

4.1 Introduction

This chapter provides an outline of the major changes to the list or nature of tax expenditures since the *2000 Tax Expenditures Statement*.

Changes resulting from the introduction of *The New Tax System* were documented in the *2000 Tax Expenditures Statement*.

4.2 New tax expenditures

Tax expenditures arising from measures that have been announced or legislated since the *2000 Tax Expenditures Statement* up to and including the date of publication of the *2000-01 Mid-Year Economic And Fiscal Outlook* (MYEFO) are as follows (tax expenditure reference codes, used in Chapter 5 and Appendix A, are reported in parentheses):

- exemption from income tax of compensation for loss of pay and allowances paid to Australian Defence Force Reserve personnel (A14);
- exemption from income tax of compensation for loss of deployment allowance paid to Australian Defence Force members (A15);
- exemption from income tax of the one-off payment of \$300 to older Australians (A52);
- exemption from income tax of one-off payments of \$25,000 to former civilian internees and detainees of the Japanese in compensation for their pain and suffering in World War II (A67);
- exemption from income tax for structured settlement annuities (A68);
- exclusion from fringe benefits reporting requirement of benefits associated with Australian Defence Force removals (C5);
- exclusion from fringe benefits reporting requirement of benefits associated with police force removals (C55);
- exclusion from fringe benefits reporting requirement of benefits associated with home-to-work travel in unmarked police vehicles (C56);
- introduction of new trading stock rules for oyster farmers (D14);

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- income tax exemption for Dairy Exit Program payments (D15);
- CGT treatment of perpetual conservation covenants (D34);
- CGT discount for investors in listed investment companies (LICs) (D47);
- refundable tax offset for large scale film production (D51);
- the Simplified Tax System (STS) (D76);
- transitional exemption of small business from abolition of accelerated depreciation, balancing charge offset and low-value pooling (D77);
- research and development refundable tax offset for small companies (D78);
- premium tax concession for additional research and development (D80);
- de minimis exemption for thin capitalisation (D81);
- prepayment rule for forestry managed investments (D89); and
- concessional rate of excise levied on beer sold in containers greater than 48 litres (E9).

Measures that were not previously reported, but which have been recently identified as tax expenditures, are as follows (tax expenditure reference codes are reported in parentheses):

- non-imposition of CGT on capital gains that accrue before an asset becomes a segregated pension asset but are realised after the asset becomes a segregated pension asset (D48);
- concessional rate of excise levied on beer produced for non-commercial purposes using commercial facilities or equipment (E10); and
- excise concession for microbreweries (E11).

4.3 Modified tax expenditures

Modified tax expenditures are those that have changed materially since the *2000 Tax Expenditures Statement*. The nature of a modification may include a change to the benchmark, the decision to remove a tax expenditure in a certain year, an amalgamation of tax expenditures, or the inclusion of a new part. Items that have been modified as a result of a change to the applicable tax rate are not listed.

The following tax expenditures have been modified since they were last reported in the *2000 Tax Expenditures Statement* (the respective tax expenditure reference codes from this Statement and the *2000 Tax Expenditures Statement* are reported in parentheses):

- the official salaries and ex-Australian income of the Governor-General and State Governors are no longer exempt from income tax, taking effect from appointments after 28 June 2001 (A1; A1);
- the tax expenditure relating to total or partial exemptions of income earned by Australians working overseas (A6, A6) has been modified to exclude individuals from qualifying for both this exemption and the rebates available under section 23AB (UN armed forces rebate) or section 79B (overseas defence forces rebate);
- the exemption from the Medicare levy for residents with a taxable income below a threshold now includes higher thresholds applying to pensioners below aged pension age who are entitled to a pensioner rebate and for senior Australians who are entitled to the Senior Australians Tax Offset (A28; A26);
- the Pensioner Rebate for pensioners below age pension age was increased to \$1,608 for individuals and \$1,155 for each member of a couple with effect from the 2000-01 income year (A35; A33) (in addition, recipients of the Pensioner Rebate who are over age pension age are now included in the Senior Australian Tax Offset (A42; A40));
- the Senior Australians Tax Offset (formerly the Low Income Aged Persons Rebate) was increased in the 2001-02 Budget to \$2,230 for individuals and \$1,602 for each member of a couple with effect from the 2000-01 income year. The Senior Australians Tax Offset now includes recipients of the Pensioner Rebate for pensioners over age pension age (A42, A35; A40, A33);
- the exemption from income tax for certain war-related payments and pensions is modified by the inclusion of a one-off ex gratia payment of \$25,000 to former Australian Defence Force prisoners of war of the Japanese and their widows, in compensation for their pain and suffering in World War II (A48; A46);
- the tax expenditure relating to deductions for gifts, other than trading stock, to approved donees has been modified to reflect the introduction of apportionment of deductions for all donations of property over \$5,000 in value. It has also been modified to reflect deductibility for landholders who enter into certain perpetual conservation covenants without consideration, with the amount deductible being the reduction in the market value of land, as determined by the Australian Valuation Office, as a result of entering into the covenant (A63; A60);
- the surcharge on employer termination payments has been reduced (B2);
- the Government has announced an extension to the venture capital concessions. The current concession will be extended from 1 July 2002 to other tax-exempt non-resident investors including: endowment funds, venture capital fund of funds, and taxable non-resident investors holding less than 10 per cent of a venture capital limited partnership (D39; D32);
- the exemption from reducing the cost base of trusts for CGT purposes has been modified to both include the partial clawback of the 50 per cent of the CGT

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discount distributed through fixed trusts and exclude the distributions associated with building allowance (D43; D37);

- the capital expenditure deduction has been reassessed against a benchmark of effective life depreciation (D61; D52);
- the 13 month rule for advance expenditure by taxpayers, other than a business with an annual turnover of \$1 million or more, has been replaced by a new prepayment rule for individuals' non-business expenditure and STS taxpayers, which allows an immediate deduction for services to be provided over a period of up to 12 months that does not exceed the end of the following year (D85; D78);
- providing co-operatives with an option to frank dividend payments to members, as an alternative to having these payments treated as deductions, will move those co-operatives that use the option closer to the tax benchmark (D95; D87); and
- the exemption from IWT on certain widely held securities has been extended. The exemption now also applies to securities issued by non-resident companies operating through a permanent establishment in Australia, and to securities purchased by either onshore associates of the issuer or offshore associates acting in the capacity of a clearing house, paying agent, custodian or funds manager. In addition, the requirement to pay IWT on interest on nostro (settlement) accounts held with foreign banks has been removed (D110; D102).

4.4 Deleted tax expenditures

Deleted tax expenditures are tax expenditures that are not reported in this Statement but were reported in the *2000 Tax Expenditures Statement*. They do not include tax expenditures that have been abolished but are still reported in Table 5.1 because they have an impact over the reported time horizon, which extends back to 1997-98. (Instead, tax expenditures that have been abolished are generally reported as being modified.)

Tax expenditures that have been deleted since the *2000 Tax Expenditures Statement* (parentheses refer to the tax expenditure reference codes from the *2000 Tax Expenditures Statement*):

- the limited CGT rollover for merging superannuation funds, as it only applied to funds merged on or after 1 July 1994 and before 1 July 1997 (D36);
- the investment allowance, as it has not applied since 1 July 1995 and now has no further impact on the years covered by the TES (D49);
- the concession for eligible scientific research, as it has not applied since 1 July 1995 and its cost is included in D79 (D51); and
- the exemption from IWT on some government loans, as it only applied to loans contracted prior to 1 July 1986 (D103).