

**TAX EXPENDITURES
AND INSIGHTS STATEMENT**

FEBRUARY 2023

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CHAPTER 1: INTRODUCTION

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

Transparent reporting of tax expenditures and other aspects of the tax system provides a more complete picture of the impact of government policies on individuals, households and business, and any revenue forgone. The TEIS reports information about revenue the Government does not collect through tax expenditures such as:

- Concessional rates that reduce the rate of tax that applies to certain groups or types of incomes
- Exemptions that exclude certain groups from paying tax on income they receive
- Allowances, credits or rebates that either deduct amounts of income from the tax base or refund a portion of taxes already paid
- Tax deferrals that postpone paying of taxes until a later date.

A table of all tax expenditures and estimates of their revenue forgone can be found in Appendix A.1.

Distributional analysis is presented for large expenditures and aspects of the personal income tax system that form part of many taxpayers' affairs, where reliable data is available. This information enables comparison of the groups which utilise these features including by level of income, gender, age and industry where relevant and where data is available.

Future publications will build on this analysis and continue to improve the information about common features of the tax system.

The TEIS supplements other Government publications by providing information on Australian Government tax expenditures as required by Section 16 of the *Charter of Budget Honesty Act 1998* and reflects policy up to and including the *2022-23 October Budget*.

The TEIS is not a statement of policy intent. The information and analysis presented is intended to increase transparency about the impacts of tax expenditures and other features of the tax system.

1.1 What is a tax expenditure?

A tax expenditure arises where the tax treatment of a class of taxpayer or an activity differs from the standard tax treatment (tax benchmark) that would otherwise apply. Tax expenditures can include tax exemptions, some deductions, rebates and offsets, concessional or higher tax rates applying to a specific class of taxpayers, and deferrals of tax liability.

The tax benchmarks used in the TEIS have been chosen in a way that attempts to apply a consistent tax treatment to similar taxpayers and similar activities, consistent with past Tax Expenditures Statements. The benchmarks aim to incorporate a comprehensive definition of income and taxable activity, and typically include the current rates of tax generally applied to that activity, including progressive marginal tax rates.

The choice of tax benchmarks are informed by long-standing features of the tax system, practice in tax expenditure publications in other jurisdictions and consultation with stakeholders. The tax benchmark should not be interpreted as an indication of the way activities or taxpayers ought to be taxed. A different choice of benchmark may result in significantly different estimates of the size and distributional impact of tax expenditures.¹

Detailed information on the tax benchmarks used in the TEIS is in Appendix A.2.

1.2 How are tax expenditures estimated?

The estimates included in this TEIS are provided on a 'revenue forgone' basis. This is consistent with the approach taken by most OECD countries in their equivalent publications.

Revenue forgone estimates reflect the existing utilisation of a tax expenditure and do not incorporate any behavioural response which might result from a change in or removal of the existing tax treatment. They measure the difference in revenue between the existing treatment and benchmark tax treatment, assuming taxpayer behaviour is the same and the existing tax treatment is removed entirely. A positive tax expenditure reduces tax payable relative to the benchmark. A negative tax expenditure increases tax payable relative to the benchmark.

Revenue forgone estimates are not estimates of the revenue impact if the tax expenditure was to be removed. In practice, taxpayers would alter their behaviour in response to the change of a policy.

1 Previous publications have explored alternative benchmarks for tax expenditures relating to the taxation of superannuation, alcohol and owner-occupied housing.

In many cases, an expenditure would be replaced or substituted with an alternative policy that is designed to achieve a similar objective, reducing the net impact.

Please note the following regarding revenue forgone estimates:

- readers should exercise care if adding tax expenditures, as changes to one may affect the utilisation of others
- estimates of the same tax expenditure may not be directly comparable to previous publications because they can be affected by changes in policy, economic parameters, benchmarks, modelling methodology, data or assumptions
- readers should exercise care when comparing tax expenditure estimates with direct expenditure estimates
- the reliability of the estimates varies, with many estimates being only broadly indicative of the magnitude of the tax expenditure
- some estimates are unquantifiable due to insufficient data, in these cases qualitative information is provided
- estimates are prepared on an accrual basis and are provided in nominal dollars.

Alternative approaches to estimating tax expenditures include the 'revenue gain' approach, which attempts to account for expected changes in taxpayer behaviour and the 'outlay equivalent' approach, which estimates the equivalent expense payment to generate the same after-tax outcome.

1.3 Large tax expenditures and other features of the tax system

Table 1.1 lists the largest measured tax expenditures for 2022–23 and three personal deduction categories.²

Large tax expenditures are presented with the main tax type that they affect, which include:

- Income – personal and business income taxes
- CGT – capital gains tax component of income tax
- Super – superannuation income tax
- GST – goods and services tax
- FBT – fringe benefits tax
- Other – indirect taxes excluding GST.

The estimated cost of tax expenditures changes from year to year due to changes in policy as well as changes in economic conditions and other parameters. This can result in large differences between publications in the estimated cost of concessions.

Some large tax benchmarks are very sensitive to changes in the underlying data or economic parameters—for instance, for tax expenditures relating to the exemption of NDIS payments from income tax, the CGT discount for individuals, and the CGT main residence exemption.

In addition to the analysis of tax expenditures, distributional analysis has also been presented on aspects of the personal tax system. These include deductions, trust distributions and franking credits.

These aspects form part of many taxpayers’ affairs, and are incorporated into the benchmark used to estimate tax expenditures. This analysis provides additional information, transparency and context about the operation of Australia’s personal income tax system and will be built on in future TEISs.

² Tax expenditures with estimates of revenue forgone greater than \$500 million in 2023-23 are included in the table, as are negative tax expenditures (provisions which increase tax payable) with an estimated positive revenue impact greater than \$500 million in 2023-23.

Table 1.1 Large tax expenditures and deductions by revenue forgone 2022–23

Tax type affected	Code	Title	Distributional analysis included	Revenue forgone 2022-23 (\$m)*	Average growth 2018-19 to 2021-22 (%)	Average projected growth over FEs (%)
Positive tax expenditures and deductions						
CGT	E8	Main residence exemption – discount component		26,000	15.1	-8.9
Deductions		Rental deductions	Y	24,400	-2.5	9.4
CGT	E15	Discount for individuals and trusts	Y	23,690	16.3	-11.9
Super	C2	Concessional taxation of employer superannuation contributions	Y	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	Y	21,500	-0.9	1.5
Deductions		Work-related expenses	Y	9,900	4.4	3.4
GST	H26	Food	Y	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	Y	5,850	6.5	4.6
GST	H17	Health – medical and health services	Y	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 tax rate for small companies	Y	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	Y	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	Y	1,710	6.6	8.0

* For deductions, Revenue forgone refers to the reduction in tax in relation to the specified income year due to the utilisation of deductions.

Table 1.1 Large tax expenditures and deductions by revenue forgone 2022–23 (continued)

Tax type affected	Code	Title	Distributional analysis included	Revenue forgone 2022-23 (\$m)*	Average growth 2018-19 to 2021-22 (%)	Average projected growth over FEs (%)
GST	H18	Health – residential care, community care and other care services	Y	1,600	5.7	6.9
Deductions		Cost of managing tax affairs and other deductions	Y	1,600	2.3	3.2
Super	C3	Concessional taxation of personal superannuation contributions	Y	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	Y	1,405	2.6	-1.0
Super	C1	Concessional taxation of capital gains for superannuation funds	Y	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	Y	1,130	1.5	2.4
Income	B12	Exemption of inbound non-portfolio dividends from income tax		1,010	18.4	0.8
CGT	E31	Small business 50 per cent reduction		930	1.9	0.0
Income	B5	Reduced withholding tax under international tax treaties		880	-3.5	11.5
Income	A39	Exemptions of certain veterans' pensions, allowances or benefits, compensation, and particular World War II-related payments for persecution		870	1.6	-2.1
Income	A31	Seniors and pensioners tax offset	Y	860	-15.3	16.7
FBT	D21	Application of statutory formula to value car benefits		840	-6.0	-2.5
Super	C12	Exemption for small business assets held for more than 15 years		750	13.0	0.0
Income	B68	Unincorporated small business tax discount	Y	730	11.9	4.5
Super	C5	Concessional taxation of unfunded superannuation		710	6.5	5.1
Income	B22	Tax exemption for assistance provided through the 'boosting cash flow for employers' measure		660	N/A	N/A

* For deductions, *Revenue forgone* refers to the reduction in tax in relation to the specified income year due to the utilisation of deductions.

Table 1.1 Large tax expenditures and deductions by revenue forgone 2022–23 (continued)

Tax type affected	Code	Title	Distributional analysis included	Revenue forgone 2022-23 (\$m)*	Average growth 2018-19 to 2021-22 (%)	Average projected growth over FEs (%)
GST	H15	Health – drugs and medicinal preparations	Y	640	5.1	7.0
Income	B89	International tax – concessional rate of final withholding tax on certain distributions by Australian managed investment trusts to foreign residents		570	2.9	0.5
Super	C7	Small business capital gains retirement exemption		570	3.2	-0.4
FBT	D9	Exemption for health care benefits provided to members of the Defence Force		540	-6.0	1.5
Income	B84	Research and development – non-refundable tax offset	Y	530	-6.9	7.9
Negative tax expenditures						
Other	F21	Customs duty		-2,070	-0.5	-14.9
Other	F4	Luxury car tax		-1,120	11.9	-0.9
Other	F10	Higher rate of excise levied on cigarettes not exceeding 0.8 grams of tobacco		-885	-16.2	1.5
Income	A20	Medicare levy surcharge	Y	-840	21.4	9.6
Super	C11	Tax on funded superannuation lump sums		-590	0.0	5.9

* For deductions, *Revenue forgone* refers to the reduction in tax in relation to the specified income year due to the utilisation of deductions.

CHAPTER 2: DISTRIBUTIONAL ANALYSIS

2.1 Guide to interpreting distributional analysis

This chapter presents the distributional impact of large tax expenditures, showing which individuals, households or businesses benefit from tax expenditures, across characteristics including level of income, age, gender, and industry where relevant and where reliable information is available. Future releases of the TEIS will look to expand this analysis by including additional expenditures and distributional analysis by geographical region such as by State and Territory, and by urban and regional area.

The subsections of this chapter have been ordered by size of tax expenditure as shown in Table 1.1 (descending), followed by the additional analysis of some other features of the tax system.³

The distributional analysis of tax expenditures follows the same structure and provides the following information:

1. A shaded description of the tax expenditure and estimates of its value.
2. Analysis of the number of people, households or businesses that benefit from the tax expenditure. The recipients are grouped based on their income decile or business turnover.
3. For tax expenditures that affect individuals, additional information is presented showing the average benefit, number of recipients and share of total benefit by gender.
4. Additional analysis showing the number of recipients and share of total benefit by other characteristics, such as age, family type or industry.

Where relevant, and where reliable information is available, the analysis also includes additional data and observations on the distributional impact of the tax expenditure in the body of the text.

The analysis of personal income deductions is structured similarly using the concept of total tax reduction from utilising the deduction. The distributional analysis of trust distributions to individuals and franking credits received by individuals differs in that

³ Where multiple tax expenditures have been combined for the purposes of distributional analysis, the largest of them (as per Table 1.1) is used for ordering.

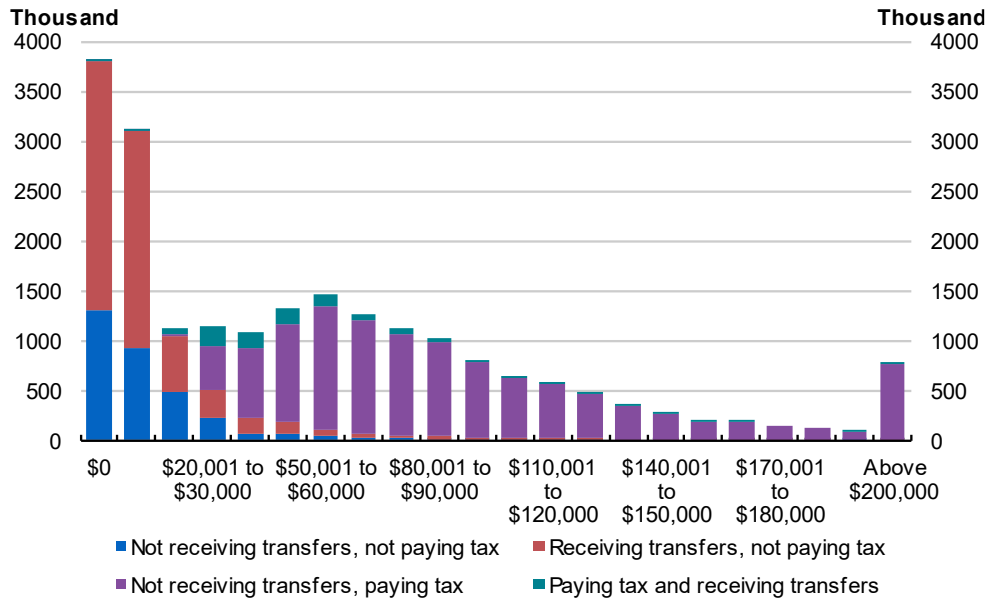
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they focus on the population using these features of the system, rather than the distribution of forgone revenue.

