TAX EXPENDITURES STATEMENT

2007

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CHAPTER 1: INTRODUCTION

The Tax Expenditures Statement (TES) provides details of concessions, benefits and incentives provided through the tax system (tax expenditures) to taxpayers by the Australian Government. The publication of information on the Australian Government's tax expenditures is a requirement under the *Charter of Budget Honesty Act 1998*.

This statement lists around 300 tax expenditures and, where possible, reports the estimated pecuniary value or order of magnitude of the benefit to taxpayers over an eight-year period, from 2003-04 to 2010-11.

The tax expenditures in this statement are drawn from all announced policies applying up to the date of finalisation of the *Pre-election Economic and Fiscal Outlook 2007.*

1.1 What is a tax expenditure?

A *tax expenditure* is a tax concession that provides a benefit to a specified activity or class of taxpayer. A *negative tax expenditure* arises when arrangements impose an additional charge rather than a benefit. Tax expenditures can be provided in many forms, including tax exemptions, tax deductions, tax offsets, concessional tax rates or deferrals of tax liability.

Tax expenditures are often an alternative to direct expenditures as a method of delivering government assistance or meeting government objectives. Tax expenditures have an impact on the budget position like direct expenditures.

Tax expenditures may also redistribute the tax burden between taxpayers as most tax expenditures result in less tax being collected from particular taxpayers. As a result, taxes paid by individuals and businesses not benefiting from the tax expenditure need to be higher to raise the same total revenue.

1.2 Identifying and measuring tax expenditures

In order to estimate the value of a tax expenditure, the tax arrangement that would normally apply needs to be identified, so that the nature and extent of the concession can be established. The taxation treatment that would normally apply is known as the *benchmark*. The benchmark should neither favour nor disadvantage similar activities or classes of taxpayer. Tax expenditures are measured as deviations from the benchmark.

Not all concessional elements of the tax system are classified as tax expenditures. This is because some concessions are considered structural elements of the tax system and are incorporated in the benchmark. For example, the personal income tax system includes a progressive marginal tax rate structure, which results in individuals on lower incomes paying a lower marginal rate of income tax than those on higher incomes. This arrangement is a structural design feature of the Australian tax system and is therefore not identified as a tax expenditure.

Interpreting the estimates of tax expenditures

Care should be taken when interpreting the tax expenditure estimates presented in this document. The estimates of reported tax expenditures are not necessarily reliable indicators of the budgetary impact of removing particular tax concessions. Nor are the aggregate estimates presented in Chapter 2 necessarily reliable indicators of the total value of tax expenditures. Where aggregates are reported, they are only presented as broad indicators of trends in the value and composition of tax expenditures.

Care should also be taken in comparing the level of tax expenditures reported in different editions of the TES, both for individual tax expenditures and in aggregate. Changes may arise without any change in the actual magnitude of tax expenditures. The reasons include revisions to data, changes in methodology, identification of formerly unidentified tax expenditures, quantification of previously unquantified tax expenditures and deletion of abolished tax expenditures.

A full discussion of the issues surrounding interpretation of tax expenditure estimates can be found in Chapter 3.

1.3 Why report tax expenditures?

The publication of the TES is an integral component of the Australian Government's budget reporting. It serves three key functions:

- to allow tax expenditures to receive a similar degree of scrutiny as direct expenditures;
- to allow for a more comprehensive assessment of government activity; and
- to contribute to the design of the tax system, by promoting and informing public debate on all elements of the tax system.

Tax expenditure reporting in
Organisation for Economic Co-operation and Development (OECD) countries

In the early 1970s, only Germany and the United States reported tax expenditures. By 1983, Australia, Austria, Canada, France and Spain were also regularly identifying them. Currently, almost all OECD member countries report tax expenditures. Most of these countries, including Australia, report tax expenditures annually.

The purpose of reporting tax expenditures is generally the evaluation of tax expenditures and to promote and assist public debate on the design of the tax system. Australia's TES has a broad coverage including the majority of taxes levied by the Australian Government.

Most OECD tax expenditure reporting countries report tax expenditures that relate to personal and business income taxes and value added taxes, where applicable. Australia (like Belgium, France, Germany, the Netherlands, the United Kingdom and the United States) reports tax expenditures on the majority of central government direct and indirect taxes. Austria and Italy report tax expenditures at all levels of government.

Of the OECD tax expenditure reporting countries, at least nine, including Australia, have noted the importance of reporting tax expenditures and made it a legal requirement. These countries include Austria, Belgium, France, Germany, Italy, Portugal, Spain and the United States. In addition, most of these countries explicitly link tax expenditure reporting to the budget process.

Source: H Brixi, C Valenduc and Z Li Swift, *Tax Expenditures — Shedding Light on Government Spending through the Tax System, Lessons from Developed and Transition Economies*, The World Bank, Washington DC, 2003.

TRANSPARENCY AND SCRUTINY

The TES improves the transparency of the tax system, thereby allowing greater public scrutiny of government policies.

In Australia, direct government expenditures are generally scrutinised during the annual budget process by Parliament and parliamentary committees, the media and the general public.

Tax expenditures, like direct expenditures, affect the government's budget. Concessional arrangements that give rise to tax expenditures often receive consideration from Parliament only at the time they are introduced whereas direct expenditures generally receive regular scrutiny as part of the budget process. Furthermore, the cost of tax expenditures is generally not obvious as it does not arise from a direct transaction with government. The publication of information on tax expenditures facilitates their review and assessment, and assists in determining whether their objectives are being met at a reasonable cost and in the interest of the community in general.

SCOPE OF GOVERNMENT ACTIVITY

The publication of tax expenditure information allows for a more comprehensive assessment of Australian Government activity. Unless direct expenditures and tax expenditures are both reported, the scope of government influence on the economy and society will be understated. By reporting tax expenditures, all government assistance is transparent.

TAX SYSTEM DESIGN

Transparent reporting of tax expenditures assists the evaluation, design and development of the tax system and helps to determine whether there has been adherence to the three key principles of tax system design – efficiency, equity and simplicity. The provision of detailed information on tax expenditures allows a more thorough assessment of the tax system in respect to:

- its effect on resource allocation and incentives for taxpayer behaviour;
- the most appropriate way to administer concessions, particularly as most tax expenditures could be delivered as direct expenditures; and
- the impact on different entities within the economy, particularly as tax expenditures shift the tax burden to entities that are not treated concessionally.

1.4 Coverage of this statement

This statement covers the following Australian Government taxes:

- income tax (personal and business), including capital gains tax (CGT) and income tax paid on retirement income;
- fringe benefits tax (FBT);
- excise duties;
- customs duty (including tariffs);
- wine equalisation tax;

- luxury car tax;
- petroleum resource rent tax; and
- crude oil excise.

Taxes excluded from this statement are:

- specific-purpose taxes, such as agricultural levies, which are generally levied for cost recovery purposes; and
- the goods and services tax (GST). The GST will be included from the 2008 Tax Expenditures Statement onwards (see box below).

Treatment of the Goods and Services Tax (GST)

This edition of the Tax Expenditures Statement reports Australian Government tax expenditures up to the *Pre-election Economic and Fiscal Outlook 2007*. In this period the GST was not treated as Australian Government revenue in budget publications. Subsequently, the Government has decided to treat the GST as Australian Government revenue. The 2008 Tax Expenditures Statement will identify and estimate GST tax expenditures.

1.5 Structure of this statement

The remainder of this statement is divided into the following sections:

- Chapter 2, *Trends in tax expenditure estimates,* provides an overview of Australian Government tax expenditures, including trends, aggregates and a comparison with direct expenditures.
- Chapter 3, *Measuring tax expenditures,* outlines the various approaches used to measure tax expenditures and provides guidance on how to interpret tax expenditure estimates.
- Chapter 4, *Benchmarks,* describes the benchmarks used to identify and measure tax expenditures.
- Chapter 5, *New, modified and deleted tax expenditures*, outlines changes to the list of tax expenditures since the *2006 Tax Expenditures Statement* — new tax expenditures, modified tax expenditures and tax expenditures no longer reported.

- Chapter 6, *Tax expenditures,* details each tax expenditure, including an estimate (where possible) of the benefit taxpayers derive, a description of the tax expenditure, a legislative reference, and for more recent tax expenditures, the date the expenditure was introduced.

- Appendix A, *Modelling tax expenditures,* provides an overview of the various modelling techniques used to estimate tax expenditures.

- Appendix B, *Concessional taxation of funded superannuation* aggregates tax expenditures related to superannuation.

CHAPTER 2: TRENDS IN TAX EXPENDITURE ESTIMATES

This chapter provides details on the trends in tax expenditure estimates. The changes in the overall level of tax expenditures since the *2006 Tax Expenditures Statement* largely stem from revisions to the estimates of existing tax expenditures, particularly the superannuation tax expenditures. The changes to the superannuation estimates are mainly due to:

- Increases in the base data used to estimate the superannuation tax expenditures;
- An expansion in the scope of the estimates; and
- Revised methodology.

2.1 Interpretation of trends and aggregates

Care must be taken when interpreting tax expenditure aggregates, particularly when making comparisons across time and against direct expenditures. There are several major considerations that need to be taken into account when analysing tax expenditure aggregates.

- The cost of some tax expenditures are not reported owing to a lack of data or because of taxpayer confidentiality. Hence, tax expenditure aggregates underestimate the total benefit provided by tax expenditures.
- The trend in aggregates reflects changes in the extent to which individual tax expenditures are accessed, changes to the benchmarks, and changes in the number of tax expenditures being reported.
- Changes over time in methodology and data used to calculate the cost of tax expenditures can result in large revisions to the tax expenditure estimates. Estimates that were provided in previous editions of the Tax Expenditures Statement may not be directly comparable to estimates reported in this publication.
- Tax expenditure aggregates are net aggregates as they include the offsetting effects of negative tax expenditures.

Further details on how to interpret tax expenditure estimates are provided in *Chapter 3: Measuring Tax Expenditures.*

2.2 Trends in tax expenditures

Total measured tax expenditures are reported in Table 2.1. Measured tax expenditures as a proportion of GDP are projected to fall from 4.8 per cent in 2006-07 to 4.6 per cent in 2007-08 and 4.4 per cent in 2008-09 mainly as a result of the impact of personal income tax cuts.

Table 2.1: Total measured tax expenditures[a]

Year	Superannuation[b] $m	Other tax expenditures $m	Total $m	Tax expenditure as a proportion of GDP (%)
2003-04 (est)	13,833	16,991	30,824	3.7
2004-05 (est)	17,353	20,718	38,071	4.2
2005-06 (est)	23,065	23,376	46,441	4.8
2006-07 (est)	24,985	25,135	50,120	4.8
2007-08 (proj)	26,845	24,565	51,410	4.6
2008-09 (proj)	27,466	25,036	52,502	4.4
2009-10 (proj)	29,391	27,498	56,889	4.6
2010-11 (proj)	31,807	29,945	61,752	4.8

(a) Total measured tax expenditures are derived by summing the individual tax expenditure estimates, excluding estimates that are rounded to zero (..) or unquantifiable (*).
(b) Includes the sum of tax expenditures C4-C14 and C19.

Table 2.2 presents measured tax expenditures by the benchmark against which they are estimated for the period 2003-04 to 2010-11. The retirement savings benchmark, containing the superannuation tax expenditures, is the largest benchmark classification. This is followed by the personal income benchmark. For all reported years, the total measured tax expenditures representing the commodity taxes benchmark give rise to a negative estimate, largely reflecting customs duty (F22) and the higher rate of excise levied on cigarettes (F7).

Table 2.2: Measured tax expenditures by benchmark ($m)(a)

Benchmark	2003-04 (est)	2004-05 (est)	2005-06 (est)	2006-07 (est)	2007-08 (proj)	2008-09 (proj)	2009-10 (proj)	2010-11 (proj)
Income Tax								
Personal income	10,274	10,558	11,286	11,704	12,037	11,731	12,018	12,341
Business income	3,095	3,191	2,983	3,771	3,615	4,300	5,337	6,328
Retirement savings	15,423	19,098	25,345	27,000	28,780	29,196	31,036	33,357
Fringe Benefits Tax	2,976	3,544	3,452	3,177	3,179	3,326	3,755	3,900
Capital Gains Tax	3,314	5,549	6,607	8,034	7,518	7,833	8,108	8,531
Consumption								
Commodity taxes	-4,408	-4,199	-3,482	-3,886	-4,039	-4,204	-3,685	-3,025
Natural resource taxes	150	330	250	320	320	320	320	320

(a) Measured tax expenditures by benchmark are derived by summing the individual tax expenditure estimates, excluding estimates that are rounded to zero (..) or unquantifiable (*).

2.3 Large tax expenditures

Table 2.3 provides a list of the largest measured tax expenditures for 2007-08. The largest tax expenditure is the concessional taxation of superannuation entity earnings (C6) which is estimated to provide a benefit to taxpayers of around $13.6 billion in 2007-08. The next largest measured tax expenditures for 2007-08 are the concessional taxation of employer contributions (C5) and the capital gains tax discount for individuals and trusts (E9). These tax expenditures are estimated to provide benefits to taxpayers in 2007-08 of around $10.2 billion and $6.9 billion respectively.

The largest negative tax expenditures in 2007-08 are customs duty (F22) and the higher rate of excise levied on cigarettes (F7). These tax expenditures are estimated to be around -$3.7 billion and -$1.4 billion respectively.

Table 2.3: Large measured tax expenditures in 2007-08

Tax expenditure		Estimate $m
Large positive tax expenditures		
C6	Superannuation - concessional taxation of superannuation entity earnings	13,600
C5	Superannuation - concessional taxation of employer contributions	10,150
E9	Capital gains tax discount for individuals and trusts	6,870
A43	Exemption of Family Tax Benefit, Parts A and B, including expense equivalent	2,480
C4	Superannuation - capital gains tax discount for funds	1,550
D26	Application of statutory formula to value car benefits	1,490
C3	Concessional taxation of non-superannuation termination benefits	1,400
A33	Tax offset for recipients of certain social security benefits, pensions or allowances	1,200
B12	Exemption from interest withholding tax on widely held debentures	1,030
A31	Senior Australians' Tax Offset	1,010
A39	Exemption of certain income support benefits, pensions or allowances	1,000
A22	Exemption of 30 per cent private health insurance refund, including expense equivalent	1,000
F3	Concessional rate of excise levied on aviation gasoline and aviation turbine fuel	905
A66	Deduction for gifts to approved donees	870
C8	Superannuation - deduction and concessional taxation of certain personal contributions	780
B104	Income tax exemption for municipal authorities and other local governing bodies	770
F6	Exemption from excise for 'alternative fuels'	750
A21	Exemption from the Medicare levy for residents with a taxable income below a threshold	670
Large negative tax expenditures		
F22	Customs duty	-3,682
F7	Higher rate of excise levied on cigarettes with less than 0.8 grams of tobacco	-1,375
B75	Accelerated depreciation allowance for plant and equipment	-800

There are a number of tax expenditures for which an estimate is not available but which have been assigned an order of magnitude classification (for details refer to *Chapter 6: Tax Expenditures*). The largest such tax expenditures are as follows:

- Income tax exemption for State and Territory bodies (B105);
- Capital gains tax main residence exemption (E4);
- Exemption for health care benefits provided to members of the Defence Force (D4);
- Deduction for capital works expenditure (B86); and
- Quarantining of capital losses (E25).

2.4 Trends in tax expenditures by function

Total measured tax expenditures by functional category are reported in Table 2.4 for the period 2004-05 to 2010-11. Significant changes underlying movements in functional categories are listed below.

- The increase in the aggregate for health tax expenditures between 2004-05 and 2010-11 is largely reflects the estimates for the exemption of 30 per cent private health insurance refund, including expense equivalent (A22) and the income tax exemption for registered health benefit organisations (B18).

- The total for transport and communication is also estimated to increase over the reported period owing to the statutory effective life caps (B84) tax expenditure.

- The increase in the general purpose inter-governmental transactions aggregate is due to the income tax exemption for municipal authorities and other local governing bodies (B104).

- The increase between 2004-05 and 2005-06 in the total labour and employment affairs aggregate is mainly due to the Mature Age Worker Tax Offset (A36) which commenced in 2005-06.

- The increase in the social security and welfare aggregate is mainly due to increases in the concessional taxation of superannuation entity earnings (C6) and the concessional taxation of employer contributions (C5).

- The negative tax expenditure for mining, manufacturing and construction is mainly due to customs duty (F22) which is a negative tax expenditure in respect of imported goods.

Table 2.4: Aggregate tax expenditures by function(a)

	Estimates ($m)			Projections ($m)			
	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
General public services							
A. Legislative and executive affairs	2	2	2	2	2	3	3
B. Financial and fiscal affairs	2	0	0	0	0	0	0
C. Foreign affairs and economic aid	428	459	499	510	531	551	581
D. General research	0	0	0	0	0	0	0
E. General services	8	8	7	7	7	7	8
F. Government superannuation benefits	0	0	0	0	0	0	0
Defence	156	180	202	213	217	216	219
Public order and safety	0	0	0	0	0	0	0
Education	1	2	6	8	8	7	7
Health	365	585	876	925	995	1,090	1,210
Social security and welfare	26,951	33,211	34,833	36,495	36,927	39,181	41,521
Housing and community amenities	525	530	605	615	615	620	620
Recreation and culture	202	198	183	197	211	208	224
Fuel and energy	1,660	1,590	1,390	1,490	1,550	1,630	1,745
Agriculture, forestry and fishing	559	524	524	404	267	263	285
Mining, manufacturing and construction	-4,313	-3,787	-4,020	-4,277	-4,524	-4,069	-3,489
Transport and communication	205	240	295	375	450	485	510
Other economic affairs							
A. Tourism and area promotion	15	16	14	14	18	17	17
B. Total labour and employment affairs	542	1,000	1,055	1,028	1,057	1,009	1,003
C. Other economic affairs, nec(b)	10,223	11,053	12,949	12,634	13,311	14,721	16,228
Other purposes							
A. Public debt interest	0	0	0	0	0	0	0
B. Nominal superannuation interest	0	0	0	0	0	0	0
C. General purpose inter-governmental transactions	540	630	700	770	860	950	1,060
D. Natural disaster relief	0	0	0	0	0	0	0
E. Contingency reserve	0	0	0	0	0	0	0
Total(c)	**38,071**	**46,441**	**50,120**	**51,410**	**52,502**	**56,889**	**61,752**

(a) Total measured tax expenditures by functional category are derived by summing individual tax expenditure estimates, excluding estimates that are rounded to zero (..) or unquantifiable (*).
(b) 'nec' means not elsewhere classified.
(c) Totals may not sum due to rounding.

2.5 Comparison with direct expenditure

The tax expenditure estimates for 2006-07 by functional category are presented alongside direct government expenditure in Table 2.5. The list of direct expenditures by function is reproduced from Table 3 of the *2006-07 Final Budget Outcome.*

Table 2.5: Aggregate tax expenditures and direct expenditures by function in 2006-07

	Tax expenditures(a) ($m)	Direct expenditures(b) ($m)
General public services		
A. Legislative and executive affairs	2	870
B. Financial and fiscal affairs	0	4,641
C. Foreign affairs and economic aid	499	3,282
D. General research	0	2,476
E. General services	7	667
F. Government superannuation benefits	0	2,679
Defence	202	16,854
Public order and safety	0	3,318
Education	6	16,898
Health	876	39,948
Social security and welfare	34,833	92,075
Housing and community amenities	605	2,909
Recreation and culture	183	2,561
Fuel and energy	1,390	4,635
Agriculture, forestry and fishing	524	2,831
Mining, manufacturing and construction	-4,020	1,920
Transport and communication	295	3,296
Other economic affairs		
A. Tourism and area promotion	14	196
B. Total labour and employment affairs	1,055	4,035
C. Other economic affairs, nec(c)	12,949	934
Other purposes		
A. Public debt interest	0	3,592
B. Nominal superannuation interest	0	5,470
C. General purpose inter-governmental transactions	700	2,573
D. Natural disaster relief	0	115
E. Contingency reserve	0	589
Total(d)	**50,120**	**219,362**

(a) Total measured tax expenditures by functional category are derived by summing individual tax expenditure estimates, excluding estimates that are rounded to zero (..) or unquantifiable (*).
(b) Direct expenses by function, as reported in the *2006-07 Final Budget Outcome*.
(c) 'nec' means not elsewhere classified.
(d) Totals may not sum due to rounding.

Comparisons between tax expenditures and direct expenditures are informative in broad terms, although the costings are not strictly comparable. For example:

- Tax expenditure estimates measure the benefit of the tax concession to the recipient, whereas direct expenditure estimates measure the impact of the expenditure on the budget in pre-tax dollars.
- Direct expenditures are often taxable, whereas tax expenditures are not.
- The removal of a tax expenditure or a direct expenditure of the same magnitude may have different effects on the fiscal balance, owing to different behavioural responses.

The addition of tax expenditures and direct expenditures will also tend to overstate the impact on the fiscal balance. For example, in the case of the exemption of certain income support benefits, pensions or allowances (A39) the direct expenditure includes the full cost of the program to government but there is also an associated tax expenditure for the value of the income tax exemption to the recipient.

Total measured tax expenditures in 2006-07 are estimated at around $50 billion. Social security and welfare tax expenditures comprise around 69 per cent of total measured tax expenditures, which largely reflects the superannuation tax expenditures (C4-C14 and C19) and the income tax exemption of the Family Tax Benefit, Parts A and B (A43).

CHAPTER 3: MEASURING TAX EXPENDITURES

This chapter describes the approaches used to measure tax expenditures and provides guidance for interpreting the estimates reported in the TES.

3.1 Approaches to measuring tax expenditures

There are three main methods used to measure tax expenditures.

- The *revenue forgone approach* — this approach measures the difference in tax paid by taxpayers who receive a particular concession relative to similar taxpayers who do not receive that concession. It compares the current/prospective treatment to the benchmark treatment, assuming taxpayer behaviour is unchanged.

- The *revenue gain approach* — this approach measures how much revenue could increase if a particular tax concession was removed. Accurate estimation of this cost would require estimates of the secondary behavioural effects associated with such a change.

- The *outlay equivalence approach* — this approach estimates how much direct expenditure would be needed to provide a benefit equivalent to the tax expenditure. This approach measures the direct expenditure required, in before-tax dollars, to achieve the same after-tax dollar benefit as the tax expenditure where the direct expenditure receives the tax treatment appropriate for that type of income in the hands of the recipient.

The three methods can yield significantly different estimates of the value of a tax expenditure.

Consistent with most tax expenditures statements published in OECD countries, Australia uses the revenue forgone approach.[1] This is the most reliable method for estimating the level of assistance the tax system provides to taxpayers.

1 The approaches adopted by various OECD countries to measure tax expenditures are reported in *Tax Expenditures — Shedding Light on Government Spending through the Tax System, Lessons from Developed and Transition Economies*, The World Bank, Washington DC (2003).

3.2 Interpretation of tax expenditure estimates

Some caution should be exercised when using the estimates in this statement for wider purposes, such as estimating the budgetary impact of tax concessions. This section provides an overview of the main issues relating to interpretation of the estimates.

REVENUE FORGONE AND REVENUE GAIN

Estimates calculated by the revenue forgone approach identify the financial benefit of tax concessions to taxpayers receiving those concessions relative to taxpayers that do not. It does not necessarily follow that there would be an equivalent increase to government revenue from the abolition of a tax expenditure. This is because of behavioural responses by the recipients of tax expenditures and overlaps in the coverage of different tax expenditures.

BEHAVIOURAL EFFECTS

The introduction of a tax expenditure tends to increase concessionally taxed activity. Accordingly, the same activity would be expected to contract should the related tax expenditure be abolished, with consequential implications for potential revenue flows. Other responses may follow. For example:

- the removal of one concession may result in increased use of other concessionally taxed activities, lowering tax revenue elsewhere;
- under a progressive income tax system, the removal of a tax expenditure may result in some taxpayers facing a higher average tax rate, increasing tax revenue; and
- as tax concessions may alter resource allocation and direct scarce resources from one activity to another, removal of those concessions may affect economic efficiency and the overall level of economic activity. This change in activity could affect tax revenues.

In most cases, the net effect of these influences on revenue is unclear. Furthermore, in cases where the level of activity is highly sensitive to a concession, the increase in revenue from removing the tax expenditure could be very small. In these cases, reporting tax expenditure estimates as the cost to revenue (that is, using the revenue gain approach) would give the impression that the tax expenditure has little material effect when actually the recipients derive quite large financial benefits.

COMPARISON WITH BUDGET ESTIMATES

Tax expenditure estimates may differ from budget estimates because tax expenditures are estimated relative to designated benchmarks. For example, CGT rollover relief is provided for superannuation entities that merge to meet the requirements of the superannuation safety arrangements (E18). This rollover relief gives rise to a tax expenditure when assessed against the benchmark because it provides a tax deferral benefit. A tax expenditure arises because CGT is not collected at the time a 'CGT event' occurs (that is, the disposal of assets by one entity and acquisition of those assets by the merged entity). By contrast, this measure was estimated to have no impact on budget revenue because the transactions concerned would not have occurred in the absence of the superannuation safety arrangements and therefore providing rollover relief did not reduce revenue relative to the revenue included in the budget forward estimates (the benchmark for costing budget measures).

TAX EXPENDITURE AGGREGATES

Unless otherwise indicated, tax expenditure estimates are calculated on an individual basis and do not take account of potential overlaps with other tax expenditures. While aggregate tax expenditures can provide a guide to trends in tax expenditures over time, overlaps between the coverage of different tax expenditures and likely behavioural responses to their removal mean that such aggregates are not a reliable indicator of the overall budgetary impact of tax concessions.

ESTIMATES AND PROJECTIONS

Tax expenditure estimates are separated into estimates (for historical years) and projections (for future years). The estimates for 2006-07 are preliminary and subject to revision upon receipt of further tax data.

3.3 Accrual estimates

The tax expenditure estimates are prepared on the same revenue recognition basis as the budget estimates. From the 2006-07 Budget, the basis for reporting revenue in the budget changed. The changes are outlined in the box below and apply to estimates in TES from 2006-07. All estimates relating to periods prior to 2006-07 are reported in TES on the Tax Liability Method basis.

