

## **TAX EXPENDITURES**

This attachment provides information on Australian Government tax expenditures, as required by the *Charter of Budget Honesty Act 1998 (CBHA)*.

Tax expenditure estimates should be interpreted with caution as they do not indicate the revenue gain to the Budget if tax expenditures were to be abolished. In addition, the characterisation of a provision of the tax law as a tax expenditure does not indicate a view on how an activity or class of taxpayer ought to be taxed.

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 and deferrals of tax liability. A positive tax expenditure reduces tax payable relative to the benchmark. A negative tax expenditure increases tax payable relative to the benchmark. Benchmarks represent a standard taxation treatment that applies to similar taxpayers or types of activity. The choice of benchmark unavoidably involves judgment and may therefore be contentious in some cases.

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.

- This is known as the 'revenue forgone' approach which, in practice, involves estimating the difference in revenue between the existing and benchmark tax treatments but importantly assuming taxpayer behaviour is the same in each circumstance.

Revenue forgone estimates therefore do not indicate the revenue gain to the Australian Government budget if specific tax expenditures were abolished, as there may be significant changes in taxpayer behaviour were tax expenditures to be removed.

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 Tax Expenditures Statement (TES) may not be comparable because of changes or modifications, for example, to benchmarks, tax expenditures, data used or modelling methodology.

The information in Table 3.19 is derived from the 2015 TES and, consistent with longstanding practice, does not include the impact of decisions taken since the 2015-16 MYEFO. Further information on tax expenditures is available in the 2015 TES. Updated tax expenditure estimates will be published in the 2016 TES, to be released in January 2017. This will also include estimates for any new or modified tax expenditures since the 2015 TES.

**Table 3.19: Large measured tax expenditures for 2016-17 to 2019-20**

Tax expenditure	Estimate \$m				
	2016-17	2017-18	2018-19	2019-20	
<b>Large positive tax expenditures</b>					
E6	Capital gains tax main residence exemption — discount component	30,000	30,500	30,500	30,500
E5	Capital gains tax main residence exemption	24,500	25,000	25,000	25,000
C3	Concessional taxation of employer superannuation contributions	16,200	16,850	18,750	19,900
C6	Concessional taxation of superannuation entity earnings	14,100	15,350	18,050	20,850
H28	GST — Food	7,000	7,300	7,600	8,000
E11	Capital gains tax discount for individuals and trusts	6,840	7,600	8,570	9,090
H16	GST — Education	4,550	4,950	5,350	5,800
H19	GST — Health — medical and health services	4,000	4,250	4,550	4,900
H2	GST — Financial supplies — input taxed treatment	3,450	3,650	3,850	4,050
A35	Exemption of Family Tax Benefit payments	2,220	2,220	2,230	2,180
C5	Concessional taxation of non-superannuation termination benefits	1,950	1,900	1,900	1,900
A19	Medicare levy exemption for residents with taxable income below the low-income thresholds	1,960	2,040	2,130	2,230
B13	Exemption from interest withholding tax on certain securities	1,730	1,730	1,730	1,730
A17	Exemption of the Private Health Insurance Rebate	1,610	1,690	1,770	1,910
D10	Exemption for public and not-for-profit hospitals and public ambulance services	1,550	1,650	1,750	1,850
D14	Exemption for public benevolent institutions (excluding public and not-for-profit hospitals)	1,500	1,600	1,650	1,700
A24	Exemption of Child Care Assistance payments	1,550	2,185	2,210	2,240
H5	GST — Child care services	1,390	1,670	1,840	2,020
A49	Philanthropy — deduction for gifts to deductible gift recipients	1,230	1,280	1,330	1,370
F7	Concessional rate of excise levied on aviation gasoline and aviation turbine fuel	1,240	1,310	1,390	1,460
H20	GST — Health — residential care, community care and other care services	1,180	1,260	1,350	1,450
B73	Capital works expenditure deduction	1,035	1,070	1,105	1,145
H6	GST — Water, sewerage and drainage	1,040	1,140	1,240	1,360
B78	Research and development — non-refundable tax offset	850	860	850	850
<b>Large negative tax expenditures</b>					
F11	Higher rate of excise levied on cigarettes not exceeding 0.8 grams of tobacco	-2,140	-2,235	-2,290	-2,375
F23	Customs duty	-1,620	-1,340	-1,450	-1,540