It is important to consider the distributional analysis of tax expenditures in the context of the broader operation of the Australian tax and transfer system.

- The distribution of many personal income tax expenditures by income, gender and age reflects the underlying distribution of taxable income and tax paid.
 - Taxable income is defined as tax-assessable income less deductions. Under Australia’s tax system, higher taxable income earners have higher average tax rates than lower taxable income earners. Some taxpayers have high tax-assessable incomes, but after claiming their deductions have low taxable incomes.
 - In 2019–20, the average taxable income of those in the highest income decile was \$215,900, compared to \$3,700 for the lowest income decile (excluding those with negative income). In 2019–20, the average taxable income of women was \$52,600, while the average for men was \$74,000.
- Looking at the distribution of tax expenditures in a single year creates a partial picture of government support.
 - Many households also benefit from assistance provided through the transfer system. For example, most individuals with private (all non-government) income less than \$20,000 pay no tax, and the majority receive transfer payments (Chart 2.1). Support provided through the transfer system may be delivered more efficiently and effectively than support through the tax system for certain cohorts.
- A more complete picture would also consider the lifetime profile of support rather than focusing on a single-year snapshot, as incomes and circumstances are strongly correlated with certain life stages (for example, the Age Pension and Family Tax Benefit).
- Distributional analysis of large tax expenditures affecting companies is presented from the point of view of the recipient company. While the owners of these companies may be the ultimate beneficiaries of any tax expenditures affecting those companies, sufficient data are not available on company ownership to carry out the analysis from the perspective of the owners.

Chart 2.1 Estimated number of individuals aged 15 and over by individual private income, split by whether receiving any transfer payments* and whether paying any tax (2022-23)



* Recipients of transfer payments here include individuals eligible for income support payments, Family Tax Benefit and the Commonwealth Seniors Health Card, but do not include other payments such as Child Care Subsidy or Paid Parental Leave.

Source: Treasury's CAPITA microsimulation model.

Some further information on the distributional analysis follows below.

- Distributional analysis requires more data than aggregate estimates, and so analysis is only presented for tax expenditures where there is comprehensive data of suitable quality. As tax expenditures reflect revenue not collected, some large tax expenditures, including the main residence CGT exemption and accelerated depreciation for businesses, do not currently have suitable disaggregated data to conduct distributional analysis.
- Distributional analysis was conducted consistent with the latest published data:
 - Tax expenditures and aspects of the tax system relating to individuals are based on tax data for around 15 million personal tax filers in 2019–20 (the most recent year where the ATO's comprehensive Taxation Statistics is available). The total tax filer population is benchmarked to meet Treasury's estimate for 2019–20, which incorporates late lodgers.
 - Tax expenditures relating to businesses are based on tax data for around 1.4 million personal and 1 million company tax filers in 2019–20.

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- Tax expenditures affecting the Goods and Services Tax (GST) paid are based on data from the Australian Bureau of Statistics' Household Expenditure Survey, last conducted in 2015–16.
- Some closely related tax expenditures have been combined for brevity, but the estimates remain separate in Appendix A.1.
- The total of revenue forgone implicit in the distributional analysis does not equal the estimates of aggregate revenue forgone for some tax expenditures. This is due to differences in the data used, including data from aggregate sources, and different timing of tax revenue, with distributional analysis showing benefits when tax expenditures are used, rather than when tax would have been paid.
 - For example, in the distributional analysis, the cost of expenditures for income taxes is reported in the year when the income is earned, and not when a taxpayer would lodge a tax return.
- Due to data limitations, individuals who have incomes below the tax-free threshold and who do not lodge tax returns have been excluded from distributional analysis which relates to personal income tax. There is one exception to this:
 - Non-lodgers are included for the distributional analysis of the concessional taxation of superannuation earnings, as non-lodgers are observable in superannuation account data.
- Appendix A.3 provides additional information on the data sources and methodology used for the distributional analysis, including summary statistics on tax filers by income, age, gender and industry.

2.2 Capital gains tax discount for individuals and trusts

Under the benchmark, realised capital gains are generally assessable to taxpayers at their applicable tax rate in the year they arise. Under this tax expenditure (E15), a capital gains tax exemption applies to 50 per cent of any nominal capital gain made by a resident individual or trust where the asset has been owned for at least 12 months.

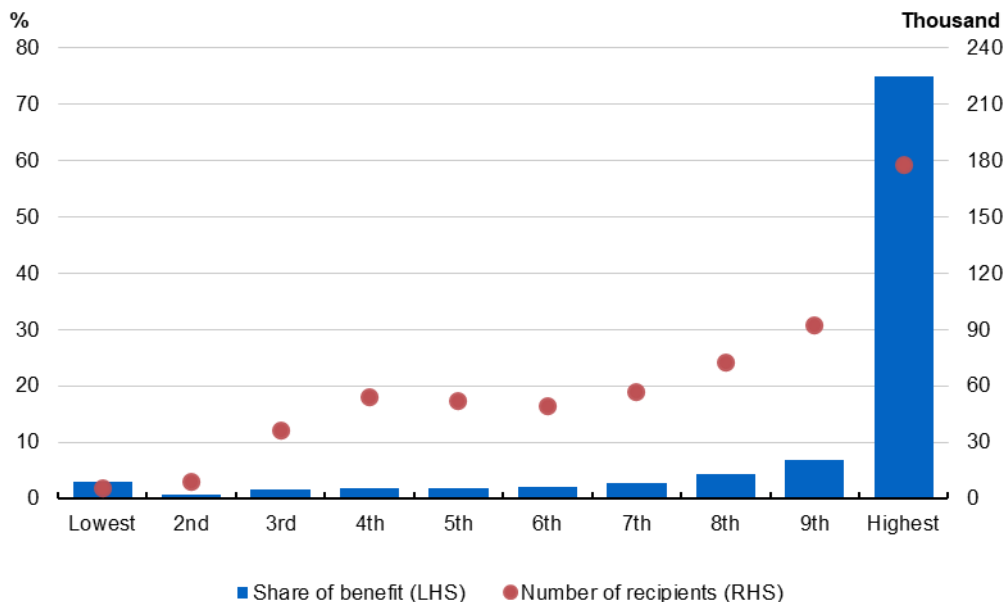
Table 2.1 Estimates of aggregate revenue forgone (\$m)

2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
10,820	9,240	9,240	17,020	23,690	10,510	10,390	10,240

In 2019–20, around 610,000 people benefited from this tax expenditure. Revenue forgone is elevated in 2021–22 and 2022–23 due to higher capital gains realisations for individuals.

Over 1 million individual tax filers realised a capital gain in 2019–20; of those, over half also benefited from the capital gains discount for individuals and trusts. Nearly 91 per cent of the total benefit was received by tax filers with above median taxable income, and 75 per cent by the top 10 per cent of tax filers (Chart 2.2).

Chart 2.2 Share of benefit and recipients by taxable income decile, 2019–20



Source: Treasury

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The substantial share of the benefit that flows to the top decile is due to relatively more individuals receiving capital gains income, higher average capital gains, and a higher marginal tax rate increasing the benefit of the discount. Realising a capital gain contributes to many individuals being captured in the highest decile when they otherwise would not. This effect is moderated by the discount excluding 50 per cent of income from eligible gains from the individuals' total taxable income. In 2019–20 around 14 per cent of individuals who received a benefit and were in the top taxable income decile derived the majority of their taxable income from net capital gains.

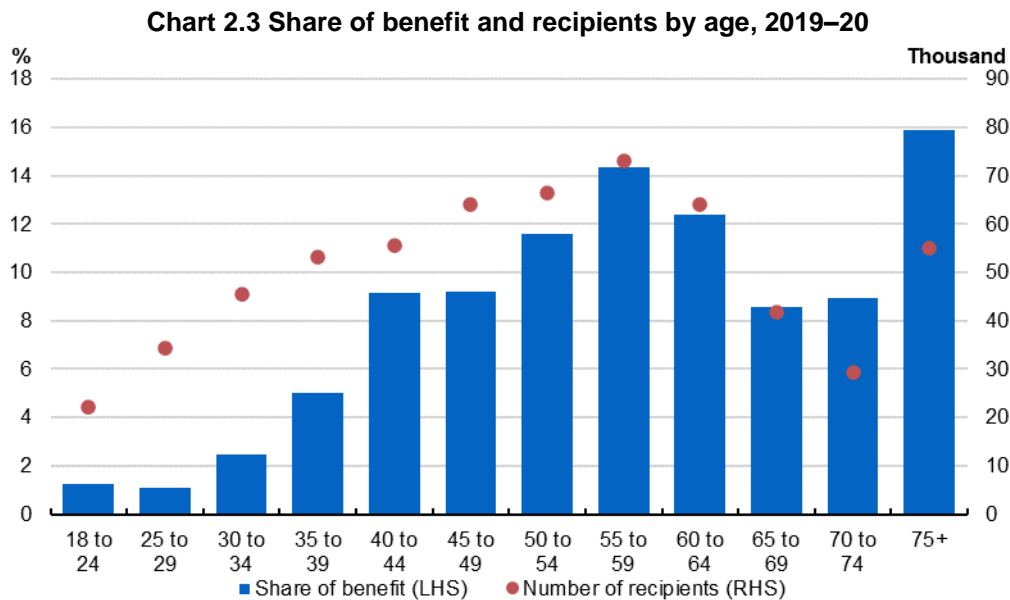
The small bump up in the share of the benefit for those in the lowest taxable income decile is driven by large capital gains realised by a small number of tax filers. These tax filers tend to have losses or deductions, or are eligible for small business capital gains tax (CGT) concessions, which can substantially reduce their taxable income.

Table 2.2 Distributional effect by gender, 2019–20

Gender	Average benefit (\$)	Recipients (million)	Share of total benefit (%)
Men	16,100	0.3	61
Women	11,970	0.3	39
Total	14,200	0.6	100

Men received 61 per cent of the benefit associated with the CGT discount, reflecting the underlying distribution of capital gains income between men and women (Table 2.2).

The share of the benefit from the discount increases with age up to the 55 to 59 age bracket (Chart 2.3). The largest share of the benefit, around 16 per cent, went to those aged 75 and over.



Source: Treasury

2.3 Concessional taxation of superannuation contributions

Under the benchmark, superannuation contributions are included in personal taxable income and taxed at marginal rates. Under these tax expenditures (C2 and C3 combined), employer contributions and personal contributions to superannuation funds are generally taxed at a concessional rate of 15 per cent. For individuals whose combined income and concessional contributions exceed \$250,000, the effective rate on contributions above the threshold is 30 per cent.

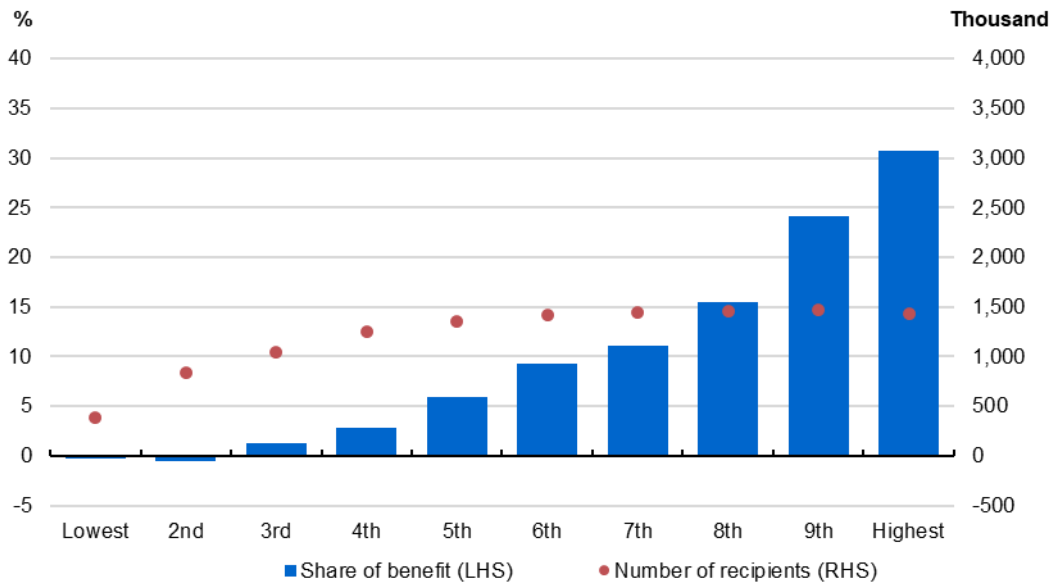
Table 2.3 Combined estimate of aggregate revenue forgone (\$m)

2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
18,950	20,250	20,400	23,500	25,300	27,250	25,600	26,600

In 2019–20, around 12 million people were impacted by these tax expenditures. Most people, but not all, benefited from them.

