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	
20	25	15	10	5	5	..	-	
<i>Tax expenditure type:</i>		Offset				<i>2005 TES code:</i>		B88
<i>Commencement date:</i>		1998						
<i>Expiry date:</i>								
<i>Legislative reference:</i>		Section 396-5 to 396-110 ITAA97						

A tax offset at the company tax rate is available to resident lenders who receive interest income from loans given for approved land transport infrastructure projects. This offset is available for the first five years of interest payments. The interest paid by the borrower is not deductible. The cost of the scheme is capped at \$75 million per annum.

## Tax Expenditures Statement

In the 2004-05 Budget, the Australian Government announced that the scheme would be phased down. All projects that were receiving assistance, or which were subject to an ongoing approval process, will continue to receive assistance. No new projects will be considered.

### Miscellaneous tax expenditures

#### **B92 Exemption from non-commercial losses provisions (primary producers and artists)**

Not allocated to function (\$m)

2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	
90	100	105	105	105	105	105	105	
<i>Tax expenditure type:</i>	Exemption						<i>2005 TES code:</i>	B89
<i>Commencement date:</i>	2000							
<i>Expiry date:</i>								
<i>Legislative reference:</i>	Subsections 35-10(4) and (5) ITAA97							

Primary producers and artists with other assessable income of less than \$40,000 are exempt from the non commercial losses provisions. Under the non-commercial loss provisions, losses from a 'non-commercial' business activity may be prevented from being offset against other assessable income, even though the activity qualifies as carrying on a business under the income tax law.

#### **B93 Deduction for certain co-operative companies**

Other economic affairs (C) (\$m)

2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10		
*	*	*	*	*	*	*	*		
<i>Tax expenditure type:</i>	Deduction						<i>2005 TES code:</i>	B90	
<i>Commencement date:</i>	Introduced before 1985							<i>* Category:</i>	1+
<i>Expiry date:</i>									
<i>Legislative reference:</i>	Sections 117 and 120 ITAA36								

Deductions are provided to certain co-operative companies for the repayment of principal of Australian and State Government loans provided for the purchase of assets required for the purpose of carrying on the business of the co-operative.

**B94 Transitional tax exemption for certain life insurance management fees**

Not allocated to function (\$m)							
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
200	250	290	-	-	-	-	-
<i>Tax expenditure type:</i>	Exemption					<i>2005 TES code:</i>	B91
<i>Commencement date:</i>	2000						
<i>Expiry date:</i>	2005						
<i>Legislative reference:</i>	Section 320-40 ITAA97						

A tax exemption applies to life insurance companies on one-third of specified management fees received on certain life insurance policies taken out before 1 July 2000. Specified management fees do not apply on all life insurance policies. For example, there are no specified management fees on policies where amounts would be paid only on death or disability of a person. This exemption ceases to apply to amounts that become specified management fees after 30 June 2005.

**B95 Income tax exemption for State and Territory bodies**

Not allocated to function (\$m)							
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption					<i>2005 TES code:</i>	B92
<i>Commencement date:</i>	Introduced before 1985					<i>* Category:</i>	4+
<i>Expiry date:</i>							
<i>Legislative reference:</i>	Part III Division 1AB ITAA36						

The income of an Australian State or Territory body is exempt from income tax unless it is excluded under section 24AT of the *Income Tax Assessment Act 1936*.

**B96 Income tax exemption for municipal authorities and other local governing bodies**

Not allocated to function (\$m)							
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
390	430	540	560	570	590	600	620
<i>Tax expenditure type:</i>	Exemption					<i>2005 TES code:</i>	B93
<i>Commencement date:</i>	Introduced before 1985						
<i>Expiry date:</i>							
<i>Legislative reference:</i>	Section 50-25 ITAA97 and Part III Division 1AB ITAA36						

The income of municipal corporations as well as those local governing bodies and public authorities which are constituted under a Commonwealth, State or Territory law is exempt from income tax. This exemption includes the local governing bodies in Norfolk, Cocos (Keeling) and Christmas Islands.

*Tax Expenditures Statement*

**B97 Small business related party at call loans taken to be debt interests**

Other economic affairs (C) (\$m)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
	-	-	-	*	*	*	*	*
<i>Tax expenditure type:</i>	Deduction						<i>2005 TES code:</i>	B94
<i>Commencement date:</i>	1 July 2005						<i>* Category:</i>	2+
<i>Expiry date:</i>								
<i>Legislative reference:</i>	Division 794 ITAA97							

A related party at call loan is typically a loan made to a company by a related entity, has no fixed term and is repayable on demand. Under the debt/equity rules, such a loan would generally give rise to an equity interest rather than a debt interest. This means that interest payable on the loan would be frankable (but not deductible by the company).

From 1 July 2005, these loans are taken to be debt interests for companies that have an annual turnover of less than \$20 million.

**RETIREMENT INCOME**

**Tax expenditures for social security and welfare**

**C1 Concessional taxation of funded superannuation**

Social security and welfare (\$m)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
	9,940	13,400	16,440	17,930	17,110	19,770	21,720	23,400
<i>Tax expenditure type:</i>	Exemption, reduction in taxable value						<i>2005 TES code:</i>	C1
<i>Commencement date:</i>	Introduced before 1985							
<i>Expiry date:</i>								
<i>Legislative reference:</i>	Part III, Division 2, Subdivision AA ITAA36 Part III, Division 3, Subdivisions AA and AB ITAA36 Part III, Division 14 ITAA36 Part III, Division 17, Subdivisions AAA, AAB, AAC and AACA ITAA36 Part IX ITAA36 Section 26-80 ITAA97 Section 115-10 and Paragraph 115-100(b) ITAA97 Section 320-135 ITAA97 Superannuation contributions tax acts (surcharge acts)							

The concessional taxation treatment of superannuation is the largest single tax expenditure. This treatment of superannuation comprises several related components. These components are described in Appendix B, along with estimates of their contribution to the concessional taxation of superannuation.

**C2 Concessional taxation of unfunded superannuation**

Social security and welfare (\$m)								
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	
160	140	160	150	145	480	510	540	
<i>Tax expenditure type:</i>	Concessional rate					<i>2005 TES code:</i>	C2	
<i>Commencement date:</i>	Introduced before 1985							
<i>Expiry date:</i>								
<i>Legislative reference:</i>	Part III, Division 2, Subdivision AA ITAA36 Part III, Division 14 ITAA36 Part III, Division 17, Subdivision AAA ITAA36 Part IX ITAA36 Superannuation contributions tax acts (surcharge acts)							

In the case of unfunded superannuation, no employer contribution is made until the actual benefit is provided on the member's retirement. The appropriate benchmark treatment for these amounts is therefore taxation at personal rates on receipt by the member.

Unfunded lump sums are taxed in the same way as funded superannuation lump sums from untaxed funds (the tax treatment of the latter is outlined in Appendix B).

Pension payments from an untaxed source are included in the taxpayer's assessable income and are subject to tax at marginal rates. From 1 July 2007, pension payments from an untaxed source will be eligible for a 10 per cent tax offset for persons aged 60 or over.

**C3 Concessional taxation of non-superannuation termination benefits**

Social security and welfare (\$m)								
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	
360	320	320	310	300	320	320	310	
<i>Tax expenditure type:</i>	Concessional rate					<i>2005 TES code:</i>	C3	
<i>Commencement date:</i>	Introduced before 1985							
<i>Expiry date:</i>								
<i>Legislative reference:</i>	Part III, Division 2, Subdivision AA ITAA36 Part III, Division 14 ITAA36 Part III, Division 17, Subdivision AAA ITAA36 Termination payments tax acts (termination payments surcharge acts)							

Non-superannuation termination payments are generally paid by employers to terminating employees. These amounts are currently taxed in the same way as superannuation lump sums from untaxed funds (the tax treatment of these payments is outlined in Appendix B) with the exception of bona fide redundancy payments and approved early retirement scheme payments which are tax free up to certain limits. This tax expenditure excludes the treatment of payments in lieu of leave (see C4 and C5).

## Tax Expenditures Statement

From 1 July 2007, non-superannuation termination payments will be taxed differently to lump sums paid from untaxed funds. Post-June 1983 amounts will be taxed at 15 per cent for amounts up to \$140,000 (indexed) for recipients aged 55 or over and at 30 per cent for those aged under 55. Amounts in excess of \$140,000 will be taxed at the top marginal tax rate.

### **C4 Capped taxation rates for lump sum payments for unused recreation and long service leave**

Social security and welfare (\$m)							
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
210	190	180	150	100	90	85	80
<i>Tax expenditure type:</i>		Concessional rate			<i>2005 TES code:</i> C4		
<i>Commencement date:</i>		Introduced before 1985					
<i>Expiry date:</i>							
<i>Legislative reference:</i>		Sections 26AC, 26AD, 159S and 159SA ITAA36					

A maximum tax rate of 30 per cent plus the Medicare levy applies to lump sum payments in lieu of unused long service or annual leave which accrued before 18 August 1993, or which are made in circumstances of bona fide redundancy, invalidity or under an early retirement scheme. All other lump sum payments in respect of unused annual or long service leave which accrued after 18 August 1993 are taxed at individual marginal rates.

### **C5 Taxation of five per cent of unused long service leave accumulated by 15 August 1978**

Social security and welfare (\$m)							
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
100	85	90	85	70	65	65	60
<i>Tax expenditure type:</i>		Concessional rate			<i>2005 TES code:</i> C5		
<i>Commencement date:</i>		Introduced before 1985					
<i>Expiry date:</i>							
<i>Legislative reference:</i>		Subsection 26AD(5) ITAA36					

A reduced tax rate applies to lump sum payments for unused long service leave which accrued prior to 15 August 1978. Five per cent of such payments is included in the taxpayer's assessable income and is subject to tax at marginal rates.



**C6 Capital gains tax small business retirement exemption**

Social security and welfare (\$m)								
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	
85	120	185	180	185	220	240	260	
<i>Tax expenditure type:</i>		Exemption				<i>2005 TES code:</i>		C6
<i>Commencement date:</i>		1997						
<i>Expiry date:</i>								
<i>Legislative reference:</i>		Subdivision 152-D ITAA97						

Capital gains arising from the sale of active small business assets are exempt from capital gains tax, up to a lifetime limit of \$500,000, where the proceeds of the sale are used for retirement. An eligible small business is one where the net value of assets that taxpayer and connected entities own is no more than \$5 million (this asset test will be increased to \$6 million from 1 July 2007).