Revised revenue recognition methodology

Accrual accounting was introduced by the Australian Government in the 1999-2000 Budget. The Australian Accounting Standards and Government Finance Statistics standards for accrual accounting require that taxation revenue be recognised in the reporting period in which the taxpayer earns the income that is subsequently subject to taxation — this is known as the Economic Transactions Method (ETM). But the standards also permit government reporting using an alternative approach when the ETM approach would generate unreliable measures of taxation revenues.

Because ETM is an unreliable measure for several significant revenue heads — and these account for the majority of total revenue — all taxation revenue was recognised in all accrual budget-related documentation from the 1999-2000 Budget to the *Mid-Year Economic and Fiscal Outlook 2005-06* using the Tax Liability Method (TLM). Under TLM, taxation revenue is accounted for at the time a taxpayer makes a self-assessment or when an assessment of a taxation liability is raised by the relevant authority.

Commencing with the 2006-07 Budget, the Australian Government adopted ETM revenue recognition for all revenue heads where the measurement issues are not material, but retained TLM revenue recognition where ETM measurement issues may be material. The taxation revenues that continue to be recognised on a TLM basis are:

- individuals and other withholding taxation;
- company income taxation; and
- superannuation taxation.

3.4 Technical notes

TREATMENT OF IMPUTATION

The value of some concessions reported in this statement is partially offset as a result of the imputation system. For example, concessions that reduce company tax may be *clawed-back* through the subsequent taxation of dividends in the hands of shareholders. The estimates in this statement generally make no allowance for this clawback owing to the practical difficulties of doing so.

CAPITAL GAINS TAX ESTIMATES

Under the CGT benchmark, nominal capital gains are fully taxable upon realisation (for further details see Chapter 4). The most significant tax expenditure against this benchmark is the 50 per cent discount for capital gains realised by individuals and trusts (E9) which affects most capital gains realised by these entities.

Individuals and trusts may also be eligible for other CGT concessions. The revenue forgone methodology that is generally used in this statement implies that estimates for these other CGT concessions should be calculated against the benchmark of full taxation of nominal capital gains.

To avoid double counting, the values of tax expenditures for other CGT concessions are reduced by the CGT discount component and the discount component of these other concessions is included in the tax expenditure for the CGT discount (E9). This modification to the tax expenditure methodology provides more realistic estimates of the value of the benefits taxpayers receive from capital gains concessions in aggregate, though it has the effect of understating the value of individual CGT tax expenditures other than the discount.

SUPERANNUATION

The estimates of the tax expenditures in the forward projections are not necessarily indicative of the cost of the superannuation concessions over the long term. In this context, the current tax concessions will help to reduce budgetary expenses in future years, particularly age pension payments, through encouraging private provision for retirement.

Further, the estimates cannot be interpreted as a time series of the ongoing revenue savings that could be obtained if the superannuation concessions were eliminated. This is because the increase in tax revenue arising from the elimination of the tax expenditure with respect to a particular year would cause the superannuation tax base to be smaller for the next year. For example, if contributions and fund earnings in 2004-05 had been taxed according to the superannuation benchmark, superannuation fund assets and fund earnings in 2005-06 would be lower than if the concessional tax treatment had applied in the previous year.

In addition, changes to the taxation of superannuation could be expected to have behavioural impacts, to the extent that people may alter their saving behaviour as a result. The estimated cost of the superannuation tax expenditures assumes no behavioural change involving either the portfolio composition of savings or the saving rate more generally.

This edition of the Tax Expenditures Statement reports the components of the concessional taxation of funded superannuation (C1 in the 2006 TES) as individual tax expenditures for the first time. Previously, these components were reported in a separate appendix. The superannuation estimates reported in this statement are comparable with those published in the *2006 Tax Expenditures Statement*, the sum of estimates C1 and C2 in the *2006 Tax Expenditures Statement* should be compared to the sum of C4-C14 and C19. This can also be compared to the comprehensive estimate of the superannuation tax expenditure in the *2002 Tax Expenditures Statement* and earlier.

Each year there are also variations arising from the revision of earnings and contributions estimates. In particular, taxable earnings of superannuation funds are not readily predictable. A major reason is that it lies within the discretion of a fund manager to decide when any accrued capital gains of a fund are realised. In addition, the earnings series is intrinsically volatile, reflecting fluctuations in interest rates, dividends and asset prices. Fund earnings have been 'smoothed out' for the forward projections.

CHAPTER 4: BENCHMARKS

4.1 Defining benchmarks

WHAT IS A TAX EXPENDITURE BENCHMARK?

In order to identify and measure tax expenditures a benchmark must be specified. Tax expenditures are defined and measured as deviations from this benchmark.

The framework for defining the benchmarks used in this statement is based on two principles.

- The benchmark should represent the standard taxation treatment that applies to similar taxpayers or types of activity. Consequently, a benchmark taxation treatment should neither favour nor disadvantage similar taxpayers or activities.

- The benchmark may incorporate *structural elements* of the tax system where there are difficulties adopting the standard treatment as the benchmark. Such elements could include integral design features; for example, the progressive income tax rate scale for individual taxpayers.

Reconciling these two criteria often involves an element of judgment. In particular, there may be different views on which structural elements to include in the benchmark. Consequently, benchmarks vary over time and across countries and can be arbitrary.

BENCHMARKS USED IN THE TES

To provide a clear structure for reporting tax expenditures, the benchmark is split into two major components reflecting Australia's taxation arrangements.

- The *income tax benchmark* describes the standard taxation arrangements applying to personal and business income, superannuation, fringe benefits and capital gains

- The *commodity tax benchmark* describes the standard taxation arrangements that apply either directly or indirectly to specific commodities; namely tobacco, fuel, types of alcoholic beverages, motor vehicles, natural resources and customs duty.

The remainder of this chapter provides details of the key elements of the income and commodity tax benchmarks. The discussion focuses on the following elements of each benchmark:

- the tax base — the activities or transactions subject to the tax;
- the tax rate — the rate of tax that applies to the base;
- the tax unit — the entity liable to pay the tax; and
- the tax period — the period in which the activities or transactions are undertaken.

4.2 Income tax benchmark

Most Australian Government taxes are imposed on income rather than commodities. The following sections outline the general features of the income tax benchmark. The benchmarks for superannuation, fringe benefits and capital gains are discussed separately because they have distinct tax regimes that affect how tax expenditures are measured against the general income tax benchmark.

GENERAL FEATURES

Tax base

The tax base for the income tax benchmark is based on the Schanz-Haig-Simons definition of income.[1] An entity's income is defined as the increase in the entity's economic wealth (stock of assets) between two points in time, plus the entity's consumption in that period. Consumption includes all expenditures, except those incurred in earning or producing income.

The Schanz-Haig-Simons definition of income conforms to the principal criterion of benchmark design: all income is included in the base regardless of the income earning activity. Adopting a benchmark based on this definition would exclude structural elements of the current tax system from the benchmark. Consequently, the income tax benchmark is based on the Schanz-Haig-Simons framework, but modified to accommodate structural elements.

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1 Further information on the Schanz-Haig-Simons and other definitions of income can be found in J King, 'The Concept of Income', *Tax Policy Handbook*, International Monetary Fund, Washington DC, 1995, p 117.

Under the income tax benchmark, income includes:

- wages and salaries;
- allowances;
- business receipts;
- capital gains;
- interest, royalties and dividends;
- partnership income;
- government cash transfers[2]; and
- distributions from trusts.

Where an expense is incurred for both income-producing and private purposes, deductions are limited to the portion of expenses relating to income production.

A number of tax arrangements depart from the Schanz-Haig-Simons definition of income but are structural features of the tax system and therefore included in the benchmark. These elements are outlined below.

- Assessment applies to nominal rather than real income. Expenses incurred in earning income are deductible at historical cost.
- Some taxpayers (typically individuals) recognise income when it is actually received (cash basis) and other taxpayers (typically businesses) recognise income when there is a right to receive benefits, or, in the case of financial arrangements in the period to which it relates (accrual basis).
- Deductions for expenses related to economic benefits that extend beyond the income year in which the expenditure is incurred are spread over the period of the benefits.
- Imputed rent from owner-occupied housing is not included in income, and expenditure incurred in earning imputed rent is not deductible.

2 Cash transfers are payments from the Australian Government to individuals or businesses which are not for services rendered (including refundable tax offsets). These transfers are included in the income tax benchmark. Non-cash government transfers such as the provision of health, education or road services are not included in the definition of income.

- The mutuality principle excludes income from dealings with oneself or members of mutual associations and societies. For instance, goods produced by taxpayers for their own consumption, or services performed by taxpayers for their own benefit are generally not included in the tax base.

- Certain gains, such as gains received by way of compensation for damage or any wrong or injury suffered by a taxpayer (where they are not solely for the loss of income), or gains or winnings from gambling (where taxpayers are not considered to be carrying on a business of gambling), are not included in income.

- Investment income derived from income bonds, funeral policies and scholarship plans of friendly societies that were issued before 1 January 2003 is not included in income.

  – Income relating to policies issued after 1 January 2003 is included in a friendly society's assessable income.

  – To prevent double taxation of income from bonds, funeral policies and scholarship plans, friendly societies can deduct the investment component of the benefits paid out to policyholders (other than the benefits from scholarship plans that are returned to investors rather than paid to the nominated students).

- Losses are deductible against assessable income for a later income year. Losses generally cannot be transferred to other taxpayers, and some losses may only be claimed against certain types of future income.

- Depreciation deductions are made over the effective life of the asset.

- Expenditure in advance (prepayments) for services are generally apportioned over the service period. These apportioned amounts are deductible.

- From 1 July 2005, under a provision of last resort, business capital expenditures not elsewhere recognised within the taxation laws (blackhole expenditures) are deductible over five years.

Arrangements to prevent double taxation

Arrangements to reduce or eliminate double taxation are integral features of the tax system and are included in the benchmark.

- For example the imputation system, which eliminates the double taxation of company profits distributed to resident shareholders, is included in the income tax benchmark.

International tax arrangements

Australian residents are taxed on their worldwide income under the income tax benchmark. Consequently, residents are taxed on their Australian-source and foreign-source income. Various international tax arrangements that ensure foreign-source income is subject to the appropriate level of Australian tax are included in the income tax benchmark. These arrangements are noted below.

- Resident taxpayers are allowed to claim foreign income tax offsets up to the amount of Australian tax payable on their foreign income. These arrangements ensure foreign-source income is not excessively taxed.

- The controlled foreign company, foreign investment fund and transferor trust rules ensure Australian residents cannot escape or defer taxation of tainted income by interposing a foreign resident legal entity.

  – Tainted income is generally income derived by investments which are mobile and whose location probably was influenced primarily by tax considerations, or certain related party transactions. It includes passive income such as interest, royalties and dividends and highly mobile forms of active income.

Foreign residents are taxed on their Australian-source income only. As part of this benchmark, where foreign income (or foreign capital gains) earned by an Australian entity is subsequently distributed to a foreign resident, the distribution attracts no Australian tax.

Persons in Australia on temporary visas are taxed essentially the same as foreign residents.

Transfer pricing and thin capitalisation rules and interest, dividend and royalty withholding taxes aim to tax appropriately Australian sourced income and are included in the benchmark.

The benchmark also includes the allocation of taxing rights in Australia's double tax treaties (other than tax sparing provisions) which are longstanding or integral features of the tax system. These arrangements provide greater certainty for taxpayers by determining which jurisdiction has the right to tax various categories of income.

Tax rates and income brackets

The tax rate under the income tax benchmark is the legislated tax rate that applies to the relevant entity in each financial year.

The personal income tax system includes the tax-free threshold, the progressive personal income tax rate scale, low-income tax offset and the Medicare levy. The progressive income tax rate scale is an integral and longstanding feature of the tax system.

Foreign residents are not entitled to a tax-free threshold on Australian sourced income, as they typically receive a tax-free threshold in their home jurisdiction. As a result, the foreign resident income tax scale is included in the benchmark.

Tax unit

Individuals and companies are subject to tax under the income tax benchmark. Sole traders, partnerships and trusts are not separate tax units. Income earned by these entities is taxable in the hands of the recipient.

For the personal income tax system in Australia, the benchmark unit is the individual.

For companies, the benchmark tax unit is the company. From 1 July 2002, the benchmark tax unit for companies also includes the head entity of a consolidated group or a multiple-entry consolidated group.

Taxation period

The taxation period adopted under the income tax benchmark is the financial year (1 July to 30 June). Consequently, measures that defer taxable income to another financial year such as income averaging for primary producers (B41) or the farm management deposit scheme (B40) are reported as tax expenditures. Tax deferral arrangements will generally give rise to tax expenditures in the year income is earned, offset by a negative tax expenditure when the income is taxed.

Departing from this framework, the carry-forward loss provisions are an integral feature of the tax system and are included in the benchmark. These provisions allow an entity with a loss to carry the loss forward and deduct it in the future.

The benchmark also includes arrangements for entities whose accounting period differs from the standard financial year (for example, companies with a substituted accounting period).

General features of the income tax benchmark

The personal income tax benchmark comprises:

- a tax base including all nominal income less expenses incurred in earning income;
- a tax scale comprising tax rates, associated income tax thresholds, Medicare levy and low-income earner tax offset;
- the individual as the tax unit; and
- the financial year as the tax period.

The business income tax benchmark comprises:

- a tax base including all nominal income less expenses incurred in earning income;
- a tax rate as the rate that applies to the entity;
- the individual company (or head entity of a consolidated group) as the tax unit;
- the dividend imputation system, which ensures that company profits distributed to resident shareholders are taxed at the shareholders' marginal rate of tax; and
- the financial year (or substituted accounting period) as the taxation period.

SUPERANNUATION BENCHMARK

Income contributed to superannuation funds (contributions) and earnings of superannuation funds are classified as income under the Schanz-Haig-Simons definition. While such income could be considered under the personal income and capital gains tax benchmarks, the unique (and concessional) taxation treatment of superannuation warrants further detail on how the general income tax benchmark is applied to superannuation.

Superannuation in Australia may be taxed at three stages:

- when contributions are made to a superannuation fund;
- when investments in superannuation funds earn income; and
- when superannuation benefits are paid out.

The income tax benchmark treatment of superannuation is that *contributions* are taxed like any other income in the hands of the fund member, *earnings* are taxed like any other investments in the hands of the investor and *benefits* from superannuation are untaxed. Any costs associated with superannuation investments are deductible under the benchmark.

Special features of the superannuation benchmark

The superannuation benchmark comprises:

- contributions taxed in the hands of the fund member;
- earnings taxed like any other investment income in the hands of the investor; and
- benefits from superannuation untaxed.

FRINGE BENEFITS TAX BENCHMARK

Fringe benefits are classified as individual employee income under the Schanz-Haig-Simons definition. This section defines the benchmark for the fringe benefits tax system drawing on the general features of the income tax benchmark outlined above.

The tax base for the fringe benefits tax benchmark is the value of fringe benefits provided to an employee or an associate of an employee in respect of the employment of the employee. Fringe benefits include property rights, privileges or services. Payments of salary or wages, eligible termination payments, contributions to complying superannuation funds and certain benefits arising from employee share schemes are excluded. The benchmark value of a fringe benefit to an employee is taken to be its market value less any contribution the employee pays. Generally, employers may claim the cost of providing fringe benefits and the amount of fringe benefits tax paid as income tax deductions.

The tax rate that applies under the fringe benefits tax benchmark is the employee's personal marginal income tax rate.[3] In all cases, fringe benefits tax is calculated on the grossed up taxable value (that is, the pre-tax equivalent value) of the fringe benefit. In some cases, discount valuation methods are available to calculate the taxable value of a fringe benefit. Such methods are reported as tax expenditures.

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3 As a technical assumption, to allow estimation where the personal marginal income tax rate could not readily be estimated, the top personal marginal income tax rate plus the Medicare levy is assumed.

The employer providing the fringe benefit (rather than the employee receiving the benefit) is the tax unit under the benchmark. This is consistent with the legal incidence of fringe benefits tax, which is payable by employers. The benchmark tax period is the fringe benefits tax year (1 April to 31 March).

Special features of the fringe benefits tax benchmark

The fringe benefits tax benchmark comprises:

- a tax base including all benefits provided to an employee or an associate of an employee in respect of the employment of the employee;
- generally, a deduction to the employer for the cost of providing fringe benefits and the amount of fringe benefits tax paid;
- the tax rate is the employee's personal marginal income tax rate plus the Medicare levy;
- the employer as the tax unit; and
- the fringe benefits tax year as the tax period (1 April to 31 March).

CAPITAL GAINS TAX BENCHMARK

Capital gains are classified as income under the Schanz-Haig-Simons definition. This section defines the benchmark for the capital gains tax system drawing on the general features of the income tax benchmark outlined above.

The tax base for the capital gains tax benchmark is realised nominal gains and losses. The benchmark only includes gains or losses arising from the realisation of property where the realisation is not an aspect of the carrying on of a business. This excludes gains or losses that form part of a business's normal trading activities from the capital gains tax benchmark, for instance, gains or losses on trading stock of a business and gains or losses realised in the business of trading particular assets. These gains or losses are dealt with under the general features of the income tax benchmark.

Capital gains are taxable upon realisation. While the taxation of gains on an accrual basis aligns more closely with the broad Schanz-Haig-Simons definition, taxation on a realisation basis is consistent with longstanding practice and recognises the administrative problems associated with an accrual system.

Consistent with the general features of the income tax benchmark, the benchmark for Australian residents is their worldwide capital gains. In the case of foreign residents, Australia has limited its domestic and treaty capital gains tax rules to the direct or indirect disposal of interests in Australian land (and similar interests such as mining rights) and branch office assets from 12 December 2006. In respect of both the foreign capital gains of residents and the Australian capital gains of foreign residents, the allocation of taxing rights in the domestic laws and tax treaties is part of the benchmark.

The tax rate and tax unit adopted under the capital gains tax benchmark is the same as that which applies under the general benchmark outlined above.

Special features of the capital gains tax benchmark

The capital gains tax benchmark comprises:

- taxation of gains on a realisation basis (that is, at the time an asset is disposed of) rather than on accrual;
- a tax base of nominal gains or losses from the realisation of property where the realisation is not an aspect of the carrying on of a business; and
- the limitation of Australian taxation of the capital gains of foreign residents to gains on the direct or indirect disposal of interests in Australian land (and similar assets such as mining rights) and branch office assets.

4.3 Consumption tax benchmark

The Australian Government imposes taxes on particular commodities. The tax base for the commodity tax benchmark is made up of three components.

- The consumption tax benchmark relates to the consumption of fuel (or energy), tobacco, types of alcoholic beverages and motor vehicles.
- The natural resource tax benchmark relates to the extraction and production of Australia's natural resources.
- The customs duty benchmark relates to the importation of goods into Australia.

This statement only reports tax expenditures that relate to Australian Government taxes. As the GST was not reported as an Australian Government tax in the period up to the *Pre-Election Fiscal and Economic Outlook 2007*, the consumption tax benchmark in this statement does not include the GST. The GST will be reported as an Australian Government tax under the consumption tax benchmark from the *2008 Tax Expenditures Statement*.

COMMODITY TAX BENCHMARK

Consumption taxes are either *ad valorem* or volumetric. *Ad valorem* taxes are charged as a fixed proportion of the value of the commodity sold. Volumetric taxes are charged as a fixed proportion of the quantity of the commodity sold. Consequently, the tax base for consumption taxes is determined either by the value or quantity of the commodity sold.

The Australian Government imposes volumetric taxes on the consumption of tobacco, fuel, beer, spirits and certain imports, and *ad valorem* taxes on the consumption of wine and luxury cars. These taxes are imposed at either the retail, manufacture or importation stage. In each case, the tax unit is the entity that has the legal obligation to pay the tax.

The following sections outline how the general features of the consumption tax benchmark apply to the consumption of tobacco, fuel, alcohol and motor vehicles.

General features of the consumption tax benchmark

The consumption tax benchmark comprises:

- either the value or quantity of the commodity sold as the tax base;
- the rate of tax that applies to the price or quantity of the commodity sold as the tax rate; and
- the entity that has the legal obligation to pay the tax as the tax unit.

Tobacco

The benchmark for the consumption of tobacco and tobacco products is the excise rate that applies to tobacco other than in stick form.

Fuel (or energy)

The tax base for the consumption of all fuel (or energy) is split into two activities:

- fuels consumed in an internal combustion engine (that is, primarily for transport use); and
- fuels consumed for a purpose other than in an internal combustion engine (for example, a product that can be used as a fuel in an internal combustion engine but is used in a solvent application or for heating).

The taxation of these activities reflects longstanding and integral features of the tax system whereby excise rates are dependent on whether the fuel is used in an internal combustion engine.

The benchmark excise rates for fuels consumed in an internal combustion engine are the full energy content based rates for the following bands:

- high-energy content fuels, with energy content of more than 30 megajoules per litre and excise rate of 38.143 cents per litre. These include fuels such as petrol, diesel, biodiesel and aviation fuel;
- medium-energy content fuels, with energy content between 20 and 30 megajoules per litre and excise rate of 25 cents per litre. These include fuels such as liquefied petroleum gas (LPG), liquefied natural gas (LNG) and ethanol; and
- low-energy content fuels, with energy content of less than 20 megajoules per litre and excise rate of 17 cents per litre. These include fuels such as methanol.

Fuels consumed other than in an internal combustion engine are exempt from excise under the benchmark.

Alcoholic beverages

The tax base for the consumption of alcoholic beverages is separated into three components based on the types of beverage:

- the consumption of lower alcohol content beverages (beverages with less than 10 per cent alcohol content) such as beer and ready to drink beverages;
- the consumption of higher alcohol content beverages (beverages with greater than 10 per cent alcohol content) such as brandy and other spirits; and
- the consumption of wine and alcoholic cider.

The taxation of these activities reflects a longstanding feature of the tax system whereby different tax rates apply to beer, spirits and wine:

- the benchmark excise rate for lower alcohol content beverages (for example, beer) is the volumetric excise rate that applies to full-strength packaged beer (including the excise-free threshold of the first 1.15 per cent of alcohol);
- the benchmark excise rate for higher alcohol content beverages (for example, spirits) is the volumetric excise rate on spirits other than brandy; and
- the benchmark rate for wine and alcoholic cider is the ad valorem wine equalisation tax rate.

Motor vehicles

Motor vehicle purchases are not taxed under the benchmark. Consequently, the luxury car tax (F19) is a negative tax expenditure.

Customs duty

Under the customs benchmark, goods imported into Australia are subject to the same taxes on consumption as domestically produced goods. Under this benchmark, goods imported into Australia are free from customs duty, except to the extent that the customs duty imposed is equivalent to taxes imposed on domestically produced goods, such as excise equivalent customs duties.

Customs duty, other than excise equivalent duty, collected on certain goods imported into Australia is reported as a negative tax expenditure in this Statement.

Estimates of the value of assistance provided to various industries, including tariff arrangements, appear in the Productivity Commission's *Trade & Assistance Review*.

TAXES ON NATURAL RESOURCES (PETROLEUM)

The Australian Government taxes profits from the extraction and production of unprocessed petroleum (for example, crude oil, LPG and condensate) and in certain cases natural gas. Different taxation arrangements for unprocessed petroleum products applied to projects that commenced before the 1986-87 financial year.

The benchmark for petroleum projects that commenced on or after 1 July 1986 is based on the petroleum resource rent tax (PRRT).

- The tax base includes receipts from offshore petroleum production (excluding projects located in the North West Shelf) less eligible project expenditures.
  - Under the PRRT any eligible expenditure which is not offset against revenue in the current year can be compounded and offset against future PRRT income. The rate at which expenditure is compounded and carried forward depends on the category of expenditure and when it was incurred. The benchmark uplift rate for exploration expenditure is the long term bond rate plus 15 percentage points and for general project expenditure is the long term bond rate plus 5 percentage points.
- The benchmark tax rate is 40 per cent of the project's profits.
- The benchmark tax unit is the petroleum project.

The benchmark for petroleum projects that commenced before 1 July 1986 (for example, the North West shelf) is the crude oil excise and is comprised of the following features:

- the barrel equivalent production of crude oil from fields of greater than 30 million barrels as the tax base;
- the rate of tax that applies to crude oil as the tax rate; and
- the entity that has the legal obligation to pay the tax as the tax unit.

CHAPTER 5: NEW, MODIFIED AND DELETED TAX EXPENDITURES

This chapter provides an outline of the major changes to the list of tax expenditures since the *2006 Tax Expenditures Statement*. Since the 2006 Statement, 18 new tax expenditures have been added, 38 tax expenditures have been modified and 2 tax expenditures have been deleted.

5.1 New tax expenditures

Table 5.1 reports new tax expenditure items arising from measures that have been announced since the *2006 Tax Expenditures Statement* up to the date of finalisation of the *Pre-election Economic and Fiscal Outlook 2007*. In addition, the table reports existing measures that were not previously reported as tax expenditures, but which have been recently identified as tax expenditures.

Table 5.1: New tax expenditures

TES code	Tax expenditure description	Reason for new tax expenditure
CONSUMPTION		
Commodity taxes		
F22	Certain goods imported into Australia are subject to customs duty.	Existing measure not previously recognised as a tax expenditure.
Natural resource taxes		
G3	Exploration expenditure can be transferred, under certain circumstances, between projects for petroleum resource rent tax (PRRT) purposes.	Existing measure not previously recognised as a tax expenditure.
G1	The gas transfer price regulations provide an allowance for capital expenditure which is based on the long term bond rate plus 7 per cent rather than the benchmark rate (long term bond rate plus 5 per cent).	Existing measure not previously recognised as a tax expenditure.
INCOME TAX		
Business income		
B86	Expenditure incurred in constructing capital works, including buildings and structural improvements and environment protection earthworks, is deductible at a rate of 2.5 per cent or 4 per cent depending on when the construction started and how the capital works are used.	Existing measure not previously recognised as a tax expenditure.