In 2019–20, 91 per cent of the benefit went to people with above median income, and 30 per cent of the benefit went to people in the top income decile. There are fewer recipients in lower income brackets because government payments, for which compulsory superannuation contributions are not required, are the main source of income for a large proportion of individuals in these deciles (Chart 2.4).

Chart 2.4 Share of benefit and recipients by taxable income decile, 2019–20



Source: Treasury

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The share of the benefit for people in the lowest deciles is negative because on average they face a personal income tax rate that is lower than 15 per cent. This impact may be offset by the low income super tax offset (LISTO), which is not included because it is a direct government expenditure.

People in higher taxable income deciles receive a larger share of the benefit due to making larger contributions and paying higher marginal rates of tax, which makes the flat 15 per cent rate of tax on superannuation contributions more concessional.

Table 2.4 Distributional effect by gender, 2019–20*

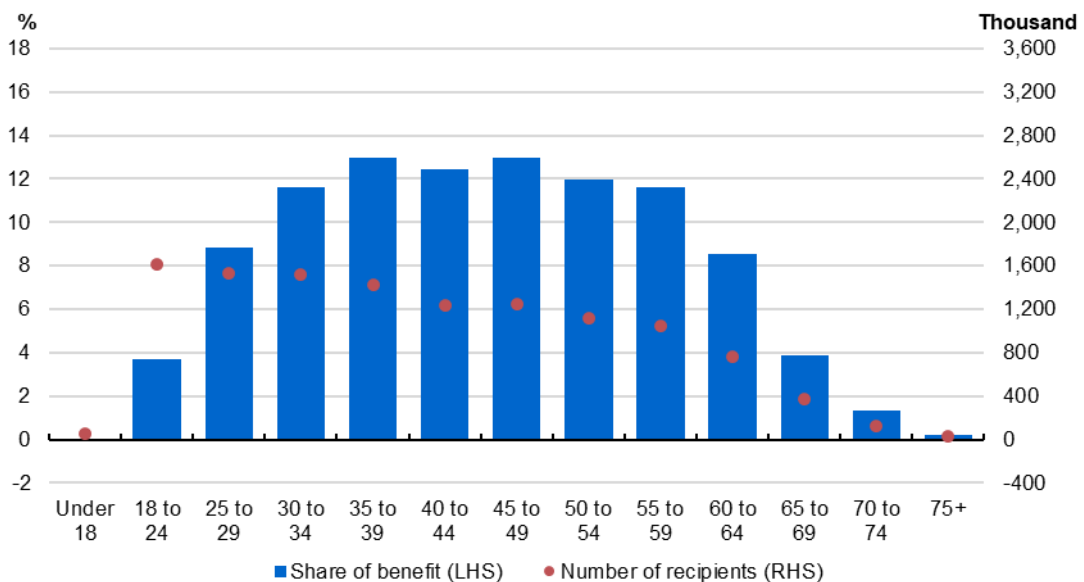
Gender	Average benefit (\$)	Recipients (million)	Share of total benefit (%)
Men	1,950	6.2	59
Women	1,390	6.0	41
Total	1,670	12.1	100

* Totals may not sum due to rounding.

Men received an average benefit of \$1,950 compared to \$1,390 for women (Table 2.4). This reflects men, on average, having higher incomes and making larger superannuation contributions, and facing higher personal income tax rates.

The number of people receiving a benefit from concessional taxation of contributions is much lower at older ages as Australians generally cease making concessional contributions when they reach retirement (Chart 2.5). The share of the benefit is broadly constant for working-age individuals, except younger individuals (particularly those aged between 18-24 and under 18) whose concessional contributions are lower.

Chart 2.5 Share of benefit and recipients by age, 2019–20



Source: Treasury

2.4 Concessional taxation of superannuation earnings

Under the benchmark, superannuation fund earnings are included in personal taxable income and taxed at marginal rates. Under these tax expenditures (C1 and C4 combined), income earned by a superannuation fund is generally taxed at 15 per cent for balances in the accumulation phase, or at an effective 10 per cent rate for nominal capital gains. Income earned in the retirement phase is generally taxed at zero per cent.

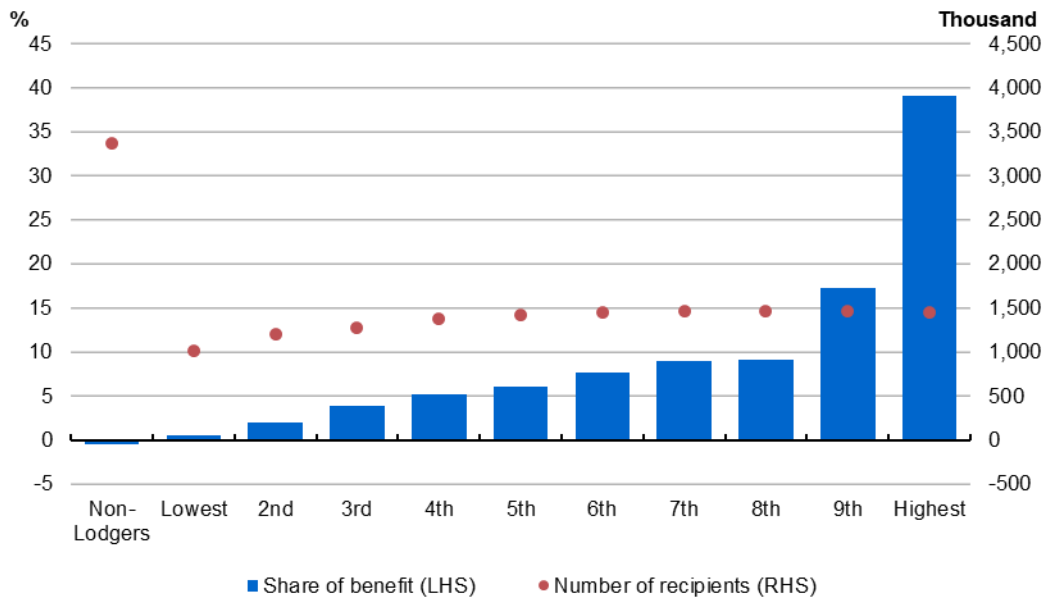
Table 2.5 Combined estimate of aggregate revenue forgone (\$m)

2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
21,000	15,750	15,550	21,300	22,850	21,750	21,250	21,800

In 2019–20, around 17 million people were impacted by these tax expenditures. Most people, but not all, benefited from them.

People with above median income receive 82 per cent of the benefit from the concessional taxation of superannuation earnings, with those in the top income decile receiving 39 per cent of the benefit (Chart 2.6).

Chart 2.6 Share of benefit and recipients by taxable income decile, 2019–20



Source: Treasury

People in higher taxable income deciles receive a larger share of the benefit due to having larger superannuation balances and paying higher marginal tax rates, which

makes the flat rate of tax on superannuation earnings more concessional. The share of the benefit for people in the lowest income decile, along with people who have not lodged personal income tax returns, are close to zero because on average they face a marginal personal income tax rate that is close to 15 per cent.

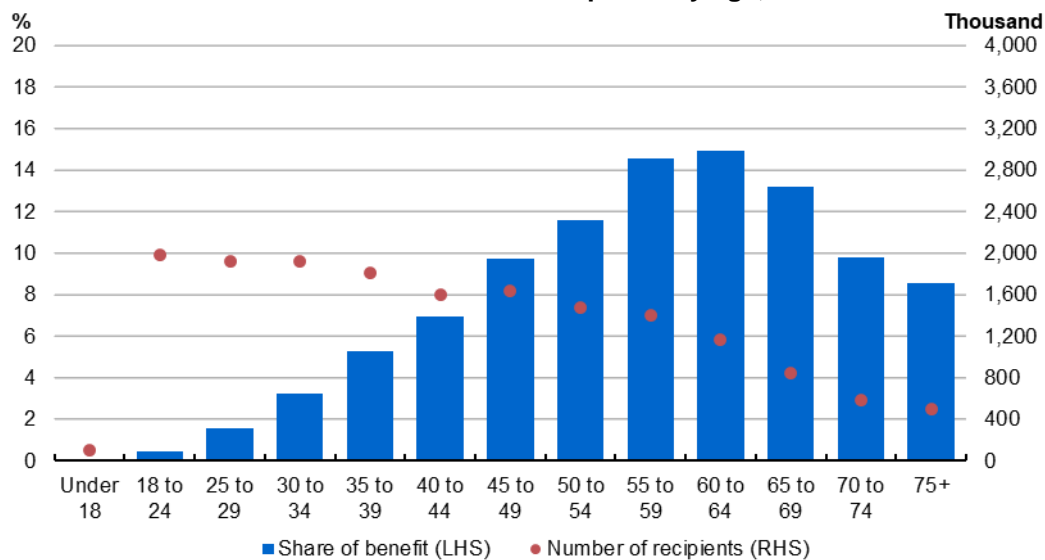
Men received an average benefit of \$1,100 compared to \$750 for women (Table 2.6). This reflects men, on average, having larger superannuation balances and facing higher marginal personal income tax rates.

Table 2.6 Distributional effect by gender, 2019–20

Gender	Average benefit (\$)	Recipients (million)	Share of total benefit (%)
Men	1,100	8.7	61
Women	750	8.2	39
Total	930	16.9	100

The share of the benefit from superannuation earnings tax concessions is highest for 55–64 year olds, reflecting that Australians in these cohorts are generally in higher income deciles and have had longer to accumulate superannuation balances (Chart 2.7). 46 per cent of the benefit of earnings concessions goes to people aged 60 or older. The average benefit for those aged over 60 who have superannuation is also higher because of the zero per cent tax rate applied to earnings in the retirement phase.

Chart 2.7 Share of benefit and recipients by age, 2019–20



Source: Treasury

2.5 GST exemptions for food

Under the benchmark, GST applies at the rate of 10 per cent to supplies of goods and services. Under this tax expenditure (H26), most staples and basic foods are GST free.

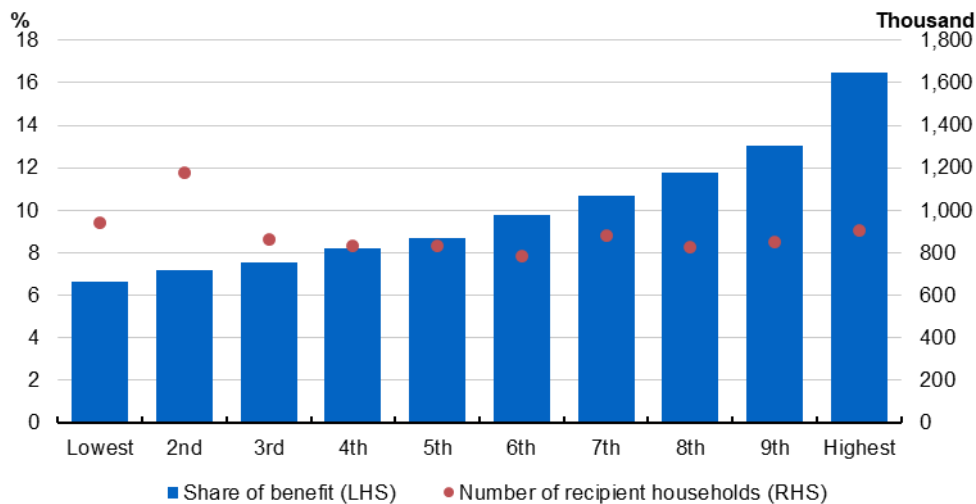
Table 2.7 Estimates of aggregate revenue forgone (\$m)

2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
7,300	7,700	8,000	8,100	8,400	8,700	9,000	9,400

In 2015–16, around 8.9 million of the almost 9 million households in Australia benefited from this expenditure in a typical fortnight.