From 1 July 2007, small businesses with average annual turnover of less than \$2 million will be able to access this concession under the Small Business Framework (B55) without having to satisfy the net value of assets test.

**Tax expenditures for other economic affairs****C7 Capital gains tax roll-over relief for transfer of Commonwealth Superannuation Scheme assets to the Public Sector Superannuation Investments Trust**

Other economic affairs (C) (\$m)								
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	
-	-	-	-	-	45	-10	-10	
<i>Tax expenditure type:</i>		Deferral				<i>2005 TES code:</i>		New
<i>Commencement date:</i>		1 July 2006						
<i>Expiry date:</i>								
<i>Legislative reference:</i>		Schedule 1, Part 3 of the <i>Superannuation Legislation Amendment (Trustee Board and Other Measures) Act 2006</i>						

An automatic 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.

*Tax Expenditures Statement*

**C8 Small business capital gains tax exemption for assets held more than 15 years**

Other economic affairs (C) (\$m)								
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	
10	16	13	30	30	35	40	45	
<i>Tax expenditure type:</i>		Exemption				<i>2005 TES code:</i>		C7
<i>Commencement date:</i>		1999						
<i>Expiry date:</i>								
<i>Legislative reference:</i>		Subdivision 152-B ITAA97						

Capital gains arising from the disposal of active small business assets that have been held continuously for 15 years are exempt from capital gains tax. This exemption is available only if the taxpayer is permanently incapacitated or reaches the age of 55 and retires. An eligible small business is one where the net value of assets that taxpayer and connected entities own is no more than \$5 million (this asset test will be increased to \$6 million from 1 July 2007).

From 1 July 2007, small businesses with average annual turnover of less than \$2 million will be able to access this concession under the Small Business Framework (B55) without having to satisfy net value of assets test.

**C9 Capital gains tax roll-over relief for changes to trust deeds of Approved Deposit Funds and superannuation funds**

Other economic affairs (C) (\$m)								
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	
*	*	*	*	*	*	*	*	
<i>Tax expenditure type:</i>		Deferral				<i>2005 TES code:</i>		C8
<i>Commencement date:</i>		1994						
<i>Expiry date:</i>								
<i>Legislative reference:</i>		Subdivision 126-C ITAA97						

Capital gains tax (CGT) roll-over relief is provided where a complying superannuation fund or a complying Approved Deposit Fund amends or replaces its trust deed.

## FRINGE BENEFITS TAX

### Tax expenditures for general public services

#### D1 Exemption for benefits provided by certain international organisations

General public services (B) (\$m)								
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	
*	*	*	*	*	*	*	*	
<i>Tax expenditure type:</i>		Exemption				<i>2005 TES code:</i>		D1
<i>Commencement date:</i>		1986				<i>* Category:</i>		1+
<i>Expiry date:</i>								
<i>Legislative reference:</i>		Section 55 of the <i>Fringe Benefits Tax Assessment Act 1986</i>						

An exemption from fringe benefits tax applies to benefits provided by certain international organisations that are exempt from income tax and other taxes by virtue of the *International Organisations (Privileges and Immunities) Act 1963* and by organisations established under international agreements to which Australia is a party and which oblige Australia to grant the organisation a general tax exemption.

### Tax expenditures for defence

#### D2 Exemption for certain benefits provided under the Defence Service Homes Act

Defence (\$m)								
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	
*	*	*	*	*	*	*	*	
<i>Tax expenditure type:</i>		Exemption				<i>2005 TES code:</i>		D2
<i>Commencement date:</i>		1986				<i>* Category:</i>		1+
<i>Expiry date:</i>								
<i>Legislative reference:</i>		Section 6 of the <i>Fringe Benefits Tax (Application to the Commonwealth) Act 1986</i>						

Certain benefits that are provided to certain eligible employees under the *Defence Service Homes Act 1918* are exempt from fringe benefits tax.

*Tax Expenditures Statement*

**D3 Exemption for health care benefits provided to members of the Defence Force**

Defence (\$m)							
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption				<i>2005 TES code:</i>		D3
<i>Commencement date:</i>	1995				<i>* Category:</i>		3+
<i>Expiry date:</i>							
<i>Legislative reference:</i>	Section 6AC of the <i>Fringe Benefits Tax (Application to the Commonwealth) Act 1986</i>						

Certain health care benefits provided to Australian Government employees are exempt from fringe benefits tax. The exemption applies where the benefit is provided because the employee is a member of the Defence Force.

**D4 Exemption for certain benefits received by Australian Government employees in receipt of military compensation payments**

Defence (\$m)							
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption				<i>2005 TES code:</i>		D4
<i>Commencement date:</i>	1995				<i>* Category:</i>		na
<i>Expiry date:</i>							
<i>Legislative reference:</i>	Sections 6AA and 6AB of the <i>Fringe Benefits Tax (Application to the Commonwealth) Act 1986</i>						

Certain benefits provided to Australian Government employees are exempt from fringe benefits tax. The exemption applies where the benefit is provided because the employee is a recipient of certain military compensation payments.

**Tax expenditures for education**

**D5 Reduction in taxable value for certain education costs of children of employees posted overseas**

Education (\$m)							
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Reduction in taxable value				<i>2005 TES code:</i>		D5
<i>Commencement date:</i>	1986				<i>* Category:</i>		1+
<i>Expiry date:</i>							
<i>Legislative reference:</i>	Section 65A of the <i>Fringe Benefits Tax Assessment Act 1986</i>						

The taxable value of fringe benefits associated with certain education costs for children of employees posted overseas for not less than 28 days may be reduced. The extent of the amount of the reduction relates to the period of the employee's service overseas.

## Tax expenditures for health

### D6 Capped exemption for certain public and non-profit hospitals

Health (\$m)								
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	
200	220	240	240	240	240	250	260	
<i>Tax expenditure type:</i>		Exemption				<i>2005 TES code:</i>		D6
<i>Commencement date:</i>		2000						
<i>Expiry date:</i>								
<i>Legislative reference:</i>		Section 57A of the <i>Fringe Benefits Tax Assessment Act 1986</i>						

Certain public and non-profit hospitals are provided with an exemption from fringe benefits tax on up to \$17,000 of the grossed-up taxable value of fringe benefits per employee.

### D7 Exemption for travel costs of employees and their families associated with overseas medical treatment

Health (\$m)								
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	
*	*	*	*	*	*	*	*	
<i>Tax expenditure type:</i>		Exemption				<i>2005 TES code:</i>		D7
<i>Commencement date:</i>		1986						
<i>Expiry date:</i>								
<i>Legislative reference:</i>		Section 58L of the <i>Fringe Benefits Tax Assessment Act 1986</i>						

Benefits that meet the costs of travel away from a work place located in a foreign country in order to obtain medical treatment are exempt from fringe benefits tax. Accommodation and meals are also exempt if provided en route.

## Tax expenditures for social security and welfare

### D8 Exemption for safety award benefits up to \$200 per year per employee

Social security and welfare (\$m)								
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	
*	*	*	*	*	*	*	*	
<i>Tax expenditure type:</i>		Exemption				<i>2005 TES code:</i>		D8
<i>Commencement date:</i>		1986						
<i>Expiry date:</i>								
<i>Legislative reference:</i>		Section 58R of the <i>Fringe Benefits Tax Assessment Act 1986</i>						

An award related to occupational health or an occupational safety achievement that is granted to an employee is exempt from fringe benefits tax if its value does not exceed \$200 per year.

*Tax Expenditures Statement*

**D9 Exemption for recreational or childcare facilities on an employer's business premises**

Social security and welfare (\$m)							
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption					<i>2005 TES code:</i>	D9
<i>Commencement date:</i>	1986					<i>* Category:</i>	2+
<i>Expiry date:</i>							
<i>Legislative reference:</i>	Subsection 47(2) of the <i>Fringe Benefits Tax Assessment Act 1986</i>						

Recreational or childcare facilities are exempt from fringe benefits tax if the facilities are provided on an employer's business premises for the benefit of employees.

**D10 Exemption for employer contributions to secure childcare places in certain centres**

Social security and welfare (\$m)							
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption					<i>2005 TES code:</i>	D10
<i>Commencement date:</i>	1986					<i>* Category:</i>	1+
<i>Expiry date:</i>							
<i>Legislative reference:</i>	Subsection 47(8) of the <i>Fringe Benefits Tax Assessment Act 1986</i>						

Payments made by employers to obtain priority of access to certain childcare facilities for children of employees are exempt from fringe benefits tax if made under certain programs administered by the Australian Government.

**D11 Capped exemption for public benevolent institutions (excluding public hospitals)**

Social security and welfare (\$m)							
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
165	210	250	250	250	260	270	280
<i>Tax expenditure type:</i>	Exemption					<i>2005 TES code:</i>	D11
<i>Commencement date:</i>	2001						
<i>Expiry date:</i>							
<i>Legislative reference:</i>	Subsection 57A(1) of the <i>Fringe Benefits Tax Assessment Act 1986</i>						

Public benevolent institutions are provided with an exemption from fringe benefits tax on up to \$30,000 of the grossed-up taxable value of fringe benefits per employee. Prior to 1 April 2001, the exemption was not capped.

**D12 Exemption for accommodation, fuel and meals for live-in employees caring for the elderly or disadvantaged**

Social security and welfare (\$m)							
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption				<i>2005 TES code:</i>		D12
<i>Commencement date:</i>	1986				<i>* Category:</i>		1+
<i>Expiry date:</i>							
<i>Legislative reference:</i>	Sections 58 and 58U of the <i>Fringe Benefits Tax Assessment Act 1986</i>						

An exemption from fringe benefits tax applies to certain benefits that are provided to people employed in caring for elderly or disadvantaged persons and who reside with them in their own homes. The benefits that are exempt are accommodation, residential fuel, meals and other food and drink provided in the home to the employee.

**D13 Exemption for emergency assistance**

Social security and welfare (\$m)							
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption				<i>2005 TES code:</i>		D13
<i>Commencement date:</i>	1986				<i>* Category:</i>		1+
<i>Expiry date:</i>							
<i>Legislative reference:</i>	Section 58N of the <i>Fringe Benefits Tax Assessment Act 1986</i>						

Benefits provided by way of emergency assistance are exempt from fringe benefits tax. Emergency assistance includes certain first aid or other emergency health care; emergency meals, food supplies, clothing, accommodation, transport, or use of household goods; temporary repairs; and any other similar benefit.