Table 5.1: New tax expenditures (continued)

TES code	Tax expenditure description	Reason for new tax expenditure
Business income (continued)		
B90	The establishment cost for carbon sinks incurred between the 2007-08 and 2011-12 income years is immediately tax deductible and, thereafter will be depreciated in line with horticultural plant provisions.	New policy measures reported in the 2007-08 Budget and the *Mid-Year Economic and Fiscal Outlook 2007-08.*
B101	Initial investors in forestry managed investment schemes will receive a tax deduction equal to 100 per cent of their contributions provided certain conditions are met.	New policy measure reported in the 2007-08 Budget
B25	Tobacco growers who receive a Restructuring Grant of up to $150,000 under the Tobacco Growers Adjustment Assistance Programme 2006 will have the grant exempt from tax if they undertake to exit all agricultural enterprises for at least five years.	New policy measure reported in the 2007-08 Budget
B44	The Australian Government is providing tax free re-establishment grants of up to $75,000 tax free under the Farm Help program to eligible farmers who choose to sell their farm and exit farming for at least five years.	Existing measure not previously recognised as a tax expenditure.
B54	An uplift in the costs of assets for tax purposes will not be allowed for an entity that joins a consolidated group following a captial gains tax roll-over affecting the membership interests of the joining entity, from 12 October 2007.	New policy measures reported in the *Mid-Year Economic and Fiscal Outlook 2007-08* and the *Pre-election Economic and Fiscal Outlook 2007*.
Capital Gains Tax		
E23	The capital gains tax market value substitution rule will not apply when CGT event C2 occurs in relation to membership interests in widely-held entities.	Modification to an existing tax expenditure as a result of policy measure reported in the *Pre-election Economic and Fiscal Outlook 2007*.
E24	A full or partial roll-over is provided where one or more licences are issued in consequence of the ending of an existing licence	Existing measure not previously recognised as a tax expenditure and modified as a result of policy measure reported in the *Mid-Year Economic and Fiscal Outlook 2007-08.*
E25	Capital losses may only be offset against capital gains, which means they are quarantined from ordinary income.	Existing measure not previously recognised as a tax expenditure.
E2	A capital gains tax roll-over is available for capital gains arising from the exchange of a membership interest in a medical defence organisation for a similar interest in another medical defence organisation where both organisations are companies limited by guarantee.	New policy measure reported in the 2007-08 Budget
E21	When calculating a capital gain, the cost base of a capital gains tax asset may be indexed (by reference to the consumer price index) up until 30 September 1999.	Existing measure not previously recognised as a tax expenditure

Table 5.1: New tax expenditures (continued)

TES code	Tax expenditure description	Reason for new tax expenditure
Capital Gains Tax (continued)		
E22	Policyholders of a health insurer which demutualises will not be subject to capital gains tax (CGT) on any capital gains or losses that they realise on the exchange of rights in the insurer for shares in the demutualised entity.	New policy measure reported in the *Pre-election Economic and Fiscal Outook 2007*.
Personal income		
A27	From 1 July 2007 families will receive the Child Care Tax Rebate as a direct payment. The direct payment of the Child Care Tax Rebate will be exempt from income tax.	New policy measure reported in the 2007-08 Budget.
A49	The Prime Minister's Prize for Australian History and Prize for Science will be exempt from income tax.	New policy measure reported in the *Mid-Year Economic and Fiscal Outlook 2007-08*.
Retirement savings		
C19	All existing balances and future superannuation contributions for temporary residents will be transferred to the Australian Government, effective 1 July 2008.	New policy measure reported in the *Mid-Year Economic and Fiscal Outlook 2007-08*.

5.2 Modified tax expenditures

Table 5.2 reports tax expenditures that have been modified since they were last reported in the *2006 Tax Expenditures Statement* (the respective tax expenditure reference codes from this Statement and the *2006 Tax Expenditures Statement* are shown in the first two columns of the table). Modified tax expenditures refer to tax expenditures that have changed materially, for example because of a change to the benchmark, a decision to remove a tax expenditure in a certain year, an amalgamation or split of tax expenditures, or the inclusion of a new element to an existing tax expenditure.

Table 5.2: Modified tax expenditures

TES code			
2007	**2006**	**Modification to the tax expenditure**	**Nature of modification**
INCOME TAX			
Business income			
B40	B83	Alignment of the early withdrawal requirements of the Farm Management Deposit Scheme with the exceptional circumstances guidelines.	Modification to an existing tax expenditure as a result of policy measure reported in the *Mid-Year Economic and Fiscal Outlook 2007-08*.
B34	B62	STS superceded by allowing access to individual components separately.	Reporting modification.
B33	B66	Expiry of the 12 month prepayment rule for investments in forestry managed investment schemes with effect from 30 June 2008.	Existing tax expenditure due to expire (replaced by new tax expenditure).
B64	B32	The Film Licensed Investment Company scheme will not be renewed beyond its current expiry date of 30 June 2007.	Modification to an existing tax expenditure as a result of policy measure reported in the 2007-08 Budget.
B93	B58	The measure extending the premium 175 per cent R&D tax concession was modified to incorporate transitional arrangements, allow new entrants immediate access to the concession and make other technical changes to the measure. In addition, companies that undertake research and development (R&D) on behalf of a grouped foreign company are eligible for the premium 175 per cent R&D tax concession.	Modification to an existing tax expenditure as a result of policy measures reported in the 2007-08 Budget and the *Mid-Year Economic and Fiscal Outlook 2007-08*.
B84	B51	The statutory cap for tractors and harvesters has been legislated.	Modification to an existing tax expenditure as a result of policy measure reported in the 2007-08 Budget.
B65	B31	Tax incentives for film investment under Division 10B and 10BA of the ITAA1936 will be phased out.	Modification to an existing tax expenditure as a result of policy measure reported in the 2007-08 Budget.
B28	B15	A producer may be entitled to one of three refundable film production tax offsets under Division 376 - the producer tax offset, the location offset or post, digital and visual effects offset. Payments made under these offsets are exempt from tax.	Modification to an existing tax expenditure as a result of policy measure reported in the 2007-08 Budget.
B97	B55	Simplified Tax System superseded by allowing access to individual components separately.	Reporting modification.
B96	B55	Simplified trading stock rules for small business. STS superseded by allowing access to individual components separately.	Reporting modification.
B95	B55	Simplified depreciation deduction regime for small businesses. STS superseded by allowing access to individual components separately.	Reporting modification.

Table 5.2: Modified tax expenditures (continued)

TES code			
2007	**2006**	**Modification to the tax expenditure**	**Nature of modification**
Capital Gains Tax			
E28	E12	Allow related entities and partners in partnership access to the small business capital gains tax (CGT) concessions via the 'small business entity' test.	Modification to an existing tax expenditure as a result of policy measure reported in the *Pre-election Economic and Fiscal Outlook 2007*.
E29	E11	Relaxation of the eligibility requirements for concessional taxation treatment for foreign residents inveting in venture capital limited partnerships and venture capital funds of funds. The measure also ensures that investments made by early stage venture capital limited partnerships are directed at early stage venture capital activity.	Modification to an existing tax expenditure as a result of policy measure reported in the 2007-08 Budget.
E13	E13	Allow related entities and partners in partnership access to the small business CGT concessions via the 'small business entity' test.	Modification to an existing tax expenditure as a result of policy measure reported in the *Pre-election Economic and Fiscal Outlook 2007*.
E19	E8	Extend the roll-over to transfers of assets 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.	Modification to an existing tax expenditure as a result of policy measure reported in the *Mid-Year Economic and Fiscal Outlook 2007-08*.
Fringe Benefits Tax			
D3	D4	The exemption for certain benefits received by Australian Government employees in receipt of military compensation has been quantified.	Reporting modification.
D2	D2	The exemption for certain benefits provided under the Defence Service Homes Act has been quantified.	Reporting modification.
Personal income			
A18	A17	Exemption from income tax of the wage top-up of $1,000 per annum that applies from 1 July 2007 for first and second year Australian Apprentices under 30 years of age in skill-shortage trades, of fellowships and awards under the Endeavour Programme, and the Queensland Government's $1,000 Early Completion Bonus for apprentices.	Modification to an existing tax expenditure as a result of policy measures reported in the *Mid-Year Economic and Fiscal Outlook 2007-08* and the *Pre-election Economic and Fiscal Outlook 2007*.
A12	A13	Exemption from taxation of pay and allowances earned by members of the Australian Defence Force in the Australian Training Support Team in East Timor.	Modification to an existing tax expenditure as a result of policy measure reported in the *Pre-election Economic and Fiscal Outlook 2007*.
A28	A27	Income tax exemption for the Maternity Immunisation Allowance.	Modification to an existing tax expenditure as a result of an existing measure not previously recognised as a tax expenditure.

Table 5.2: Modified tax expenditures (continued)

TES code			
2007	**2006**	**Modification to the tax expenditure**	**Nature of modification**
Personal income (continued)			
A30	A33	The release from particular tax liabilities in cases of serious hardship has been quantified.	Reporting modification.
A33	A29	Application of the beneficiary tax offset to recipients of the wage supplement provided as part of the Equine Influenza assistance package.	Modification to an existing tax expenditure as a result of policy measure reported in the *Mid-Year Economic and Fiscal Outlook 2007-08* and the *Pre-election Economic and Fiscal Outlook 2007*.
A34	A31	Increase in the dependent spouse rebate from $1,655 to $2,100 with effect from 1 July 2007.	Modification to an existing tax expenditure as a result of policy measures announced in the 2007-08 Budget.
A39	A39	Income tax exemption for crisis, bereavement and related payments under the ABSTUDY scheme.	Modification to an existing tax expenditure as a result of policy measure reported in the *Mid-Year Economic and Fiscal Outlook 2007-08*.
Retirement savings			
C3	C3	New data has become available which has led to a large increase in the estimate for the concessional taxation of non-superannuation termination benefits.	Reporting modification.
C4	C1	Reporting modification.	Reported as a separate tax expenditure.
C18	C8	Allow related entities and partners in partnership access to the small business capital gains tax (CGT) concessions via the ‘small business entity’ test.	Modification to an existing tax expenditure as a result of policy measure reported in the *Pre-election Economic and Fiscal Outlook 2007*.
C1	C6	Allow related entities and partners in partnership access to the small business capital gains tax (CGT) concessions via the ‘small business entity’ test.	Modification to an existing tax expenditure as a result of policy measure reported in the *Pre-election Economic and Fiscal Outlook 2007*.
C5	C1	The late payment offset will be extended indefinitely for employers who have made a late contribution to the fund and incurred a superannuation guarantee charge for the quarter.	Modification to an existing tax expenditure as a result of policy measure reported in the *Mid-Year Economic and Fiscal Outlook 2007-08*. Reported as a separate tax expenditure.
C6	C1	For account-based pensions, only assets included in the income stream account balance are eligible for the tax concessions available to segregated pension assets.	Modification to an existing tax expenditure as a result of policy measure reported in the *Mid-Year Economic and Fiscal Outlook 2007-08*. Reported as a separate tax expenditure.

Table 5.2: Modified tax expenditures (continued)

TES code			
2007	**2006**	**Modification to the tax expenditure**	**Nature of modification**
Retirement savings (continued)			
C7	C2	Changes have been made to the definition of a superannuation interest, valuation of public sector defined benefit pensions, taxation of death benefits paid to non-dependants of military and police personnel killed in the line of duty, taxation of benefits paid to the terminally ill, the proportioning rule for members of the Military Superannuation and Benefits Scheme; and the list of exempt public sector superannuation schemes.	Modification to an existing tax expenditure as a result of policy measure reported in the 2007-08 Budget and the *Mid-Year Economic and Fiscal Outlook 2007-08*.
C10	C1	Reporting modification.	Reported as a separate tax expenditure.
C9	C1	Reporting modification.	Reported as a separate tax expenditure.
C8	C1	Reporting modification.	Reported as a separate tax expenditure.
C11	C1	Reporting modification.	Reported as a separate tax expenditure.
C14	C1	Changes have been made to the valuation of public sector defined benefit pensions. Changes have been made to the definition of a superannuation interest. For account-based pensions, only assets included in the income stream account balance are eligible for the tax concessions available to segregated pension assets.	Modification to an existing tax expenditure as a result of policy measures reported in the 2007-08 Budget, the *Mid-Year Economic and Fiscal Outlook 2007-08* and *Better Super*. Reported as a separate tax expenditure.
C13	C1	Changes have been made to the definition of a superannuation interest, taxation of benefits paid to the terminally ill, and the proportioning rule for members of the Military Superannuation and Benefits Scheme. Lump sum death benefit superannuation payments made to non-dependants of police and military personnel killed in the line of duty receive the same tax treatment as death benefit payments to a dependant.	Modification to an existing tax expenditure as a result of policy measures reported in the 2007-08 Budget, *Mid-Year Economic and Fiscal Outlook 2007-08* and *Better Super*. Reported as a separate tax expenditure.
C12	C1	Changes have been made to the definition of a superannuation interest, taxation of benefits paid to the terminally ill, and the proportioning rule for members of the Military Superannuation and Benefits Scheme. Lump sum death benefit superannuation payments made to non-dependants of police and military personnel killed in the line of duty receive the same tax treatment as death benefit payments to a dependant.	Modification to an existing tax expenditure as a result of policy measures reported in the 2007-08 Budget, *Mid-Year Economic and Fiscal Outlook 2007-08* and *Better Super*. Reported as a separate tax expenditure.

5.3 Deleted tax expenditures

Table 5.3 reports tax expenditures that have been deleted since the *2006 Tax Expenditures Statement*. Deleted tax expenditures generally arise because the relevant tax provisions have been abolished or cease to have effect within the reported time horizon of a particular TES. Deleted tax expenditures do not include tax expenditures that have been abolished but are still relevant to some years within the reported time horizon.

Table 5.3: Deleted tax expenditures

TES code	Tax expenditure description	Reason for deletion
2006		
INCOME TAX		
Personal income		
A47	Income tax exemption for certain pensions received by residents of Papua New Guinea.	No longer considered to be a tax expenditure.
A32	A taxpayer whose taxable income falls below the relevant threshold is eligible for the low-income tax offset.	The low-income tax offset is now an integral part of the personal tax scales and as such is now incorporated in the income tax benchmark.

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.

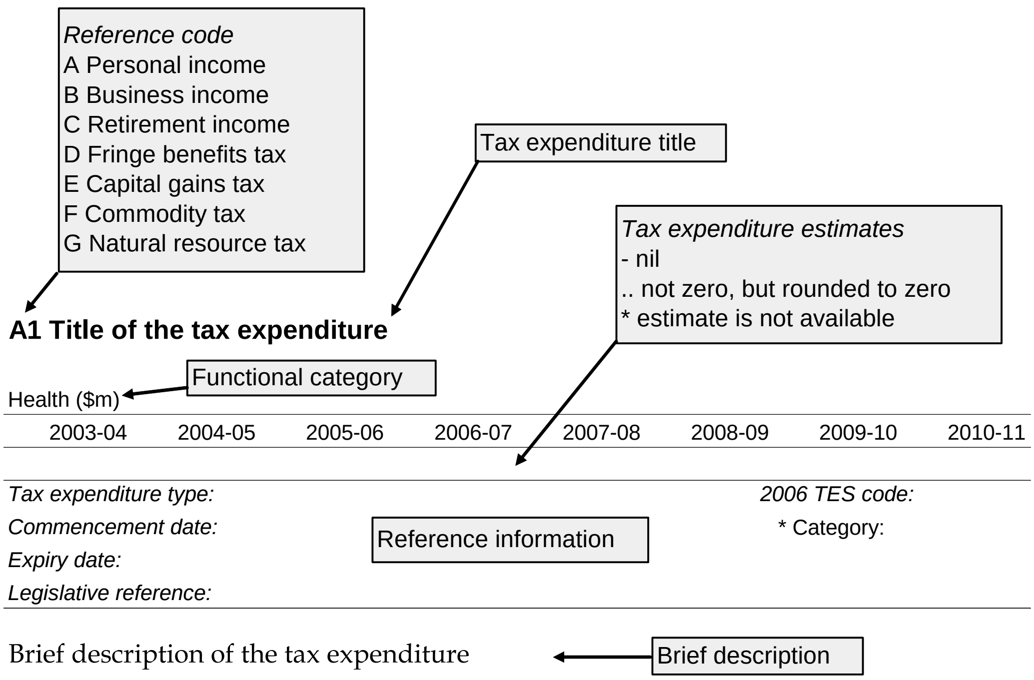
Tax expenditures are grouped according to the benchmark against which they are estimated and by the broad subject category to which they relate. The table below provides details of how this chapter is organised.

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

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	C1 – C15
		Tax expenditures for other economic affairs	C16 – C19
	Fringe Benefits Tax (D)	Tax expenditures for general public services	D1
		Tax expenditures for defence	D2 – D4
		Tax expenditures for education	D5
		Tax expenditures for health	D6 – D7
		Tax expenditures for social security and welfare	D8 – D13
		Tax expenditures for housing and community amenities	D14 – 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.



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.

6.2 Income tax benchmark

PERSONAL INCOME

Tax expenditures for general public services

A1 Deduction for expenses incurred by election candidates

General public services - Legislative and executive affairs ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
2	2	2	2	2	2	3	3

Tax expenditure type:	Deduction	*2006 TES code:*	A2
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Section 25-60 *Income Tax Assessment Act 1997* Section 74A *Income Tax Assessment Act 1936* (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.

A2 Exemption of official salaries and certain other income of the Governor-General and Governor of any State

General public services - Legislative and executive affairs ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
..	..	..	..	..	..	..	..

Tax expenditure type:	Exemption	*2006 TES code:*	A1
Commencement date:	Introduced before 1985		
Expiry date:	No longer available for appointments after 28 June 2001		
Legislative reference:	Section 51-15 *Income Tax Assessment Act 1997*		

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.

A3 Exemption of income earned by Australians from working on approved overseas projects

General public services - Foreign affairs and economic aid ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
430	420	450	490	500	520	540	570

Tax expenditure type:	Exemption	*2006 TES code:*	A5
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Section 23AF *Income Tax Assessment Act 1936*		

Note: estimates include tax expenditures A3 and A4

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).

A4 Exemption of income earned by Australians working in a foreign country

General public services - Foreign affairs and economic aid ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Included in A3							

Tax expenditure type:	Exemption	*2006 TES code:*	A6
Commencement date:	1986		
Expiry date:			
Legislative reference:	Section *23AG Income Tax Assessment Act 1936*		

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.

A5 Exemption of income of certain visitors to Australia

General public services - Foreign affairs and economic aid ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
1	1	1	1	1	1	1	1

Tax expenditure type:	Exemption	*2006 TES code:*	A4
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Section 842-*105 Income Tax Assessment Act 1997*		

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).

A6 Exemption of official salary and emoluments of officials of prescribed international organisations

General public services - Foreign affairs and economic aid ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2006 TES code:*	A3
Commencement date:	Introduced before 1985	** Category*	1+
Expiry date:			
Legislative reference:	*International Organisations (Privileges and Immunities) Act 1963*		

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.

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

General public services - General services ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
8	8	8	7	7	7	7	8

Tax expenditure type:	Exemption	*2006 TES code:*	A7
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Sections 23F and 24G and sections 251T and 251U *Income Tax Assessment Act 1936*		

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

Tax expenditures for defence

A8 Exemption from the Medicare levy for Australian Defence Force members and their relatives and associates

Defence ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
40	40	45	50	50	55	55	60

Tax expenditure type:	Exemption	*2006 TES code:*	A16
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Sections 251T and 251U *Income Tax Assessment Act 1936*		

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.

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

Defence ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
18	13	8	7	18	18	17	16

Tax expenditure type:	Exemption	*2006 TES code:*	A9
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Section 51-5 *Income Tax Assessment Act 1997* Regulation 51-5.*01 Income Tax Assessment Regulations 1997*		

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

Defence ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
..	..	..	..	..	..	..	..

Tax expenditure type:	Exemption	*2006 TES code:*	A12
Commencement date:	1996		
Expiry date:			
Legislative reference:	Sections 51-5 and 51-*32 Income Tax Assessment Act 1997*		

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.

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

Defence ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
..	..	..	..	..	..	..	..

Tax expenditure type:	Exemption	*2006 TES code:*	A11
Commencement date:	1996		
Expiry date:			
Legislative reference:	Sections 51-5 and 51-33 *Income Tax Assessment Act 1997*		

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.

A12 Exemption of pay and allowances earned by members of the Australian Defence Force in operational areas

Defence ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
17	23	29	49	50	50	50	50

Tax expenditure type:	Exemption	*2006 TES code:*	A13
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Sections 23AC and 23AD *Income Tax Assessment Act 1936*		

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

A13 Exemption of pay and allowances earned in Australia by foreign forces

Defence ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
..	..	..	..	..	..	..	..

Tax expenditure type:	Exemption	*2006 TES code:*	A10
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Section 842-*105 Income Tax Assessment Act 1997*		

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.

A14 Exemption of pay and allowances for part-time Australian Defence Force Reserve personnel

Defence ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
25	35	35	40	35	35	35	35

Tax expenditure type:	Exemption	*2006 TES code:*	A8
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Section 51-5 *Income Tax Assessment Act 1997*		

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

A15 Exemption of some payments to Australian Federal Police and civilian personnel in service with an armed force of the United Nations

Defence ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
..	..	..	..	..	..	..	..

Tax expenditure type:	Exemption	*2006 TES code:*	A14
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Section 23AB *Income Tax Assessment Act 1936*		

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.

A16 Tax offsets for Australian Defence Force personnel serving overseas and for Australian Federal Police and civilians serving with United Nations forces

Defence ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Included in A48							

Tax expenditure type:	Offset	*2006 TES code:*	A15
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Section 79B *Income Tax Assessment Act 1936* and Section 23AB(7) *Income Tax Assessment Act 1936*		

Australian Defence Force 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.

Tax expenditures for education

A17 Denial of deductibility for certain self-education expenses

Education ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
*	*	*	*	*	*	*	*

Tax expenditure type:	Denial of deduction	*2006 TES code:*	A19
Commencement date:	1989	** Category*	3-
Expiry date:			
Legislative reference:	Section 26-20 *Income Tax Assessment Act 1997*		

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.

A18 Exemption of income from certain educational scholarships, payments to apprentices or similar forms of assistance

Education ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
9	10	12	15	17	17	16	16

Tax expenditure type:	Exemption	*2006 TES code:*	A17
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Sections 842-105 and 51-10 *Income Tax Assessment Act 1997*		

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.

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.

A19 Threshold for the deductibility of self-education expenses

Education ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
-10	-9	-10	-9	-9	-9	-9	-9

Tax expenditure type:	Denial of deduction	*2006 TES code:*	A18
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Section 82A *Income Tax Assessment Act 1936*		

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.

Tax expenditures for health

A20 Deduction for payment of United Medical Protection Limited support payments

Health ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
-	..	..	1	..	-	-	-

Tax expenditure type:	Deduction	*2006 TES code:*	A25
Commencement date:	2003		
Expiry date:			
Legislative reference:	Section 25-105 *Income Tax Assessment Act 1997*		

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.

A21 Exemption from the Medicare levy for residents with a taxable income below a threshold

Health ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
530	560	580	650	670	690	700	710

Tax expenditure type:	Exemption	*2006 TES code:*	A20
Commencement date:	1986		
Expiry date:			
Legislative reference:	Section 7 *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.

A22 Exemption of 30 per cent private health insurance refund, including expense equivalent

Health ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
740	810	900	980	1000	1040	1110	1180

Tax expenditure type:	Exemption	*2006 TES code:*	A23
Commencement date:	1998		
Expiry date:			
Legislative reference:	Section 52-125 *Income Tax Assessment Act 1997*		

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.

A23 Medical expenses tax offset

Health ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
220	250	300	355	385	425	460	510

Tax expenditure type:	Offset	*2006 TES code:*	A21
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Section 159P *Income Tax Assessment Act 1936*		

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.

A24 Medicare levy exemption for non-residents, repatriation beneficiaries, blind pensioners and foreign government representatives

Health ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
65	60	70	80	85	95	100	110

Tax expenditure type:	Exemption	*2006 TES code:*	A22
Commencement date:	1986		
Expiry date:			
Legislative reference:	Sections 251T and 251U *Income Tax Assessment Act 1936*		

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

A25 Medicare levy surcharge lump sum payment in arrears offset

Health ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
-	-	-	..	..	..	..	..

Tax expenditure type:	Offset	*2006 TES code:*	A26
Commencement date:	1 July 2005		
Expiry date:			
Legislative reference:	Subdivision 61 L *Income Tax Assessment Act 1997*		

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.

A26 Medicare levy surcharge on income earners who do not hold private health insurance

Health ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
-150	-190	-260	-330	-410	-490	-570	-640

Tax expenditure type:	Increased rate	*2006 TES code:*	A24
Commencement date:	1997		
Expiry date:			
Legislative reference:	*Sections 8B to 8D Medicare Levy Act 1986* *A New Tax System (Medicare Levy Surcharge - Fringe Benefits) Act 1999*		

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 1 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.

Tax expenditures for social security and welfare

A27 Child care tax rebate

Social security and welfare ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
-	-	-	-	-	115	120	130

Tax expenditure type:	Exemption	*2006 TES code:*	New
Commencement date:	1 July 2007		
Expiry date:			
Legislative reference:	Section 52-150 *Income Tax Assessment Act 1997*		

From 1 July 2007 families will receive the Child Care Tax Rebate soon after the financial year in which they incur child care costs, as a direct payment. Families will still receive a rebate for out-of-pocket costs incurred in 2005-06 under the previous arrangements. Families with out-of-pocket costs for both 2005-06 and 2006-07 will receive two rebates in 2007-08 – one through the tax system and one as a direct payment. The new direct payment will be exempt from tax. See also the related tax expenditure, tax offset for child care.

A28 Exemption of the Baby Bonus

Social security and welfare ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
5	125	135	185	190	220	220	220

Tax expenditure type:	Exemption	*2006 TES code:*	A27
Commencement date:	1 July 2004		
Expiry date:			
Legislative reference:	Section 52-150 *Income Tax Assessment Act 1997*		

The Baby Bonus (previously known as the Maternity Payment) is exempt from income tax. The Baby Bonus is available in respect of children born or adopted from 1 July 2004. See also the related tax expenditure exemption of the first child tax offset (Baby Bonus).