Most households benefit from the GST exemptions for food, regardless of their equivalised disposable household income (EDHI) (Chart 2.8).⁴ More households in the second decile benefit as there are more households in that decile than others. 62 per cent of the total benefit was received by the top five deciles as they spend more in dollar terms on food than households with lower incomes. However, the benefit received by the top five deciles averaged 1.0 per cent of their income, whereas it averaged 1.9 per cent of income for the bottom five.

Chart 2.8 Share of benefit and recipients by EDHI decile, 2015–16*



* Distributional analyses of tax expenditures affecting the Goods and Services Tax (GST) paid are based on data from the Household Expenditure Survey, last conducted in 2015–16.

Source: Treasury

4 Weekly equivalised disposable household income (EDHI) is a measure of income that includes income from private sources and government payments, less tax paid at the household level. The number of households in the second decile is higher than other deciles due to smaller household sizes. See Appendix A.3 for more information.

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The benefit of the food GST exemption forms a similar share of non-housing consumption across various family types (Table 2.8).⁵ More information on measuring the incidence of GST tax expenditures can be found in the *2019 Tax Benchmarks and Variations Statement*.

Table 2.8: Benefit as a share of domestic non-housing consumption by family type, 2015–16

Couple with children	Couple without children	Single parents	Single person	Multi-family household
1.68%	1.87%	1.83%	1.81%	1.89%

5 Non-housing consumption has been used in distributional analysis of GST as the current GST treatment of housing is equal to the benchmark treatment.

2.6 GST exemptions for education

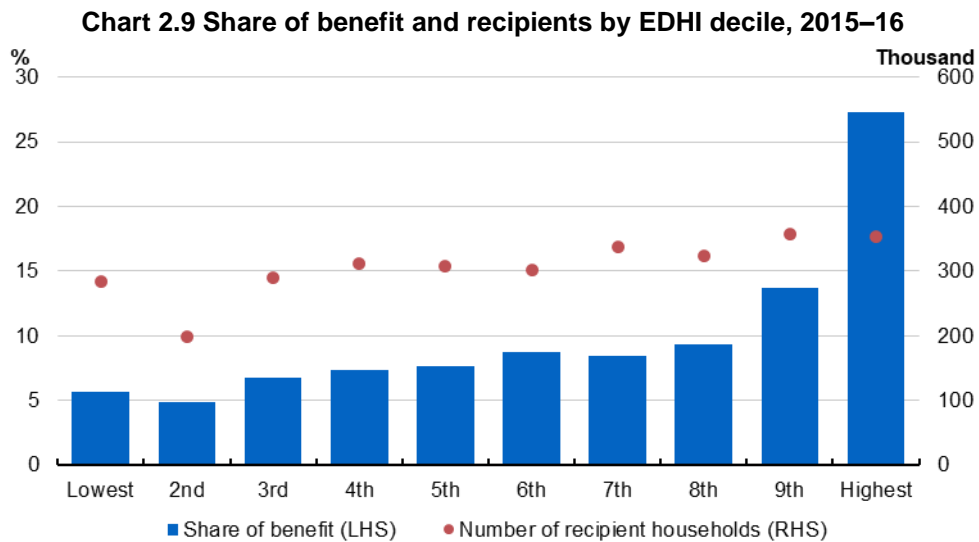
Under the benchmark, GST applies at the rate of 10 per cent to supplies of goods and services. Under this tax expenditure (H14), certain education supplies are GST free.

Table 2.9 Estimates of aggregate revenue forgone (\$m)

2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
4,600	5,100	5,300	5,550	5,850	6,100	6,400	6,650

In 2015–16, around 3.1 million households benefited from this expenditure.

A consistent number of households benefit from the education GST exemption across most EDHI deciles, although a smaller number of the households in the second decile benefit (Chart 2.9). This is likely to reflect that the second decile has proportionally fewer families with children. 27 per cent of the total benefit is received by the highest decile, which is likely to reflect higher total spending on schooling by this decile.



Source: Treasury

Unsurprisingly, the benefit of the education GST exemption forms a larger share of consumption for families with children, who are much more likely to be in education than other family groups (Table 2.10).

Table 2.10: Benefit as a share of non-housing consumption by family type, 2015–16

Couple with children	Couple without children	Single parents	Single person	Multi-family household
0.47%	0.08%	0.26%	0.07%	0.30%

2.7 GST exemptions for healthcare

Under the benchmark, GST applies at the rate of 10 per cent to supplies of goods and services. Under these tax expenditures (H15, H16, H17, H18, H19), a range of health supplies (including certain medical aids and appliances, certain medical and health services) are GST free.

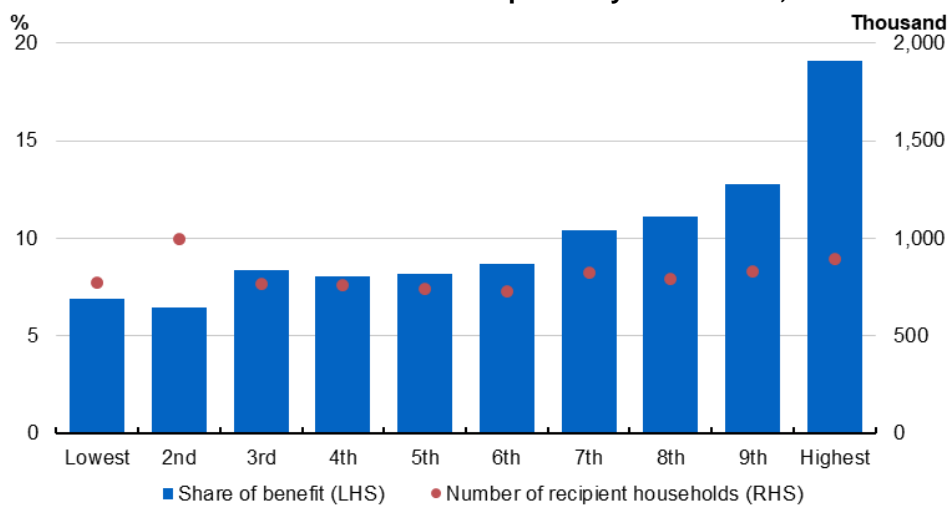
Table 2.11 Estimates of aggregate revenue forgone (\$m)

2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
6,570	6,340	7,030	7,320	8,100	8,550	8,970	9,485

In 2015–16, around 8.1 million households benefited from these expenditures.

Most households receive some benefit from the GST exemptions for healthcare. 62 per cent of the total benefit was received by the top five deciles (Chart 2.10). For most lower-income deciles, their share of the health GST exemptions is similar to their share of the food GST exemption.

Chart 2.10 Share of benefit and recipients by EDHI decile, 2015–16



Source: Treasury

The benefits of the healthcare GST exemptions as a proportion of non-housing consumption are slightly higher in families without children (Table 2.12). This is likely to reflect the higher health costs for more elderly people.

Table 2.12: Benefit as a share of non-housing consumption by family type, 2015–16

Couple with children	Couple without children	Single parents	Single person	Multi-family household
0.52%	0.80%	0.48%	0.69%	0.49%

2.8 Lower tax rate for small companies

Under the benchmark, company income tax is paid at the headline corporate tax rate of 30 per cent. Under this tax expenditure (B59), companies with aggregated annual turnover below \$50 million and with 80 per cent or less of assessable income that is passive in nature, face a company tax rate of 26 per cent in the 2020–21 income year. These companies will face a tax rate of 25 per cent in 2021–22 and subsequent income years.

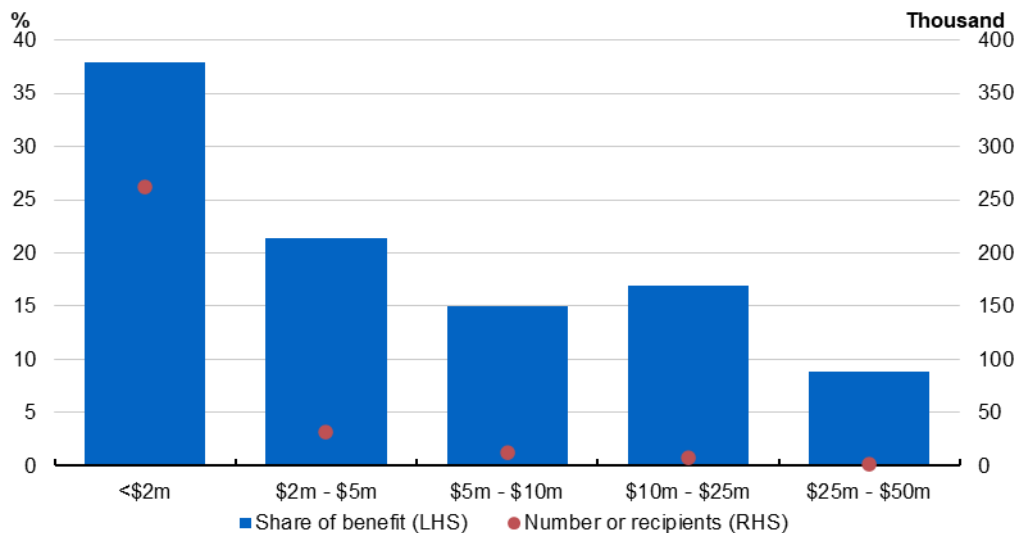
Table 2.13 Estimates of aggregate revenue forgone (\$m)

2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
1,100	1,100	2,400	3,900	3,600	2,500	3,500	3,700

In 2019–20, approximately 316,000 companies received a lower company tax rate. The value of the tax expenditure shown in the table above captures the direct effect of the lower company tax rate on the tax payable by eligible companies, as well as the indirect effect on tax payable by the shareholders of those companies. In contrast, the analysis below focuses solely on the distributional effects of the direct impact of the lower company tax rate.

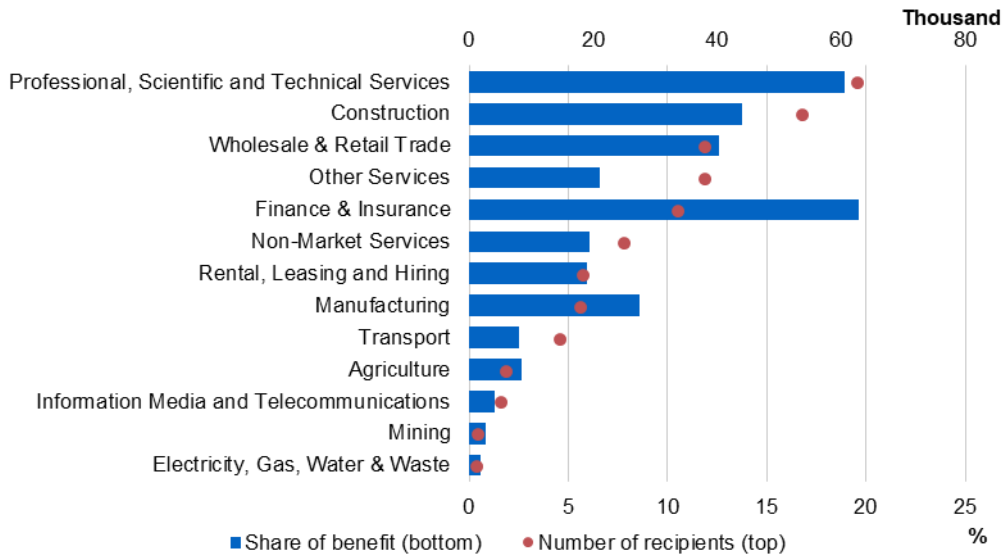
Around 83 per cent of the companies that benefited had an annual company turnover of less than \$2 million in 2019–20 (Chart 2.11). The share of the benefit accruing to these companies was approximately 38 per cent. In contrast, 1 per cent of companies which benefited had incomes between \$25 million and \$50 million and their share of the benefit was approximately 9 per cent.

Chart 2.11 Share of benefit and recipients by turnover, 2019–20



Source: Treasury

Chart 2.12 Share of benefit and recipients by industry, 2019–20



Source: Treasury

By number of companies benefiting from the lower tax rate for small companies, the most significant industries are the Professional, Scientific and Technical Services (20 per cent), Construction Services (17 per cent) and Other Services (12 per cent) (Chart 2.12).

The largest share of the benefit was realised by the Finance industry (20 per cent) due to its relatively high profitability when compared to other similarly sized companies in different industries. Specifically, 17 per cent of the benefit went to companies involved in:

- ‘Financial Asset Investing’, which includes companies investing in money on their own account
- ‘Auxiliary Finance and Investment Services’, which includes companies engaged in providing nominee, trustee, investment management or advisory services, or arranging home loans for others.