**Tax expenditures for housing and community amenities****D14 Exemption for remote area housing and reduction in taxable value for remote area housing assistance**

Housing and community amenities (\$m)							
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
80	80	85	85	90	90	95	100
<i>Tax expenditure type:</i>	Exemption, reduction in taxable value				<i>2005 TES code:</i>		D14
<i>Commencement date:</i>	2000						
<i>Expiry date:</i>							
<i>Legislative reference:</i>	Sections 58ZC, 59, 60, and 65CC of the <i>Fringe Benefits Tax Assessment Act 1986</i>						

Housing benefits arise where an employer grants an employee the right to occupy or use a unit of accommodation as a usual place of residence. Such benefits provided to employees in remote areas are exempt from fringe benefits tax.

## Tax Expenditures Statement

The taxable value of housing assistance provided to employees in remote areas is generally reduced by 50 per cent. Housing assistance includes benefits such as housing loans, provision of residential fuel, provision of a discounted house and land, provision of a residential housing ownership scheme, and the payment or reimbursement of rent, the interest accrued on a housing loan and the cost of acquiring a house and land.

### D15 Exemption for housing provided by certain employers in regional areas

Housing and community amenities (\$m)								
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	
*	*	*	*	*	*	*	*	
<i>Tax expenditure type:</i>		Exemption				<i>2005 TES code:</i>		D15
<i>Commencement date:</i>		2000				<i>* Category:</i>		2+
<i>Expiry date:</i>								
<i>Legislative reference:</i>		Section 58ZC of the <i>Fringe Benefits Tax Assessment Act 1986</i>						

Housing benefits provided to employees by police, charities and certain public and non-profit hospitals in 'regional' areas are exempt from fringe benefits tax.

## Tax expenditures for other economic affairs

### D16 Discounted valuation of stand-by travel for airline employees and travel agents

Other economic affairs (A) (\$m)								
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	
20	25	20	20	20	20	20	20	
<i>Tax expenditure type:</i>		Discounted valuation				<i>2005 TES code:</i>		D16
<i>Commencement date:</i>		1986						
<i>Expiry date:</i>								
<i>Legislative reference:</i>		Sections 32 and 33 of the <i>Fringe Benefits Tax Assessment Act 1986</i>						

The taxable value of an airline transport fringe benefit for airline employees and travel agents is the stand-by value less the employee contribution. For domestic travel, the stand-by value is 37.5 per cent of the lowest publicly advertised, economy airfare charged by the provider, at or about the time of travel, over that route. For international travel, the stand-by value is 37.5 per cent of the lowest fare published in Australia as charged by the carrier for travel over that route in the 12 months preceding the end of the year of tax.



**D17 Exemption for certain long service awards for more than 15 years of service**

Other economic affairs (B) (\$m)							
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption					<i>2005 TES code:</i>	D17
<i>Commencement date:</i>	1986					<i>* Category:</i>	1+
<i>Expiry date:</i>							
<i>Legislative reference:</i>	Section 58Q of the <i>Fringe Benefits Tax Assessment Act 1986</i>						

Long service awards granted in recognition of 15 years or more service, up to a specified maximum amount, are exempt from fringe benefits tax.

From 1 April 2005, the specified maximum amount increased from \$500 to \$1,000 where the period of service being recognised by the award is 15 years. From 1 April 2005, the maximum additional amount increased from \$50 to \$100 for each additional year served where an award recognises a period of service greater than 15 years.

**D18 Exemption for certain benefits provided to employees training under the Australian Traineeship System**

Other economic affairs (B) (\$m)							
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption					<i>2005 TES code:</i>	D18
<i>Commencement date:</i>	1986					<i>* Category:</i>	1+
<i>Expiry date:</i>							
<i>Legislative reference:</i>	Section 58S of the <i>Fringe Benefits Tax Assessment Act 1986</i>						

Food, drink and accommodation provided to people training under the Australian Traineeship System may be exempt from fringe benefits tax. To be exempt, the benefits must be provided in accordance with an award or an industry custom and must not be provided at a party, reception or other social function.

*Tax Expenditures Statement*

**D19 Exemption for certain relocation and recruitment expenses**

Other economic affairs (B) (\$m)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
	*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption					<i>2005 TES code:</i>		D19
<i>Commencement date:</i>	1986					<i>* Category:</i>		2+
<i>Expiry date:</i>								
<i>Legislative reference:</i>	Sections 58A to 58D and 58F of the <i>Fringe Benefits Tax Assessment Act 1986</i>							

Certain benefits associated with relocation and recruitment expenses are exempt from fringe benefits tax. The exemption applies to benefits associated with the cost of travelling to attend an interview or selection test, the cost of removal and storage of household effects, costs associated with the sale and/or purchase of a dwelling, costs associated with connecting or reconnecting certain utilities and the costs of providing relocation transport and any meals and accommodation en route.

**D20 Reduction in taxable value of certain relocation and recruitment expenses**

Other economic affairs (B) (\$m)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
	*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Reduction in taxable value					<i>2005 TES code:</i>		D20
<i>Commencement date:</i>	1986					<i>* Category:</i>		2+
<i>Expiry date:</i>								
<i>Legislative reference:</i>	Sections 61B to 61E of the <i>Fringe Benefits Tax Assessment Act 1986</i>							

Reductions in taxable value are provided for fringe benefits associated with certain relocation and recruitment expenses. This includes benefits associated with cents per kilometre reimbursements for transport in an employee's car for relocation travel or travel to attend an interview or selection test, the provision of temporary accommodation, and meals provided to an employee (or family member) while staying in a hotel, motel, hostel or guesthouse which is used for temporary accommodation while relocating.

### D21 Exemption for compensation-related benefits, occupational health and counselling services and some training courses

Other economic affairs (B) (\$m)							
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption					<i>2005 TES code:</i>	D21
<i>Commencement date:</i>	1986					<i>* Category:</i>	2+
<i>Expiry date:</i>							
<i>Legislative reference:</i>	Sections 58J, 58K and 58M of the <i>Fringe Benefits Tax Assessment Act 1986</i>						

Certain benefits in relation to compensable work-related trauma, medical services and other forms of health care provided in work site first aid posts and medical clinics, work-related medical examinations, work-related medical screening, work-related preventative health care, work-related counselling and migrant language training are exempt from fringe benefits tax.

### D22 Reduction in taxable value for reimbursements of car expenses incurred for occupational health and counselling services and some training courses

Other economic affairs (B) (\$m)							
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Reduction in taxable value					<i>2005 TES code:</i>	D22
<i>Commencement date:</i>	1986					<i>* Category:</i>	1+
<i>Expiry date:</i>							
<i>Legislative reference:</i>	Section 61F of the <i>Fringe Benefits Tax Assessment Act 1986</i>						

The taxable value of a fringe benefit may be reduced where an employee travels in their own car for the purpose of attending a work-related medical examination, screening, preventative health care or counselling session, or for migrant language training and is reimbursed on a cents per kilometre basis for the car expenses incurred.

### D23 Exemption for certain loan benefits

Other economic affairs (C) (\$m)							
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption					<i>2005 TES code:</i>	D23
<i>Commencement date:</i>	1986					<i>* Category:</i>	na
<i>Expiry date:</i>							
<i>Legislative reference:</i>	Section 17 of the <i>Fringe Benefits Tax Assessment Act 1986</i>						

Certain in-house loan benefits and certain loans to employees to meet employment-related expenses are exempt from fringe benefits tax.

## Tax Expenditures Statement

### D24 Application of statutory formula to value car benefits

Other economic affairs (C) (\$m)							
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
1,030	1,070	1,100	1,130	1,070	1,080	1,110	1,140
<i>Tax expenditure type:</i>	Discounted valuation					<i>2005 TES code:</i>	D24
<i>Commencement date:</i>	1986						
<i>Expiry date:</i>							
<i>Legislative reference:</i>	Section 9 of the <i>Fringe Benefits Tax Assessment Act 1986</i>						

Under the fringe benefits tax benchmark, the value of a car fringe benefit is the cost of providing the vehicle (for instance, where the vehicle is provided under a lease, the value of the lease payments) plus the associated vehicle running costs. The statutory formula method for valuing car fringe benefits values the benefit as a proportion of the acquisition cost of the vehicle, which declines as distance travelled by the vehicle each year increases. This approach may result in the undervaluation of the benefit when calculating fringe benefits tax with the result that less tax is paid on car fringe benefits than would be if the cost of the benefit were paid by the employee out of after tax cash remuneration.

### D25 Record keeping exemption

Other economic affairs (C) (\$m)							
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
..	..	..	..	..	..	..	..
<i>Tax expenditure type:</i>	Record keeping valuation					<i>2005 TES code:</i>	D25
<i>Commencement date:</i>	1998						
<i>Expiry date:</i>							
<i>Legislative reference:</i>	Section 135A of the <i>Fringe Benefits Tax Assessment Act 1986</i>						

If certain conditions are satisfied, an employer need not keep or retain full fringe benefits tax records. Employers' liability to pay tax is based on their liability in their most recent base year instead of the current year.

From 1 July 2007, small businesses with average turnover of less than \$2 million will be able to access this concession under the Small Business Framework (B55) without having to satisfy any other eligibility criteria.

**D26 Exemption for small business employee car parking**

Other economic affairs (C) (\$m)								
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	
12	13	13	14	13	14	14	15	
<i>Tax expenditure type:</i>		Exemption				<i>2005 TES code:</i>		D26
<i>Commencement date:</i>		1997						
<i>Expiry date:</i>								
<i>Legislative reference:</i>		Section 58GA of the <i>Fringe Benefits Tax Assessment Act 1986</i>						

Car parking benefits provided by small business employers are exempt from fringe benefits tax if the parking is not provided in a commercial car park, the employer is neither a government body, nor a listed public company, nor a subsidiary of a listed public company and the employer's total income is less than \$10 million.