The Maternity Immunisation Allowance is also exempt from income tax.

Tax concessions for certain taxpayers

A29 Deduction for tax agent fees for Family Tax Benefit claims lodged through Centrelink

Social security and welfare ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
-	..	-	-	-	-	-	-

Tax expenditure type:	Deduction	*2006 TES code:*	A34
Commencement date:	2003		
Expiry date:	2004		
Legislative reference:	Section 25-7 *Income Tax Assessment Act 1997*		

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.

A30 Release from particular tax liabilities in cases of serious hardship

Social security and welfare ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
14	9	12	21	*	*	*	*

Tax expenditure type:	Exemption	*2006 TES code:*	A33
Commencement date:	Introduced before 1922	** Category*	2+
Expiry date:			
Legislative reference:	Division 340 in Schedule 1 to the *Tax Administration Act 1953*		

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.

A31 Senior Australians' Tax Offset

Social security and welfare ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
1510	1630	1570	1160	1010	900	920	830

Tax expenditure type:	Offset	*2006 TES code:*	A30
Commencement date:	1996		
Expiry date:			
Legislative reference:	Sections 160AAAA and 160AAAB *Income Tax Assessment Act 1936*		

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).

A32 Tax offset for child care

Social security and welfare ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
-	-	-	290	345	15	-	-

Tax expenditure type:	Offset	*2006 TES code:*	A36
Commencement date:	2004		
Expiry date:	2007		
Legislative reference:	Subdivision 61-IA *Income Tax Assessment Act 1997*		

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) have been eligible for a 30 per cent rebate for out of pocket expenses, up to a maximum of $4,000 per child per year until the 2005-06 income year. Taxpayers could claim the rebate in the tax year after child care expenses had been incurred. This program is now covered by the related tax expenditure child care tax rebate.

A33 Tax offset for recipients of certain social security benefits, pensions or allowances

Social security and welfare ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
1140	1220	1100	1150	1200	1260	1330	1400

Tax expenditure type:	Offset	*2006 TES code:*	A29
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Section 160AAA *Income Tax Assessment Act 1936*		

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, equine influenza wage supplement payments and exceptional circumstances relief payments).

A34 Tax offsets for dependent spouse, child-housekeeper and housekeeper who cares for a prescribed dependant

Social security and welfare ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
380	390	420	430	450	560	570	580

Tax expenditure type:	Offset	*2006 TES code:*	A31
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Sections 159J and 159L *Income Tax Assessment Act 1936*		

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.

A35 Tax offsets for taxpayers supporting a parent, parent-in-law, or invalid relative

Social security and welfare ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
15	15	20	35	45	50	50	55

Tax expenditure type:	Offset	*2006 TES code:*	A28
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Section 159J *Income Tax Assessment Act 1936*		

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).

A36 Mature Age Worker Tax Offset

Other economic affairs - Total labour and employment affairs ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
-	-	440	510	480	490	450	440

Tax expenditure type:	Offset	*2006 TES code:*	A35
Commencement date:	2004		
Expiry date:			
Legislative reference:	Subdivision 61-K *Income Tax Assessment Act 1997*		

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.

A37 Asian Development Bank – income tax exemption for Australian staff

Other economic affairs - Other economic affairs, nec ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
-	-	..	..	..	..	..	..

Tax expenditure type:	Exemption	*2006 TES code:*	A37
Commencement date:	17 September 2005		
Expiry date:			
Legislative reference:	Regulation 7 of the *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 facilitates the day-to-day running of the Australian office which services the needs of the Pacific Island countries.

A38 International taxation – foreign income exemption for temporary residents

Other economic affairs - Other economic affairs, nec ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
-	-	-	-	35	35	40	40

Tax expenditure type:	Exemption	*2006 TES code:*	A38
Commencement date:	1 July 2006		
Expiry date:			
Legislative reference:	Subdivision 768-R *Income Tax Assessment Act 1997*		

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)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
980	990	940	970	1000	1040	1080	1120

Tax expenditure type:	Exemption	*2006 TES code:*	A39
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Subdivision 52-A *Income Tax Assessment Act 1997*		

Certain social security pensions, benefits and allowances and certain repatriation pensions paid under the *Social Security Act 1991* and the *National Health Act 195*3 are exempt from income tax.

Certain amounts of Commonwealth education or training payments and certain parts of payments under the Abstudy scheme are exempt from income tax.

A40 Exemption of certain pensions, annuities or allowances paid for persecution

Social security and welfare ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Included in A41							

Tax expenditure type:	Exemption	*2006 TES code:*	A46
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Section 768-105 *Income Tax Assessment Act 1997*		

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.

A41 Exemption of certain war-related payments and pensions

Social security and welfare ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
300	320	280	240	240	190	190	190

Tax expenditure type:	Exemption	*2006 TES code:*	A45
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Subdivisions 52-B and 52-C *Income Tax Assessment Act 1997*		

Note: estimates include tax expenditures A41 and A40

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

A42 Exemption of Child Care Benefit

Social security and welfare ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
345	365	385	400	380	410	420	440

Tax expenditure type:	Exemption	*2006 TES code:*	A42
Commencement date:	2000		
Expiry date:			
Legislative reference:	Section 52-150 *Income Tax Assessment Act 1997*		

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.

On 1 July 2007, Child Care Benefit increased by 10 per cent in addition to normal Consumer Price Index indexation.

A43 Exemption of Family Tax Benefit, Parts A and B, including expense equivalent

Social security and welfare ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
2590	2390	2560	2510	2480	2320	2390	2450

Tax expenditure type:	Exemption	*2006 TES code:*	A40
Commencement date:	2000		
Expiry date:			
Legislative reference:	Section 52-150 *Income Tax Assessment Act 1997*		

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.

A44 Exemption of rent subsidy payments under the Commonwealth/State mortgage and rent relief schemes

Social security and welfare ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
13	13	12	11	11	11	12	12

Tax expenditure type:	Exemption	*2006 TES code:*	A41
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Section 51-30 *Income Tax Assessment Act 1997*		

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.

A45 Exemption of the first child tax offset (Baby Bonus)

Social security and welfare ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
21	31	32	26	19	10	3	1

Tax expenditure type:	Exemption	*2006 TES code:*	A44
Commencement date:	2002		
Expiry date:	Children born (or legal responsibility gained) on or before 30 June 2004		
Legislative reference:	Subdivision 61-I *Income Tax Assessment Act 1997*		

First child tax offset (Baby Bonus) payments are exempt from income tax. The first child tax offset is available to parents who gained legal responsibility for a child between 1 July 2001 and 30 June 2004. See also the related tax expenditure exemption of the Baby Bonus.

A46 Exemption of Utilities Allowance and Seniors' Concession Allowance

Social security and welfare ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
-	-	15	30	40	15	15	16

Tax expenditure type:	Exemption	*2006 TES code:*	A43
Commencement date:	2004		
Expiry date:			
Legislative reference:	Sections 52-10 and 52-65 *Income Tax Assessment Act 1997*		

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

Tax expenditures for housing and community amenities

A47 Exemption of payments made under the First Home Owners Grant Scheme

Housing and community amenities ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
295	250	245	315	320	320	330	335

Tax expenditure type:	Exemption	*2006 TES code:*	A49
Commencement date:	2000		
Expiry date:			
Legislative reference:	*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.

A48 Zone tax offsets

Housing and community amenities ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
185	190	195	200	200	195	190	185

Tax expenditure type:	Offset	*2006 TES code:*	A48
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Section 79A *Income Tax Assessment Act 1936*		

Note: estimates include tax expenditures A48 and A16

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

Tax expenditures for recreation and culture

A49 Exemption of certain prizes

Recreation and culture ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
-	-	-	-	..	..	..	..

Tax expenditure type:	Exemption	*2006 TES code:*	New
Commencement date:	1 July 2006		
Expiry date:			
Legislative reference:	Not yet legislated		

The Prime Minister's Prize for Australian History and Prime Minister's Prize for Science will both be exempt from income tax from 1 July 2006.

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

Recreation and culture ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
8	7	8	7	8	8	8	9

Tax expenditure type:	Concessional rate	*2006 TES code:*	A50
Commencement date:	1987		
Expiry date:			
Legislative reference:	Division 405 *Income Tax Assessment Act 1997*		

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 Deductibility of union dues and subscriptions to business associations

Other economic affairs - Total labour and employment affairs ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
*	*	*	*	*	*	*	*

Tax expenditure type:	Deduction	*2006 TES code:*	A53
Commencement date:	Introduced before 1985	** Category*	1+
Expiry date:			
Legislative reference:	Section 25-55 *Income Tax Assessment Act 1997*		

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.

A52 Deferral of tax and exemption for share discounts on qualifying employee share acquisition schemes

Other economic affairs - Total labour and employment affairs ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption, Deferral	*2006 TES code:*	A55
Commencement date:	1995	** Category*	3+
Expiry date:			
Legislative reference:	Section 26AAC and Division 13A *Income Tax Assessment Act 1936*		

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.

A53 Tax deferral advantage arising from return of after-tax contributions to a pension or annuity

Other economic affairs - Total labour and employment affairs ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
*	*	*	*	*	*	*	*

Tax expenditure type:	Deferral	*2006 TES code:*	A51
Commencement date:	Introduced before 1985	** Category*	na
Expiry date:			
Legislative reference:	Section 27H *Income Tax Assessment Act 1936*		

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.

A54 Denial of deductions for illegal activities

Other economic affairs - Other economic affairs, nec ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
*	*	*	*	*	*	*	*

Tax expenditure type:	Deduction	*2006 TES code:*	A56
Commencement date:	1 July 1999	** Category*	1-
Expiry date:			
Legislative reference:	Sections 26-52, 26-53 and 26-54 of the *Income Tax Assessment Act 1997*		

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.

A55 Distributions to charitable funds

Other economic affairs - Other economic affairs, nec ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
-	-	-	*	*	*	*	*

Tax expenditure type:	Exemption	*2006 TES code:*	A57
Commencement date:	1 July 2005	** Category*	2+
Expiry date:			
Legislative reference:	Sections 50-5 and 50-60 *Income Tax Assessment Act 1997*		

Note: estimates include tax expenditures A55, A56 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 charitable deductible gift recipients, or to a combination of these.

A56 Income tax exemption for funds that distribute to certain entities

Other economic affairs - Other economic affairs, nec ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Included in A55							

Tax expenditure type:	Exemption	*2006 TES code:*	A58
Commencement date:	1 July 2005		
Expiry date:			
Legislative reference:	Section 50-20 *Income Tax Assessment Act 1997*		

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.

A57 Increased tax rates for certain minors

Other economic affairs - Other economic affairs, nec ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
-27	-25	-22	-18	-14	-11	-8	-6

Tax expenditure type:	Increased rate	*2006 TES code:*	A52
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Division 6AA *Income Tax Assessment Act 1936*		

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.

A58 Part-year tax free threshold

Other economic affairs - Other economic affairs, nec ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
-20	-35	-40	-40	-40	-40	-45	-45

Tax expenditure type:	Increased rate	*2006 TES code:*	A54
Commencement date:	1986		
Expiry date:			
Legislative reference:	Sections 16 to 20 *Income Tax Rates Act 1986*		

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.

Prior to the 2006-07 income year, a student who ceased full-time education for the first time received a pro-rated tax free threshold, corresponding to the number of months that the student was not enrolled in full-time education.

A59 Refund of franking credits for eligible funds

Other economic affairs - Other economic affairs, nec ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Included in A55							

Tax expenditure type:	Rebate	*2006 TES code:*	A59
Commencement date:	1 July 2005		
Expiry date:			
Legislative reference:	Subdivision 207-E *Income Tax Assessment Act 1997*		

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

Other economic affairs - Total labour and employment affairs ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
*	*	*	*	*	*	*	*

Tax expenditure type:	Deduction	*2006 TES code:*	A60
Commencement date:	1987	** Category*	0
Expiry date:			
Legislative reference:	Section 8-1 and 900-60 *Income Tax Assessment Act 1997*		

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

A61 Alternatives to the logbook method of substantiating car expenses

Other economic affairs - Total labour and employment affairs ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
*	*	*	*	*	*	*	*

Tax expenditure type:	Deduction	*2006 TES code:*	A62
Commencement date:	1987	** Category*	1+
Expiry date:			
Legislative reference:	Division 28 and Subdivision 900-C *Income Tax Assessment Act 1997*		

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).

A62 Certain travel expenses in and outside Australia

Other economic affairs - Total labour and employment affairs ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
*	*	*	*	*	*	*	*

Tax expenditure type:	Deduction	*2006 TES code:*	A61
Commencement date:	1987	** Category*	0
Expiry date:			
Legislative reference:	Sections 8-1, 900-50 and 900-55 *Income Tax Assessment Act 1997*		

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.

Miscellaneous tax expenditures

A63 Tax offset on certain payments of income received in arrears

Other economic affairs - Total labour and employment affairs ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
5	4	4	3	3	3	3	3

Tax expenditure type:	Offset	*2006 TES code:*	A63
Commencement date:	1986		
Expiry date:			
Legislative reference:	Sections 159ZR to 159ZRD *Income Tax Assessment Act 1936*		

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.

A64 Deduction for contributions with an associated minor benefit

Other economic affairs - Other economic affairs, nec ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
-	-	3	3	5	9	9	9

Tax expenditure type:	Deduction	*2006 TES code:*	A65
Commencement date:	1 July 2004		
Expiry date:			
Legislative reference:	Division 30 *Income Tax Assessment Act 1997*		

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.

A65 Deduction for donations to prescribed private funds

Other economic affairs - Other economic affairs, nec ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
25	70	85	160	350	190	185	185

Tax expenditure type:	Deduction	*2006 TES code:*	A66
Commencement date:	2001		
Expiry date:			
Legislative reference:	Division 30 *Income Tax Assessment Act 1997* *Income Tax Assessment Regulations 1997*		

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.

A66 Deduction for gifts to approved donees

Other economic affairs - Other economic affairs, nec ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
540	560	710	710	870	950	1010	1110

Tax expenditure type:	Deduction	*2006 TES code:*	A64
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Division 30 *Income Tax Assessment Act 1997*		

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 *Income Tax Assessment Act 1997*.

A67 Exemption for structured settlements and structured orders

Other economic affairs - Other economic affairs, nec ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
3	4	5	6	7	8	9	10

Tax expenditure type:	Exemption	*2006 TES code:*	A69
Commencement date:	2001		
Expiry date:			
Legislative reference:	Section 54 *Income Tax Assessment Act 1997*		

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.

A68 Exemption of post-judgment interest awards in personal injury compensation cases

Other economic affairs - Other economic affairs, nec ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
2	2	2	2	2	2	2	2

Tax expenditure type:	Exemption	*2006 TES code:*	A67
Commencement date:	1992		
Expiry date:			
Legislative reference:	Section 51-57 *Income Tax Assessment Act 1997*		

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.

A69 Immediate deduction for low-value depreciating assets not used in business

Other economic affairs - Other economic affairs, nec ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
*	*	*	*	*	*	*	*

Tax expenditure type:	Deduction	*2006 TES code:*	A70
Commencement date:	2001	** Category*	3+
Expiry date:			
Legislative reference:	Sections 40-25 and 40-80 of the *Income Tax Assessment Act 1997*		

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.

A70 Tax offset of interest on certain government securities

Other economic affairs - Other economic affairs, nec ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
..	..	-	-	-	-	-	-

Tax expenditure type:	Offset	*2006 TES code:*	A68
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Section 160AB *Income Tax Assessment Act 1936*		

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.

BUSINESS INCOME

Tax expenditures for general public services

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

General public services - Financial and fiscal affairs ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
-	2	-	-	-	-	-	-

Tax expenditure type:	Exemption	*2006 TES code:*	B1
Commencement date:	2003		
Expiry date:			
Legislative reference:	*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.

International tax expenditures

B2 Exemptions for prescribed international organisations

General public services - Foreign affairs and economic aid ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2006 TES code:*	B67
Commencement date:	1963	** Category*	2+
Expiry date:			
Legislative reference:	Section 6, *International Organisations (Privileges and Immunities) Act 1963*		

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 Organisation, the Organisation for Economic Cooperation and Development and various United Nations specialised agencies.

B3 Interest withholding tax and dividend withholding tax exemptions for overseas charitable institutions

General public services - Foreign affairs and economic aid ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2006 TES code:*	B68
Commencement date:	1936	** Category*	2+
Expiry date:			
Legislative reference:	Paragraph 128B(3)(aa) *Income Tax Assessment Act 1936*		

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.

B4 Income tax exemption for certain US projects in Australia

Defence ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2006 TES code:*	B80
Commencement date:	Introduced before 1985	** Category*	1+
Expiry date:			
Legislative reference:	Section 23AA *Income Tax Assessment Act 1936*		

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.

B5 Concessional tax treatment for foreign authorised deposit-taking institutions

Other economic affairs - Other economic affairs, nec ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
*	*	*	*	-	-	-	-

Tax expenditure type:	Concessional rate	*2006 TES code:*	B76
Commencement date:	1993	** Category*	2+
Expiry date:	2006		
Legislative reference:	Part B *Income Tax Assessment Act 1936*, 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) *Financial Corporations (Transfer of Assets and Liabilities) Act 1993*		

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

Foreign banks were also able to transfer assets and liabilities from their subsidiaries to their branches without creating a tax liability.

B6 Concessional tax treatment of income of offshore banking units

Other economic affairs - Other economic affairs, nec ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
55	75	90	160	160	160	160	160

Tax expenditure type:	Concessional rate	*2006 TES code:*	B73
Commencement date:	1992		
Expiry date:			
Legislative reference:	Part III, Division 9A *Income Tax Assessment Act 1936*		

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.

B7 Deductibility of costs of setting up a regional headquarters

Other economic affairs - Other economic affairs, nec ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
..	..	..	..	..	..	..	..

Tax expenditure type:	Deduction	*2006 TES code:*	B72
Commencement date:	1994		
Expiry date:			
Legislative reference:	Sections 82C to CE *Income Tax Assessment Act 1936*		

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'.

B8 Deemed tax credits under tax sparing provisions in Australia's tax treaties

Other economic affairs - Other economic affairs, nec ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
5	5	7	11	7	5	5	..

Tax expenditure type:	Exemption	*2006 TES code:*	B69
Commencement date:	Date of effect depends on the date of effect of the tax treaty		
Expiry date:			
Legislative reference:	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. Tax sparing arrangements in most tax treaties have now expired.

B9 Exemption for foreign branch profits from income tax

Other economic affairs - Other economic affairs, nec ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2006 TES code:*	B70
Commencement date:	1990	** Category*	3+
Expiry date:			
Legislative reference:	Section 23AH *Income Tax Assessment Act 1936*		

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.

B10 Exemption from accrual taxation for certain transferor trusts

Other economic affairs - Other economic affairs, nec ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2006 TES code:*	B79
Commencement date:	1990	** Category*	2+
Expiry date:			
Legislative reference:	Sub subparagraph 102AAT(1)(a)(i)(F) and paragraph 102AAT(1)(c) *Income Tax Assessment Act 1936*		

Under the transferor trust rules, accrual taxation would normally be applied to the transferor. 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.

B11 Exemption from accrual taxation for controlled foreign companies

Other economic affairs - Other economic affairs, nec ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2006 TES code:*	B78
Commencement date:	1990	** Category*	2+
Expiry date:			
Legislative reference:	Sections 384-5 *Income Tax Assessment Act 1936*		

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.

B12 Exemption from interest withholding tax on widely held debentures

Other economic affairs - Other economic affairs, nec ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
510	440	580	770	1030	1370	1820	2420

Tax expenditure type:	Exemption	*2006 TES code:*	B81
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Section 128F and 128FA *Income Tax Assessment Act 1936*		

Note: estimates include tax expenditures B12 and B14

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.

B13 Exemption of inbound non-portfolio dividends from income tax

Other economic affairs - Other economic affairs, nec ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
20	20	80	110	120	130	140	140

Tax expenditure type:	Exemption	*2006 TES code:*	B77
Commencement date:	1990		
Expiry date:			
Legislative reference:	Section 23AJ *Income Tax Assessment Act 1936*		

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.

B14 Interest withholding tax concession on interest payments by Australian branches to foreign banks

Other economic affairs - Other economic affairs, nec ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Included in B12							

Tax expenditure type:	Concessional rate	*2006 TES code:*	B71
Commencement date:	1994		
Expiry date:			
Legislative reference:	Section 160ZZZJ *Income Tax Assessment Act 1936*		

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 the notional equity requirement. The notional equity requirement was removed with effect from the 2001-02 income year when the new thin capitalisation rules commenced.

B15 Threshold exemption for thin capitalisation

Other economic affairs - Other economic affairs, nec ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
*	*	*	*	*	*	*	*

Tax expenditure type:	Deduction	*2006 TES code:*	B75
Commencement date:	2001	** Category*	1+
Expiry date:			
Legislative reference:	Sections 820-35 and 820-37 of *Income Tax Assessment Act 1997*		

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.

B16 Unfranked dividends paid to foreign shareholders by Pooled Development Funds

Other economic affairs - Other economic affairs, nec ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
1	1	1	1	1	1	1	2

Tax expenditure type:	Exemption	*2006 TES code:*	B74
Commencement date:	1992		
Expiry date:			
Legislative reference:	Sections 128B(3)(ba) and 124ZM of the *Income Tax Assessment Act 1936*		

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

Tax expenditures for health

B17 Income tax exemption for public and non-profit hospitals

Health ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2006 TES code:*	B3
Commencement date:	Introduced before 1985	** Category*	1+
Expiry date:			
Legislative reference:	Section 50-30 *Income Tax Assessment Act 1997*		

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.

B18 Income tax exemption for registered health benefit organisations

Health ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
45	105	150	240	275	325	380	430

Tax expenditure type:	Exemption	*2006 TES code:*	B2
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Section 50-30 *Income Tax Assessment Act 1997*		

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 for social security and welfare

B19 Concessional taxation of life insurance investment income

Social security and welfare ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption, Offset, Concessional rate	*2006 TES code:*	B6
Commencement date:	2000	** Category*	2+
Expiry date:			
Legislative reference:	Sections 26AH and 160AAB of the *Income Tax Assessment Act 1936*		

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.

B20 Concessional taxation treatment of mining payments made in respect of mining and exploration activities on Aboriginal land

Social security and welfare ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2006 TES code:*	B5
Commencement date:	2000	** Category*	1+
Expiry date:			
Legislative reference:	Section 59-15 of the *Income Tax Assessment Act 1997*		

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.

B21 Deductibility of charitable entertainment

Social security and welfare ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
*	*	*	*	*	*	*	*

Tax expenditure type:	Deduction	*2006 TES code:*	B7
Commencement date:	1985	** Category*	na
Expiry date:			
Legislative reference:	Section 32-50 of the *Income Tax Assessment Act 1997*		

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

B22 Income tax exemption for religious, scientific, charitable or public educational institutions

Social security and welfare ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2006 TES code:*	B4
Commencement date:	Introduced before 1985	** Category*	3+
Expiry date:			
Legislative reference:	Section 50-5 *Income Tax Assessment Act 1997*		

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.

Tax concessions for certain taxpayers

B23 Exemption of foreign currency gains and losses from certain low balance accounts

Other economic affairs - Other economic affairs, nec ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2006 TES code:*	B8
Commencement date:	1 July 2003	** Category*	2+
Expiry date:			
Legislative reference:	Subdivision 775-D of the *Income Tax Assessment Act 1997*		

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.

B24 Off-market share buy-backs

Other economic affairs - Other economic affairs, nec ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
315	550	440	660	*	*	*	*

Tax expenditure type:	Offset	*2006 TES code:*	B9
Commencement date:	1990	** Category*	3+
Expiry date:			
Legislative reference:	Division 16K of Part III and 177EA *Income Tax Assessment Act 1936*		

The proceeds paid to shareholders who participate in an off-market share buy-back 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 2006-07 are not reported because of the likely volatility of this item.

Tax exemptions for certain government income support payments

B25 Exemption of Tobacco Growers Adjustment Assistance grants

Agriculture, forestry and fishing ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
-	-	-	-	1	1	-	-

Tax expenditure type:	Exemption	*2006 TES code:*	New
Commencement date:	1 July 2006		
Expiry date:			
Legislative reference:	Not yet legislated		

Tobacco growers who receive a Restructuring Grant of up to $150,000 under the Tobacco Growers Adjustment Assistance Program 2006 are exempt from tax if they undertake to exit all agricultural enterprises for at least five years.

B26 Business Assistance Fund for disasters

Other economic affairs - Total labour and employment affairs ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
-	-	-	10	11	8	5	3

Tax expenditure type:	Exemption	*2006 TES code:*	B10
Commencement date:	22 March 2006		
Expiry date:	30 June 2007		
Legislative reference:	*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.

B27 Cyclone Larry – fuel excise relief

Other economic affairs - Other economic affairs, nec ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
-	-	-	1	..	..	..	..

Tax expenditure type:	Exemption	*2006 TES code:*	B11
Commencement date:	26 March 2006		
Expiry date:	30 June 2007		
Legislative reference:	Schedule 2 of the *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.

Tax expenditures for recreation and culture

B28 Exemption of Refundable Film Tax Offset payments

Recreation and culture ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
3	16	7	10	18	38	42	48

Tax expenditure type:	Exemption	*2006 TES code:*	B15
Commencement date:	2001		
Expiry date:			
Legislative reference:	Division 376 of the *Income Tax Assessment Act 1997*		

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.

Producers of qualifying Australian films are eligible to receive a refundable producer tax offset equivalent to 40 per cent of qualifying Australian production expenditure incurred on a feature film, or 20 per cent of qualifying Australian production expenditure incurred on films that are not feature films. The producer tax offset is available in relation to qualifying Australian production expenditure incurred on or after 1 July 2007.

Producers of qualifying large scale films are eligible to receive a refundable location tax offset equivalent to 15 per cent of qualifying Australian production expenditure on a film which commenced principal photography on or after 8 May 2007. Films which commenced principal photography prior to 8 May 2007 will continue to be eligible for the 12.5 per cent offset.

