

## Appendix D: Tax Expenditures

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

The Government published an enhanced Tax Expenditures and Insights Statement (TEIS) on 28 February 2023. The 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 2022–23 and several personal deduction categories. It is derived from the 2022–23 TEIS and is based on economic parameters as at the publication of the 2022–23 October Budget. It does not include the impact of policy decisions, or changes in the economic outlook since then on tax expenditures. The TEIS is not a statement of policy intent.

The 2022–23 TEIS also contains distributional analysis on some features of the tax system, including deductions for individuals. 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.

Further information on tax expenditures for 2023–24 will be available in the next TEIS, scheduled to be published in January 2024.

**Table D.1: Estimates of large measured tax expenditures and features of the tax system**

Benchmark	Code	Title	Revenue forgone/ value of deduction 2022-23 (\$m)	Average growth 2018-19 to 2021-22 (%)	Average growth over FEs (%)
<b>Positive tax expenditures and deductions</b>					
CGT	E8	Main residence exemption – discount component	26,000	15.1	-8.9
Deductions		Rental deductions	24,400	-2.5	9.4
CGT	E15	Discount for individuals and trusts	23,690	16.3	-11.9
Super	C2	Concessional taxation of employer superannuation contributions	23,300	6.6	3.2
CGT	E7	Main residence exemption	22,000	14.5	-8.4
Super	C4	Concessional taxation of superannuation entity earnings	21,500	-0.9	1.5
Deductions		Work related expenses	9,900	4.4	3.4
GST	H26	Food	8,400	3.5	3.8
Income	A25	Exemption for National Disability Insurance Scheme amounts	8,080	58.7	19.2
Income	B69	Accelerated depreciation for business entities	7,800	N/A	N/A
GST	H14	Education	5,850	6.5	4.6
GST	H17	Health – medical and health services	5,000	2.3	7.0
Income	B85	Simplified depreciation rules	4,800	117.5	N/A
GST	H2	Financial supplies – input taxed treatment	4,650	-1.7	7.5
Income	B59	Lower company tax rate	3,600	52.5	-1.3
Income	A26	Exemption of Child Care Assistance payments	2,900	8.2	8.9
Income	B11	Exemption from interest withholding tax on certain securities	2,520	-5.4	0.5
FBT	D15	Exemption for public benevolent institutions (excluding hospitals)	2,450	6.7	3.2
Super	C6	Deductibility of life and total and permanent disability insurance premiums provided inside of superannuation	2,380	-3.2	4.3
Income	A19	Medicare levy exemption for residents with taxable income below the low-income thresholds	2,050	1.7	1.2
FBT	D11	Exemption for public and not-for-profit hospitals and public ambulance services	2,000	3.9	2.0
Income	A38	Exemption of Family Tax Benefit payments	1,790	-4.9	6.0
Income	B1	Local government bodies income tax exemption	1,770	1.8	1.1
GST	H5	Child care services	1,710	6.6	8.0
GST	H18	Health – residential care, community care and other care services	1,600	5.7	6.9

**Table D.1: Estimates of large measured tax expenditures and features of the tax system (continued)**

Benchmark	Code	Title	Revenue forgone/ value of deduction 2022-23 (\$m)	Average growth 2018-19 to 2021-22 (%)	Average growth over FEs (%)
Deductions		Cost of managing tax affairs and other deductions	1,600	2.3	3.2
Super	C3	Concessional taxation of personal superannuation contributions	1,550	25.0	-8.3
Income	A23	Concessional taxation of non-superannuation termination benefits	1,550	-9.1	N/A
Income	A17	Exemption of the Private Health Insurance Rebate	1,500	-2.8	1.5
Income	B23	Temporary loss carry-back for certain incorporated entities	1,480	N/A	N/A
Income	A56	Philanthropy – deduction for gifts to deductible gift recipients	1,405	2.6	-1.0
Super	C1	Concessional taxation of capital gains for superannuation funds	1,350	18.9	-8.8
Income	B80	Capital works expenditure deduction	1,270	1.3	-1.4
Income	A37	Exemption of certain income support benefits, pensions or allowances	1,260	6.5	0.0
Other	F6	Concessional rate of excise levied on aviation gasoline and aviation turbine fuel	1,190	-10.2	7.9
GST	H3	Financial supplies – reduced input tax credits	1,150	0.0	6.8
GST	H6	Water, sewerage and drainage	1,130	1.5	2.4
Income	B12	Exemption of inbound non-portfolio dividends from income tax	1,010	18.4	0.8
<b>Negative tax expenditures</b>					
Other	F21	Customs duty	-2,070	-0.5	-14.9
Other	F4	Luxury car tax	-1,120	11.9	-0.9