**Tax expenditures for transport and communications****D27 Exemption for free or discounted commuter travel for employees of public transport providers**

Transport and communications (\$m)								
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	
60	65	70	70	70	70	70	75	
<i>Tax expenditure type:</i>		Exemption				<i>2005 TES code:</i>		D27
<i>Commencement date:</i>		1986						
<i>Expiry date:</i>								
<i>Legislative reference:</i>		Subsection 47(1) of the <i>Fringe Benefits Tax Assessment Act 1986</i>						

Where an employer operates a business of providing transport to the public, the provision of free or discounted travel (other than in an aircraft) to employees of that business for the purpose of their travelling to and from work is exempt from fringe benefits tax. Where an employee's place of work is in a metropolitan area, free or discounted travel on a scheduled service within that area is also exempt from fringe benefits tax.

*Tax Expenditures Statement*

**D28 Exemption for employee taxi travel arriving at or leaving from place of work**

Transport and communications (\$m)							
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption					<i>2005 TES code:</i>	D28
<i>Commencement date:</i>	1997					<i>* Category:</i>	2+
<i>Expiry date:</i>							
<i>Legislative reference:</i>	Section 58Z of the <i>Fringe Benefits Tax Assessment Act 1986</i>						

Any benefit arising from taxi travel by an employee is exempt from fringe benefits tax if the travel is a single trip beginning or ending at the employee's place of work.

**D29 Exemption for free or discounted travel to and from duty by police officers on public transport**

Transport and communications (\$m)							
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
5	5	5	5	5	5	5	5
<i>Tax expenditure type:</i>	Exemption					<i>2005 TES code:</i>	D29
<i>Commencement date:</i>	2000						
<i>Expiry date:</i>							
<i>Legislative reference:</i>	Subsection 47(1A) of the <i>Fringe Benefits Tax Assessment Act 1986</i>						

The provision of travel on public transport to police officers for the purpose of travel between the officer's place of residence and their primary place of employment is exempt from fringe benefits tax.

**Miscellaneous tax expenditures**

**D30 Partial rebate for certain non-profit, non-government bodies**

Not allocated to function (\$m)							
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
25	20	20	19	13	14	14	15
<i>Tax expenditure type:</i>	Rebate					<i>2005 TES code:</i>	D30
<i>Commencement date:</i>	1994						
<i>Expiry date:</i>							
<i>Legislative reference:</i>	Section 65J of the <i>Fringe Benefits Tax Assessment Act 1986</i>						

Certain non-profit, non-government bodies are eligible for a 48 per cent rebate of the fringe benefits tax that would otherwise be payable on up to \$30,000 of the grossed-up taxable value of fringe benefits per employee. Prior to 1 April 2001, the rebate was not subject to the \$30,000 cap.

**D31 Exemption for benefits in relation to certain compassionate travel**

Not allocated to function (\$m)							
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption					<i>2005 TES code:</i>	D31
<i>Commencement date:</i>	1986					<i>* Category:</i>	1+
<i>Expiry date:</i>							
<i>Legislative reference:</i>	Section 58LA of the <i>Fringe Benefits Tax Assessment Act 1986</i>						

Certain benefits provided in connection with compassionate travel are exempt from fringe benefits tax. The exemption applies to the cost of transport, meals and accommodation for the person travelling.

**D32 Exemption for certain fringe benefits provided to religious practitioners**

Not allocated to function (\$m)							
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
260	270	290	300	290	300	320	330
<i>Tax expenditure type:</i>	Exemption					<i>2005 TES code:</i>	D32
<i>Commencement date:</i>	1986						
<i>Expiry date:</i>							
<i>Legislative reference:</i>	Section 57 of the <i>Fringe Benefits Tax Assessment Act 1986</i>						

Benefits provided to an employee of a religious institution are exempt from fringe benefits tax if the employee is a religious practitioner and the benefit is provided principally in respect of pastoral duties or any other duties that are directly related to the practice, study, teaching or propagation of religious beliefs.

**D33 Exemption for certain benefits provided to live-in employees who provide domestic services and are employed by religious institutions or religious practitioners**

Not allocated to function (\$m)							
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption					<i>2005 TES code:</i>	D33
<i>Commencement date:</i>	1986					<i>* Category:</i>	2+
<i>Expiry date:</i>							
<i>Legislative reference:</i>	Section 58T of the <i>Fringe Benefits Tax Assessment Act 1986</i>						

Accommodation, household fuel, meals and other food and drink provided to live-in employees who provide domestic services and are employed by religious institutions or religious practitioners are exempt from fringe benefits tax.

*Tax Expenditures Statement*

**D34 Discounted valuation of arm's length transaction price for in-house property and residual fringe benefits**

Not allocated to function (\$m)							
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Discounted valuation				<i>2005 TES code:</i>		D34
<i>Commencement date:</i>	1986				<i>* Category:</i>		na
<i>Expiry date:</i>							
<i>Legislative reference:</i>	Sections 42, 48 and 49 of the <i>Fringe Benefits Tax Assessment Act 1986</i>						

The taxable value of in-house property fringe benefits and in-house residual fringe benefits is 75 per cent of the lowest retail price charged to the public in the ordinary course of business.

**D35 Exemption for airline transport fringe benefits and certain in-house benefits**

Not allocated to function (\$m)							
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption				<i>2005 TES code:</i>		D35
<i>Commencement date:</i>	1986				<i>* Category:</i>		2+
<i>Expiry date:</i>							
<i>Legislative reference:</i>	Section 62 of the <i>Fringe Benefits Tax Assessment Act 1986</i>						

A rule applies to certain in-house and airline transport fringe benefits to reduce the taxable value by up to \$500 per employee. This will increase to \$1,000 from 1 April 2007.

**D36 Discounted valuation for car parking fringe benefits**

Not allocated to function (\$m)							
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
13	14	16	19	19	21	23	24
<i>Tax expenditure type:</i>	Discounted valuation				<i>2005 TES code:</i>		D36
<i>Commencement date:</i>	1993						
<i>Expiry date:</i>							
<i>Legislative reference:</i>	Section 39A of the <i>Fringe Benefits Tax Assessment Act 1986</i>						

A car parking fringe benefit only arises if within a one kilometre radius of the premises on which the car is parked there is a commercial parking station that charges a fee for all day parking that is more than a specified car parking threshold. The value of the car parking fringe benefit can be calculated by one of five methods.



**D37 Exemption for motor vehicle parking and car parking fringe benefits provided by certain employers**

Not allocated to function (\$m)							
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption					<i>2005 TES code:</i>	D37
<i>Commencement date:</i>	1986, 1993					<i>* Category:</i>	2+
<i>Expiry date:</i>							
<i>Legislative reference:</i>	Section 58G of the <i>Fringe Benefits Tax Assessment Act 1986</i> Regulation 13A of the <i>Fringe Benefits Tax Regulations 1992</i>						

Motor vehicle parking, which is employer-provided parking that is not a car parking fringe benefit, is exempt from fringe benefits tax. Car parking fringe benefits provided by scientific, religious, charitable or public education institutions and car parking fringe benefits provided for certain disabled employees are also exempt from fringe benefits tax.

**D38 Reduction in taxable value for holiday transport for employees posted overseas**

Not allocated to function (\$m)							
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Reduction in taxable value					<i>2005 TES code:</i>	D38
<i>Commencement date:</i>	1986					<i>* Category:</i>	1+
<i>Expiry date:</i>							
<i>Legislative reference:</i>	Section 61A of the <i>Fringe Benefits Tax Assessment Act 1986</i>						

The taxable value of certain fringe benefits in relation to holiday transport for employees posted overseas may be reduced. The reduction in taxable value depends on whether the travel is to the employee's home country or to some other destination.

**D39 Exemption for transport for oil rig and remote area employees in certain circumstances**

Not allocated to function (\$m)							
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption					<i>2005 TES code:</i>	D39
<i>Commencement date:</i>	1986					<i>* Category:</i>	1+
<i>Expiry date:</i>							
<i>Legislative reference:</i>	Subsection 47(7) of the <i>Fringe Benefits Tax Assessment Act 1986</i>						

Transport provided to employees in remote areas or who work on oil rigs or other installations at sea may be exempt from fringe benefits tax. The exemption applies where the employees are provided with accommodation at or near the work site on

## Tax Expenditures Statement

working days and it would be unreasonable to expect the employees to travel to and from work on a daily basis.

### D40 Reduction in taxable value for remote area holiday benefits

Not allocated to function (\$m)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
	*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Reduction in taxable value						<i>2005 TES code:</i>	D40
<i>Commencement date:</i>	1986						<i>* Category:</i>	1+
<i>Expiry date:</i>								
<i>Legislative reference:</i>	Sections 60A and 61 of the <i>Fringe Benefits Tax Assessment Act 1986</i>							

The value of holiday related transport benefits (including the cost of appropriate meals and accommodation en route) provided to employees working in a remote area (and any family members living with them in the remote area) are generally reduced by 50 per cent.

### D41 Exemption for minor benefits

Not allocated to function (\$m)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
	*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption						<i>2005 TES code:</i>	D41
<i>Commencement date:</i>	1986						<i>* Category:</i>	2+
<i>Expiry date:</i>								
<i>Legislative reference:</i>	Section 58P of the <i>Fringe Benefits Tax Assessment Act 1986</i>							

Minor benefits may be exempt from fringe benefits tax. Minor benefits are benefits that are less than \$100 in value infrequently provided and/or are difficult to record and value. This will increase to \$300 in value from 1 April 2007. It must also be unreasonable to treat the minor benefit as a fringe benefit.

### D42 Exemption for private use of business property

Not allocated to function (\$m)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
	*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption						<i>2005 TES code:</i>	D42
<i>Commencement date:</i>	1986						<i>* Category:</i>	3+
<i>Expiry date:</i>								
<i>Legislative reference:</i>	Sections 41 and 47(3) of the <i>Fringe Benefits Tax Assessment Act 1986</i>							

Property provided on the employer's business premises and consumed by the employee on a working day may be exempt from fringe benefits tax. The use of property (other than a motor vehicle) that is ordinarily located on the employer's

business premises and is principally used directly in connection with business operations is also exempt from fringe benefits tax.

#### D43 Exemption for certain allowances and accommodation and food benefits

Not allocated to function (\$m)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
	*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption					<i>2005 TES code:</i>		D43
<i>Commencement date:</i>	1986					<i>* Category:</i>		2+
<i>Expiry date:</i>								
<i>Legislative reference:</i>	Sections 21, 31, 47(5), 58E, 58ZD and 63 of the <i>Fringe Benefits Tax Assessment Act 1986</i>							

Certain allowances, accommodation and food benefits provided to employees living away from their usual place of residence in order to perform their duties of employment are exempt from fringe benefits tax.