A refundable tax offset is available for qualifying Australian production expenditure that relates to the post, digital and visual effects production of a film. The offset is equivalent to 15 per cent of qualifying Australian production expenditure and is available for post, digital and visual effects production that commences on or after 1 July 2007.

B29 Income tax exemption for certain not-for-profit societies

Recreation and culture ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
10	15	20	15	15	15	15	15

Tax expenditure type:	Exemption	*2006 TES code:*	B12
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Sections 50-10 and 50-45 *Income Tax Assessment Act 1997*		

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 chapter 4.)

B30 Income tax exemption for certain promotion and development not-for-profit societies

Recreation and culture ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
25	25	25	25	25	25	25	30

Tax expenditure type:	Exemption	*2006 TES code:*	B14
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Section 50-40 *Income Tax Assessment Act 1997*		

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 chapter 4.)

B31 Income tax exemption for the Australian Film Finance Corporation

Recreation and culture ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
..	..	..	..	..	..	..	..

Tax expenditure type:	Exemption	*2006 TES code:*	B13
Commencement date:	1988		
Expiry date:			
Legislative reference:	Section 50-45 *Income Tax Assessment Act 1997*		

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.

Tax expenditures relating to prepayments and advance expenditures

B32 Exemption from the tax shelter prepayments measure for certain passive investments

Other economic affairs - Other economic affairs, nec ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
*	*	*	*	*	*	*	*

Tax expenditure type:	Accelerated write-off	*2006 TES code:*	B65
Commencement date:	1988	** Category*	na
Expiry date:			
Legislative reference:	Section 82 KZME of the *Income Tax Assessment Act 1936*		

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 the tax expenditure Prepayment rule for Simplified Tax System taxpayers and non-business expenditure by individuals. The benchmark treatment of prepayments is that they are deductible over the period of the expenditure. The tax expenditure allows deductions to be spread over a shorter period and consequently it allows greater deductions than the benchmark treatment.

B33 Forestry managed investments – prepayment rule

Other economic affairs - Other economic affairs, nec ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
-15	40	40	-10	-5	-95	-	-

Tax expenditure type:	Accelerated write-off	*2006 TES code:*	B66
Commencement date:	2001		
Expiry date:	30 June 2008		
Legislative reference:	Section 82KZMG of the *Income Tax Assessment Act 1936*		

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 requirements of section 82KZMG, including that the activities in question are completed within 12 months of the prepayment being made or the activities commencing and by the end of the following financial year. 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. The tax expenditure allows deductions to be spread over a shorter period and consequently it allows greater deductions than the benchmark treatment.

The prepayment rule has been replaced by a statutory deduction for investments in forestry managed investment schemes.

B34 Prepayment rule for Simplified Tax System taxpayers and non-business expenditure by individuals

Other economic affairs - Other economic affairs, nec ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
*	*	*	*	*	*	*	*

Tax expenditure type:	Accelerated write-off	*2006 TES code:*	B62
Commencement date:	2001	** Category*	2+
Expiry date:			
Legislative reference:	Section 82 KZM of the *Income Tax Assessment Act 1936*		

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 the tax expenditure Transitional arrangements for prepayments), 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 have been able to access this concession under the Small Business Framework.

B35 The 10-year rule for prepayments

Other economic affairs - Other economic affairs, nec ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
*	*	*	*	*	*	*	*

Tax expenditure type:	Accelerated write-off	*2006 TES code:*	B64
Commencement date:	1988	** Category*	na
Expiry date:			
Legislative reference:	Subsection 82 KZL(1) of the *Income Tax Assessment Act 1936*		

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. The tax expenditure allows deductions to be spread over a shorter period and consequently it allows greater deductions in the first 10 years than the benchmark treatment.

B36 Transitional arrangements for prepayments

Other economic affairs - Other economic affairs, nec ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
-170	-40	-15	-	-	-	-	-

Tax expenditure type:	Accelerated write-off	*2006 TES code:*	B63
Commencement date:	21 September 1999		
Expiry date:	30 June 2003		
Legislative reference:	Sections 82 KZL(1), 82KZMB and 82KZMC of the *Income Tax Assessment Act 1936*		

Before 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 for agriculture, forestry and fishing

B37 Deferral of income from double wool-clips

Agriculture, forestry and fishing ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
*	*	*	*	*	*	*	*

Tax expenditure type:	Deferral	*2006 TES code:*	B84
Commencement date:	1966	** Category*	1+
Expiry date:			
Legislative reference:	Section 385-130 of the *Income Tax Assessment Act 1997*		

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.

B38 Deferral or spreading of income from the forced disposal or death of livestock

Agriculture, forestry and fishing ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
*	*	*	*	*	*	*	*

Tax expenditure type:	Deferral	*2006 TES code:*	B86
Commencement date:	1961	** Category*	na
Expiry date:			
Legislative reference:	Sections 385-90 to 385-125 of the *Income Tax Assessment Act 1997*		

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

B39 Exemption of Sugar Industry Exit grants

Agriculture, forestry and fishing ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
..	2	3	6	3	-	-	-

Tax expenditure type:	Exemption	*2006 TES code:*	B89
Commencement date:	1 February 2003		
Expiry date:			
Legislative reference:	Section 15-65 and 118-37(f) of the *Income Tax Assessment Act 1997*		

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.

B40 Farm Management Deposit scheme

Agriculture, forestry and fishing ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
245	95	115	75	85	*	*	*

Tax expenditure type:	Deferral	*2006 TES code:*	B83
Commencement date:	1999	** Category*	na
Expiry date:			
Legislative reference:	Schedule 2G and Division 393 of the *Income Tax Assessment Act 1936*		

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 2007-08 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.

B41 Income tax averaging for primary producers

Agriculture, forestry and fishing ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
150	110	85	65	55	*	*	*

Tax expenditure type:	Concessional rate	*2006 TES code:*	B82
Commencement date:	1938	** Category*	2+
Expiry date:			
Legislative reference:	Division 392 of the *Income Tax Assessment Act 1997*		

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 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 2007-08 are not reported as the tax expenditure is very sensitive to variations in primary production income, which depends on a number of external factors.

B42 Income tax exemption for Dairy Exit Program payments

Agriculture, forestry and fishing ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
..	-	-	-	-	-	-	-

Tax expenditure type:	Exemption	*2006 TES code:*	B88
Commencement date:	2000		
Expiry date:	2002		
Legislative reference:	Section 118-37(1)(e) of the *Income Tax Assessment Act 1997*		

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.

B43 Spreading of income from insurance recoveries for loss of timber or livestock

Agriculture, forestry and fishing ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
*	*	*	*	*	*	*	*

Tax expenditure type:	Deferral	*2006 TES code:*	B85
Commencement date:	1956	** Category*	na
Expiry date:			
Legislative reference:	Section 385-130 of the *Income Tax Assessment Act 1997*		

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.

B44 Tax exemption for Farm Help re-establishment grants

Agriculture, forestry and fishing ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
3	2	1	1	*	*	*	*

Tax expenditure type:	Exemption	*2006 TES code:*	New
Commencement date:	1 December 1997	** Category*	1+
Expiry date:			
Legislative reference:	Paragraph 118-37(1)(d) of the *Income Tax Assessment Act 1997*		

Re-establishment grants of up to $75,000 provided to eligible farmers who choose to sell their farm and exit farming for at least five years are tax exempt.

B45 Valuation of livestock from natural increase

Agriculture, forestry and fishing ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
105	150	90	90	*	*	*	*

Tax expenditure type:	Deferral	*2006 TES code:*	B87
Commencement date:	1951	** Category*	2+
Expiry date:			
Legislative reference:	Section 70-55 of the *Income Tax Assessment Act 1997*		

Animals acquired by natural increase (that is, newborn animals) in 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.

Tax expenditures for manufacturing and mining

B46 Infrastructure Bonds Scheme

Mining, manufacturing and construction ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
20	20	20	15	5	5	..	..

Tax expenditure type:	Exemption, Offset	*2006 TES code:*	B90
Commencement date:	1992		
Expiry date:	1997		
Legislative reference:	Division 16L of the *Income Tax Assessment Act 1936*		

Interest income from loans to eligible infrastructure facilities is exempt from income tax and 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.

B47 Land Transport Infrastructure Borrowings Tax Offset Scheme

Mining, manufacturing and construction ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
25	15	10	5	5	..	-	-

Tax expenditure type:	Offset	*2006 TES code:*	B91
Commencement date:	1998		
Expiry date:			
Legislative reference:	Section 396-5 to 396-110 of the *Income Tax Assessment Act 1997*		

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.

Since May 2004 no new projects have been admitted to the scheme.

Tax expenditures for other economic affairs

B48 Deductions for boat expenditure

Other economic affairs - Tourism and area promotion ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
-7	-5	-4	-4	-4	..	..	..

Tax expenditure type:	Deferral of deduction	*2006 TES code:*	B29
Commencement date:	1974		
Expiry date:			
Legislative reference:	Former section 26-50 *Income tax Assessment Act 1997* and section 26-47 *Income tax Assessment Act 1997*		

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 whether or not they cannot demonstrate that they are carrying on an active business using a boat. The non-business deductions will be quarantined against boating income.

B49 Income tax exemption for trade unions and registered organisations

Other economic affairs - Total labour and employment affairs ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
10	10	10	10	10	10	10	10

Tax expenditure type:	Exemption	*2006 TES code:*	B17
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Section 50-15 *Income Tax Assessment Act 1997*		

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 in chapter 4.)

B50 25 per cent entrepreneurs' tax offset

Other economic affairs - Other economic affairs, nec ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
-	-	-	130	160	270	270	280

Tax expenditure type:	Offset	*2006 TES code:*	B30
Commencement date:	2005		
Expiry date:			
Legislative reference:	Subdivision 61-J of the *Income Tax Assessment Act 1997*		

Small businesses that have an annual turnover of $50,000 or less are eligible for a tax offset of 25 per cent of the income tax liability attributable to their business income. The offset phases out for annual turnover between $50,001 and $75,000. From 1 July 2007, this concession applies to any small business entity, whereas previously the concession only applied to taxpayers in the then Simplified Tax System.

B51 Capital gains tax concession for carried interests paid to venture capital managers

Other economic affairs - Other economic affairs, nec ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
3	35	9	10	10	10	10	10

Tax expenditure type:	Denial of deduction, Deferral of deduction	*2006 TES code:*	B16
Commencement date:	2002		
Expiry date:			
Legislative reference:	Sections 104-255 and 118-21 of the *Income Tax Assessment Act 1997*		

Venture capital fund managers may be paid a performance-based share of partnership profits by investors. Such performance payments are 'carried interests'. Under the benchmark, these entitlements are taxable income of the fund managers as they accrue. Instead, 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. Individual managers are eligible for the 50 per cent discount on their carried interest.

B52 Capital protected borrowings

Other economic affairs - Other economic affairs, nec ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
15	20	25	35	45	55	65	80

Tax expenditure type:	Deduction, Discounted valuation	*2006 TES code:*	B27
Commencement date:	16 April 2003		
Expiry date:			
Legislative reference:	Division 247 of the *Income Tax Assessment Act 1997*		

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.

Since 16 April, 2003 a concessional interest rate has been used to value the capital protection component of these losses.

B53 Certain term subordinated notes

Other economic affairs - Other economic affairs, nec ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
*	*	*	*	*	*	*	*

Tax expenditure type:	Deduction	*2006 TES code:*	B26
Commencement date:	1 July 2001	** Category*	2+
Expiry date:			
Legislative reference:	Division 974 of the *Income Tax Assessment Act 1997*		

'Solvency clauses' do not preclude certain term subordinated notes from being classed as debt for tax purposes. A solvency clause allows the issuer to defer payment if the payment would cause insolvency. Under the benchmark, term subordinated notes with solvency clauses would typically be classified as equity under the debt-equity rules.

B54 Changes to the consolidation tax cost-setting rules

Other economic affairs - Other economic affairs, nec ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
-	-	-	-	*	*	*	*

Tax expenditure type:	Denial of deferral	*2006 TES code:*	New
Commencement date:	12 October 2007	** Category*	3-
Expiry date:			
Legislative reference:	Not yet legislated		

When an entity joins a consolidated group or multiple entry consolidated group following a capital gains tax roll-over affecting the membership interests of the joining entity (such as a scrip for scrip roll-over) the allocable cost amount of the joining entity will be reduced to reflect the cost bases of the joining entity's assets, having regard to the extent to which the group acquires the membership interests of the joining entity by an exchange of scrip. The modifications will apply to relevant arrangements entered into after 12 October 2007.

B55 Concessional tax treatment for Pooled Development Funds

Other economic affairs - Other economic affairs, nec ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
7	8	7	8	11	10	8	7

Tax expenditure type:	Exemption, Concessional rate	*2006 TES code:*	B19
Commencement date:	1992		
Expiry date:			
Legislative reference:	Section 118-13 *Income tax Assessment Act 1997*, Division 10E of Part III *Income Tax Asessment Act 1936* and subsections 23(4C), (4D) of the *Income Tax Rates Act 1986*		

Note: estimates include tax expenditures B55 and B58

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 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 program was closed to applications for registration on 21 June 2007 as a result of the new tax concessions for early stage venture capital limited partnerships. The PDF program continues to operate for registered PDFs.

B56 Concessions resulting from the clarification of the debt or equity treatment of perpetual subordinated debt

Other economic affairs - Other economic affairs, nec ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
*	*	*	*	*	*	*	*

Tax expenditure type:	Deduction	*2006 TES code:*	B22
Commencement date:	2001	** Category*	2+
Expiry date:			
Legislative reference:	Division 974 *Income tax Assessment Act 1997* and Division 974 of *the Income Tax Assessment Regulations 1997*		

Perpetual subordinated debt issued by financial institutions to raise capital would typically be classified as equity under the benchmark debt-equity rules. Under certain circumstances, Upper Tier 2 perpetual subordinated debt and similar instruments may be treated as debt for tax purposes, thereby allowing the issuer of the perpetual subordinated debt to claim a deduction.

B57 Exemption for early stage venture capital limited partnerships

Other economic affairs - Other economic affairs, nec ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
-	-	-	-	..	1	5	9

Tax expenditure type:	Exemption	*2006 TES code:*	B25
Commencement date:	1 July 2006		
Expiry date:			
Legislative reference:	Sections 26-68, 51-52, 51-54 and Subdivision 118-F of the *Income Tax Assessment Act 1997*		

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 program.

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.

B58 Exemption for superannuation funds that invest through Pooled Development Funds in venture capital

Other economic affairs - Other economic affairs, nec ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Included in B55							

Tax expenditure type:	Exemption	*2006 TES code:*	B20
Commencement date:	1992		
Expiry date:			
Legislative reference:	Section 118-13 and Division 210 *Income tax Assessment Act 1997* and Division 10E of Part III *Income tax Assessment Act 1936*		

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. 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.

B59 Exemption of refundable research and development tax offset payments

Other economic affairs - Other economic affairs, nec ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
35	1	-35	-65	-90	-105	-115	-105

Tax expenditure type:	Exemption	*2006 TES code:*	B23
Commencement date:	2001		
Expiry date:			
Legislative reference:	Section 73I of the *Income Tax Assessment Act 1936*		

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 refundable R&D tax offset is an expense item and accordingly does not appear as a tax expenditure in its own right. 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 2005-06.

B60 Immediate deduction for expenditure on core technology related to research and development activities

Other economic affairs - Other economic affairs, nec ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
			Included in B94				

Tax expenditure type:	Deduction	*2006 TES code:*	B24
Commencement date:	1996		
Expiry date:			
Legislative reference:	Sections 73B(12) to 73B(12C) of the *Income Tax Assessment Act 1936*		

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.

B61 Income tax exemptions for foreign superannuation funds

Other economic affairs - Other economic affairs, nec ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2006 TES code:*	B18
Commencement date:	1981	** Category*	1+
Expiry date:			
Legislative reference:	Paragraphs 128B(3)(a) and (jb) *Income Tax Assessment Act 1936*		

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.

B62 Tax exemption for small credit unions

Other economic affairs - Other economic affairs, nec ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
..	..	..	..	..	..	..	..

Tax expenditure type:	Exemption	*2006 TES code:*	B21
Commencement date:	1985		
Expiry date:			
Legislative reference:	Section 23G *Income Tax Assessment Act 1936* Section 23(6) *Income Tax Rates Act 1986*		

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.

B63 Trust loss rules – family trusts

Other economic affairs - Other economic affairs, nec ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
*	*	*	*	*	*	*	*

Tax expenditure type:	Deduction	*2006 TES code:*	B28
Commencement date:	9 May 1995	** Category*	3+
Expiry date:			
Legislative reference:	Subdivision 272-D of Schedule 2F of the *Income Tax Assessment Act 1936*		

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.

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. Distributions of trust income or capital made outside the family group will generally be subject to a family trust distribution tax.

Tax expenditures relating to capital expenditure, effective life and depreciation

B64 Film Licensed Investment Company Scheme – two year extension

Recreation and culture ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
-	-	-	4	4	-	-	-

Tax expenditure type:	Deduction	*2006 TES code:*	B32
Commencement date:	1 July 2005		
Expiry date:	30 June 2007		
Legislative reference:	Sections 375-850 to 375-880 of the *Income Tax Assessment Act 1997*		

Amounts paid by investors in 2005-06 and 2006-07 for shares in a Film Licensed Investment Company are immediately deductible. In the 2007-08 Budget, the Government announced that the Film Licensed Investment Company scheme would not be renewed beyond its current expiry date of 30 June 2007.

B65 Tax incentives for film investment

Recreation and culture ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
3	-1	-2	-13	-13	-20	-22	-18

Tax expenditure type:	Deduction, Accelerated write-off	*2006 TES code:*	B31
Commencement date:	15 November 1956		
Expiry date:			
Legislative reference:	Divisions 10B and 10BA of the *Income Tax Assessment Act 1936*		

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

The initial deduction under Division 10B must be made in relation to the 2008-09 year of income or an earlier year of income. A deduction under Division 10BA is not allowable in relation to the 2009-10 year of income or later year of income. The divisions will be repealed effective from 1 July 2010.

B66 Accelerated depreciation for grapevine plantings

Agriculture, forestry and fishing ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
9	10	8	5	1	-3	-7	-8

Tax expenditure type:	Accelerated write-off	*2006 TES code:*	B40
Commencement date:	1993		
Expiry date:	Not available for grapevines planted after 1 October 2004		
Legislative reference:	Subdivision 40-F of the *Income Tax Assessment Act 1997*		

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.

B67 Deduction for horse breeding stock

Agriculture, forestry and fishing ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
*	*	*	*	*	*	*	*

Tax expenditure type:	Accelerated write-off	*2006 TES code:*	B37
Commencement date:	1992	** Category*	na
Expiry date:			
Legislative reference:	Sections 70-60 and 70-65 of the *Income Tax Assessment Act 1997*		

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.

B68 Deduction of the capital cost of telephone lines and electricity connections

Agriculture, forestry and fishing ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
15	15	15	15	15	15	15	15

Tax expenditure type:	Accelerated write-off	*2006 TES code:*	B38
Commencement date:	24 June 1981		
Expiry date:			
Legislative reference:	Subdivision 40-G of the *Income Tax Assessment Act 1997*		

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.

B69 Landcare and water facility offset

Agriculture, forestry and fishing ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
..	..	..	..	..	..	..	..

Tax expenditure type:	Offset	*2006 TES code:*	B36
Commencement date:	1998		
Expiry date:	2001		
Legislative reference:	Former Subdivision 388 of the *Income Tax Assessment Act 1997*		

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. 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.

B70 Landcare deduction for primary producers

Agriculture, forestry and fishing ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
-	-	-	-	-	-	-	-

Tax expenditure type:	Deduction	*2006 TES code:*	B34
Commencement date:	11 December 1973		
Expiry date:			
Legislative reference:	Subdivision 40-G *Income tax Assessment Act 1997*		

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.

B71 Tax write-off for horticultural plants

Agriculture, forestry and fishing ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
4	4	4	4	5	5	6	8

Tax expenditure type:	Accelerated write-off	*2006 TES code:*	B39
Commencement date:	1995		
Expiry date:			
Legislative reference:	Subdivision 40-F of the *Income Tax Assessment Act 1997*		

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.

B72 Three year write-off for expenditure on water facilities for primary producers

Agriculture, forestry and fishing ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
25	25	25	30	30	35	35	40

Tax expenditure type:	Accelerated write-off	*2006 TES code:*	B33
Commencement date:	23 May 1980		
Expiry date:			
Legislative reference:	Subdivision 40-F of the *Income Tax Assessment Act 1997*		

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

B73 Water facilities and land care concession for irrigation water providers

Agriculture, forestry and fishing ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
-	-	-	-	-	-	-	-

Tax expenditure type:	Deduction	*2006 TES code:*	B35
Commencement date:	1 July 2004		
Expiry date:			
Legislative reference:	Subdivisions 40-F and 40-G of the *Income Tax Assessment Act 1997*		

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.

B74 Absence of depreciation recapture for certain assets

Mining, manufacturing and construction ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
*	*	*	*	*	*	*	*

Tax expenditure type:	Deduction	*2006 TES code:*	B46
Commencement date:	1982	** Category*	na
Expiry date:			
Legislative reference:	Division 43 and Section 110-45 of the *Income Tax Assessment Act 1997*		

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.

B75 Accelerated depreciation allowance for plant and equipment

Mining, manufacturing and construction ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
-680	-850	-890	-840	-800	-750	-660	-630

Tax expenditure type:	Accelerated write-off	*2006 TES code:*	B47
Commencement date:	1992		
Expiry date:	2001		
Legislative reference:	Former Division 42 and Subdivision 40-B of the *Income Tax Assessment Act 1997* as adjusted by Sections 40-10 and 40-12 of the *Income Tax (Transitional Provisions) Act 1997*		

Note: estimates include tax expenditures B75 and B77

Accelerated depreciation allows a taxpayer depreciation 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. The 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 Tax System and use the simplified capital allowances system.

The negative 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 became 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.

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.

B76 Accelerated depreciation for Australian trading ships

Mining, manufacturing and construction ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
-14	-11	-9	-8	-7	-6	-5	-4

Tax expenditure type:	Accelerated write-off	*2006 TES code:*	B50
Commencement date:	12 April 1984		
Expiry date:	1997		
Legislative reference:	Section 53I(2) and 57AM of the *Income Tax Assessment Act 1936*		

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.

B77 Accelerated depreciation for employees' amenities

Mining, manufacturing and construction ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Included in B75							

Tax expenditure type:	Accelerated write-off	*2006 TES code:*	B48
Commencement date:	1994		
Expiry date:	2001		
Legislative reference:	Former Section 42-150 and Subdivision 40-B of the *Income Tax Assessment Act 1997* as adjusted by Sections 40-10 and 40-12 of the *Income Tax (Transitional Provisions) Act 1997*		

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. The 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. This tax expenditure will have a transitional impact until all eligible plant expenditure has been fully depreciated.

B78 Accelerated depreciation for mining buildings

Mining, manufacturing and construction ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
360	310	260	220	170	90	..	..

Tax expenditure type:	Accelerated write-off	*2006 TES code:*	B49
Commencement date:	1982		
Expiry date:	2001		
Legislative reference:	Former Subdivision 330-C and subdivision 40-B of the *Income Tax Assessment Act 1997* as adjusted by Section 40-35 of the *Income Tax (Transitional Provisions) Act 1997*		

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.

B79 Capital expenditure deduction for mining, quarrying and petroleum operations

Mining, manufacturing and construction ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
20	20	20	20	20	10	10	10

Tax expenditure type:	Accelerated write-off	*2006 TES code:*	B42
Commencement date:	1921		
Expiry date:	2001		
Legislative reference:	Subdivision 40-B of the *Income Tax Assessment Act 1997* as adjusted by sections 40-35, 40-40 and 40-75 of the *Income Tax (Transitional Provisions) Act 1997*		

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.

B80 Deduction for environmental protection activities

Mining, manufacturing and construction ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
13	7	6	10	10	10	10	10

Tax expenditure type:	Deduction	*2006 TES code:*	B45
Commencement date:	1992		
Expiry date:			
Legislative reference:	Sections 40-755 and 40-760 of the *Income Tax Assessment Act 1997*		

Note: estimates include tax expenditures B80 and B81.

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.

B81 Deduction for expenditure on environmental impact studies

Mining, manufacturing and construction ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Included in B80							

Tax expenditure type:	Accelerated write-off	*2006 TES code:*	B44
Commencement date:	1991		
Expiry date:	2001		
Legislative reference:	Subdivision 40-I of the *Income Tax Assessment Act 1997* as adjusted by Section 40-55 of the *Income Tax (Transitional Provisions) Act 1997*		

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.

B82 Development allowance

Mining, manufacturing and construction ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
60	35	25	10	2	-	-	-

Tax expenditure type:	Deduction	*2006 TES code:*	B41
Commencement date:	1992		
Expiry date:	1996		
Legislative reference:	Former sections 82AAAA to 82AQ of the *Income Tax Assessment Act 1936* and former sections 15, 27 and 40 *Development Allowance Authority Act 1992*		

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.

B83 Exploration and prospecting deduction

Mining, manufacturing and construction ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
*	*	*	*	*	*	*	*

Tax expenditure type:	Deduction	*2006 TES code:*	B43
Commencement date:	1968	** Category*	na
Expiry date:			
Legislative reference:	Section 40-25, subsection 40-80(1) and section 40-730 of the *Income Tax Assessment Act 1997*		

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.

B84 Statutory effective life caps

Transport and communication ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
*	130	175	230	310	385	425	450

Tax expenditure type:	Accelerated write-off	*2006 TES code:*	B51
Commencement date:	2002, 2004	** Category*	na
Expiry date:			
Legislative reference:	Section 40-102 of the *Income Tax Assessment Act 1997*		

'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 (effective from 1 July 2007).

B85 Accelerated depreciation for software

Other economic affairs - Other economic affairs, nec ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
270	150	60	20	35	60	75	85

Tax expenditure type:	Accelerated write-off	*2006 TES code:*	B59
Commencement date:	1998		
Expiry date:			
Legislative reference:	Subdivision 40-E of the *Income Tax Assessment Act 1997*		

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.