2.9 Medicare levy low income thresholds

Under the benchmark, Medicare levy is paid on the taxable income of all residents. Under this tax expenditure (A19), residents whose taxable income falls below prescribed thresholds are exempt from the Medicare levy, with the levy phased in once their income exceeds these thresholds. Different thresholds apply for individuals, families and seniors and pensioners.

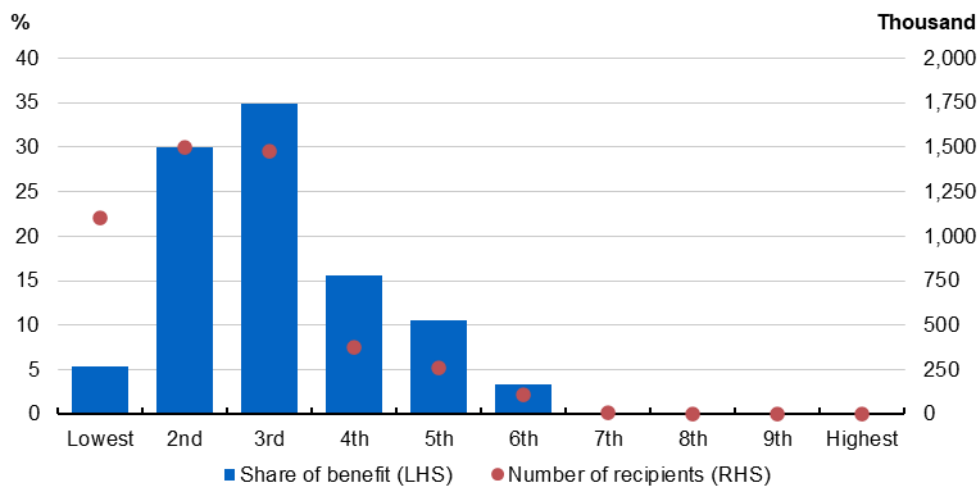
Table 2.14 Estimates of aggregate revenue forgone (\$m)

2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
1,900	1,950	1,950	2,000	2,050	2,050	2,100	2,100

In 2019–20, around 4.8 million people benefited from this tax expenditure.⁶

Nearly all of the tax filers benefiting from paying a reduced Medicare levy amount are on low taxable incomes, consistent with the policy intent of the phase-in arrangements (Chart 2.13). Almost 97 per cent of the benefit in 2019–20 was received by tax filers below the median taxable income.

Chart 2.13 Share of benefit and recipients by taxable income decile, 2019–20



Source: Treasury

⁶ Individuals who did not file a tax return are included in the estimates of aggregate revenue forgone but have not been included in the distributional analysis.

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Some taxpayers above the individual low-income threshold (which is currently \$23,365) may receive a benefit if their family income is in the family income Medicare levy reduction range, and their spouse earns below the individual low income threshold.

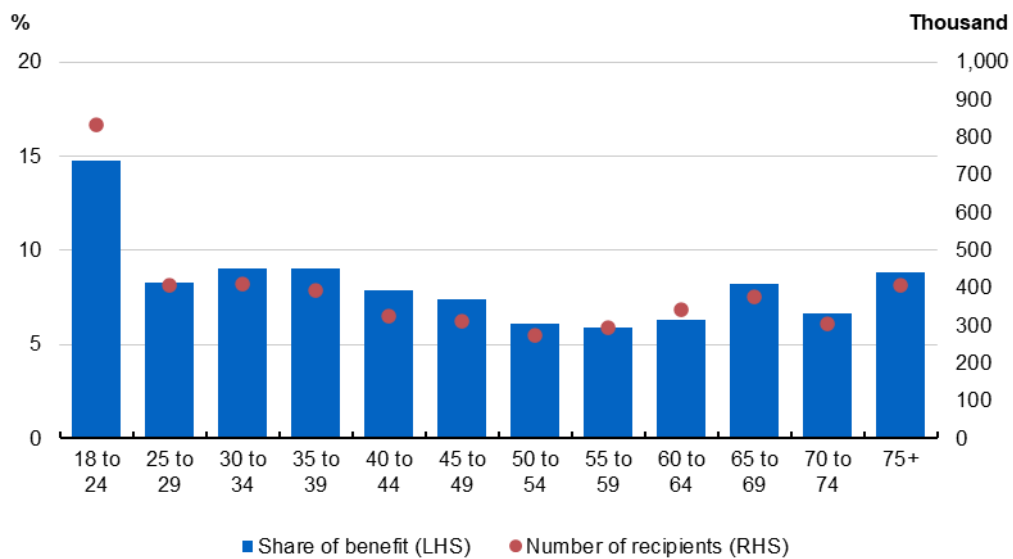
The average benefit of Medicare levy low-income thresholds is the same for men and women. Around 56 per cent of recipients were women, reflecting that a larger share of low income tax filers are women (Table 2.15).

Table 2.15 Distributional effect by gender, 2019–20

Gender	Average benefit (\$)	Recipients (million)	Share of total benefit (%)
Men	310	2.1	44
Women	310	2.7	56
Total	310	4.8	100

By age, the largest share of the benefit is distributed to those aged 18 to 24 years old, because younger people are more likely to be on low incomes and benefit from the low income threshold (Chart 2.14). There is a small increase in the share of 30 – 39 year olds receiving the benefit as they are more likely to be eligible for the higher income thresholds for families with dependent children. There is also an increase in the share of those over age 65 benefiting because they are more likely to be eligible for the higher Seniors and Pensioners thresholds.

Chart 2.14 Share of benefit and recipients by age, 2019–20



Source: Treasury

2.10 GST exemptions for child care

Under the benchmark, GST applies at the rate of 10 per cent to supplies of goods and services. Under this tax expenditure (H5), child care is GST free where the provider is eligible to receive government funding, or if the provider is a registered carer or child care service for the purposes of the relevant Commonwealth legislation.

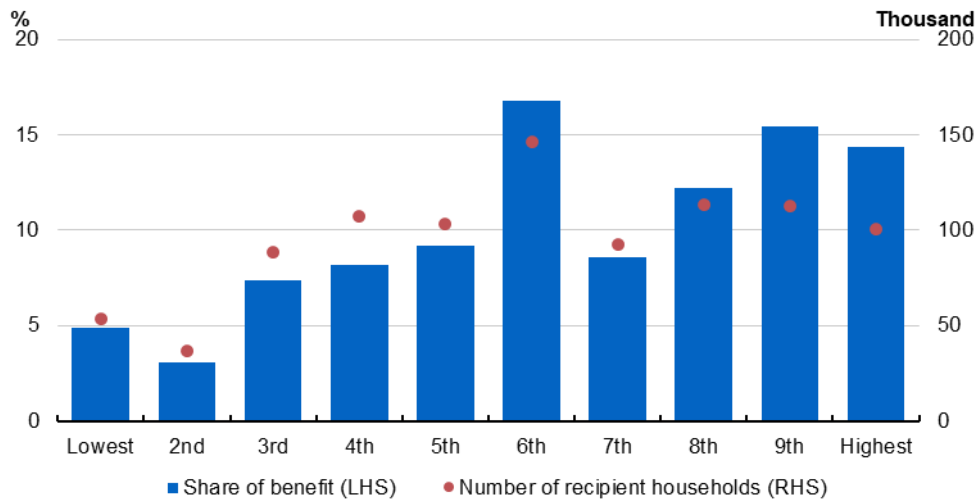
Table 2.16 Estimates of aggregate revenue forgone (\$m)

2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
1,380	1,300	1,520	1,670	1,710	2,050	2,160	2,270

In 2015–16, around 1.0 million households benefited from this expenditure.

In 2015–16, 67 per cent of the benefit was received by the top five EDHI deciles (Chart 2.15). The share of the benefit largely reflects the number of households benefiting in each EDHI decile, rather than the average size of the benefit.

Chart 2.15 Share of benefit and recipients by EDHI decile, 2015–16



Source: Treasury

This benefit forms the highest share of non-housing consumption for couples with children, followed by single parents (Table 2.17).

Table 2.17: Benefit as a share of non-housing consumption by family type, 2015–16

Couple with children	Couple without children	Single parents	Single person	Multi-family household
0.60%	0.00%	0.38%	0.00%	0.05%

2.11 Deductions for gifts and donations

Under the benchmark, expenses are only deductible if they are connected to income earning activity. Under this tax expenditure (A56 and A57 combined), gifts of cash and property (subject to certain conditions) of a value of \$2 or more to deductible gift recipients are tax deductible.

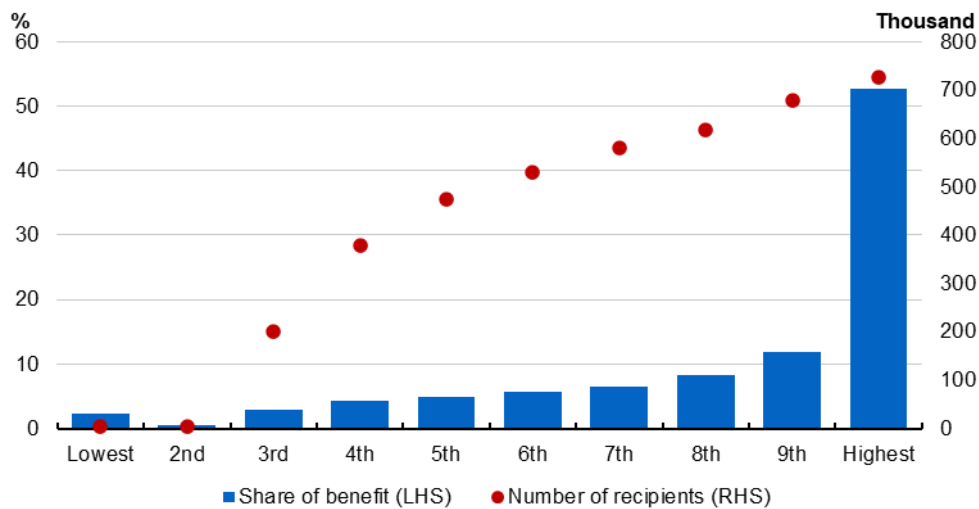
Table 2.18 Estimates of aggregate revenue forgone (\$m)

2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
1,840	1,970	1,950	2,035	1,795	1,890	1,945	1,865

In 2019–20, around 4.2 million people benefited from this tax expenditure.⁷

Around 85 per cent of the benefit of a reduction in tax due to deductions for gifts and donations was received by people with above median income, and almost 55 per cent of the benefit was received by people in the top income decile (Chart 2.16).

Chart 2.16 Share of benefit and recipients by taxable income decile, 2019–20



Source: Treasury

A substantial share of the benefit flows to the top decile both due to the number of tax filers claiming deductions for gifts and donations and higher average claims. Around 15 per cent of the benefit flowed to people earning more than \$1 million of taxable income. The decisions of a few very large donors around the timing and size of donations can have a significant effect on the amount of revenue forgone.

⁷ While both individuals and businesses are able to make deductible donations, the distributional analysis presented only includes gifts and donations reported by individuals.

The share of the benefit for those in the lowest taxable income decile is driven by a small number of tax filers who claim large deductions for gifts and donations. These tax filers tend to have higher incomes before deductions but their claims for gifts and donations substantially reduce their taxable income, pushing them into the bottom taxable income decile.

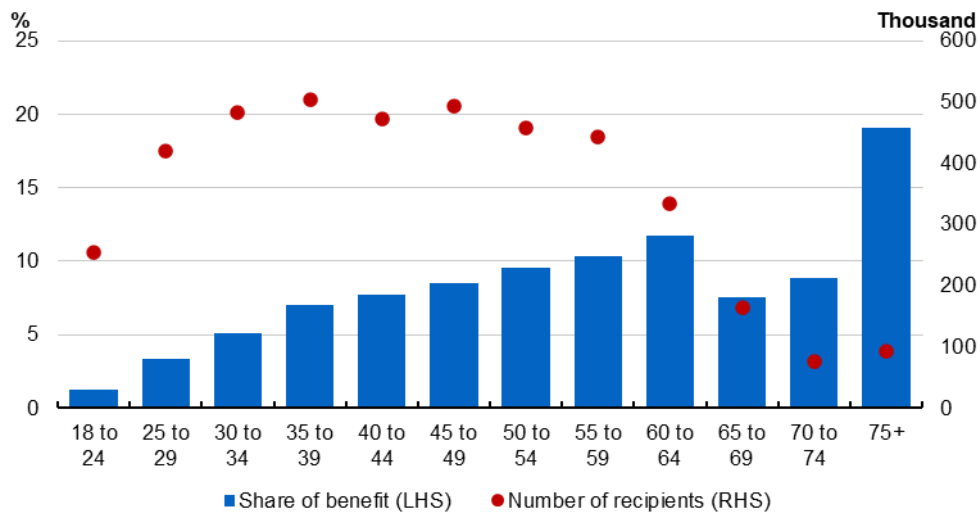
In 2019–20, around 2.1 million men and 2.1 million women claimed deductions for gifts and donations (Table 2.19). However, men receive around 60 per cent of the benefit from deductible gifts. This reflects men on average making larger donations, as well as having higher incomes on average that are subject to higher average marginal tax rates. As a result, each dollar donated results in a larger reduction in tax paid.