#### D44 Exemption for minor private use of company motor vehicle

Not allocated to function (\$m)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
	*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption					<i>2005 TES code:</i>		D44
<i>Commencement date:</i>	1986					<i>* Category:</i>		na
<i>Expiry date:</i>								
<i>Legislative reference:</i>	Subsection 47(6) of the <i>Fringe Benefits Tax Assessment Act 1986</i>							

Where an employee is provided with the use of a motor vehicle that is not a car, such use is exempt from fringe benefits tax if any private use is restricted to travel to and from work, use which is incidental to travel in the course of duties of employment, and non-work-related use that is minor, infrequent and irregular.

#### D45 Capped exemption for charities promoting the prevention or control of disease in human beings

Not allocated to function (\$m)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
	8	13	19	19	19	19	20	20
<i>Tax expenditure type:</i>	Exemption					<i>2005 TES code:</i>		D45
<i>Commencement date:</i>	2001							
<i>Expiry date:</i>								
<i>Legislative reference:</i>	Subsection 57A(5) of the <i>Fringe Benefits Tax Assessment Act 1986</i>							

Charitable institutions whose principal activity is to promote the prevention or control of diseases in human beings are provided with an exemption from fringe benefits tax

## Tax Expenditures Statement

on up to \$30,000 of the grossed-up taxable value of fringe benefits per employee. These institutions were provided with an uncapped exemption from 1 April 1998 to 1 April 2001 and a capped exemption thereafter.

### **D46 Exemption for certain payments to approved worker entitlement funds**

Not allocated to function (\$m)

2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	
-	-	210	230	230	240	250	250	
<i>Tax expenditure type:</i>	Exemption						<i>2005 TES code:</i>	D46
<i>Commencement date:</i>	2003							
<i>Expiry date:</i>								
<i>Legislative reference:</i>	Sections 58PA, 58PB and 58PC of the <i>Fringe Benefits Tax Assessment Act 1986</i>							

Payments to approved worker entitlement funds for the purposes of providing for entitlements such as redundancy and long service leave are exempt from fringe benefits tax. The funds must be either prescribed by regulation or be a long service leave fund established under a Commonwealth, state or territory law.

### **D47 Exemption for engagement of a relocation consultant**

Not allocated to function (\$m)

2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10		
-	-	-	-	*	*	*	*		
<i>Tax expenditure type:</i>	Exemption						<i>2005 TES code:</i>	D47	
<i>Commencement date:</i>	2006							<i>* Category:</i>	1+
<i>Expiry date:</i>									
<i>Legislative reference:</i>	58AA of the <i>Fringe Benefits Tax Assessment Act 1986</i>								

Costs associated with the engagement of a relocation consultant where an employee moves residence as part of their employment are exempt from fringe benefits tax if certain criteria are met. A relocation consultant is a person who assists an employee, or his or her family members, to move and settle into a new location.

**D48 Exemption for eligible work-related items**

Not allocated to function (\$m)								
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	
140	160	200	240	270	310	360	420	
<i>Tax expenditure type:</i>	Exemption					<i>2005 TES code:</i>	D48	
<i>Commencement date:</i>	1995							
<i>Expiry date:</i>								
<i>Legislative reference:</i>	Section 58X of the <i>Fringe Benefits Tax Assessment Act 1986</i>							

Eligible work-related items (such as mobile phones, laptop computers, protective clothing and tools of trade) provided by an employer to an employee are exempt from fringe benefits tax.

**D49 Discounted valuation for board fringe benefits**

Not allocated to function (\$m)								
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	
10	10	9	9	8	8	8	8	
<i>Tax expenditure type:</i>	Discounted valuation					<i>2005 TES code:</i>	D49	
<i>Commencement date:</i>	1986							
<i>Expiry date:</i>								
<i>Legislative reference:</i>	Section 36 of the <i>Fringe Benefits Tax Assessment Act 1986</i>							

Certain meals provided to employees under an industrial award or employment arrangement (known as board fringe benefits) are valued at concessional rates for the purposes of fringe benefits tax.

The taxable value of a board fringe benefit is \$2 per meal per person, or \$1 per meal per person if the person is under the age of 12. Any amount paid for the meal is deducted.

**D50 Exemption for the provision of food and drink in certain circumstances**

Not allocated to function (\$m)								
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	
*	*	*	*	*	*	*	*	
<i>Tax expenditure type:</i>	Exemption					<i>2005 TES code:</i>	D50	
<i>Commencement date:</i>	1986					<i>* Category:</i>	1+	
<i>Expiry date:</i>								
<i>Legislative reference:</i>	Sections 54 and 58V of the <i>Fringe Benefits Tax Assessment Act 1986</i>							

Where employees receive meals that are board fringe benefits, any additional food and drink supplied to them, such as morning and afternoon teas, is exempt from fringe benefits tax. Food and drink provided to domestic employees who do not 'live-in' may be exempt from fringe benefits tax if consumed by the employee at the place of

## Tax Expenditures Statement

employment and the employer is a religious institution or natural person. See D49 for the description of board fringe benefits.

## CAPITAL GAINS TAX

### Tax expenditures for defence

#### E1 Capital gains tax exemption for valour or brave conduct decorations

Defence (\$m)								
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	
..	..	..	..	..	..	..	..	
<i>Tax expenditure type:</i>		Exemption				<i>2005 TES code:</i>		E1
<i>Commencement date:</i>		1985						
<i>Expiry date:</i>								
<i>Legislative reference:</i>		Paragraph 118-5(b) ITAA97						

Capital gains or losses arising from the disposal of a decoration awarded for valour or brave conduct are exempt from capital gains tax. This exemption is not available if the owner of the decoration had paid money or given any other property for it.

### Tax expenditures for housing and community amenities

#### E2 Capital gains tax concessions for conservation covenants

Housing and community amenities (\$m)								
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	
..	..	..	..	..	..	..	..	
<i>Tax expenditure type:</i>		Exemption				<i>2005 TES code:</i>		E2
<i>Commencement date:</i>		2000						
<i>Expiry date:</i>								
<i>Legislative reference:</i>		Section 104-47 ITAA97						

For capital gains tax (CGT) purposes, perpetual conservation covenants are treated as a part disposal of the land, rather than the creation of a right. This treatment results in a reduced capital gain because a portion of the cost base of the land is taken into account. Previously the capital gain equalled the amount received for the covenant less incidental costs.

Landowners can also benefit from any CGT concession or exemption that may apply to the capital gain. For example, a capital gain from a covenant granted in respect of land owned before 20 September 1985 is exempt. In addition, the capital gains tax discount may now apply if the land has been owned for at least 12 months.

**E3 Capital gains tax main residence exemption**

Housing and community amenities (\$m)							
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption					<i>2005 TES code:</i>	E3
<i>Commencement date:</i>	1985					<i>* Category:</i>	4+
<i>Expiry date:</i>							
<i>Legislative reference:</i>	Subdivision 118-B ITAA97						

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

- A taxpayer is entitled to treat a dwelling as their main residence from the time they acquire it until the time when they first occupy it provided they occupy it as soon as practicable.
- A taxpayer is entitled to treat a dwelling as their main residence indefinitely if it was the main residence and then ceases to be their main residence provided it is not used to produce assessable income.
- A taxpayer is entitled to acquire a dwelling that is to become their main residence, whilst still owning an existing dwelling and treat both dwellings as their main residence for up to six months or until their ownership of the existing dwelling ends, whichever occurs first.
- A taxpayer is entitled to treat a block of land as their main residence, if the land was acquired for the purposes of building a dwelling, the dwelling is completed within four years of acquiring the land, the taxpayer moves into the dwelling as soon as practicable and the dwelling continues to be their main residence for at least three months.

**E4 Extensions to the capital gains tax main residence exemption**

Housing and community amenities (\$m)							
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption					<i>2005 TES code:</i>	E3
<i>Commencement date:</i>	1985 and 1997					<i>* Category:</i>	3+
<i>Expiry date:</i>							
<i>Legislative reference:</i>	Sections 118-145, 118-190 and 118-200 ITAA97						

A taxpayer's dwelling may continue to be treated as their main residence for up to six years (the six year rule) even if the dwelling ceases to be their main residence and is used to produce assessable income. This is provided that no other dwelling is treated as the taxpayer's main residence during this time.

## Tax Expenditures Statement

In addition, from 20 August 1996, a taxpayer who receives a dwelling as beneficiary of a deceased estate, or who owns the dwelling as the trustee of a deceased estate, may be able to ignore for capital gains tax purposes, any use of the dwelling to produce assessable income by the deceased prior to their death if:

- the dwelling was the deceased's main residence before their death; and
- it was not being used to produce assessable income at the time of the deceased's death or, if the dwelling was used to produce assessable income, that use was ignored under the six year rule.

### Tax expenditures for recreation and culture

#### E5 Capital gains tax exemption for the disposal of assets under the Cultural Bequests and Cultural Gifts programmes

Recreation and culture (\$m)

2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption					<i>2005 TES code:</i>	E4
<i>Commencement date:</i>	1994, expanded in 1999					<i>* Category:</i>	1+
<i>Expiry date:</i>							
<i>Legislative reference:</i>	Section 118-60 ITAA97						

Capital gains or losses arising from testamentary gifts made under the Cultural Bequests and Cultural Gifts programmes are exempt from capital gains tax.

### Tax expenditures for other economic affairs

#### E6 Capital gains tax roll-over relief for financial service providers on transition to the Financial Services Reform regime

Other economic affairs (C) (\$m)

2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Deferral					<i>2005 TES code:</i>	E7
<i>Commencement date:</i>	2002					<i>* Category:</i>	2+
<i>Expiry date:</i>	2004						
<i>Legislative reference:</i>	Subdivision 124-O ITAA97						

An automatic capital gains tax (CGT) roll-over is available to eligible financial service providers on transition to the Financial Services Reform regime. Financial service providers were provided the roll-over when, during the Financial Services Reform transitional period:



- an existing statutory licence, registration or authority was replaced with an Australian financial services licence;
- a qualified Australian financial services licence was replaced with an Australian financial services licence; or
- an intangible CGT asset was replaced with another intangible CGT asset.