B86 Deduction for capital works expenditure

Other economic affairs - Other economic affairs, nec ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
*	*	*	*	*	*	*	*

Tax expenditure type:	Deduction	*2006 TES code:*	New
Commencement date:	21 August 1979	** Category*	4+
Expiry date:			
Legislative reference:	Division 43 of the *Income tax Assessment Act 1997*		

A taxpayer can claim a deduction for capital works expenditure incurred in constructing capital works, including buildings and structural improvements and environment protection earthworks.

The deduction is either 2.5 per cent (over 40 years) or 4 per cent (over 25 years) of the construction expenditure, depending on when construction started and how the capital works are used.

A capital works deduction is generally available if the capital works are used for income producing purposes.

B87 Depreciation balancing adjustment roll-over relief

Other economic affairs - Other economic affairs, nec ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
*	*	*	*	*	*	*	*

Tax expenditure type:	Deferral	*2006 TES code:*	B53
Commencement date:	1952	** Category*	1+
Expiry date:			
Legislative reference:	Section 40-340 of the *Income Tax Assessment Act 1997*		

'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.

B88 Depreciation pooling for low value assets

Other economic affairs - Other economic affairs, nec ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
100	100	90	80	70	60	60	60

Tax expenditure type:	Accelerated write-off	*2006 TES code:*	B54
Commencement date:	2000		
Expiry date:			
Legislative reference:	Subdivision 40-E of *the Income Tax Assessment Act 1997*		

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.

B89 Depreciation to nil value rather than estimated scrap value

Other economic affairs - Other economic affairs, nec ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
*	*	*	*	*	*	*	*

Tax expenditure type:	Deferral	*2006 TES code:*	B52
Commencement date:	1936	** Category*	1+
Expiry date:			
Legislative reference:	Division 40 of the *Income Tax Assessment Act 1997*		

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.

B90 Establishment costs for carbon sink forests

Other economic affairs - Other economic affairs, nec ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
-	-	-	-	-	5	9	11

Tax expenditure type:	Deduction, Accelerated write-off	*2006 TES code:*	New
Commencement date:	1 July 2007		
Expiry date:			
Legislative reference:	Not yet legislated		

Establishment costs will be immediately deductible for trees established in carbon sink forests in the 2007-08 to 2011-12 income years inclusive. After this initial period, establishment costs will be deductible over 14 years and 105 days at a rate of 7 per cent per annum.

To be eligible for the deduction, the taxpayer must be carrying on a business and the carbon sink forest must meet Environmental and Natural Resource Management Guidelines.

B91 Immediate deductibility for GST-related plant and software

Other economic affairs - Other economic affairs, nec ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
-40	-35	-10	-	-	-	-	-

Tax expenditure type:	Accelerated write-off	*2006 TES code:*	B61
Commencement date:	2000		
Expiry date:	2000		
Legislative reference:	Sections 25-80 and 42-168 of the *Income Tax Assessment Act 1997*		

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.

B92 Immediate deduction relating to Year 2000 upgrades

Other economic affairs - Other economic affairs, nec ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
*	-	-	-	-	-	-	-

Tax expenditure type:	Accelerated write-off	*2006 TES code:*	B60
Commencement date:	1998	** Category*	2-
Expiry date:	1999		
Legislative reference:	Sections 46-1 to 46-110 of the *Income Tax Assessment Act 1997*		

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.

B93 Premium tax concession for additional research and development expenditure

Other economic affairs - Other economic affairs, nec ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
85	100	130	180	280	340	360	390

Tax expenditure type:	Deduction, Accelerated write-off	*2006 TES code:*	B58
Commencement date:	2001		
Expiry date:			
Legislative reference:	Section 73Q to 73Z of the *Income Tax Assessment Act 1936*		

Companies that increase expenditure on labour related components of research and development (R&D) which are Australian-owned are eligible to receive a 175 per cent tax concession for increases above the average of the previous three years' R&D expenditure. 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.

The concession is available to the extent that total R&D expenditure has increased. Total R&D expenditure includes both the Australian-owned and foreign-owned components of the premium tax concession. This deduction has been available to companies from the first income year starting after 30 June 2001.

Companies that undertake research and development (R&D) on behalf of a grouped foreign company are eligible for a 175 per cent tax concession for increases in R&D expenditure above the average of the previous three years' of R&D expenditure. Expenditure on behalf of a grouped foreign company which contributes to the calculation of the 175 per cent tax concession must be labour related and will be subject to a specific deduction at the rate of 100 per cent.

The concession is only available to the extent that total R&D expenditure has increased. Total R&D expenditure includes both the Australian-owned and foreign-owned components of the premium tax concession. This deduction has been available to companies from 1 July 2007.

B94 Research and development tax concession

Other economic affairs - Other economic affairs, nec ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
320	330	360	390	420	460	490	530

Tax expenditure type:	Deduction, Accelerated write-off	*2006 TES code:*	B57
Commencement date:	1985		
Expiry date:			
Legislative reference:	Sections 73B and 73BA of the *Income Tax Assessment Act 1936*		

Note: estimates include tax expenditures B94 and B60

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.

B95 Small business - simplified depreciation rules

Other economic affairs - Other economic affairs, nec ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
-	-	-	-	240	265	275	255

Tax expenditure type:	Accelerated write-off	*2006 TES code:*	B55
Commencement date:	2007		
Expiry date:			
Legislative reference:	Division 328 of the *Income Tax Assessment Act 1997*		

Small businesses with annual turnover of less than $2 million may choose to use a simplified capital allowances regime for depreciating assets. Small businesses may 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. Depreciating assets with an effective life of less than 25 years are depreciated in a general pool at a rate of 30 per cent. Depreciating assets with an effective life of 25 years or more are depreciated in a long life pool at a rate of 5 per cent.

Prior to July 2007, this concession was available only to taxpayers that were part of the former Simplified Tax System. As part of aligning small business thresholds, the turnover eligibility threshold was raised from $1 million to $2 million.

B96 Small business - Simplified trading stock rules

Other economic affairs - Other economic affairs, nec ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
-	-	-	-	*	*	*	*

Tax expenditure type:	Deferral	*2006 TES code:*	B55
Commencement date:	2007	** Category*	1+
Expiry date:			
Legislative reference:	Division 328 of the *Income Tax Assessment Act 1997*		

Small businesses with annual turnover of less than $2 million may choose to use a simplified trading stock regime. Under this regime, 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.

Before July 2007, this regime was available only to taxpayers that were part of the former simplified tax system. As part of aligning small business thresholds, the turnover eligibility threshold was raised from $1 million to $2 million.

B97 The Simplified Tax System

Other economic affairs - Other economic affairs, nec ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
440	260	260	230	-	-	-	-

Tax expenditure type:	Deduction, Deferral, Accelerated write-off	*2006 TES code:*	B55
Commencement date:	2001		
Expiry date:	2007		
Legislative reference:	Division 328 of the *Income Tax Assessment Act 1997*		

The Simplified Tax System (STS) allowed eligible small businesses to access a range of tax concessions including simplified depreciation and trading stock rules. As part of the Government's initiative to align small business thresholds, the STS was replaced by the Small Business Framework which allows small business entities (with a turnover under $2 million) to choose the concessions that best meet their specific needs, subject to meeting any specific criteria for each concession. The concessions within the former STS can now be selected individually.

B98 Transitional exemption of small business from abolition of accelerated depreciation, balancing adjustment offset and low value pooling

Other economic affairs - Other economic affairs, nec ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
-90	-60	-40	-	-	-	-	-

Tax expenditure type:	Accelerated write-off	*2006 TES code:*	B56
Commencement date:	21 September 1999		
Expiry date:	30 June 2001		
Legislative reference:	Subdivision 42-K of the *Income Tax Assessment Act 1997*		

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.

Miscellaneous tax expenditures

B99 Deduction for certain co-operative companies

Other economic affairs - Other economic affairs, nec ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
*	*	*	*	*	*	*	*

Tax expenditure type:	Deduction	*2006 TES code:*	B93
Commencement date:	1973	** Category*	2+
Expiry date:			
Legislative reference:	Sections 117 and 120 of the *Income Tax Assessment Act 1936*		

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.

B100 Exemption from non-commercial losses provisions (primary producers and artists)

Other economic affairs - Other economic affairs, nec ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
100	105	105	100	100	100	100	100

Tax expenditure type:	Exemption	*2006 TES code:*	B92
Commencement date:	2000		
Expiry date:			
Legislative reference:	Subsections 35-10(4) and (5) *Income Tax Assessment Act 1997*		

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.

B101 Forestry managed investment schemes – tax deductibility

Other economic affairs - Other economic affairs, nec ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
-	-	-	-	-	140	365	425

Tax expenditure type:	Accelerated write-off	*2006 TES code:*	New
Commencement date:	2007		
Expiry date:			
Legislative reference:	Division 394 of the *Income Tax Assessment Act 1997*		

Investors in forestry managed investment schemes (MIS) are able to claim immediate upfront deductions for their expenditure on such schemes, provided that, amongst other requirements, at least 70 per cent of the expenditure is directly related to developing forestry.

The statutory deduction means that investors in forestry MIS are unaffected by the ruling by the Commissioner of Taxation in Taxation Ruling TR2007/8 that, with effect from 1 July 2008, investments in agricultural managed investment schemes (including forestry) are capital in nature and therefore not deductible.

Interests in forestry MISs can be traded, subject to a four-year holding period rule and a market value pricing rule for initial investors. The proceeds on the sale or harvest of a forestry MIS interest by an initial investor are taxable income of the investor.

B102 Small business related party at call loans taken to be debt interests

Other economic affairs - Other economic affairs, nec ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
-	-	*	*	*	*	*	*

Tax expenditure type:	Deduction	*2006 TES code:*	B97
Commencement date:	1 July 2005	** Category*	2+
Expiry date:			
Legislative reference:	Division 794 of the *Income Tax Assessment Act 1997*		

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 benchmark 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.

B103 Transitional tax exemption for certain life insurance management fees

Other economic affairs - Other economic affairs, nec ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
250	290	-	-	-	-	-	-

Tax expenditure type:	Exemption	*2006 TES code:*	B94
Commencement date:	2000		
Expiry date:	2005		
Legislative reference:	Section 320-40 of the *Income Tax Assessment Act 1997*		

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.

B104 Income tax exemption for municipal authorities and other local governing bodies

Other purposes - General purpose inter-governmental transactions ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
430	540	630	700	770	860	950	1060

Tax expenditure type:	Exemption	*2006 TES code:*	B96
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Section 50-25 *Income Tax Assessment Act 1997* Part III Division 1AB *Income Tax Assessment Act 1936*		

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.

B105 Income tax exemption for State and Territory bodies

Other purposes - General purpose inter-governmental transactions ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2006 TES code:*	B95
Commencement date:	Introduced before 1985	** Category*	4+
Expiry date:			
Legislative reference:	Part III Division 1AB *Income Tax Assessment Act 1936*		

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*.

RETIREMENT SAVINGS

Tax expenditures for social security and welfare

C1 Capital gains tax small business retirement exemption

Social security and welfare ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
100	150	150	200	220	260	280	300

Tax expenditure type:	Exemption	*2006 TES code:*	C6
Commencement date:	1997		
Expiry date:			
Legislative reference:	Subdivision 152-D of the *Income Tax Assessment Act 1997*		

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 the taxpayer and connected entities own is no more than $6 million.

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

C2 Capped taxation rates for lump sum payments for unused recreation and long service leave

Social security and welfare ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
190	190	180	130	120	115	110	100

Tax expenditure type:	Concessional rate	*2006 TES code:*	C4
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Sections 26AC, 26AD, 159S and 159SA *Income Tax Assessment Act 1936* Subdivisions 83-A and 83-B *Income Tax Assessment Act 1997*		

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.

C3 Concessional taxation of non-superannuation termination benefits

Social security and welfare ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
1200	1300	1800	1550	1400	1250	1150	1050

Tax expenditure type:	Concessional rate	*2006 TES code:*	C3
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Part III, Division 2, Subdivision AA *Income Tax Assessment Act 1936* Part III, Division 14 *Income Tax Assessment Act 1936* Part III, Division 17, Subdivision AAA *Income Tax Assessment Act 1936* Termination payments tax acts (termination payments surcharge acts) Division 82 *Income Tax Assessment Act 1997* Division 82 *Income Tax (Transitional Provisions) Act 1997*		

Non-superannuation termination payments are generally paid by employers to terminating employees. Before 1 July 2007 these amounts were taxed in the same way as superannuation lump sums from untaxed funds with the exception of bona fide redundancy payments and approved early retirement scheme payments which were tax free up to certain limits. This tax expenditure excludes the treatment of payments in lieu of leave.

From 1 July 2007, non-superannuation termination payments are taxed differently to lump sums paid from untaxed funds. Pre-June 1983 and invalidity amounts are tax free, and the residual is taxed at 15 per cent for amounts up to $140,000 (indexed) for recipients aged above preservation age and at 30 per cent for those aged under preservation age. Amounts in excess of $140,000 are taxed at the top marginal tax rate. The Medicare levy is payable in addition to these rates. Transitional arrangements also apply for entitlements in place as at 9 May 2006. The tax treatment of genuine redundancy payments and early retirement scheme payments has not changed.

This tax expenditure excludes the treatment of payments in lieu of leave (see the tax expenditures Capped taxation rates for lump sum payments for unused recreation and long service leave and Taxation of five per cent of unused long service leave accumulated by 15 August 1978).

C4 Superannuation - capital gains tax discount for funds

Social security and welfare ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
95	420	1100	1550	1550	1450	1550	1650

Tax expenditure type:	Exemption, Reduction in taxable value	*2006 TES code:*	C1
Commencement date:	10 December 1999		
Expiry date:			
Legislative reference:	Paragraph 115-10(b) and subparagraph 115-100(b)(i) of the *Income Tax Assessment Act 1997*		

Capital gains made by complying superannuation funds are taxed concessionally. Two-thirds of any nominal capital gain made from a capital gains tax event occurring on or after 21 September 1999 is included in the assessable income of a fund, provided the fund has held the asset for at least one year. The effect of this item is in addition to the effect of lower tax rates for superannuation investments reported in the tax expenditure Superannuation - concessional taxation of superannuation entity earnings. The amounts reported reflect the additional tax that would be raised at fund rates on the same investments if total nominal capital gains were taxed instead of discounted gains or gains with frozen indexation.

C5 Superannuation - concessional taxation of employer contributions

Social security and welfare ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
8100	7900	9500	9400	10150	10850	11550	12250

Tax expenditure type:	Exemption, Reduction in taxable value	*2006 TES code:*	C1
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Before 1 July 2007: Part III, Division 3, Subdivisions AA *Income Tax Assessment Act 1936* Part IX *Income Tax Assessment Act 1936* Superannuation contributions tax acts (surcharge acts) After 1 July 2007: Divisions 290, 292 and 295 *Income Tax Assessment Act 1997*		

Currently, employer contributions, after certain costs of the superannuation entity are deducted, are generally taxed in the assessable income of a superannuation entity at a concessional rate of 15 per cent. Concessional deductible contributions subject to the 15 per cent tax rate are limited to $50,000 per annum for all individuals, subject to transitional arrangements for persons aged 50 and over at $100,000 per annum. Contributions above these limits are taxed at the top marginal tax rate and Medicare Levy by applying an additional tax of 31.5 per cent on the excess contribution payable by the individual.

Before 1 July 2007, employers were not entitled to a deduction for contributions in excess of an employee's age-based limit.

The superannuation surcharge for higher income earners applied to some of these contributions in 2004-05 and earlier financial years. The maximum surcharge rates were reduced from the original 15 per cent to 14.5 per cent in 2003-04, and to 12.5 per cent in 2004-05. The surcharge was abolished for contributions made on or after 1 July 2005.

In any particular year, the application of the benchmark treatment rather than the concessional tax rates to these contributions would increase tax revenue by the amounts indicated.

C6 Superannuation - concessional taxation of superannuation entity earnings

Social security and welfare ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
5400	8600	11850	12750	13600	13700	14900	16150

Tax expenditure type:	Exemption, Reduction in taxable value	*2006 TES code:*	C1
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Before 1 July 2007: Part IX *Income Tax Assessment Act 1936* After 1 July 2007: Division 295 *Income Tax Assessment Act 1997*		

The earnings of complying superannuation entities, after certain costs of the entities are deducted, are taxed at a concessional rate. The tax rate on earnings is 15 per cent (for the accumulation phase) or nil where they are derived from assets which are used to meet current pension liabilities (drawdown phase). Complying superannuation funds are entitled to refunds of excess imputation credits attached to dividends payable to the fund.

For financial year 2007-08 and later years, this item also includes the concessional taxation of fund earnings on funded superannuation income streams for persons aged 60 or over (for earlier years all superannuation income stream related items are included in the tax expenditure Superannuation – tax on funded superannuation income streams).

This tax expenditure reflects the extra tax in a particular year that would be collected if superannuation earnings of that year were held constant, but were taxed at the personal tax rates of members rather than fund rates. The effect of taxation on subsequent accumulations, earnings and tax is not taken into account.

C7 Superannuation - concessional taxation of unfunded superannuation

Social security and welfare ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
145	160	160	160	590	610	640	670

Tax expenditure type:	Concessional rate	*2006 TES code:*	C2
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Part III, Division 2, Subdivision AA *Income Tax Assessment Act 1936* Part III, Division 14 *Income Tax Assessment Act 1936* Part III, Division 17, Subdivision AAA *Income Tax Assessnebt Act 1936* Part IX *Income Tax Assessment Act 1936* Superannuation contributions tax acts (surcharge acts) Part 3-30 *Income Tax Assessment Act 1997* Subdivision 320-D *Income Tax Assessment Act 1997* Part 3-30 *Income Tax (Transitional Provisions) Act 1997*		

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 superannuation lump sums are taxed in the same way as funded superannuation lump sums from untaxed funds (see the tax expenditures Superannuation - tax on funded lump sums relating to post-June 1983 service and Superannuation - tax on funded lump sums relating to pre-July 1983 service).

Pension payments from an unfunded 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 unfunded source became eligible for a 10 per cent tax offset for persons aged 60 or over.

C8 Superannuation - deduction and concessional taxation of certain personal contributions

Social security and welfare ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
260	370	380	790	780	880	980	1150

Tax expenditure type:	Exemption, Reduction in taxable value	*2006 TES code:*	C1
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Before 1 July 2007: Part III, Division 3, Subdivision AB *Income Tax Assessment Act 1936* Section 26-80 *Income Tax Assessment Act 1997* Pt IX *Income Tax Assessment Act 1936* Superannuation contributions tax acts (surcharge acts After 1 July 2007: Division 290 *Income Tax Assessment Act 1997* Division 295 *Income Tax Assessment Act 1997* Division 292 *Income Tax Assessment Act 1997*		

Currently, certain persons are entitled to a full deduction for personal contributions. For the purposes of this deduction, the persons entitled are those who have less than 10 per cent of their income earned as an employee. This includes many unincorporated and substantially self-employed persons.

Prior to 1 July 2007, these persons were not entitled to a deduction for contributions in excess of their age-based limit.

If the level of contributions made by these persons was maintained, but the contributions were not deductible, revenue would be higher by the amounts indicated.

The superannuation surcharge for higher income earners applied to some of these contributions in 2004-05 and earlier financial years. The surcharge was abolished for contributions made on or after 1 July 2005.

C9 Superannuation - measures for low-income earners

Social security and welfare ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
6	80	260	510	300	310	300	340

Tax expenditure type:	Exemption, Reduction in taxable value	*2006 TES code:*	C1
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Before 1 July 2003: Part III, Division 17, Subdivision AAC *Income Tax Assessment Act 1936* After 30 June 2003: *Superannuation (Government Co-Contribution for Low Income Earners) Act 2003*		

From 1 July 2003, a superannuation co-contribution applying to eligible personal superannuation contributions by qualifying people replaced the low-income earners' tax offset.

The superannuation co-contribution is an expense measure. As such, the co-contribution payments are not included in the TES. The amounts indicated represent the impact of the co-contributions not being taxed, and the value of the offset before 2003-04.

C10 Superannuation - spouse contribution offset

Social security and welfare ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
12	13	15	15	15	16	16	17

Tax expenditure type:	Exemption, Reduction in taxable value	*2006 TES code:*	C1
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Before 1 July 2007: Part III, Division 17, Subdivision AACA *Income Tax Assessment Act 1936* After 30 June 2007: Subdivision 290-D, *Income Tax Assessment Act 1997*		

An 18 per cent offset is available for post-tax contributions to the superannuation account of a spouse (where the total of assessable income and reportable fringe benefits for the spouse is less than $13,800). The offset applies up to a maximum annual contribution of $3,000 where the spouse income is $10,800 or less, with the eligible contribution limit reducing dollar for dollar for each dollar of spouse income above that amount. The amounts reported are the value of the offset.

C11 Superannuation - tax on excess non-concessional contributions

Social security and welfare ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption, Reduction in taxable value	*2006 TES code:*	C1
Commencement date:	10 May 2006	** Category*	2-
Expiry date:			
Legislative reference:	Division 292 *Income Tax (Transitional Provisions) Act 1997* Division 292 *Income Tax Assessment Act 1997*		

Non-concessional contributions include those made from an individual's after tax income (generally undeducted contributions) and excess concessional contributions (that is, employer and personal deducted contributions which have exceeded the annual concessional contribution thresholds). The benchmark treatment of these contributions is that they are taxed like any other income in the hands of the individual (that is, the contributions are taxed at the individual's marginal tax rate).

Prior to 9 May 2006, the tax treatment of non-concessional (then referred to as undeducted) contributions was consistent with the benchmark. Since 10 May 2006, non-concessional contributions have been subject to a cap, with contributions in excess of the cap taxed at the top marginal tax rate, payable by the individual. The taxation of these excess contributions represents a deviation from the benchmark.

A cap of $1 million applies to non-concessional contributions made between 10 May 2006 and 30 June 2007. From 1 July 2007, an annual cap of $150,000 applies to non-concessional contributions, although people under age 65 will be able to bring forward up to two years worth of non-concessional contributions. Exemptions to the cap include proceeds from the disposal of assets that qualify for some small business CGT concessions, up to a lifetime limit of $1 million, and proceeds arising from structured settlements or orders for personal injuries.

C12 Superannuation - tax on funded lump sums relating to post-June 1983 service

Social security and welfare ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
-160	-160	-170	-160	-140	-130	-130	-130

Tax expenditure type:	Exemption, Reduction in taxable value	*2006 TES code:*	C1
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Before 1 July 2007: Part III, Division 2 *Income Tax Assessment Act 1936* Part III, Division 14 *Income Tax Assessment Act 1936* Part III, Division 17 *Income Tax Assessment Act 1936* After 1 July 2007: Division 301 *Income Tax Assessment Act 1997* Division 302 *Income Tax Assessment Act 1997*		

For taxed funds, the taxable component of lump sums is generally taxed at 20 per cent where the taxpayer is aged under 55 years.

For lump sums paid before 1 July 2007 to taxpayers aged 55 or over, or paid after 1 July 2007 to taxpayers aged 55 to 59, the element of any lump sum benefit taxed during the accumulation stage is typically taxed at zero per cent up to the low rate threshold and 15 per cent thereafter.

Untaxed funds are those where superannuation benefits are not taxed during the accumulation phase. For taxpayers under age 55 both before and after 1 July 2007, the taxation rate on these elements is typically 30 per cent. For taxpayers aged 55 or over before 1 July 2007, the element of a lump sum untaxed during the accumulation stage was typically taxed at 15 per cent up to the low rate threshold and 30 per cent thereafter. From 1 July 2007, lump sums received by taxpayers aged 55 to 59 are subject to tax rates ranging from 15 per cent to the top rate.

From 1 July 2007, the element of a lump sum from a taxed source relating to post-June 1983 service is tax free for persons aged 60 or over. The post-June 1983 element untaxed in a fund is typically taxed at 15 per cent up to an amount of $1 million for persons aged 60 or over.

The amounts reported are the tax raised on these lump sums.

C13 Superannuation - tax on funded lump sums relating to pre-July 1983 service

Social security and welfare ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
-25	-30	-30	-30	-	-	-	-

Tax expenditure type:	Exemption, Reduction in taxable value	*2006 TES code:*	C1
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Before 1 July 2007: Section 27C *Income Tax Assessment Act 1936* After 1 July 2007: Sections 307-210 and 307-225 *Income Tax Assessment Act 1997*		

Before 1 July 2007, the part of a lump sum benefit relating to service before July 1983 was taxed at a lower rate. Only 5 per cent of the pre-July 1983 amount was included in a taxpayer's assessable income and subject to tax at marginal rates. This concessional treatment reflected the regime for taxing eligible termination payments that existed before July 1983. Applying the post-June 1983 tax rates to these funded benefits would have imposed a tax retrospectively. The amounts reported are the tax raised on these lump sums.

From 1 July 2007, the component of a lump sum benefit relating to pre-July 1983 service is tax free.

C14 Superannuation - tax on funded superannuation income streams

Social security and welfare ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption, Reduction in taxable value	*2006 TES code:*	C1
Commencement date:	Introduced before 1985	** Category*	1-
Expiry date:			
Legislative reference:	Before 1 July 2007: Part III, Division 2, *Income Tax Assessment Act 1936* Part III, Division 14, *Income Tax Assessment Act 1936* Part III, Division 17, *Income Tax Assessment Act 1936* After 1 July 2007: Division 301, *Income Tax Assessment Act 1997* Division 302, *Income Tax Assessment Act 1997*		

The taxable component of superannuation income stream payments received by a taxpayer before 1 July 2007 was included in assessable income and subject to tax at marginal rates. The taxable component of superannuation income stream payments from a taxed source to a taxpayer aged 55 or over generally attracted a tax offset of 15 per cent. The tax raised reduces the total superannuation tax expenditure, as under the benchmark withdrawals from superannuation are tax free.

