

Attachment C

TAX EXPENDITURES

This attachment provides an overview of the cost of Australian Government tax expenditures, as required by the *Charter of Budget Honesty Act 1998*.

A tax expenditure arises where the actual tax treatment of an activity or class of taxpayer differs from the benchmark tax treatment. Tax expenditures typically involve tax exemptions, deductions or offsets, concessional tax rates or deferrals of tax liability.

Benchmarks represent the standard taxation treatment that applies to similar taxpayers or types of activity. Benchmarks may also incorporate structural elements of the tax system; for example, the progressive income tax rate scale for individual taxpayers.

Determining benchmarks involves judgment and consequently, the choice of benchmark may be contentious. Benchmarks may also vary over time. The choice of benchmark should not be interpreted as indicating a view on how an activity or class of taxpayer ought to be taxed.

Consistent with most OECD countries, estimates of the size of tax expenditures reflect the existing utilisation of a tax expenditure, similar to Budget estimates of outlays on demand-driven expenditure programmes. Estimates do not indicate the Budget impact if a tax expenditure were to be abolished.

Care needs to be taken when comparing tax expenditures with direct expenditures as they may measure different things. In addition, estimates from different editions of the TES should not be compared because, for example, benchmarks may have changed.

The information in Table 3.21 is derived from the 2013 Tax Expenditures Statement (TES) and, consistent with longstanding practice, does not include the impact of decisions taken since the 2013-14 MYEFO. Further information on tax expenditures is available in the 2013 TES. Updated tax expenditure estimates will be published in the 2014 TES, to be released in January 2015. This will include estimates for any new or modified tax expenditures since the 2013 TES.

Table 3.21: Large measured tax expenditures for 2014-15 to 2017-18

Tax expenditure	Estimate \$m				
	2014-15	2015-16	2016-17	2017-18	
Large positive tax expenditures					
C6	Superannuation — concessional taxation of superannuation entity earnings	18,450	21,700	24,100	26,950
C5	Superannuation — concessional taxation of employer contributions	17,800	19,150	20,700	22,300
E6	Capital gains tax main residence exemption — discount component	17,500	17,500	17,500	18,000
E5	Capital gains tax main residence exemption	14,000	14,000	14,500	14,500
H29	GST — Food; uncooked, not prepared, not for consumption on premises of sale and some beverages	6,500	6,800	7,100	7,400
E16	Capital gains tax discount for individuals and trusts	5,410	6,970	7,640	8,310
H16	GST — Education	4,050	4,400	4,850	5,300
H19	GST — Health; medical and health services	3,600	3,900	4,150	4,450
H2	GST — Financial Supplies; input taxed treatment	3,450	3,650	3,850	4,050
A42	Exemption of Family Tax Benefit, Parts A and B	2,180	2,240	2,290	2,350
B16	Exemption from interest withholding tax on certain securities	1,820	1,820	1,820	1,820
C3	Concessional taxation of non-superannuation termination benefits	1,800	1,750	1,750	1,750
B88	Statutory effective life caps	1,795	1,780	1,705	1,605
A19	Exemption from the Medicare levy for residents with a taxable income below a threshold	1,790	1,960	2,040	2,120
A20	Exemption of the private health insurance rebate, including expense equivalent	1,510	1,600	1,650	1,690
Large negative tax expenditures					
F25	Customs duty	-2,870	-2,750	-2,900	-3,050
F12	Higher rate of excise levied on cigarettes not exceeding 0.8 grams of tobacco	-2,120	-2,465	-2,885	-3,055