Table 2.19 Distributional effect by gender, 2019–20

Gender	Average benefit (\$)	Recipients (million)	Share of total benefit (%)
Men	360	2.1	60
Women	230	2.1	40
Total	300	4.2	100

From age 65 onwards, the number of people claiming gifts and donations deductions declined in line with a lower proportion of people filing tax returns in these age groups (Chart 2.17). Individuals aged over 75 received the largest share of the benefit, which is due to their higher average donations made.

Chart 2.17 Share of benefit and recipients by age, 2019–20



Source: Treasury

2.12 GST exemptions for water, sewerage and drainage

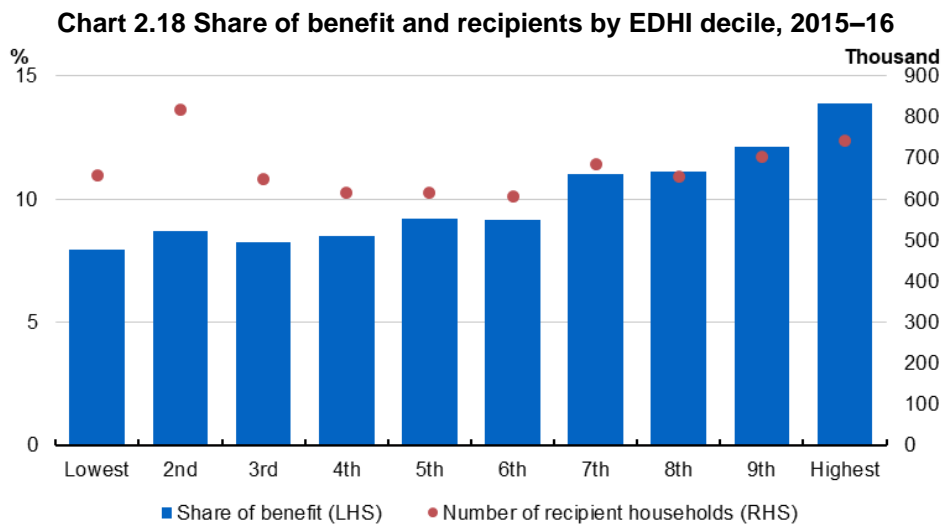
Under the benchmark, GST applies at the rate of 10 per cent to supplies of goods and services. Under this tax expenditure (H6), water supplies and sewerage and drainage services are generally GST free.

Table 2.20 Estimates of aggregate revenue forgone (\$m)

2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
1,060	1,100	1,090	1,110	1,130	1,160	1,190	1,220

In 2015–16, around 6.7 million households benefited from this expenditure.

A similar number of households benefit from the water, sewerage and drainage GST exemptions across deciles (Chart 2.18). 57 per cent of the total benefit was received by the top five deciles, as they spend more in dollar terms on water, sewerage and drainage than households with lower incomes.



Source: Treasury

The benefit of the water, sewerage and drainage GST exemption forms a higher share of non-housing consumption for families without children (Table 2.21).

Table 2.21: Benefit as a share of non-housing consumption by family type, 2015–16

Couple with children	Couple without children	Single parents	Single person	Multi-family household
0.16%	0.20%	0.15%	0.26%	0.13%

2.13 Seniors and pensioners tax offset

Under the benchmark, government payments to individuals are included in personal taxable income and taxed at marginal rates. Under this tax expenditure (A31), the seniors and pensioners tax offset (SAPTO) reduces the tax payable by taxpayers who receive certain taxable pensions and payments, including the Age Pension and the Parenting Payment Single. The value of the offset depends on marital status and income.

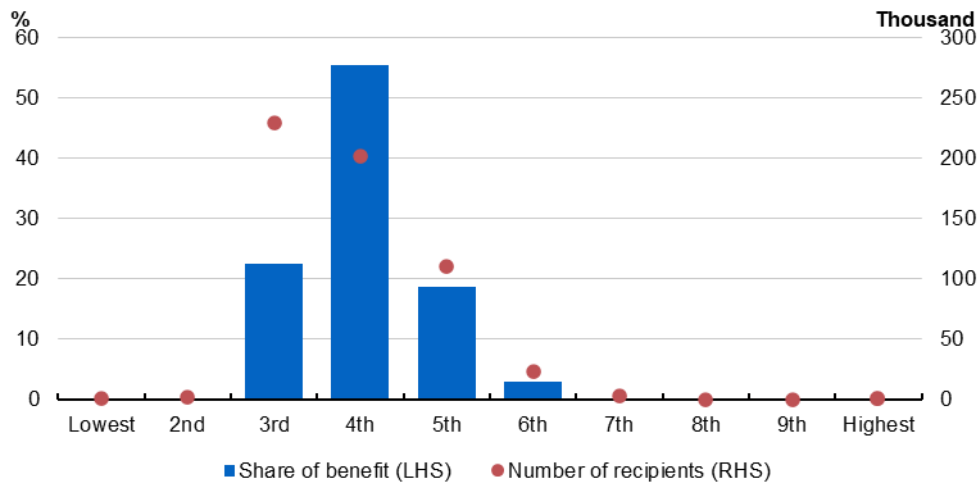
Table 2.22 Estimates of aggregate revenue forgone (\$m)

2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
890	900	710	540	860	1,000	1,000	1,000

In 2019–20, around 570,000 tax filers benefited from this tax expenditure.⁸

Around 97 per cent of the benefit was received by tax filers with below median taxable income (Chart 2.19).

Chart 2.19 Share of benefit and recipients by taxable income decile, 2019–20



Source: Treasury

There are very few tax filers in the lowest and second deciles who benefit from the SAPTO. This is because these tax filers tend to have no tax liability to offset. There are very few recipients in the sixth decile and above due to the cut-out threshold, above

⁸ Individuals who do not lodge tax returns, predominantly full-rate age pensioners, are included in the estimates of aggregate revenue forgone as they would benefit from the SAPTO but not in the distributional analysis.

which no SAPTO is received. In 2019–20 the cut-out threshold for single taxpayers was \$50,119.

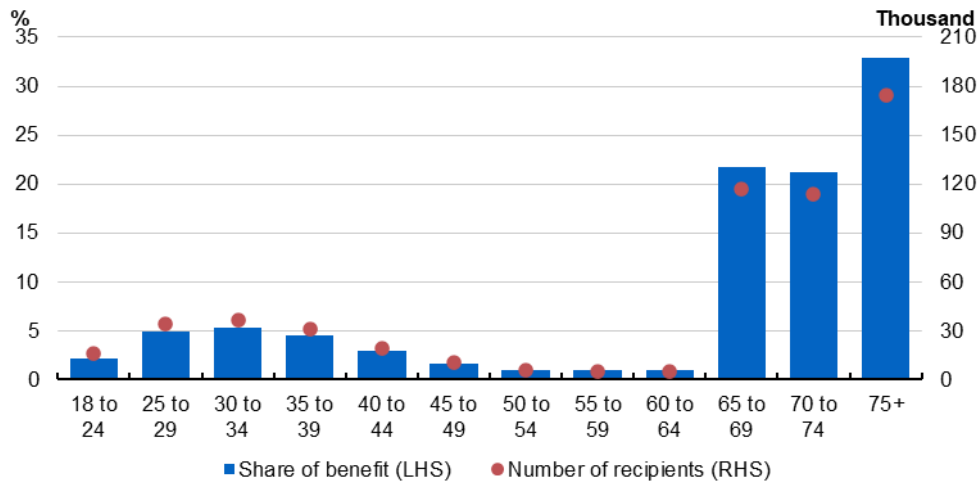
Table 2.23 Distributional effect by gender, 2019–20

Gender	Average benefit (\$)	Recipients (million)	Share of total benefit (%)
Men	1,250	0.2	38
Women	1,190	0.4	62
Total	1,210	0.6	100

Women made up 67 per cent of SAPTO recipients and received 62 per cent of total SAPTO benefits, reflecting that there are more women recipients of government pensions (Table 2.23). On average, women are more likely to receive the Age Pension and represent the overwhelming majority of Parenting Payment Single recipients.

The large increase in the population of SAPTO recipients in the over 65 age brackets reflects age pensioners (Chart 2.20). The smaller, secondary peak of SAPTO recipients in the 25 to 44 age range is due to higher numbers of Parenting Payment Single recipients in these age brackets.

Chart 2.20 Share of benefit and recipients by age, 2019–20



Source: Treasury

2.14 Medicare levy surcharge

Under the benchmark, Medicare levy is paid on the taxable income of residents. Under this tax expenditure (A20), individuals and couples who do not have a specified level of private health insurance and whose income exceeds certain thresholds are subject to the Medicare levy surcharge (MLS). Because the surcharge is a tax that exceeds the benchmark treatment, it is considered a 'negative tax expenditure'.

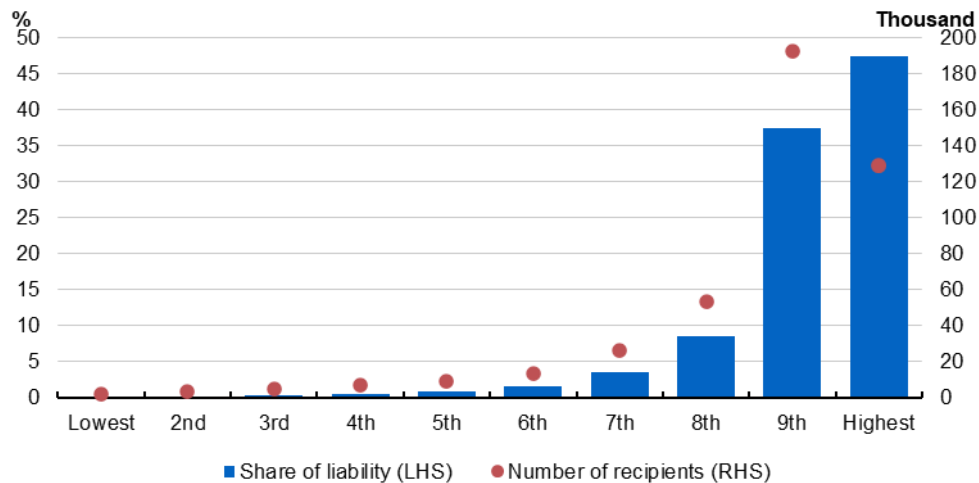
Table 2.24 Estimates of aggregate revenue forgone (\$m)

2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
-380	-460	-540	-680	-840	-910	-940	-980

In 2019–20, around 440,000 people were impacted by this tax expenditure.

Around 99 per cent of the MLS was paid by people with above median income, including 47 per cent by people in the top taxable income decile (Chart 2.21). The MLS is levied taking into account both a person's individual and family income. One consequence is that some individuals with low taxable incomes (below the individual threshold) can still be liable for the surcharge if their family income exceeds the family threshold. In 2019–20, the family income threshold for individuals was \$90,000 and for a couple without dependents was \$180,000.