From 1 July 2007, superannuation income stream payments from a taxed source are tax free for persons aged 60 or over. The taxable component of superannuation income stream payments received by a taxpayer below age 60 are included in assessable income. A tax offset of 15 per cent applies to the taxable component of superannuation income stream payments paid to taxpayers aged 55 to 59, and to disability benefits paid to taxpayers of any age.

The taxable component of pension payments from an untaxed source are eligible for a 10 per cent tax offset for persons aged 60 or over.

From 1 July 2007, this item relates to the tax on funded pensions for persons under the age of 60.

C15 Taxation of five per cent of unused long service leave accumulated by 15 August 1978

Social security and welfare ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
85	90	95	80	70	60	55	50

Tax expenditure type:	Concessional rate	*2006 TES code:*	C5
Commencement date:	Introduced before 1985		
Expiry date:			
Legislative reference:	Subsection 26AD(5) *Income Tax Assessment Act 1936* Subsection 83-80(1) *Income Tax Assessment Act 1997*		

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.

Tax expenditures for other economic affairs

C16 Capital gains tax roll-over relief for changes to trust deeds of Approved Deposit Funds and superannuation funds

Other economic affairs - Other economic affairs, nec ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
*	*	*	*	*	*	*	*

Tax expenditure type:	Deferral	*2006 TES code:*	C9
Commencement date:	1994	** Category*	1+
Expiry date:			
Legislative reference:	Subdivision 126-C of the *Income Tax Assessment Act 1997*		

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.

C17 Capital gains tax roll–over relief for transfer of Commonwealth Superannuation Scheme assets to the Public Sector Superannuation Investments Trust

Other economic affairs - Other economic affairs, nec ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
-	-	-	-	65	-15	-15	-15

Tax expenditure type:	Deferral	*2006 TES code:*	C7
Commencement date:	1 July 2006		
Expiry date:			
Legislative reference:	Schedule 1, Part 3 of the *Superannuation Legislation Amendment (Trustee Board and Other Measures) Act 2006*		

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.

C18 Small business capital gains tax exemption for assets held more than 15 years

Other economic affairs - Other economic affairs, nec ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
15	15	55	55	60	60	65	65

Tax expenditure type:	Exemption	*2006 TES code:*	C8
Commencement date:	1999		
Expiry date:			
Legislative reference:	Subdivision 152-B of *the Income Tax Assessment Act 1997*		

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 the taxpayer and connected entities own is no more than $6 million.

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

C19 Superannuation - payment of temporary residents' superannuation to the Australian Government

Other economic affairs - Other economic affairs, nec ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
-	-	-	-	-	-220	-415	-290

Tax expenditure type:	Increased rate	*2006 TES code:*	New
Commencement date:	1 July 2008		
Expiry date:			
Legislative reference:	Not yet legislated		

Unclaimed superannuation for temporary residents, other than New Zealand citizens, will be paid to the Australian Government from 1 July 2008.

FRINGE BENEFITS TAX

Tax expenditures for general public services

D1 Exemption for benefits provided by certain international organisations

General public services - Financial and fiscal affairs ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2006 TES code:*	D1
Commencement date:	1986	** Category*	1+
Expiry date:			
Legislative reference:	Section 55 of the *Fringe Benefits Tax Assessment Act 1986*		

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)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
9	8	7	6	5	4	4	3

Tax expenditure type:	Exemption	*2006 TES code:*	D2
Commencement date:	1986		
Expiry date:			
Legislative reference:	Section 6 *Fringe Benefits Tax (Application to the Commonwealth) Act 1986*		

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

D3 Exemption for certain benefits received by Australian Government employees in receipt of military compensation payments

Defence ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
30	35	55	50	55	55	55	55

Tax expenditure type:	Exemption	*2006 TES code:*	D4
Commencement date:	1995		
Expiry date:			
Legislative reference:	Sections 6AA and 6AB *Fringe Benefits Tax (Application to the Commonwealth) Act 1986*		

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.

D4 Exemption for health care benefits provided to members of the Defence Force

Defence ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2006 TES code:*	D3
Commencement date:	1995	** Category*	4+
Expiry date:			
Legislative reference:	Section 6AC *Fringe Benefits Tax (Application to the Commonwealth) Act 1986*		

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.

Tax expenditures for education

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

Education ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
*	*	*	*	*	*	*	*

Tax expenditure type:	Reduction in taxable value	*2006 TES code:*	D5
Commencement date:	1986	** Category*	1+
Expiry date:			
Legislative reference:	Section 65A *Fringe Benefits Tax Assessment Act 1986*		

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)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
260	270	260	260	260	260	270	280

Tax expenditure type:	Exemption	*2006 TES code:*	D6
Commencement date:	2000		
Expiry date:			
Legislative reference:	Section 57A *Fringe Benefits Tax Assessment Act 1986*		

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)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2006 TES code:*	D7
Commencement date:	1986	** Category*	1+
Expiry date:			
Legislative reference:	Section 58L *Fringe Benefits Tax Assessment Act 1986*		

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 Capped exemption for public benevolent institutions (excluding public hospitals)

Social security and welfare ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
250	370	440	430	430	440	460	480

Tax expenditure type:	Exemption	*2006 TES code:*	D11
Commencement date:	2001		
Expiry date:			
Legislative reference:	Subsection 57A(1) *Fringe Benefits Tax Assessment Act 1986*		

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.

D9 Exemption for accommodation, fuel and meals for live-in employees caring for the elderly or disadvantaged

Social security and welfare ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2006 TES code:*	D12
Commencement date:	1986	** Category*	1+
Expiry date:			
Legislative reference:	Sections 58 and 58U *Fringe Benefits Tax Assessment Act 1986*		

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.

D10 Exemption for emergency assistance

Social security and welfare ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2006 TES code:*	D13
Commencement date:	1986	** Category*	1+
Expiry date:			
Legislative reference:	Section 58N *Fringe Benefits Tax Assessment Act 1986*		

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.

D11 Exemption for employer contributions to secure childcare places in certain centres

Social security and welfare ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2006 TES code:*	D10
Commencement date:	1986	** Category*	1+
Expiry date:			
Legislative reference:	Subsection 47(8) *Fringe Benefits Tax Assessment Act 1986*		

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.

D12 Exemption for recreational or childcare facilities on an employer's business premises

Social security and welfare ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2006 TES code:*	D9
Commencement date:	1986	** Category*	3+
Expiry date:			
Legislative reference:	Subsection 47(2) *Fringe Benefits Tax Assessment Act 1986*		

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.

D13 Exemption for safety award benefits up to $200 per year per employee

Social security and welfare ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2006 TES code:*	D8
Commencement date:	1986	** Category*	1+
Expiry date:			
Legislative reference:	Section 58R *Fringe Benefits Tax Assessment Act 1986*		

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 for housing and community amenities

D14 Exemption for housing provided by certain employers in regional areas

Housing and community amenities ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2006 TES code:*	D15
Commencement date:	2000	** Category*	2+
Expiry date:			
Legislative reference:	Section 58ZC *Fringe Benefits Tax Assessment Act 1986*		

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

D15 Exemption for remote area housing and reduction in taxable value for remote area housing assistance

Housing and community amenities ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
80	85	90	90	95	100	100	100

Tax expenditure type:	Exemption, Reduction in taxable value	*2006 TES code:*	D14
Commencement date:	2000		
Expiry date:			
Legislative reference:	Sections 58ZC, 59, 60, and 65CC *Fringe Benefits Tax Assessment Act 1986*		

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.

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.

Tax expenditures for transport and communications

D16 Exemption for employee taxi travel arriving at or leaving from place of work

Transport and communication ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2006 TES code:*	D28
Commencement date:	1997	** Category*	2+
Expiry date:			
Legislative reference:	Section 58Z *Fringe Benefits Tax Assessment Act 1986*		

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.

D17 Exemption for free or discounted commuter travel for employees of public transport providers

Transport and communication ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
65	70	60	60	60	60	55	55

Tax expenditure type:	Exemption	*2006 TES code:*	D27
Commencement date:	1986		
Expiry date:			
Legislative reference:	Subsection 47(1) *Fringe Benefits Tax Assessment Act 1986*		

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.

D18 Exemption for free or discounted travel to and from duty by police officers on public transport

Transport and communication ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
5	5	5	5	5	5	5	5

Tax expenditure type:	Exemption	*2006 TES code:*	D29
Commencement date:	2000		
Expiry date:			
Legislative reference:	Subsection 47(1A) *Fringe Benefits Tax Assessment Act 1986*		

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.

Tax expenditures for other economic affairs

D19 Discounted valuation of stand-by travel for airline employees and travel agents

Other economic affairs - Tourism and area promotion ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
25	20	20	18	18	18	17	17

Tax expenditure type:	Discounted valuation	*2006 TES code:*	D16
Commencement date:	1986		
Expiry date:			
Legislative reference:	Sections 32 and 33 *Fringe Benefits Tax Assessment Act 1986*		

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.

D20 Exemption for certain benefits provided to employees training under the Australian Traineeship System

Other economic affairs - Total labour and employment affairs ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2006 TES code:*	D18
Commencement date:	1986	** Category*	1+
Expiry date:			
Legislative reference:	Section 58S *Fringe Benefits Tax Assessment Act 1986*		

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.

D21 Exemption for certain long service awards for more than 15 years of service

Other economic affairs - Total labour and employment affairs ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2006 TES code:*	D17
Commencement date:	1986	** Category*	1+
Expiry date:			
Legislative reference:	Section 58Q *Fringe Benefits Tax Assessment Act 1986*		

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. Also 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.

D22 Exemption for certain relocation and recruitment expenses

Other economic affairs - Total labour and employment affairs ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2006 TES code:*	D19
Commencement date:	1986	** Category*	2+
Expiry date:			
Legislative reference:	Sections 58A to 58D and 58F *Fringe Benefits Tax Assessment Act 1986*		

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.

D23 Exemption for compensation-related benefits, occupational health and counselling services and some training courses

Other economic affairs - Total labour and employment affairs ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2006 TES code:*	D21
Commencement date:	1986	** Category*	2+
Expiry date:			
Legislative reference:	Sections 58J, 58K and 58M *Fringe Benefits Tax Assessment Act 1986*		

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.

D24 Reduction in taxable value for reimbursements of car expenses incurred for occupational health and counselling services and some training courses

Other economic affairs - Total labour and employment affairs ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
*	*	*	*	*	*	*	*

Tax expenditure type:	Reduction in taxable value	*2006 TES code:*	D22
Commencement date:	1986	** Category*	1+
Expiry date:			
Legislative reference:	Section 61F *Fringe Benefits Tax Assessment Act 1986*		

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.

D25 Reduction in taxable value of certain relocation and recruitment expenses

Other economic affairs - Total labour and employment affairs ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
*	*	*	*	*	*	*	*

Tax expenditure type:	Reduction in taxable value	*2006 TES code:*	D20
Commencement date:	1986	** Category*	2+
Expiry date:			
Legislative reference:	Sections 61B to 61E *Fringe Benefits Tax Assessment Act 1986*		

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.

D26 Application of statutory formula to value car benefits

Other economic affairs - Other economic affairs, nec ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
1820	1920	1730	1500	1490	1600	2010	2120

Tax expenditure type:	Discounted valuation	*2006 TES code:*	D24
Commencement date:	1986		
Expiry date:			
Legislative reference:	Section 9 *Fringe Benefits Tax Assessment Act 1986*		

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.

D27 Exemption for certain loan benefits

Other economic affairs - Other economic affairs, nec ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2006 TES code:*	D23
Commencement date:	1986	** Category*	1+
Expiry date:			
Legislative reference:	Section 17 *Fringe Benefits Tax Assessment Act 1986*		

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

D28 Exemption for small business employee car parking

Other economic affairs - Other economic affairs, nec ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
13	13	14	16	17	18	18	18

Tax expenditure type:	Exemption	*2006 TES code:*	D26
Commencement date:	1997		
Expiry date:			
Legislative reference:	Section 58GA *Fringe Benefits Tax Assessment Act 1986*		

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.

D29 Record keeping exemption

Other economic affairs - Other economic affairs, nec ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
..	..	..	..	..	..	..	..

Tax expenditure type:	Record keeping exemption	*2006 TES code:*	D25
Commencement date:	1998		
Expiry date:			
Legislative reference:	Section 135A *Fringe Benefits Tax Assessment Act 1986*		

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 without having to satisfy any other eligibility criteria.

Miscellaneous tax expenditures

D30 Capped exemption for charities promoting the prevention or control of disease in human beings

Health ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
19	25	35	35	35	35	35	35

Tax expenditure type:	Exemption	*2006 TES code:*	D45
Commencement date:	2001		
Expiry date:			
Legislative reference:	Section 5B and subsection 57A(5) *Fringe Benefits Tax Assessment Act 1986*		

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 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.

D31 Exemption for certain benefits provided to live-in employees who provide domestic services and are employed by religious institutions or religious practitioners

Recreation and culture ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2006 TES code:*	D33
Commencement date:	1986	** Category*	2+
Expiry date:			
Legislative reference:	Section 58T *Fringe Benefits Tax Assessment Act 1986*		

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.

D32 Exemption for certain fringe benefits provided to religious practitioners

Recreation and culture ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
130	140	140	135	140	145	140	140

Tax expenditure type:	Exemption	*2006 TES code:*	D32
Commencement date:	1986		
Expiry date:			
Legislative reference:	Section 57 *Fringe Benefits Tax Assessment Act 1986*		

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 Discounted valuation for board fringe benefits

Other economic affairs - Total labour and employment affairs ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
1	2	2	2	2	2	2	2

Tax expenditure type:	Discounted valuation	*2006 TES code:*	D49
Commencement date:	1986		
Expiry date:			
Legislative reference:	Section 36 *Fringe Benefits Tax Assessment Act 1986*		

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.

D34 Discounted valuation for car parking fringe benefits

Other economic affairs - Total labour and employment affairs ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
14	16	19	20	22	24	24	25

Tax expenditure type:	Discounted valuation	*2006 TES code:*	D36
Commencement date:	1993		
Expiry date:			
Legislative reference:	Section 39A *Fringe Benefits Tax Assessment Act 1986*		

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.

D35 Discounted valuation of arm's length transaction price for in-house property and residual fringe benefits

Other economic affairs - Total labour and employment affairs ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
*	*	*	*	*	*	*	*

Tax expenditure type:	Discounted valuation	*2006 TES code:*	D34
Commencement date:	1986	** Category*	na
Expiry date:			
Legislative reference:	Sections 42, 48 and 49 *Fringe Benefits Tax Assessment Act 1986*		

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.

D36 Exemption for airline transport fringe benefits and certain in-house benefits

Other economic affairs - Total labour and employment affairs ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2006 TES code:*	D35
Commencement date:	1986	** Category*	2+
Expiry date:			
Legislative reference:	Section 62 *Fringe Benefits Tax Assessment Act 1986*		

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

D37 Exemption for benefits in relation to certain compassionate travel

Other economic affairs - Total labour and employment affairs ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2006 TES code:*	D31
Commencement date:	1986	** Category*	1+
Expiry date:			
Legislative reference:	Section 58LA *Fringe Benefits Tax Assessment Act 1986*		

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.

D38 Exemption for certain allowances and accommodation and food benefits

Other economic affairs - Total labour and employment affairs ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2006 TES code:*	D43
Commencement date:	1986	** Category*	2+
Expiry date:			
Legislative reference:	Sections 21, 31, 47(5), 58E, 58ZD and 63 *Fringe Benefits Tax Assessment Act 1986*		

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.

D39 Exemption for certain payments to approved worker entitlement funds

Other economic affairs - Total labour and employment affairs ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
-	300	305	290	300	310	295	290

Tax expenditure type:	Exemption	*2006 TES code:*	D46
Commencement date:	2003		
Expiry date:			
Legislative reference:	Sections 58PA, 58PB and 58PC *Fringe Benefits Tax Assessment Act 1986*		

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.

D40 Exemption for eligible work-related items

Other economic affairs - Total labour and employment affairs ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
200	210	220	210	200	210	220	230

Tax expenditure type:	Exemption	*2006 TES code:*	D48
Commencement date:	1995		
Expiry date:			
Legislative reference:	Section 58X *Fringe Benefits Tax Assessment Act 1986*		

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.

D41 Exemption for engagement of a relocation consultant

Other economic affairs - Total labour and employment affairs ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
-	-	-	*	*	*	*	*

Tax expenditure type:	Exemption	*2006 TES code:*	D47
Commencement date:	2006	** Category*	1+
Expiry date:			
Legislative reference:	58AA *Fringe Benefits Tax Assessment Act 1986*		

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.

D42 Exemption for minor benefits

Other economic affairs - Total labour and employment affairs ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2006 TES code:*	D41
Commencement date:	1986	** Category*	2+
Expiry date:			
Legislative reference:	Section 58P *Fringe Benefits Tax Assessment Act 1986*		

Minor benefits may be exempt from fringe benefits tax. Minor benefits are currently benefits that are less than $300 in value infrequently provided and/or are difficult to record and value. It must also be unreasonable to treat the minor benefit as a fringe benefit.

D43 Exemption for minor private use of company motor vehicle

Other economic affairs - Total labour and employment affairs ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2006 TES code:*	D44
Commencement date:	1986	** Category*	1+
Expiry date:			
Legislative reference:	Subsection 47(6) *Fringe Benefits Tax Assessment Act 1986*		

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.

D44 Exemption for motor vehicle parking and car parking fringe benefits provided by certain employers

Other economic affairs - Total labour and employment affairs ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2006 TES code:*	D37
Commencement date:	1986, 1993	** Category*	2+
Expiry date:			
Legislative reference:	Section 58G *Fringe Benefits Tax Assessment Act 1986* Regulation 13A *Fringe Benefits Tax Regulations 1992*		

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.

D45 Exemption for private use of business property

Other economic affairs - Total labour and employment affairs ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2006 TES code:*	D42
Commencement date:	1986	** Category*	3+
Expiry date:			
Legislative reference:	Sections 41 and 47(3) *Fringe Benefits Tax Assessment Act 1986*		

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.

D46 Exemption for the provision of food and drink in certain circumstances

Other economic affairs - Total labour and employment affairs ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2006 TES code:*	D50
Commencement date:	1986	** Category*	1+
Expiry date:			
Legislative reference:	Sections 54 and 58V *Fringe Benefits Tax Assessment Act 1986*		

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 employment and the employer is a religious institution or natural person. See the tax expenditure Discounted valuation for board fringe benefits for the description of board fringe benefits.

D47 Exemption for transport for oil rig and remote area employees in certain circumstances

Other economic affairs - Total labour and employment affairs ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2006 TES code:*	D39
Commencement date:	1986	** Category*	1+
Expiry date:			
Legislative reference:	Subsection 47(7) *Fringe Benefits Tax Assessment Act 1986*		

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

D48 Reduction in taxable value for holiday transport for employees posted overseas

Other economic affairs - Total labour and employment affairs ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
*	*	*	*	*	*	*	*

Tax expenditure type:	Reduction in taxable value	*2006 TES code:*	D38
Commencement date:	1986	** Category*	1+
Expiry date:			
Legislative reference:	Section 61A *Fringe Benefits Tax Assessment Act 1986*		

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.

D49 Reduction in taxable value for remote area holiday benefits

Other economic affairs - Total labour and employment affairs ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
*	*	*	*	*	*	*	*

Tax expenditure type:	Reduction in taxable value	*2006 TES code:*	D40
Commencement date:	1986	** Category*	1+
Expiry date:			
Legislative reference:	Sections 60A and 61 *Fringe Benefits Tax Assessment Act 1986*		

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.

D50 Partial rebate for certain non-profit, non-government bodies

Other economic affairs - Other economic affairs, nec ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
55	55	50	50	45	40	45	45

Tax expenditure type:	Rebate	*2006 TES code:*	D30
Commencement date:	1994		
Expiry date:			
Legislative reference:	Section 65J *Fringe Benefits Tax Assessment Act 1986*		

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.

CAPITAL GAINS TAX

Tax expenditures for defence

E1 Capital gains tax exemption for valour or brave conduct decorations

Defence ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
..	..	..	..	..	..	..	..

Tax expenditure type:	Exemption	*2006 TES code:*	E1
Commencement date:	1985		
Expiry date:			
Legislative reference:	Paragraph 118-5(b) of the *Income Tax Assessment Act 1997*		

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 available unless the owner of the decoration had paid money or given any other property for it.

Tax expenditures for health

E2 Capital gains tax roll-over for membership interests in medical defence organisations

Health ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
*	*	*	*	*	*	*	*

Tax expenditure type:	Deferral	*2006 TES code:*	New
Commencement date:	2007	** Category*	1+
Expiry date:	1 July 2010		
Legislative reference:	Section 5 of the *Medical Indemnity Act 2002*		

A capital gains tax roll-over is available for capital gains arising from the exchange of a membership interest in a medical defence organisation for a similar interest in another medical defence organisation where both organisations are companies limited by guarantee. The roll-over allows a member who exchanges their membership interest for the replacement interest to defer a capital gains tax liability arising from the exchange until the ultimate disposal of the replacement membership interest.

Tax expenditures for housing and community amenities

E3 Capital gains tax concessions for conservation covenants

Housing and community amenities ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
..	..	..	..	..	..	..	..

Tax expenditure type:	Exemption	*2006 TES code:*	E2
Commencement date:	2000		
Expiry date:			
Legislative reference:	Section 104-47 of the *Income Tax Assessment Act 1997*		

For capital gains tax purposes, perpetual conservation covenants are treated as a part disposal of 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 capital gains tax 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.

E4 Capital gains tax main residence exemption

Housing and community amenities ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2006 TES code:*	E3
Commencement date:	1985	** Category*	4+
Expiry date:			
Legislative reference:	Subdivision 118-B of the *Income Tax Assessment Act 1997*		

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.

E5 Extensions to the capital gains tax main residence exemption

Housing and community amenities ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2006 TES code:*	E4
Commencement date:	1985 and 1997	** Category*	3+
Expiry date:			
Legislative reference:	Sections 118-145, 118-190 and 118-200 of the *Income Tax Assessment Act 1997*		

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.

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

E6 Capital gains tax exemption for the disposal of assets under the Cultural Bequests and Cultural Gifts programs

Recreation and culture ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2006 TES code:*	E5
Commencement date:	1994, expanded in 1999	** Category*	1+
Expiry date:			
Legislative reference:	Section 118-60 of the *Income Tax Assessment Act 1997*		

Capital gains or losses arising from testamentary gifts made under the Cultural Bequests and Cultural Gifts programs are exempt from capital gains tax. The Cultural Bequests and Cultural Gifts programs encourage donations of significant cultural items from private collections to public art galleries, museums and libraries by offering tax benefits to the donor or the donor's estate.

Tax expenditures for other economic affairs

E7 Capital gains tax roll-over relief for worker entitlement funds

Other economic affairs - Total labour and employment affairs ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
*	*	*	*	*	*	*	*

Tax expenditure type:	Deferral	*2006 TES code:*	E15
Commencement date:	2003	** Category*	2+
Expiry date:			
Legislative reference:	Subdivision 126-C of the *Income Tax Assessment Act 1997*		

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.

E8 Capital gains tax deferral of liability when taxpayer dies

Other economic affairs - Other economic affairs, nec ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
*	*	*	*	*	*	*	*

Tax expenditure type:	Deferral	*2006 TES code:*	E9
Commencement date:	1985	** Category*	3+
Expiry date:			
Legislative reference:	Division 128 of the *Income Tax Assessment Act 1997*		

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.

E9 Capital gains tax discount for individuals and trusts

Other economic affairs - Other economic affairs, nec ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
2990	5140	6040	7420	6870	7140	7410	7770

Tax expenditure type:	Exemption	*2006 TES code:*	E14
Commencement date:	15 September 1999		
Expiry date:			
Legislative reference:	Division 115 of the *Income Tax Assessment Act 1997*		

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 before 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.

E10 Capital gains tax discount for investors in listed investment companies

Other economic affairs - Other economic affairs, nec ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
10	10	15	15	15	20	20	20

Tax expenditure type:	Deduction	*2006 TES code:*	E18
Commencement date:	1 July 2001		
Expiry date:			
Legislative reference:	Subdivision 115D of the *Income Tax Assessment Act 1997*		

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.

E11 Capital gains tax exemption for assets acquired before 20 September 1985

Other economic affairs - Other economic affairs, nec ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2006 TES code:*	E7
Commencement date:	1985	** Category*	na
Expiry date:			
Legislative reference:	Division 104 of the *Income Tax Assessment Act 1997*		

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.

E12 Capital gains tax exemption of non-portfolio interests in foreign companies with active businesses

Other economic affairs - Other economic affairs, nec ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption	*2006 TES code:*	E10
Commencement date:	1 April 2004	** Category*	2+
Expiry date:			
Legislative reference:	Subdivision 768-G *Income Tax Assessment Act 1997*		

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.

E13 Capital gains tax roll-over for small business

Other economic affairs - Other economic affairs, nec ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
75	100	100	120	130	160	160	180

Tax expenditure type:	Deferral	*2006 TES code:*	E13
Commencement date:	1997		
Expiry date:			
Legislative reference:	Subdivision 152-E of the *Income Tax Assessment Act 1997*		

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 was increased to $6 million from 1 July 2007).

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

E14 Capital gains tax roll-over for transfer of Public Sector Superannuation Fund assets to pooled superannuation trust

Other economic affairs - Other economic affairs, nec ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
-	-	-	50	-15	-15	-15	-15

Tax expenditure type:	Deferral	*2006 TES code:*	E21
Commencement date:	1 July 2005		
Expiry date:			
Legislative reference:	Schedule 7, item 3 of the *Superannuation (Consequential Amendments) Act 2005*		

An automatic capital gains tax roll-over will occur for the transfer of capital gains assets from the Public Sector Superannuation Board to the trustee of a pooled superannuation trust to establish the Public Sector Superannuation Accumulation Plan.

E15 Capital gains tax roll-over relief and exemption and related taxation relief for demergers

Other economic affairs - Other economic affairs, nec ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
*	*	*	*	*	*	*	*

Tax expenditure type:	Exemption, Deferral	*2006 TES code:*	E19
Commencement date:	2002	** Category*	3+
Expiry date:			
Legislative reference:	Division 125 of the *Income Tax Assessment Act 1997* and subsection 44(4) of the *Income Tax Assessment Act 1936*		

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.