### E7 Capital gains tax exemption for assets acquired before 20 September 1985

Other economic affairs (C) (\$m)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
	*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption					<i>2005 TES code:</i>		E8
<i>Commencement date:</i>	1985					<i>* Category:</i>		na
<i>Expiry date:</i>								
<i>Legislative reference:</i>	Subdivision 104-A ITAA97							

Capital gains or losses on assets acquired before 20 September 1985 (the commencement date of the capital gains tax regime) are generally exempt from capital gains tax.

### E8 Capital gains tax roll-over relief for transfer of assets on marriage breakdown

Other economic affairs (C) (\$m)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
	*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Deferral					<i>2005 TES code:</i>		E9
<i>Commencement date:</i>	1985					<i>* Category:</i>		2+
<i>Expiry date:</i>								
<i>Legislative reference:</i>	Subdivision 126-A ITAA97							

An automatic roll-over is available where a capital gains tax (CGT) asset is transferred to a spouse or former spouse because of a marriage breakdown.

The Government announced in the 2005-06 Budget that it will extend the existing CGT roll-over on marriage breakdown to assets transferred 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, with effect after the date of Royal Assent. This legislation is pending.

*Tax Expenditures Statement*

**E9 Capital gains tax deferral of liability when taxpayer dies**

Other economic affairs (C) (\$m)							
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Deferral					<i>2005 TES code:</i>	E10
<i>Commencement date:</i>	1985					<i>* Category:</i>	na
<i>Expiry date:</i>							
<i>Legislative reference:</i>	Division 128 ITAA97						

Generally, there is no capital gains tax taxing point when a taxpayer dies. Recognition of the gains or losses accruing during the life of the deceased is deferred until the person inheriting the asset later disposes of it. An exception applies if the capital gains tax asset passes to an exempt entity, the trustee of a complying superannuation entity, or a non-resident of Australia.

**E10 Capital gains tax exemption of non-portfolio interests in foreign companies with active businesses**

Other economic affairs (C) (\$m)							
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
-	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption					<i>2005 TES code:</i>	E11
<i>Commencement date:</i>	April 2004					<i>* Category:</i>	2+
<i>Expiry date:</i>							
<i>Legislative reference:</i>	Subdivision 768-G ITAA97						

Capital gains and losses by Australian companies and controlled foreign companies arising from certain capital gains tax events related to non-portfolio interests in foreign companies with active business interests are reduced.

**E11 Tax exemption for certain foreign investment in venture capital**

Other economic affairs (C) (\$m)							
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
-	-	-	-	-	*	*	*
<i>Tax expenditure type:</i>	Exemption					<i>2005 TES code:</i>	E12
<i>Commencement date:</i>	1999, extended in 2002 and 2006					<i>* Category:</i>	na
<i>Expiry date:</i>							
<i>Legislative reference:</i>	Sections 51-54, 51-55 and Subdivisions 118-F and 118-G of the ITAA97; enhancements not yet legislated						

Certain non-resident investors are exempt from tax on profits and gains in respect of their eligible venture capital investments.

The concession introduced in 1999 provides an exemption from tax on the disposal of investments in new equity in eligible venture capital investments to non-resident

pension funds that are tax exempt in their home jurisdiction (being either Canada, France, Germany, Japan, the United Kingdom, the United States or other approved jurisdictions).

The concession introduced in 2002 provides an exemption from tax on the profits and gains in equity investments made by a venture capital limited partnership to certain non-resident partners in the partnership. The exemption is available to a partner who is a tax exempt resident of Canada, France, Germany, Japan, the United Kingdom, the United States or other approved jurisdictions, a venture capital fund of funds established and maintained in those countries, or a taxable resident of Canada, Finland, France, Germany, Italy, Japan, the Netherlands (excluding the Netherlands Antilles), New Zealand, Norway, Sweden, Taiwan, the United Kingdom, the United States or other approved jurisdictions, that holds less than 10 per cent of the committed capital of a venture capital limited partnership.

The Government announced in the 2006-07 Budget that the venture capital limited partnerships regime will be enhanced by:

- removing a range of restrictions including allowing investment in unit trusts and convertible notes as well as shares;
- relaxing the requirement that 50 per cent of assets and employees must be in Australia for 12 months after making the investment; and
- removing restrictions on the country of residence of investors.

## **E12 Small business capital gains tax 50 per cent reduction**

Other economic affairs (C) (\$m)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
	160	220	300	390	390	440	480	510
<i>Tax expenditure type:</i>	Exemption						<i>2005 TES code:</i>	E13
<i>Commencement date:</i>	1999							
<i>Expiry date:</i>								
<i>Legislative reference:</i>	Subdivision 152-C ITAA97							

50 per cent of the capital gains arising from the sale of active assets in an eligible small business are exempt from capital gains tax (CGT). This applies in addition to any CGT discount entitlement of the taxpayer. Active assets include assets used in carrying on a business and intangible assets inherently connected with a business (for example, goodwill). An eligible small business is one where the net value of assets that the taxpayer and connected entities own is no more than \$5 million (this asset test will be increased to \$6 million from 1 July 2007).

## Tax Expenditures Statement

From 1 July 2007, small businesses with average annual turnover of less than \$2 million will be able to access this concession under the Small Business Framework (B55) without having to satisfy the net value of assets test.

### E13 Capital gains tax roll-over for small business

Other economic affairs (C) (\$m)							
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
75	85	125	110	110	125	135	145
<i>Tax expenditure type:</i>	Deferral					<i>2005 TES code:</i>	E14
<i>Commencement date:</i>	1997						
<i>Expiry date:</i>							
<i>Legislative reference:</i>	Subdivision 152-E ITAA97						

A capital gains tax roll-over is available for capital gains arising from the disposal of active small business assets if the proceeds of the sale are used to purchase other active small business assets. Active assets include assets used in carrying on a business and intangible assets inherently connected with a business (for example, goodwill). An eligible small business is one where the net value of assets that the taxpayer and connected entities own is no more than \$5 million (this asset test will be increased to \$6 million from 1 July 2007).

From 1 July 2007, small businesses with average annual turnover of less than \$2 million will be able to access this concession under the Small Business Framework (B55) without having to satisfy the net value of assets test.

### E14 Capital gains tax discount for individuals and trusts

Other economic affairs (C) (\$m)							
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
2,700	2,990	4,170	4,960	4,980	4,870	5,090	5,340
<i>Tax expenditure type:</i>	Exemption					<i>2005 TES code:</i>	E15
<i>Commencement date:</i>	15 September 1999						
<i>Expiry date:</i>							
<i>Legislative reference:</i>	Division 115 ITAA97						

A capital gains tax exemption applies to 50 per cent of any nominal capital gain made by an individual or trust where the asset has been owned for at least one year. For assets acquired prior to 21 September 1999 and held for at least one year, an individual or trust may instead choose to be taxed on the difference between the disposal price and the indexed cost base frozen as at 30 September 1999.

**E15 Capital gains tax roll-over relief for worker entitlement funds**

Other economic affairs (B) (\$m)							
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
-	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Deferral					<i>2005 TES code:</i>	E5
<i>Commencement date:</i>	2003					<i>* Category:</i>	2+
<i>Expiry date:</i>							
<i>Legislative reference:</i>	Subdivision 126-C ITAA97						

Capital gains tax roll-over relief is available for a fund that amends or replaces its trust deed in order to become an approved worker entitlement fund for fringe benefits tax purposes.

**E16 Capital gains tax scrip-for-scrip roll-over relief**

Other economic affairs (C) (\$m)							
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
195	-1	4	95	12	7	2	-5
<i>Tax expenditure type:</i>	Deferral					<i>2005 TES code:</i>	E16
<i>Commencement date:</i>	1999						
<i>Expiry date:</i>							
<i>Legislative reference:</i>	Subdivision 124-M ITAA97						

Capital gains tax roll-over relief is available for capital gains arising from an exchange of interests in companies or fixed trusts. The roll-over relief allows an equity holder who exchanges original shares or other equity for new equity in a takeover or merger to defer a capital gains tax liability arising from the exchange until the ultimate disposal of the replacement asset. This tax expenditure is likely to vary considerably depending upon actual takeover and merger activity. Estimates for the projection years are based on the average activity in preceding periods.

**E17 Capital gains tax roll-over relief for assets compulsorily acquired, lost or destroyed**

Other economic affairs (C) (\$m)							
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Deferral					<i>2005 TES code:</i>	E17
<i>Commencement date:</i>	1985					<i>* Category:</i>	na
<i>Expiry date:</i>							
<i>Legislative reference:</i>	Subdivision 124-B ITAA97						

Capital gains tax roll-over relief is available for capital gains where an asset is compulsorily acquired by the Commonwealth, a State or a Territory or an authority of such a government, or where the asset is lost or destroyed, provided the taxpayer purchases a replacement asset.

## Tax Expenditures Statement

This roll-over relief has also been extended to certain situations involving private acquirers, with effect to disposals on or after 11 November 1999. The most important of these is where a private acquirer compulsorily acquires an asset from the taxpayer through recourse to a statutory power.

### E18 Capital gains tax discount for investors in listed investment companies

Other economic affairs (C) (\$m)							
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
20	20	20	20	20	20	20	20
<i>Tax expenditure type:</i>	Deduction					<i>2005 TES code:</i>	E18
<i>Commencement date:</i>	1 July 2001						
<i>Expiry date:</i>							
<i>Legislative reference:</i>	Subdivision 115D ITAA97						

The shareholders of a listed investment company (LIC) who receive dividends that represent a distribution of capital gains made by that company are entitled to a deduction in respect of those dividends equivalent to the capital gains tax discount they would have received if they had realised the capital gains themselves. This concession applies in respect of gains realised by a LIC on or after 1 July 2001, provided the assets have been held by the LIC for at least 12 months.

### E19 Capital gains tax roll-over relief and exemption and related taxation relief for demergers

Other economic affairs (C) (\$m)							
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Deferral, exemption					<i>2005 TES code:</i>	E19
<i>Commencement date:</i>	2002					<i>* Category:</i>	3+
<i>Expiry date:</i>							
<i>Legislative reference:</i>	Division 125 ITAA97, Section 45B ITAA36						

Capital gains tax (CGT) concessions are available to defer or exempt the CGT payable in respect of the restructuring of a corporate or trust group, where the group is split into two or more entities or groups (that is, by demerging). There are three elements to demerger relief:

- CGT roll-over relief at the shareholder or trust membership interest level for interests such as shares that are exchanged during the demerger process;
- a CGT exemption for certain capital gains and losses at the entity level; and
- an income tax exemption for certain 'demerger dividends'.