Chart 2.21 Share of liability for those who are liable and payers by taxable income decile, 2019–20



Source: Treasury

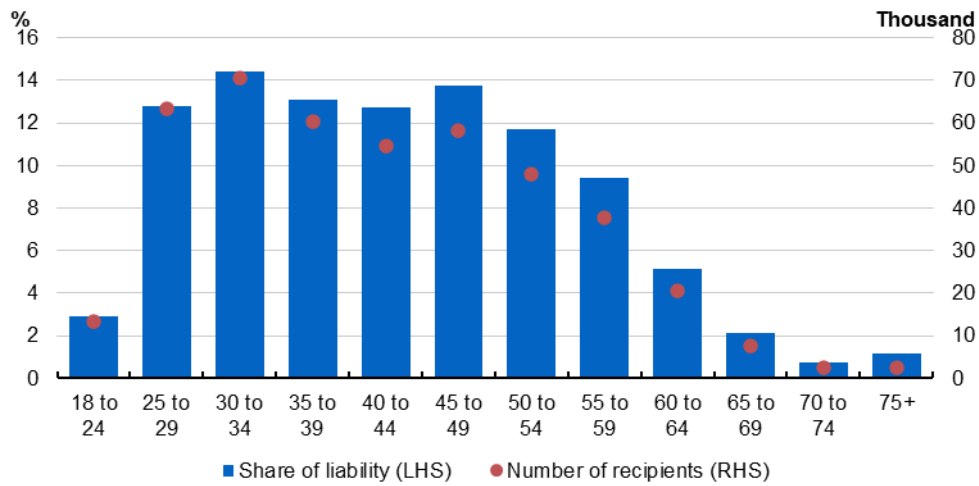
Table 2.25 Distributional effect by gender 2019–20

Gender	Average liability (\$)	MLS payers (million)	Share of total liability (%)
Men	1,360	0.3	65
Women	1,010	0.2	35
Total	1,220	0.5	100

Around 65 per cent of the MLS liability in 2019–20 was paid by men, and men paid on more on average (\$1,360 compared to \$1,010 for women) (Table 2.25). This due to a larger share of high income tax filers being men.

Approximately 94 per cent of those paying MLS are 25 to 64 years old (Chart 2.22).

Chart 2.22 Share of liability and payers by age, 2019–20



Source: Treasury

2.15 Unincorporated small business discount

Under the benchmark, business income is generally fully assessable to the taxpayer. Under this tax expenditure (B68), people with business income from an unincorporated small business that had aggregated turnover of less than \$5 million were eligible for an 8 per cent tax discount on the income tax payable on that business income. The discount is capped at \$1,000 per individual for each income year and is delivered as a non-refundable tax offset.

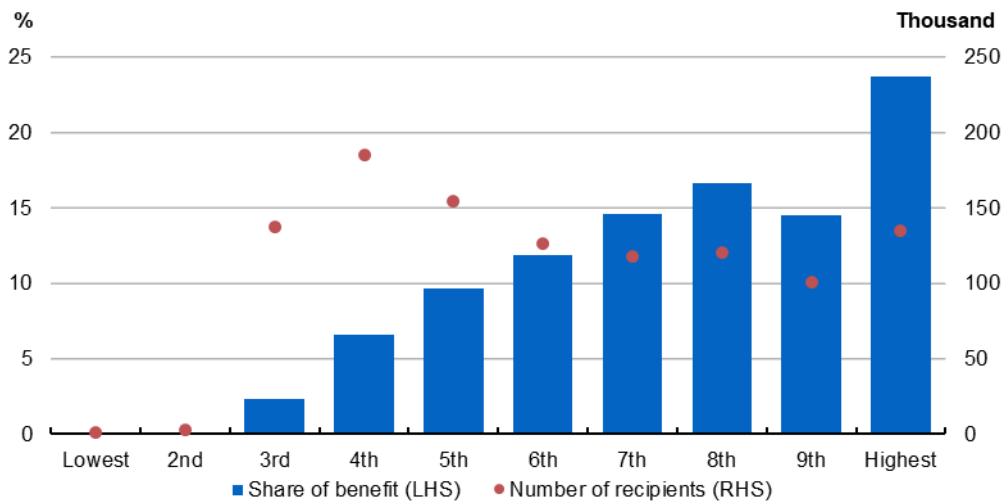
Table 2.26 Estimates of aggregate revenue forgone (\$m)

2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
450	460	460	630	730	740	730	750

In 2019–20, over 1 million taxpayers received benefit from this tax expenditure. Increases in revenue forgone between the 2020–21 and 2022–23 estimates are primarily due to legislated increases in the tax discount rate.

Around 80 per cent of the benefit goes to people with taxable income above median income, and 24 per cent of the benefit goes to people in the top income decile (Chart 2.23).

Chart 2.23 Share of benefit and recipients by taxable income decile, 2019–20*



* Taxable income includes wage or salary income, business income, and any other sources of income less allowable deductions, but does not include offsets and rebates. Individuals at higher deciles may have high levels of wage and salary income, business income, or other sources of income, or some combination of all of the above.

Source: Treasury

People in lower deciles received a smaller share of the benefit because a higher proportion of them were unable to use the maximum \$1000 offset. For example, only

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7 per cent of people in the two lowest income deciles had sufficient unincorporated business income to use the maximum \$1000 offset. In contrast, almost 100 per cent of people with above median income were able to use the maximum \$1000 offset.

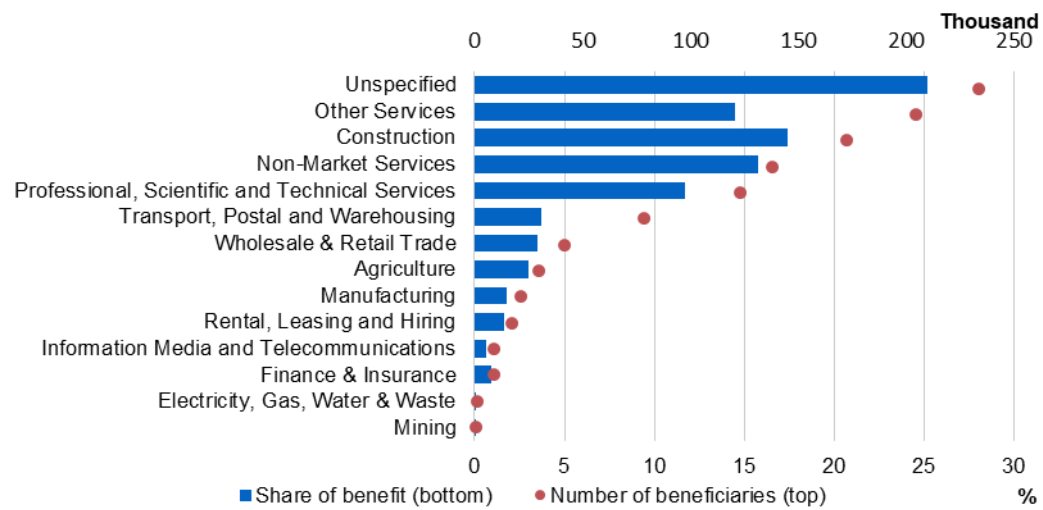
Men accounted for 61 per cent of population receiving this benefit and received around 63 per cent of total discount used in 2019–20 (Table 2.27).

Table 2.27 Distributional effect by gender, 2019–20

Gender	Average benefit (\$)	Average business income (\$)	Recipients	Share of total benefit (%)
Men	440	50,900	0.7	63
Women	400	41,600	0.4	37
Total	430	47,200	1.1	100

By industry, the Other Services, Construction and Non-Market Services sectors had the highest numbers of recipients (Chart 2.24).⁹ Beneficiaries recorded as being in the Construction and Non-Market Services sectors received the highest share of benefits. Around a quarter of recipients do not specify the industry they operate in, for example, because their business income is distributed from a trust.

Chart 2.24 Share of benefit and recipients by industry of recipients, 2019–20



Source: Treasury

⁹ As per Appendix A.3: Other Services include Accommodation and Food Services, Administrative and Support Services, Arts and Recreation Services and Other Services.

2.16 Research and development tax incentive – non-refundable tax offset

Under the benchmark, companies may be able to claim a tax deduction for expenditure incurred on research and development (R&D) activities. A tax expenditure (B84) arises because the R&D non-refundable tax offset reduces the amount of tax payable to a greater extent than a tax deduction.

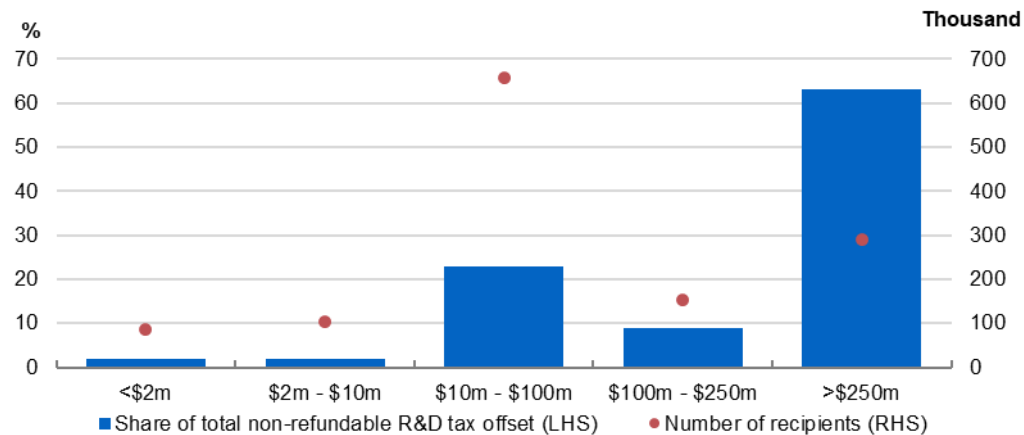
Table 2.28 Estimates of aggregate revenue forgone (\$m)

2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
380	430	420	530	570	570	570	570

In 2019–20, there was a total of 1,057 companies that used a non-refundable R&D tax offset, with total revenue forgone of \$380 million. This analysis does not include the refundable R&D tax incentive, which is a government expenditure.

In 2019–20, 34 per cent of all non-refundable R&D tax offset recipients had a company turnover of more than \$100 million, with this cohort accounting for 72 per cent of the total benefit (Chart 2.25). This reflects the high number of large businesses engaging in R&D activities that are eligible to receive non-refundable R&D tax offsets.

Chart 2.25 Share of benefit and recipients by total company turnover, 2019–20¹⁰



Source: Treasury

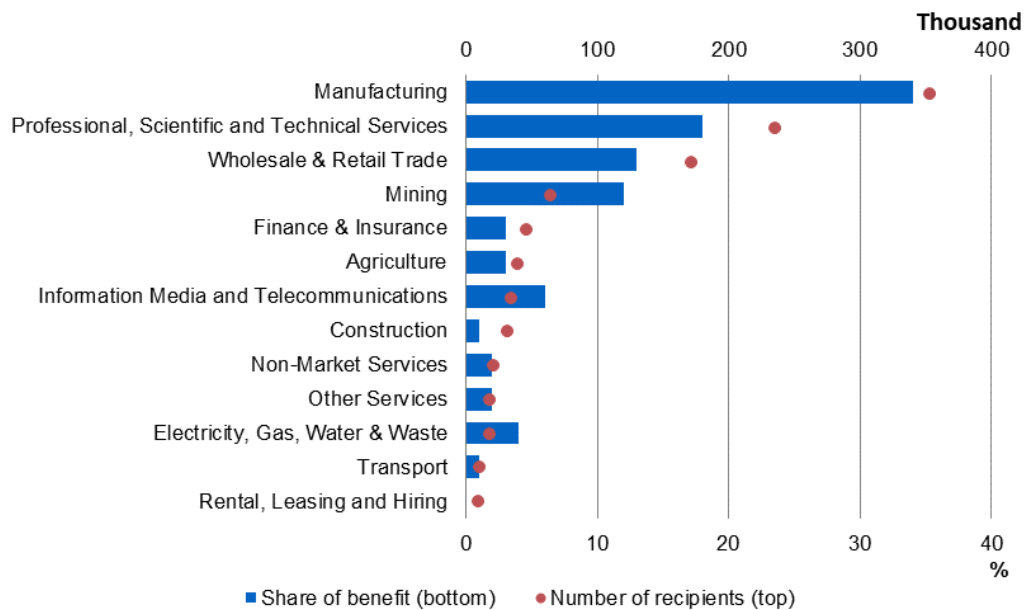
The non-refundable R&D tax offset is claimed by eligible companies with an aggregated annual turnover of \$20 million or more. However, some companies with company turnover of less than \$20 million have received non-refundable (rather than refundable)

¹⁰ Companies classified as a co-operative, registered organisation, non-profit, strata title, pooled development fund, limited partnership, corporate unit trust and public trading unit trust are excluded from the chart.

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R&D tax offsets. Whilst circumstances will differ for any given company, reasons for this may include the use of carried forward tax offsets from a prior year (which were accrued when a company had more than \$20 million in aggregate turnover), or affiliations with other companies leading to aggregated turnover being greater than \$20 million while company turnover is still below \$20 million.

Chart 2.26 Share of benefit and recipients by industry, 2019–20



Source: Treasury

The industry groups with the largest numbers of recipients during 2019–20 were Manufacturing (33%), Professional, Scientific and Technical Services (22%) and Wholesale and Retail Trade (16%) (Chart 2.26). The greatest share of the non-refundable R&D tax offset accrues to Manufacturing (34%), followed by Professional, Scientific and Technical Services (18%) and Wholesale and Retail Trade (13%).