E16 Capital gains tax roll-over relief for assets compulsorily acquired, lost or destroyed

Other economic affairs - Other economic affairs, nec ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
*	*	*	*	*	*	*	*

Tax expenditure type:	Deferral	*2006 TES code:*	E17
Commencement date:	1985	** Category*	2+
Expiry date:			
Legislative reference:	Subdivision 124-B of the *Income Tax Assessment Act 1997*		

Capital gains tax roll-over relief is available for capital gains where an asset is compulsorily acquired, lost or destroyed and the taxpayer purchases a replacement asset. In recognition that the disposal was not initiated by the taxpayer, the capital gains liability is deferred from the time of the compulsory acquisition, loss or destruction until the ultimate disposal of the replacement asset.

This measure has been extended to establish the same treatment for a compulsory acquisition whether by a private or public acquirer and to provide greater flexibility for landowners whose land is compulsorily subject to a mining lease.

E17 Capital gains tax roll-over relief for financial service providers on transition to the Financial Services Reform regime

Other economic affairs - Other economic affairs, nec ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
*	*	*	*	*	*	*	*

Tax expenditure type:	Deferral	*2006 TES code:*	E6
Commencement date:	2002	** Category*	2+
Expiry date:	2004		
Legislative reference:	Subdivision 124-O of the *Income Tax Assessment Act 1997*		

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.

E18 Capital gains tax roll-over relief for superannuation entities on transition to the new superannuation safety arrangements

Other economic affairs - Other economic affairs, nec ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
-	-	*	*	*	*	*	*

Tax expenditure type:	Deferral	*2006 TES code:*	E23
Commencement date:	1 July 2004	** Category*	1+
Expiry date:	30 June 2006		
Legislative reference:	Subdivision 126-F of the *Income Tax Assessment Act 1997*		

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.

E19 Capital gains tax roll-over relief for transfer of assets on marriage breakdown

Other economic affairs - Other economic affairs, nec ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
*	*	*	*	*	*	*	*

Tax expenditure type:	Deferral	*2006 TES code:*	E8
Commencement date:	1985	** Category*	2+
Expiry date:			
Legislative reference:	Subdivision 126-A of the *Income Tax Assessment Act 1997*		

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

Legislation is pending to extend the existing capital gains tax 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.

This also includes roll-over where there is a transfer of a capital gains tax asset from a small superannuation fund to another complying superannuation fund following marriage breakdown but only where such transfers meet specific conditions.

E20 Capital gains tax scrip-for-scrip roll-over relief

Other economic affairs - Other economic affairs, nec ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
-1	-21	82	4	3	2	1	-

Tax expenditure type:	Deferral	*2006 TES code:*	E16
Commencement date:	1999		
Expiry date:			
Legislative reference:	Subdivision 124-M of the *Income Tax Assessment Act 1997*		

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 ensures that an equity holder who exchanges original shares or other equity for new equity in a takeover or merger can defer a capital gains tax liability arising from the exchange until the ultimate disposal of the replacement asset. The roll-over relief ensures that capital gains tax does not impede takeovers and similar arrangements. 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.

E21 Captial gains tax - indexation of cost base

Other economic affairs - Other economic affairs, nec ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
*	*	*	*	*	*	*	*

Tax expenditure type:	Reduction in taxable value	*2006 TES code:*	New
Commencement date:	20 September 1985	** Category*	3+
Expiry date:			
Legislative reference:	Division 114 of *the Income Tax Assessment Act 1997* and Section 110-36 of the *Income Tax Assessment Act 1997*		

For assets acquired at or before 11:45 am EST on 21 September 1999, taxpayers may choose to calculate the capital gain on the asset by reference to its indexed cost base. Taxpayers that choose to use the indexed cost base cannot access the capital gains tax discount. The indexed cost base for these assets was frozen as at 30 September 1999.

E22 Capital gains tax - demutualisation of health insurers

Other economic affairs - Other economic affairs, nec ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
-	-	-	-	-	26	2	1

Tax expenditure type:	Exemption	*2006 TES code:*	New
Commencement date:	1 July 2007		
Expiry date:			
Legislative reference:	Not yet legislated		

Policyholders of a health insurer which demutualises will not be subject to capital gains tax on any capital gains or losses that they realise on the exchange of rights in the insurer for shares in the demutualised entity. In addition, any capital gains or losses arising from transactions which relate to the mechanism that allows policyholders to receive shares will also be disregarded for capital gains tax purposes.

E23 Exemption from the market value substitution rule in relation to the cancellation or surrender of interests in widely held entities

Other economic affairs - Other economic affairs, nec ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
-	-	-	*	*	*	*	*

Tax expenditure type:	Exemption	*2006 TES code:*	New
Commencement date:	For CGT events that occur during the 2006-07 income year and after	** Category*	1+
Expiry date:			
Legislative reference:	Section 116-30 of the *Income Tax Assessment Act 1997*		

The capital gains tax market value substitution rule deems assets that are disposed of for less than their market value to have been disposed for a consideration equal to their market value. This measure exempts membership interests in widely-held entities that are disposed of by way of a redemption, cancellation or surrender (capital gains tax event C2) of the interest from the market value substitution rule, with effect from the 2006-07 income year.

Legislation implementing this change is pending.

E24 Extension to the capital gains tax roll-over relief for statutory licenses

Other economic affairs - Other economic affairs, nec ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
-	-	-	20	90	*	*	*

Tax expenditure type:	Deferral	*2006 TES code:*	New
Commencement date:	2006	** Category*	1+
Expiry date:			
Legislative reference:	Subdivision 124-C of the *Income Tax Assessment Act 1997*		

A capital gains tax roll-over is available where a statutory licence ends and is replaced with a new licence that authorises substantially similar activity to the original licence. From the 2006-07 income year, a partial capital gains tax roll-over is available where a statutory licence ends and the licence holder receives a new licence and non-licence capital proceeds. The part of a capital gain or capital loss on the ending of the original licence referable to the non-licence capital proceeds is subject to tax at that time, whereas the part referable to the extent the new licence replaces the original licence is rolled over.

E25 Quarantining of capital losses

Other economic affairs - Other economic affairs, nec ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
*	*	*	*	*	*	*	*

Tax expenditure type:	Denial of deduction	*2006 TES code:*	New
Commencement date:	20 September 1985	** Category*	4-
Expiry date:			
Legislative reference:	Section 100-50 of the *Income Tax Assessment Act 1997*		

Capital losses may only be offset against capital gains, which means they are quarantined from ordinary income.

E26 Removal of capital gains tax threshold for testamentary gifts

Other economic affairs - Other economic affairs, nec ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
-	-	-	*	*	*	*	*

Tax expenditure type:	Exemption	*2006 TES code:*	E22
Commencement date:	1 July 2005	** Category*	1+
Expiry date:			
Legislative reference:	Section 118-60 of the *Income Tax Assessment Act 1997*		

Testamentary gifts (that is, gifts made under a will) of certain property to deductible gift recipients are no longer required to be valued at greater than $5,000 to access the capital gains tax exemption.

E27 Removal of taxation of certain financial instruments at point of conversion or exchange

Other economic affairs - Other economic affairs, nec ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
*	*	*	*	*	*	*	*

Tax expenditure type:	Deferral	*2006 TES code:*	E20
Commencement date:	2002	** Category*	2+
Expiry date:			
Legislative reference:	Sections 26BB and 70B of the *Income Tax Assessment Act 1997*		

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.

E28 Small business capital gains tax 50 per cent reduction

Other economic affairs - Other economic affairs, nec ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
240	320	370	405	425	500	530	575

Tax expenditure type:	Exemption	*2006 TES code:*	E12
Commencement date:	1999		
Expiry date:			
Legislative reference:	Subdivision 152-C of the *Income Tax Assessment Act 1997*		

Fifty per cent of the capital gains arising from the sale of active assets in an eligible small business are exempt from capital gains tax. This applies in addition to any capital gains tax 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 $6 million.

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

E29 Tax exemption for certain foreign investment in venture capital

Other economic affairs - Other economic affairs, nec ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
-	-	-	-	*	*	*	*

Tax expenditure type:	Exemption	*2006 TES code:*	E11
Commencement date:	1999	** Category*	2+
Expiry date:			
Legislative reference:	Sections 51-54 and 51-55 and Subdivisions 118-F and 118-G of the of the *Income Tax Assessment Act 1997*; further 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 venture capital limited partnerships regime is to 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.

COMMODITY TAXES

Fuel

F1 Higher rate of excise levied on high sulphur diesel

Health ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
-165	-180	-90	-	-	-	-	-

Tax expenditure type:	Increased rate	*2006 TES code:*	F3
Commencement date:	1 July 2003		
Expiry date:	1 January 2006		
Legislative reference:	*Excise Tariff Act 1921*		

Before 1 July 2006, diesel with a sulphur content higher than 50 parts per million was subject to a higher rate of excise than the benchmark rate. The benchmark rate 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.

F2 Higher rate of excise levied on leaded petrol

Health ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
..	..	..	-	-	-	-	-

Tax expenditure type:	Increased rate	*2006 TES code:*	F2
Commencement date:	1 January 1994		
Expiry date:	1 July 2006		
Legislative reference:	*Excise Tariff Act 1921*		

Before 1 July 2006, leaded petrol was subject to a higher rate of excise than the benchmark rate. The benchmark rate 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 differential was removed on 1 July 2006.

F3 Concessional rate of excise levied on aviation gasoline and aviation turbine fuel

Fuel and energy ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
745	795	810	870	905	900	900	900

Tax expenditure type:	Concessional rate	*2006 TES code:*	F5
Commencement date:	15 March 1956		
Expiry date:			
Legislative reference:	Item 10 of the Schedule to the *Excise Tariff Act 1921*		

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, 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.

F4 Excise levied on fuel oil, heating oil and kerosene

Fuel and energy ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
-90	-85	-90	-415	-420	-425	-435	-440

Tax expenditure type:	Increased rate	*2006 TES code:*	F4
Commencement date:	1983		
Expiry date:			
Legislative reference:	Item 10 of the schedule to the *Excise Tariff Act 1921*		

Before 1 July 2006, fuel oil, heating oil and kerosene that were 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. The benchmark excise for fuels consumed for a purpose other than in an internal combustion engine is zero.

Since 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, that effectively removes the incidence of excise.

F5 Excise levied on fuel products used for purposes other than as fuel

Fuel and energy ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
-	-	-	-65	-65	-65	-65	-65

Tax expenditure type:	Increased rate	*2006 TES code:*	F1
Commencement date:	1 July 2006		
Expiry date:			
Legislative reference:	Item 10 of the schedule to the *Excise Tariff Act 1921*		

Before 1 July 2006, fuels consumed for a purpose other than in an internal combustion engine were excise-free through other mechanisms.

Since 1 July 2006, 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. 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.

F6 Exemption from excise for 'alternative fuels'

Fuel and energy ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
680	620	620	680	750	820	910	1030

Tax expenditure type:	Exemption	*2006 TES code:*	F6
Commencement date:	1985		
Expiry date:			
Legislative reference:	*Excise Tariff Act 1921*		

Certain alternative transport fuels including liquefied petroleum gas (LPG) and compressed natural gas (CNG), are currently exempt from excise duty.

Tobacco

F7 Higher rate of excise levied on cigarettes with less than 0.8 grams of tobacco

Health ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
-1320	-1345	-1360	-1395	-1375	-1385	-1395	-1405

Tax expenditure type:	Increased rate	*2006 TES code:*	F7
Commencement date:	1999		
Expiry date:			
Legislative reference:	Item 5 of the Schedule to the *Excise Tariff Act 1921*		

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

Agriculture, forestry and fishing ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
..	..	..	-	-	-	-	-

Tax expenditure type:	Concessional rate	*2006 TES code:*	F8
Commencement date:	12 February 1902		
Expiry date:	30 June 2006		
Legislative reference:	Item 5 of the Schedule to the *Excise Tariff Act 1921*		

Before 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 levied on brandy

Agriculture, forestry and fishing ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
5	5	5	5	5	5	5	5

Tax expenditure type:	Concessional rate	*2006 TES code:*	F18
Commencement date:	9 November 1979		
Expiry date:			
Legislative reference:	Item 3 of the *Excise Tariff Act 1921*		

Brandy is subject to a lower rate of excise than other spirits ($61.21 per litre of pure alcohol, compared to $65.56 at 1 August 2007). The excise rate on brandy is indexed to the consumer price index biannually.

F10 Concessional rate of excise levied on brew-on-premise beer

Agriculture, forestry and fishing ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
2	2	3	3	4	4	4	5

Tax expenditure type:	Concessional rate	*2006 TES code:*	F12
Commencement date:	1993		
Expiry date:			
Legislative reference:	Item 1 of Schedule of the *Excise Tariff Act 1921*		

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.

F11 Concessional rate of excise levied on draught beer

Agriculture, forestry and fishing ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
150	160	160	160	160	170	170	180

Tax expenditure type:	Concessional rate	*2006 TES code:*	F11
Commencement date:	2001		
Expiry date:			
Legislative reference:	Item 1 of Schedule to the *Excise Tariff Act 1921*		

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 on low-strength packaged beer

Agriculture, forestry and fishing ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
15	15	15	15	15	15	15	15

Tax expenditure type:	Concessional rate	*2006 TES code:*	F9
Commencement date:	21 August 1984		
Expiry date:			
Legislative reference:	Item 1 of the Schedule to the *Excise Tariff Act 1921*		

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.

F13 Consumption tax exemptions for privately produced beer

Agriculture, forestry and fishing ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
30	30	35	35	40	40	45	50

Tax expenditure type:	Exemption	*2006 TES code:*	F14
Commencement date:	18 April 1973		
Expiry date:			
Legislative reference:	Schedule to the *Excise Tariff Act 1921*		

Beer made for personal use by private individuals is exempt from the payment of excise.

F14 Consumption tax exemptions for privately produced wine

Agriculture, forestry and fishing ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
10	15	10	15	15	15	15	20

Tax expenditure type:	Exemption	*2006 TES code:*	F17
Commencement date:	19 August 1970		
Expiry date:			
Legislative reference:	*A New Tax System (Wine Equalisation Tax) Act 1999*		

Wine made for personal use by private individuals is exempt from the wine equalisation tax.

F15 Excise concession for microbreweries

Agriculture, forestry and fishing ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
..	..	..	..	..	..	..	..

Tax expenditure type:	Concessional rate	*2006 TES code:*	F13
Commencement date:	2000		
Expiry date:			
Legislative reference:	Paragraph 50(1)(zzd) of the *Excise Regulations 1925*		

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.

F16 No excise-free threshold for excisable alcoholic beverages (other than beer) not exceeding 10 per cent alcohol

Agriculture, forestry and fishing ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
-110	-145	-165	-185	-205	-230	-255	-285

Tax expenditure type:	Increased rate	*2006 TES code:*	F10
Commencement date:	2000		
Expiry date:			
Legislative reference:	Item 1 of Schedule to the *Excise Tariff Act 1921*		

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.

F17 Wine equalisation tax cellar door rebate

Agriculture, forestry and fishing ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
16	4	-	-	-	-	-	-

Tax expenditure type:	Offset	*2006 TES code:*	F15
Commencement date:	1 July 2000		
Expiry date:	1 October 2004		
Legislative reference:	Schedule 9A of the *Indirect Tax Legislation Amendment Act 2000*		

Before 1 October 2004, 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 by the wine equalisation tax producer rebate.

F18 Wine equalisation tax producer rebate

Agriculture, forestry and fishing ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
-	60	115	185	175	195	215	240

Tax expenditure type:	Rebate	*2006 TES code:*	F16
Commencement date:	1 October 2004		
Expiry date:			
Legislative reference:	*A New Tax System (Wine Equalisation Tax) Act 1999*		

Wine producers receive a rebate of the first $500,000 of wine equalisation tax (WET) paid per annum. Before 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.

The WET producer rebate replaced the WET cellar door rebate scheme from 1 October 2004.

Motor vehicles

F19 Luxury car tax

Other economic affairs - Other economic affairs, nec ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
-335	-300	-330	-350	-370	-390	-400	-410

Tax expenditure type:	Increased rate	*2006 TES code:*	F19
Commencement date:	1 July 2000		
Expiry date:			
Legislative reference:	*A New Tax System (Luxury Car Tax) Act 2000*		

The luxury car tax imposes a tax on the value of car sales and imports that exceed the luxury car tax threshold ($57,123 for the 2007-08 financial year). 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

General public services - Foreign affairs and economic aid ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
6	7	8	8	9	10	10	10

Tax expenditure type:	Concessional rate	*2006 TES code:*	F20
Commencement date:	21 August 1940		
Expiry date:			
Legislative reference:	Regulation 50 of the *Excise Act 1901*		
	Section 10 of the *Diplomatic Privileges and Immunities Act 1967*		
	Section 10 of the *Consular Privileges and Immunities Act 1972*		
	Section 11 of the *International Organisations (Privileges and Immunities) Act 1963*		
	Section 12 of the *Overseas Missions (Privileges and Immunities) Act 1995*		

Note: estimates represent excise duty only.

Excise, luxury car tax and wine equalisation tax is not payable (or an equivalent amount of that paid is claimable) for alcohol, fuel, motor vehicles 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

Defence ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
2	2	1	*	*	*	*	*

Tax expenditure type:	Concessional rate	*2006 TES code:*	F21
Commencement date:	2 August 1934	** Category*	1+
Expiry date:			
Legislative reference:	Schedule 1 to the *Excise Regulations 1925*		

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.

F22 Customs duty

Mining, manufacturing and construction ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
-4049	-3859	-3229	-3452	-3682	-3883	-3424	-2875

Tax expenditure type:	Increased rate	*2006 TES code:*	New
Commencement date:	4 October 1901		
Expiry date:			
Legislative reference:	*Customs Act 1901* *Customs Tariff Act 1995*		

Customs duty is collected on certain goods imported into Australia. Under the benchmark, goods imported into Australia are free from customs duty (except for excise-equivalent customs duty).

NATURAL RESOURCE TAXES

Tax expenditures for manufacturing and mining

G1 Gas transfer price regulations

Fuel and energy ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
-	-	*	*	*	*	*	*

Tax expenditure type:	Deduction	*2006 TES code:*	New
Commencement date:	20 December 2005	** Category*	2+
Expiry date:			
Legislative reference:	*Petroleum Resource Rent Tax Assessment Regulations*		

For petroleum resource rent tax purposes, the gas transfer price regulations stipulate rules for calculating the gas transfer price where there is no arm's length transaction. The regulations provide an allowance for capital expenditure which is based on the long term bond rate plus 7 percentage points rather than the benchmark rate (long term bond rate plus 5 per centage points).

G2 Increased deduction for petroleum exploration expenditure in designated offshore frontier areas

Fuel and energy ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
-	-	*	*	*	*	*	*

Tax expenditure type:	Deduction	*2006 TES code:*	G1
Commencement date:	29 March 2004	** Category*	1+
Expiry date:	2008		
Legislative reference:	Section 36C *Petroleum Resource Rent Tax Assessment Act 1987*		

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.

G3 Transfer of exploration expenditure between petroleum resource rent tax projects

Fuel and energy ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
*	*	*	*	*	*	*	*

Tax expenditure type:	Deduction	*2006 TES code:*	New
Commencement date:	1 July 1990	** Category*	2+
Expiry date:			
Legislative reference:	*Petroleum Resource Rent Tax Assessment Act 1987*		

Exploration expenditure can be transferred, under certain circumstances, between projects for petroleum resource rent tax (PRRT) purposes. Under the benchmark, the taxable entity is the project and undeducted expenditure is compounded and applied against future PRRT assessable receipts.

Petroleum

G4 Condensate excise-free status

Fuel and energy ($m)

2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
150	330	250	320	320	320	320	320

Tax expenditure type:	Exemption	*2006 TES code:*	G2
Commencement date:	1977		
Expiry date:			
Legislative reference:	Schedule 17(B) of the *Excise Tariff Act 1921*		

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).

APPENDIX A: MODELLING TAX EXPENDITURES

This appendix provides an overview of the various modelling techniques used in the *Tax Expenditures Statement* to estimate the value of tax expenditures.

The methods used to calculate the estimates of individual tax expenditures in this statement vary. The appropriate approach is determined by the nature of the tax benchmark, the particular tax concession examined and the availability of data. Data availability is a major factor influencing the reliability of the estimates, and in many cases estimates are not provided owing to data limitations.

The approaches used to estimate tax expenditures include aggregate modelling, distributional modelling and microsimulation. The approach most commonly used is distributional modelling, utilising data derived from microsimulation analysis.

A.1 AGGREGATE MODELLING

This approach involves using information on the aggregate volume of transactions to calculate the value of a particular tax concession. Aggregate modelling is an appropriate approach for measuring tax exemptions or concessions where the impact can be represented as a simple proportion of the total transactions concerned. Data sources suitable for aggregate modelling include national accounts data, trade and production statistics, and aggregates derived from administrative databases (such as taxation records).

Aggregate modelling is used to estimate tax expenditures for fuel excise. Tax expenditures for exemptions or reduced excise rates can be estimated from statistics on the aggregate volume of fuels produced.

A.2 DISTRIBUTIONAL MODELLING

This approach involves using discrete aggregate data to calculate the impact of tax concessions on particular segments of the economy. Distributional modelling is an appropriate approach for measuring concessions that vary according to the characteristics of the taxpayer. Data sources suitable for distributional modelling include survey data and data derived from administrative databases.

Distributional modelling is used to estimate tax expenditures for personal income tax concessions when the cost is related to a taxpayer's taxable income. For these concessions, data on income distribution and tax concessions by grade of taxable income can be used to estimate the cost of tax expenditures for those concessions.

A.3 MICROSIMULATION

This approach involves examining detailed datasets, such as taxpayer records, to determine the value of taxable transactions for each taxpayer. The value of the tax expenditure is the difference between the tax paid on those transactions under the concession and the tax that would have been collected under the benchmark. Microsimulation modelling requires either a comprehensive database of all taxpayers or a detailed sample that can represent the population. The data must provide sufficient detail on the value of transactions affecting the calculation of tax liabilities to allow the required calculations.

Microsimulation modelling is used to estimate tax expenditures that closely target particular taxpayer groups (for instance, benefits subject to detailed eligibility tests) and concessions where the payment rate varies considerably according to taxpayer behaviour or circumstance.

Microsimulation modelling can also be used to derive key information, such as average effective tax rates, which can be used in other models that employ aggregate or distributional modelling. This is appropriate for situations where detailed datasets are not available for all items.

APPENDIX B: AGGREGATED SUPERANNUATION TAX EXPENDITURE

Table B.1 aggregates the estimates tax expenditures related to superannuation. The tax expenditures identified individually in Table B1 should be understood as part of an integrated system. This system is significantly concessional taken as a whole.

The calculation of the estimates requires projections of contributions, earnings and eligible termination payments (ETPs). The estimates use projections of contributions, earnings and payouts. They assume that tax is collected from superannuation funds in the year in which the contributions and earnings occur.

There have been significant increases in the estimates of the superannuation tax expenditures since the 2006 TES, mainly due to:

- Increases in the base data used to estimate the superannuation tax expenditures;
- An expansion in the scope of the estimates; and
- Revised methodology.

Table B1: Aggregated tax expenditures for funded superannuation(a)(b)

		2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
		$m	$m	$m	$m	$m	$m	$m	$m
Costs									
C4	Capital gains tax discounts for funds	95	420	1,100	1,550	1,550	1,450	1,550	1,650
C5	Concessional taxation of employer contributions(c)	8,100	7,900	9,500	9,400	10,150	10,850	11,550	12,250
C6	Concessional taxation of superannuation entity earnings	5,400	8,600	11,850	12,750	13,600	13,700	14,900	16,150
C8	Concessional taxation of certain personal deductions	260	370	380	790	780	880	980	1,150
C9	Measures for low-income earners(d)	6	80	260	510	300	310	300	340
C10	Spouse contribution offset	12	13	15	15	15	16	16	17
Sub-total		13,875	17,385	23,105	25,015	26,395	27,205	29,295	31,555
Less offsets									
C11	Tax on excess non-concessional contributions	*	*	*	*	*	*	*	*
C12	Tax on funded lump sums relating to post-june 1983 service	-160	-160	-170	-160	-140	-130	-130	-130
C13	Tax on funded lump sums relating to pre-july 1983 service	-25	-30	-30	-30	0	0	0	0
C14	Tax on funded superannuation income streams(e)	*	*	*	*	*	*	*	*
C19	Temporary residents' superannuation	0	0	0	0	0	-220	-415	-290
Sub-total		-185	-190	-200	-190	-140	-350	-545	-420
Total tax expenditures		**13,690**	**17,195**	**22,905**	**24,825**	**26,255**	**26,855**	**28,750**	**31,135**

(a) The concessional taxation of unfunded superannuation (C7) and the concessional treatment of non-superannuation termination benefits (C3) are reported as separate tax expenditures and are not included in this table.
(b) Totals may not sum due to rounding.
(c) Includes the revenue impact of the surcharge on superannuation contributions for high income earners which applied to some contributions for 2004-05 and earlier years.
(d) From 2003-04 the line shows the impact of the government co-contribution being untaxed.
(e) Indeterminate, but likely to be small or insignificant.

GLOSSARY

ATO	Australian Taxation Office
CFC	Controlled foreign company
CGT	Capital gains tax
CSS	Commonwealth Superannuation Scheme
FBT	Fringe benefits tax
FMD	Farm management deposit
FTB	Family Tax Benefit
GDP	Gross domestic product
GST	Goods and services tax
HECS	Higher Education Contribution Scheme
HELP	Higher Education Loans Program
MYEFO	Mid-Year Economic and Fiscal Outlook
OECD	Organisation for Economic Co-operation and Development
PEFO	Pre-election Economic and Fiscal Outlook
PRRT	Petroleum resource rent tax
PSS	Public sector superannuation
R&D	Research and development
SATO	Senior Australians' Tax Offset
TES	Tax Expenditures Statement
WET	Wine equalisation tax

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