

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.

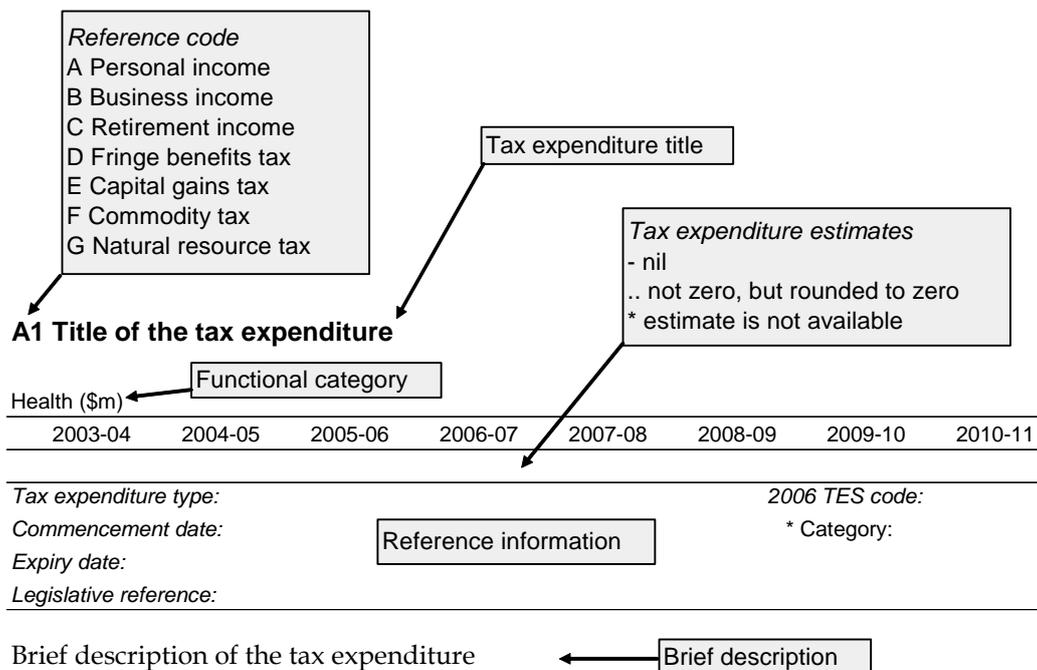
Benchmark	Specific benchmark category	Subject category	TES reference code
Income Tax (A – E)	Personal income (A)	Tax expenditures for general public services	A1 – A7
		Tax expenditures for defence	A8 – A16
		Tax expenditures for education	A17 – A19
		Tax expenditures for health	A20 – A26
		Tax expenditures for social security and welfare	A27 – A28
		Tax concessions for certain taxpayers	A29 – A38
		Tax exemptions for certain government income support payments	A39 – A46
		Tax expenditures for housing and community amenities	A47 – A48
		Tax expenditures for recreation and culture	A49 – A50
		Tax expenditures for other economic affairs	A51 – A59
		Concessions under the substantiation provisions for employment-related expenses	A60 – A62
		Miscellaneous tax expenditures	A63 – A70

Tax Expenditures Statement

Benchmark	Specific benchmark category	Subject category	TES reference code
Income Tax (A – E) (continued)	Business income (B)	Tax expenditures for general public services	B1
		International tax expenditures	B2 – B16
		Tax expenditures for health	B17 – B18
		Tax expenditures for social security and welfare	B19 – B22
		Tax concessions for certain taxpayers	B23 – B24
		Tax exemptions for certain government income support payments	B25 – B27
		Tax expenditures for recreation and culture	B28 – B31
		Tax expenditures relating to prepayments and advance expenditures	B32 – B36
		Tax expenditures for agriculture, forestry and fishing	B37 – B45
		Tax expenditures for manufacturing and mining	B46 – B47
		Tax expenditures for other economic affairs	B48 – B63
		Tax expenditures relating to capital expenditure, effective life and depreciation	B64-B98
		Miscellaneous tax expenditures	B99 – B105
		Retirement savings (C)	Tax expenditures for social security and welfare
Tax expenditures for other economic affairs	C16 – C19		
Fringe Benefits Tax (D)	Tax expenditures for general public services	D1	
	Tax expenditures for defence	D2 – D4	
	Tax expenditures for education	D5	
	Tax expenditures for health	D6 – D7	
	Tax expenditures for social security and welfare	D8 – D13	
	Tax expenditures for housing and community amenities	D14 – D15	
	Tax expenditures for transport and communications	D16 – D18	
	Tax expenditures for other economic affairs	D19 – D29	
	Miscellaneous tax expenditures	D30 – D50	
Capital Gains Tax (E)	Tax expenditures for defence	E1	
	Tax expenditures for health	E2	
	Tax expenditures for housing and community amenities	E3 – E5	
	Tax expenditures for recreation and culture	E6	
	Tax expenditures for other economic affairs	E7 – E29	

Benchmark	Specific benchmark category	Subject category	TES reference code
Consumption Tax (F – G)	Commodity taxes (F)	Fuel	F1 – F6
		Tobacco	F7 – F8
		Alcohol	F9 – F18
		Motor vehicles	F19
		General consumption tax expenditures	F20 – F22
	Natural resource taxes (G)	Tax expenditures for manufacturing and mining	G1 – G3
		Petroleum	G4

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



Tax Expenditures Statement

The reference information provides details of:

- the type of expenditure, for instance a tax exemption, deduction or tax offset;
- the year a tax expenditure commenced;
- the year a tax expenditure will cease to operate (if applicable);
- where to find the provisions implementing the tax expenditure in the legislation;
- the 2006 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 or because of the nature of the tax expenditure itself. The various modelling techniques used to estimate the value of tax expenditures, which are discussed in detail in Appendix A, are unable to be utilised fully to produce reliable estimates.

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

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

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

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

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