

Appendix D: Tax Expenditures

This appendix contains an overview of Australian Government tax expenditures. Section 12 of the *Charter of Budget Honesty Act 1998* requires the publication of an overview of estimated tax expenditures.

The Tax Expenditures and Insights Statement (TEIS) provides an estimate of the revenue forgone from tax expenditures, along with distributional analysis on large tax expenditures and commonly utilised features of the tax system.

Tax benchmarks represent a standard tax treatment that applies to similar taxpayers or types of activities. Policy approaches can apply a tax treatment different from a standard approach, which can give rise to positive or negative tax expenditures. The choice of benchmark unavoidably involves some judgment.

Consistent with most OECD countries, estimates of tax expenditures reflect the extent to which they are used, similar to Budget estimates of outlays on demand-driven expenditure programs. This is known as the ‘revenue forgone’ approach which, in practice, involves estimating the difference in revenue between the actual 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 Budget if a specific tax expenditure was abolished through policy change, as there may be significant changes in taxpayer behaviour.

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 previously released Statements are generally not directly comparable, because of changes or modifications to – for example – benchmarks, individual tax expenditures, data used or modelling methodology.

Table D.1 lists the largest measured tax expenditures for 2025–26 and several personal deduction categories. It is based on economic parameters as at the publication of MYEFO. The items in the deductions category are not tax expenditures so they do not result in forgone revenue against the benchmark. However, the difference between tax paid with the deduction and tax that would have been paid if the deduction was not claimed has been included in Table D.1 for comparison purposes. The TEIS is not a statement of policy intent.

Table D.1: Estimates of large measured tax expenditures and deductions

Tax type affected	Code	Title	Revenue forgone 2025-26 (\$m)*	Average growth 2021-22 to 2024-25 (%)	Average projected growth over FEs (%)
Positive tax expenditures and deductions					
CGT	E8	Main residence exemption – discount component	32,000	10.3	10.5
Super	C2	Concessional taxation of employer superannuation contributions	29,450	8.2	6.2
Deductions		Rental deductions	29,200	18.0	5.2
CGT	E7	Main residence exemption	28,000	11.3	10.1
Super	C4	Concessional taxation of superannuation earnings	25,950	3.5	5.3
CGT	E15	Discount for individuals and trusts	21,790	8.1	0.8
Deductions		Work-related expenses	12,400	8.7	5.8
Income	A25	Exemption for National Disability Insurance Scheme amounts	12,180	30.0	7.6
GST	H25	Food	9,900	5.0	4.2
GST	H17	Health – medical and health services	6,750	11.1	6.8
Income	A26	Exemption of Child Care Assistance payments	4,600	19.5	5.6
GST	H14	Education	4,450	8.5	7.1
GST	H2	Financial supplies – input taxed treatment	3,800	7.4	4.5
Income	B61	Lower tax rate for small companies	3,800	-1.9	4.1
FBT	D15	Exemption for public benevolent institutions (excluding hospitals)	3,150	9.3	5.4
Income	A23	Concessional taxation of non-superannuation termination benefits	3,100	18.8	N/A
Income	A20	Medicare levy exemption for residents with taxable income below the low-income thresholds	3,050	6.1	0.0
Income	B11	Exemption from interest withholding tax on certain securities	3,000	16.8	-1.0
Income	A37	Exemption of certain income support benefits, pensions or allowances	2,800	15.9	4.0
Super	C3	Concessional taxation of personal superannuation contributions	2,750	17.7	1.6
GST	H5	Child care services	2,570	10.3	4.6
Super	C1	Concessional taxation of capital gains for superannuation funds	2,550	0.0	4.8
Super	C6	Deductibility of life and total and permanent disability insurance premiums provided inside of superannuation	2,450	3.7	6.3
Income	A39	Exemptions of certain veterans' pensions, allowances or benefits, compensation, and particular World War II-related payments for persecution	2,230	31.8	-4.8
Income	B1	Local government bodies income tax exemption	2,090	3.1	1.3

Table D.1: Estimates of large measured tax expenditures and deductions (continued)

Tax type affected	Code	Title	Revenue forgone 2025-26 (\$m)*	Average growth 2021-22 to 2024-25 (%)	Average projected growth over FEs (%)
Income	A31	Seniors and pensioners tax offset	2,050	60.4	4.9
Income	B12	Exemption of inbound non-portfolio distributions from income tax	1,980	-6.3	0.0
FBT	D11	Exemption for public and not-for-profit hospitals and public ambulance services	1,900	3.9	3.8
Income	A38	Exemption of Family Tax Benefit payments	1,860	8.4	2.4
Other	F6	Concessional rate of excise levied on aviation gasoline and aviation turbine fuel	1,820	21.9	6.5
GST	H18	Health – residential care, community care and other care services	1,810	7.2	6.8
Deductions		Cost of managing tax affairs and other deductions	1,700	10.7	1.3
Income	A18	Exemption of the Private Health Insurance Rebate	1,550	3.2	1.5
Income	A56	Philanthropy – deduction for gifts to deductible gift recipients	1,400	-4.3	4.3
GST	H6	Water, sewerage and drainage	1,380	6.2	3.7
Income	B81	Capital works expenditure deduction	1,380	3.5	2.6
FBT	D33	Exemption for Electric Vehicles	1,350	N/A	29.4
FBT	D21	Application of statutory formula to value car benefits	1,300	10.1	0.0
Super	C12	Exemption for small business assets held for more than 15 years	1,190	14.9	-2.0
CGT	E32	Small business 50 per cent reduction	1,180	9.0	-1.0
Negative tax expenditures and deductions					
Income	B80	Accelerated depreciation for business entities	-6,500	N/A	-24.0
Income	B86	Simplified depreciation rules	-5,200	N/A	-25.7
Other	F21	Customs duty	-2,030	0.8	-13.2
Income	A21	Medicare levy surcharge	-1,150	18.6	-1.1
Other	F5	Luxury car tax	-1,130	4.2	4.8
Super	C11	Tax on funded superannuation lump sums	-1,050	21.8	2.8
* For deductions, 'Revenue forgone' refers to the reduction in tax in relation to the specified income year due to the utilisation of deductions.					