These concessions are available to demergers that occur on or after 1 July 2002.

### E20 Removal of taxation of certain financial instruments at point of conversion or exchange

Other economic affairs (C) (\$m)							
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Deferral					<i>2005 TES code:</i>	E20
<i>Commencement date:</i>	2002					<i>* Category:</i>	2+
<i>Expiry date:</i>							
<i>Legislative reference:</i>	Sections 26BB and 70B ITAA36						

Gains or losses from conversion or exchange of convertible or exchangeable interests issued after 14 May 2002 are not subject to taxation at the point of conversion or exchange, but instead, taxation is deferred until the ultimate disposal of the shares.

Convertible interests are financial instruments that convert into shares in the company that issued the convertible interest. Exchangeable interests are instruments that convert into shares in a company other than the issuer.

### E21 Capital gains tax roll-over for transfer of Public Sector Superannuation Fund assets to pooled superannuation trust

Other economic affairs (C) (\$m)							
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
-	-	-	-	50	-15	-15	-15
<i>Tax expenditure type:</i>	Deferral					<i>2005 TES code:</i>	E21
<i>Commencement date:</i>	1 July 2005						
<i>Expiry date:</i>							
<i>Legislative reference:</i>	Schedule 7, item 3 of the <i>Superannuation (Consequential Amendments) Act 2005</i>						

An automatic capital gains tax (CGT) roll-over is available for the transfer of CGT assets from the Public Sector Superannuation (PSS) Board to the trustee of the PSS Investments Trust.

*Tax Expenditures Statement*

**E22 Removal of capital gains tax threshold for testamentary gifts**

Other economic affairs (C) (\$m)

2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
-	-	-	-	..	..	..	..
<i>Tax expenditure type:</i>	Exemption					<i>2005 TES code:</i>	E22
<i>Commencement date:</i>	1 July 2005						
<i>Expiry date:</i>							
<i>Legislative reference:</i>	Section 118-60 ITAA97						

Testamentary gifts (that is, gifts made under a will) of property to deductible gift recipients are no longer required to be valued at greater than \$5,000 to access the capital gains tax exemption.

**E23 Capital gains tax roll-over relief for superannuation entities on transition to the new superannuation safety arrangements**

Other economic affairs (C) (\$m)

2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
-	-	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Deferral					<i>2005 TES code:</i>	E23
<i>Commencement date:</i>	1 July 2004					<i>* Category:</i>	1+
<i>Expiry date:</i>	30 June 2006						
<i>Legislative reference:</i>	Subdivision 126-F ITAA97						

Superannuation entities that merge to meet the requirements of the new superannuation safety requirements (commencing 1 July 2004) will not incur a capital gains tax liability as a result of the merger.

The roll-over will be available for the transfer of an asset of a superannuation entity to another superannuation entity that is made from 1 July 2004 to 30 June 2006.



## COMMODITY TAXES

### Tax expenditures for other economic affairs

#### F1 Excise levied on fuel products used for purposes other than as fuel

Fuel and energy (\$m)								
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	
-	-	-	-	-80	-80	-85	-90	
<i>Tax expenditure type:</i>		Increased rate				<i>2005 TES code:</i>		New
<i>Commencement date:</i>		Introduced before 1985						
<i>Expiry date:</i>								
<i>Legislative reference:</i>		Excise Tariff Act 1921						

Fuels consumed for a purpose other than in an internal combustion engine (such as toluene used as a solvent) are subject to excise of 38.143 cents per litre from 1 July 2006. Business users of these products are eligible for a fuel tax credit of 38.143 cents per litre that effectively removes the incidence of excise.

Prior to 1 July 2006, fuels consumed for a purpose other than in an internal combustion engine were excise-free through other mechanisms.

### Fuel

#### F2 Higher rate of excise levied on leaded petrol

Health (\$m)								
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	
..	..	..	..	-	-	-	-	
<i>Tax expenditure type:</i>		Increased rate				<i>2005 TES code:</i>		F1
<i>Commencement date:</i>		1994						
<i>Expiry date:</i>		2001						
<i>Legislative reference:</i>		Excise Tariff Act 1921						

Prior to 1 July 2006, leaded petrol was subject to a higher rate of excise than the benchmark rate, which is the rate that applies to unleaded petrol and ultra low sulphur diesel. The excise differential, which equated to around two cents per litre was originally introduced in 1994 to address health concerns associated with the use of leaded fuels.

The minimal nature of this tax expenditure from 2002-03 reflected the introduction of lead replacement petrol, which is subject to excise at the benchmark rate, and restricted access to leaded petrol (under the *Fuel Quality Standards Act 2000*) from 1 January 2002. The excise was removed on 1 July 2006.

*Tax Expenditures Statement*

**F3 Higher rate of excise levied on high sulphur diesel**

Health (\$m)							
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
-	-165	-180	-90	-	-	-	-
<i>Tax expenditure type:</i>	Increased rate					<i>2005 TES code:</i>	F2
<i>Commencement date:</i>	1 July 2003						
<i>Expiry date:</i>	1 January 2006						
<i>Legislative reference:</i>	<i>Excise Tariff Act 1921</i>						

Diesel with a sulphur content higher than 50 parts per million was subject to a higher rate of excise than the benchmark rate, which is the rate that applies to unleaded petrol and ultra low sulphur diesel. An excise differential of one cent per litre was implemented from 1 July 2003 and was increased to two cents per litre from 1 January 2004.

From 1 January 2006, diesel with more than 50 parts per million of sulphur no longer meets fuel standards, and is no longer able to be sold unless a waiver is obtained from the Minister for the Environment and Heritage. The differential was removed on 1 July 2006.

**F4 Excise levied on fuel oil, heating oil and kerosene**

Fuel and energy (\$m)							
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
-65	-90	-85	-90	-440	-450	-460	-470
<i>Tax expenditure type:</i>	Increased rate					<i>2005 TES code:</i>	F3
<i>Commencement date:</i>	Introduced before 1985						
<i>Expiry date:</i>							
<i>Legislative reference:</i>	<i>Excise Tariff Act 1921</i>						

The benchmark excise for fuels consumed for a purpose other than in an internal combustion engine is zero. Fuel oil, heating oil and kerosene that are used as a fuel but not used as a fuel in internal combustion engines were subject to an excise of 7.557 cents per litre prior to 1 July 2006.

From 1 July 2006, these products have been subject to an excise of 38.143 cents per litre. Users of these products are eligible for a fuel tax credit of 38.143 cents per litre, producing an effective excise rate of zero.

**F5 Concessional rate of excise levied on aviation gasoline and aviation turbine fuel**

Fuel and energy (\$m)								
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	
740	745	795	810	805	820	830	840	
<i>Tax expenditure type:</i>		Concessional rate				<i>2005 TES code:</i>		F5
<i>Commencement date:</i>		Introduced before 1985						
<i>Expiry date:</i>								
<i>Legislative reference:</i>		Item 11 of Schedule of the <i>Excise Tariff Act 1921</i>						

Aviation gasoline and aviation turbine fuel are subject to a lower rate of excise than the benchmark rate. Aviation gasoline and aviation turbine fuel are currently excised at 2.854 cents per litre. Excise on aviation fuels, at various times since 1957, has been used to fund the provision of air services by the Australian Government. Excise on aviation fuel is currently directed to the funding of the Civil Aviation Safety Authority.

**F6 Exemption from excise for 'alternative fuels'**

Fuel and energy (\$m)								
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	
625	660	610	710	750	830	990	1,035	
<i>Tax expenditure type:</i>		Exemption				<i>2005 TES code:</i>		F6
<i>Commencement date:</i>		1985						
<i>Expiry date:</i>								
<i>Legislative reference:</i>		<i>Excise Tariff Act 1921</i>						

Alternative transport fuels (that is, alternative fuels that are used in internal combustion engines), including liquefied petroleum gas (LPG) and compressed natural gas (CNG), are currently exempt from excise duty. Starting from 1 July 2011, excise on these fuels will be introduced in five equal annual steps to a final rate on 1 July 2015. A discount of 50 per cent to the energy content excise rate will apply to these fuels.

*Tax Expenditures Statement*

**Tobacco**

**F7 Higher rate of excise levied on cigarettes with less than 0.8 grams of tobacco**

Health (\$m)								
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	
-1,310	-1,305	-1,330	-1,340	-1,355	-1,355	-1,365	-1,375	
<i>Tax expenditure type:</i>		Increased rate				<i>2005 TES code:</i>		F7
<i>Commencement date:</i>		1999						
<i>Expiry date:</i>								
<i>Legislative reference:</i>		Item 8 of Schedule of the <i>Excise Tariff Act 1921</i>						

Cigarettes and cigars with less than 0.8 grams of tobacco are subject to excise at a higher rate than the benchmark. The benchmark excise treatment for the consumption of tobacco products is applied per kilogram of tobacco. The benchmark treatment applies to loose tobacco and to cigarettes and cigars with more than 0.8 grams of tobacco. Cigarettes and cigars with less than 0.8 grams of tobacco are subject to excise on a per stick basis. The effect of per stick excise is to tax the tobacco in these cigarettes and cigars more heavily than the benchmark.

**F8 Concessional excise for snuff**

Not allocated to function (\$m)								
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	
..	..	..	..	-	-	-	-	
<i>Tax expenditure type:</i>		Concessional rate				<i>2005 TES code:</i>		F8
<i>Commencement date:</i>		Introduced before 1985						
<i>Expiry date:</i>		30 June 2006						
<i>Legislative reference:</i>		<i>Excise Tariff Act 1921</i>						

Prior to 1 July 2006, snuff was excised at a highly concessional rate compared to other tobacco. Snuff is now excised at the same rate as other tobacco.

## Alcohol

### F9 Concessional rate of excise on low-strength packaged beer

Not allocated to function (\$m)

2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	
10	15	15	15	15	15	15	15	
<i>Tax expenditure type:</i>		Concessional rate				<i>2005 TES code:</i>		F9
<i>Commencement date:</i>		Introduced before 1985						
<i>Expiry date:</i>								
<i>Legislative reference:</i>		Item 1 of the Schedule to the <i>Excise Tariff Act 1921</i>						

Low strength beer that is packaged in containers not exceeding 48 litres and which has an alcohol content of no more than 3 per cent is taxed at a concessional excise rate relative to higher strength beer. The first 1.15 per cent of alcohol remains free of excise.

### F10 No excise-free threshold for excisable alcoholic beverages (other than beer) not exceeding 10 per cent alcohol

Not allocated to function (\$m)

2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	
-90	-100	-135	-150	-165	-185	-205	-230	
<i>Tax expenditure type:</i>		Increased rate				<i>2005 TES code:</i>		F10
<i>Commencement date:</i>		2000						
<i>Expiry date:</i>								
<i>Legislative reference:</i>		Item 1 of Schedule of the <i>Excise Tariff Act 1921</i>						

Alcoholic beverages (other than beer) with an alcohol content not exceeding 10 per cent are subject to a higher effective rate of excise than applies under the benchmark. Under the benchmark, which is based on the tax treatment of full strength beer sold in containers less than 48 litres, the first 1.15 per cent of alcoholic content of an alcoholic beverage whose alcohol content does not exceed 10 per cent is not excisable. This excise-free threshold is not available to alcoholic beverages other than beer (mainly 'ready to drink' beverages) giving rise to a negative tax expenditure.

*Tax Expenditures Statement*

**F11 Concessional rate of excise levied on draught beer**

Not allocated to function (\$m)

2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	
150	150	160	160	160	170	170	180	
<i>Tax expenditure type:</i>		Concessional rate				<i>2005 TES code:</i>		F11
<i>Commencement date:</i>		2001						
<i>Expiry date:</i>								
<i>Legislative reference:</i>		Item 1 of Schedule of the <i>Excise Tariff Act 1921</i>						

Draught beer (that is, beer packaged in individual containers exceeding 48 litres) is subject to a lower rate of excise than beer packaged in individual containers not exceeding 48 litres.

**F12 Concessional rate of excise levied on brew on premise beer**

Not allocated to function (\$m)

2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	
..	..	..	..	..	..	..	..	
<i>Tax expenditure type:</i>		Concessional rate				<i>2005 TES code:</i>		F12
<i>Commencement date:</i>		1993						
<i>Expiry date:</i>								
<i>Legislative reference:</i>		Item 1 of Schedule of the <i>Excise Tariff Act 1921</i>						

Brew on premise beer (that is, beer produced for non-commercial purposes using commercial facilities or equipment) is subject to a lower rate of excise than other beer. This tax expenditure provides concessional excise arrangements to own use brewers hiring commercial facilities.

**F13 Excise concession for microbreweries**

Not allocated to function (\$m)

2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	
..	..	..	..	..	..	..	..	
<i>Tax expenditure type:</i>		Concessional rate				<i>2005 TES code:</i>		F13
<i>Commencement date:</i>		2000						
<i>Expiry date:</i>								
<i>Legislative reference:</i>		Paragraph 50(1)(zzd) of the <i>Excise Regulations 1925</i>						

Microbreweries producing less than 30,000 litres of product per annum receive excise concessions in the form of a refund of excise paid. The refund paid in any financial year cannot exceed the lesser of \$10,000 or 60 per cent of the excise payable.

**F14 Consumption tax exemptions for privately produced beer**

Not allocated to function (\$m)								
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	
25	30	30	35	35	40	45	45	
<i>Tax expenditure type:</i>	Exemption					<i>2005 TES code:</i>		F14
<i>Commencement date:</i>	Introduced before 1985							
<i>Expiry date:</i>								
<i>Legislative reference:</i>	Schedule to the <i>Excise Tariff Act 1921</i>							

Beer made for personal use by private individuals is exempt from the payment of excise.

**F15 Wine equalisation tax cellar door rebate**

Not allocated to function (\$m)								
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	
16	16	4	-	-	-	-	-	
<i>Tax expenditure type:</i>	Offset					<i>2005 TES code:</i>		F15
<i>Commencement date:</i>	2000							
<i>Expiry date:</i>	2004							
<i>Legislative reference:</i>	Schedule 9A of the <i>Indirect Tax Legislation Amendment Act 2000</i>							

A partial rebate of wine equalisation tax was available for certain cellar door, mail order and internet sales of wine. The maximum rebate of 14 per cent of the taxable value was available for all eligible sales of wine up to \$300,000 per annum (wholesale value). The rebate tapered to zero for sales between \$300,000 and \$580,000.

The rebate complemented similar State production subsidies of 15 per cent, to support cellar door and mail order sales by smaller winemakers.

The rebate was replaced, on 1 October 2004, by the new wine equalisation tax producer rebate (see F16).

**F16 Wine equalisation tax producer rebate**

Agriculture, forestry and fishing (\$m)								
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	
-	-	60	110	125	130	130	135	
<i>Tax expenditure type:</i>	Rebate					<i>2005 TES code:</i>		F16
<i>Commencement date:</i>	2004							
<i>Expiry date:</i>								
<i>Legislative reference:</i>	<i>A New Tax System (Wine Equalisation Tax) Act 1999</i>							

Wine producers receive a rebate of the first \$500,000 of wine equalisation tax (WET) paid per annum. Prior to 1 July 2006, wine producers received a rebate of the first \$290,000 of WET paid per annum. The rebate also extends to cider, perry and sake.

## Tax Expenditures Statement

The WET producer rebate replaced the WET cellar door rebate scheme (F15) from 1 October 2004.

### F17 Consumption tax exemptions for privately produced wine

Not allocated to function (\$m)

2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
10	10	15	20	20	20	20	20
<i>Tax expenditure type:</i>	Exemption					<i>2005 TES code:</i>	F17
<i>Commencement date:</i>	Introduced before 1985						
<i>Expiry date:</i>							
<i>Legislative reference:</i>	A New Tax System (Wine Equalisation Tax) Act 1999						

Wine made for personal use by private individuals is exempt from the wine equalisation tax.

### F18 Concessional rate of excise levied on brandy

Agriculture, forestry and fishing (\$m)

2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
5	5	5	5	5	5	5	5
<i>Tax expenditure type:</i>	Concessional rate					<i>2005 TES code:</i>	F18
<i>Commencement date:</i>	Introduced before 1985						
<i>Expiry date:</i>							
<i>Legislative reference:</i>	Item 2A of the <i>Excise Tariff Act 1921</i>						

Brandy is subject to a lower rate of excise than other spirits (\$57.62 per litre of pure alcohol, compared to \$61.71 at 1 August 2005). The excise rates on brandy and other spirits are indexed to the consumer price index biannually.

## Motor vehicles

### F19 Luxury car tax

Other economic affairs (C) (\$m)

2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
-260	-335	-300	-320	-320	-340	-360	-380
<i>Tax expenditure type:</i>	Increased rate					<i>2005 TES code:</i>	F19
<i>Commencement date:</i>	2000						
<i>Expiry date:</i>							
<i>Legislative reference:</i>	A New Tax System (Luxury Car Tax) Act 2000						

The luxury car tax imposes a tax on the value of car sales and importations that exceed the luxury car tax threshold. As motor vehicle purchases are not taxed under the benchmark, the luxury car tax is a negative tax expenditure. The tax does not apply to specified emergency vehicles.



## General consumption tax expenditures

### F20 Certain exemptions for diplomatic missions and foreign diplomats

Not allocated to function (\$m)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
	5	6	7	8	8	9	9	9
<i>Tax expenditure type:</i>	Concessional rate						2005 TES code:	F20
<i>Commencement date:</i>	Introduced before 1985							
<i>Expiry date:</i>								
<i>Legislative reference:</i>	Regulation 50 of the <i>Excise Act 1901</i> Section 10 of the <i>Diplomatic Privileges and Immunities Act 1967</i> Section 10 of the <i>Consular Privileges and Immunities Act 1972</i> Section 11 of the <i>International Organisations (Privileges and Immunities) Act 1963</i> Section 12 of the <i>Overseas Missions (Privileges and Immunities) Act 1995</i>							

Note: estimates represent excise duty only.

Excise and wine equalisation tax is not payable (or an equivalent amount of that paid is claimable) for alcohol, fuel and tobacco used for official purposes by diplomatic missions or for personal use by persons identified in the *Diplomatic Privileges and Immunities Act 1967*.

### F21 Certain exemptions for Australian military sea vessels

Not allocated to function (\$m)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
	2	2	2	1	1	1	1	1
<i>Tax expenditure type:</i>	Concessional rate						2005 TES code:	F21
<i>Commencement date:</i>	Introduced before 1985							
<i>Expiry date:</i>								
<i>Legislative reference:</i>	Item 18 of the Schedule to the <i>Excise Tariff Act 1921</i>							

Note: estimates represent excise duty only.

Excise on tobacco and certain alcoholic products is not payable by Australian military seagoing vessels in full commission when the products are consumed on board.

## NATURAL RESOURCE TAXES

### Tax expenditures for manufacturing and mining

#### G1 Increased deduction for petroleum exploration expenditure in designated offshore frontier areas

Fuel and energy (\$m)								
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	
-	-	-	*	*	*	*	*	
<i>Tax expenditure type:</i>		Deduction				<i>2005 TES code:</i>		G1
<i>Commencement date:</i>		29 March 2004				<i>* Category:</i>		1+
<i>Expiry date:</i>		2008						
<i>Legislative reference:</i>		Schedule to the <i>Petroleum Resource Rent Tax Assessment Act 1987</i>						

For petroleum resource rent tax purposes, petroleum exploration companies receive a 150 per cent uplift on pre-appraisal exploration expenditure conducted in the first term of an exploration permit in a designated frontier area.

### Petroleum

#### G2 Condensate excise-free status

Fuel and energy (\$m)								
2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	
180	150	330	250	250	250	250	250	
<i>Tax expenditure type:</i>		Exemption				<i>2005 TES code:</i>		G2
<i>Commencement date:</i>		1977						
<i>Expiry date:</i>								
<i>Legislative reference:</i>		Schedule 17(B) of the <i>Excise Tariff Act 1921</i>						

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, or in the North West Shelf project area is exempt from the crude oil excise. Condensate is a light oil extracted from 'wet' gas and primarily processed for use in motor vehicles (commonly known as petrol).