Within the Manufacturing industry grouping, companies engaging in Specialised Machinery and Equipment Manufacturing, and Food Product Manufacturing were the largest average users of the non-refundable R&D tax offset. Companies in these industry sub-groupings each used an average non-refundable R&D tax offset of \$1.9 million and \$1.5 million, respectively, during 2019–20.

The above analysis is based on data that pre-dates reforms to the R&D tax incentive that came into effect from 1 July 2021, which replaced the flat non-refundable rate with a progressive marginal tiered R&D intensity threshold.

2.17 Beneficiaries tax offset

Under the benchmark, government payments to individuals are included in personal taxable income and taxed at marginal rates. Under this tax expenditure (A28), taxpayers who receive certain social security benefits and allowances including JobSeeker payment, Youth allowance and Parenting payment partnered may be eligible for the beneficiary tax offset, which ensures that people whose only income during the year is from the benefit or allowance will not pay any tax.

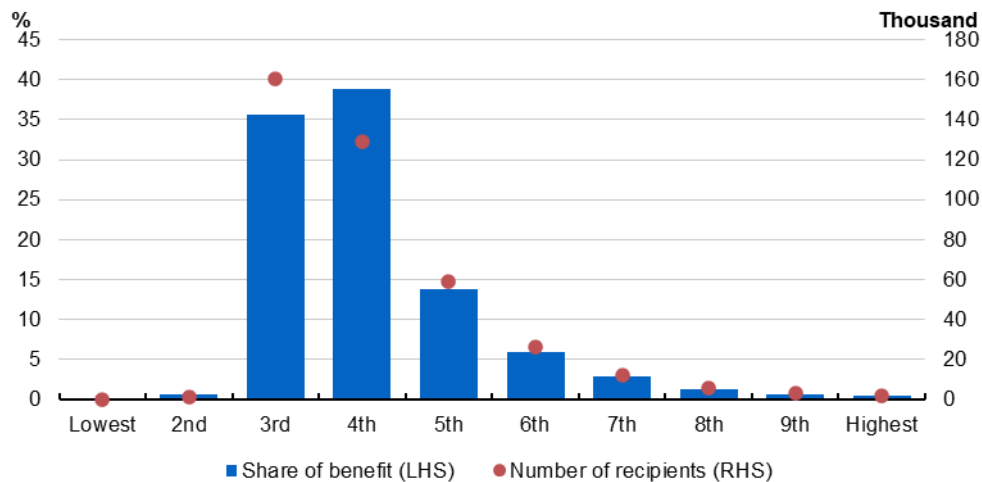
Table 2.29 Estimates of aggregate revenue forgone (\$m)

2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
95	85	195	805	195	195	210	230

In 2019–20, around 400,000 people benefited from this tax expenditure. The increase in estimates for 2020–21 and 2021–22 reflects temporary COVID-19-related impacts.

Around 89 per cent of the benefit from the beneficiary tax offset (BENTO) in 2019–20 was received by people with below median taxable income (Chart 2.27). The majority of tax filers in the lowest two deciles have income below the effective tax-free threshold, resulting in them having no tax liability to offset. Around 97 per cent of recipients are in deciles three to seven, in which most tax filers have incomes above the effective tax-free threshold, but still receive eligible government payments in significant numbers.

Chart 2.27 Share of benefit and recipients by taxable income decile, 2019–20



Source: Treasury

There are a small number of people in the higher taxable income deciles who receive some government payments and benefit from the BENTO. The income tests for government payments (such as the Farm Household Allowance) used to determine BENTO are generally based on fortnightly income, so there may be a small number of

people who have a high taxable income over the income year but are still eligible to receive government payments for part of the year.

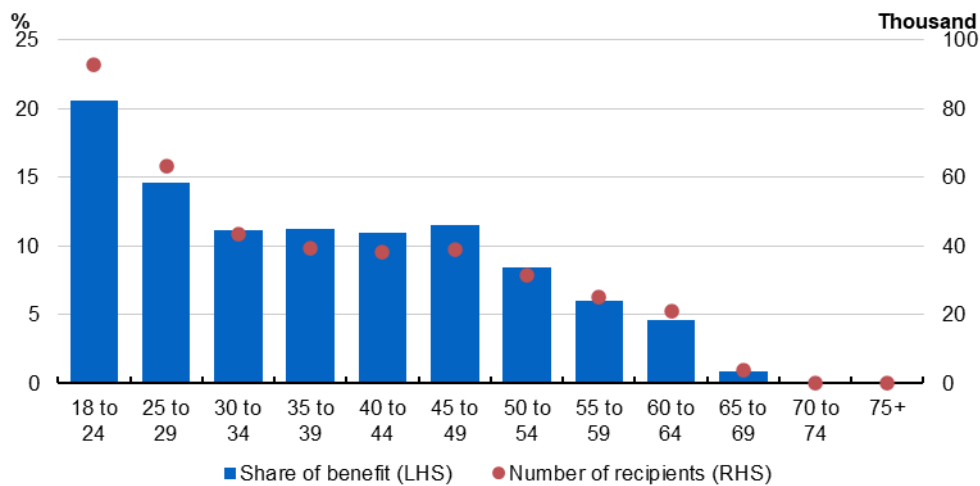
Table 2.30 Distributional effect by gender, 2019–20

Gender	Average benefit (\$)	Recipients (million)	Share of total benefit (%)
Men	480	0.2	49
Women	490	0.2	51
Total	490	0.4	100

In 2019–20, women received an average benefit of \$490, compared to \$480 for men, and accounted for 51 per cent of the benefit (Table 2.30).

The number of people benefiting from BENTO decreases with age (Chart 2.28). This reflects the age distribution of those in receipt of eligible government payments, and the fact that those on the Aged Pension do not generate BENTO (instead generating seniors and pensioners tax offset (SAPTO)).

Chart 2.28 Share of benefit and recipients by age, 2019–20



Source: Treasury

2.18 Rental deductions

Rental property investors can claim deductions for expenses associated with maintaining and financing property interests. These include interest, capital works and other deductions required to maintain their rental property.

Table 2.31 Estimates of aggregate tax reduction (\$m)

2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
19,400	18,600	17,000	18,000	24,400	26,600	24,800	25,800

It is estimated that around 2.4 million people claimed \$51.3 billion of rental deductions in 2019–20. This would result in a total tax reduction of \$18.6 billion.¹¹ Of the total number of people with rental deductions, almost half (1.3 million) had a rental loss, known as negative gearing, which added up to total rental losses of \$10.2 billion. These rental losses provided a tax benefit of around \$3.6 billion in 2019–20.

The ATO collects and reports information on rental property deductions in three broad categories. ‘Other rental deductions,’ which encompasses expenses such as property maintenance and council rates, was the largest of these in 2019–20 (see Table 2.32 below).

Table 2.32 Rental deduction claims by income tax return labels, 2019–20

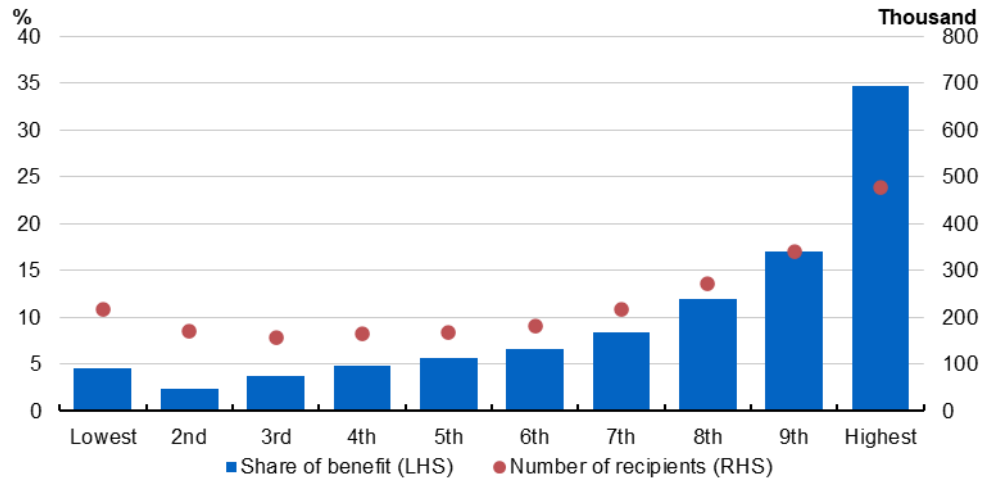
Type of deductions	Amount Claimed (\$ million)	Share of total (%)
Other rental deductions	24,240	47
Interest deductions	22,510	44
Capital works deductions	4,500	9

In 2019–20, 79 per cent of the tax reduction went to people with above median income, and 35 per cent of the reduction went to people in the top taxable income decile (Chart 2.29). Rental deductions are most commonly claimed by those with higher taxable incomes, particularly those in the seventh or higher taxable income decile.

The share of the benefit for those in the lowest taxable income decile is driven by both the number of tax filers and their relatively large average deductions. These tax filers tend to have higher incomes before deductions but their claims for expenses associated with maintaining their rental property substantially reduce their taxable income, pushing them into lower deciles.

¹¹ Estimates of the total tax reduction are produced by excluding rental deductions from the calculation of taxable income and calculating the associated increase in revenue in the given income year.

Chart 2.29 Share of total tax reduction and claimants by taxable income decile, 2019–20



Source: Treasury

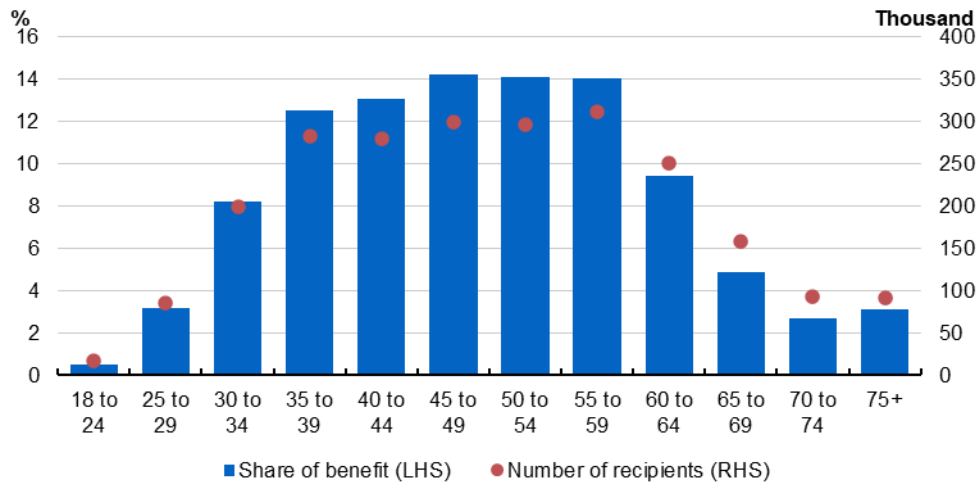
Around 1.2 million men claim rental deductions and derived a larger tax reduction than women from these deductions by \$2,180 on average (Table 2.33). Men received around 59 per cent of the tax reduction whereas women received 41 per cent of the tax reduction. A higher share of the reduction attributed to men reflects higher average deductions and higher average taxable incomes.

Table 2.33 Distributional effect by gender, 2019–20*

Gender	Average tax reduction (\$)	Claimants (million)	Share of total tax reduction (%)
Men	8,840	1.2	59
Women	6,660	1.1	41
Total	7,790	2.4	100

* Totals may not sum due to rounding.

Chart 2.30 Share of total tax reduction and claimants by age, 2019–20



Source: Treasury

The share of the total tax reduction is highest for those in age cohorts between 30 and 59 years old (Chart 2.30). This reflects higher interest deductions associated with servicing debts (compared with those in older age cohorts who are more likely to own properties outright, or have a smaller debt owing).

2.19 Work-related expenses

Individuals can claim deductions for work-related expenses incurred in the course of earning assessable income.

Table 2.34 Estimates of aggregate tax reduction(\$m)

2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
8,000	8,300	8,500	9,100	9,900	10,400	9,900	10,400

It is estimated that around 9.8 million individuals claimed \$22.6 billion of work-related expense deductions in 2019–20. This would result in a total tax reduction of \$8.3 billion.¹²

Work-related expenses include deductions for the costs of traveling for work (including use of a private motor vehicle), clothing, laundry and dry-cleaning expenses, and self-education expenses. Other work-related expenses that can be claimed, if incurred in the course of earning assessable income, include expenses incurred whilst working from home; tools, equipment and other assets; phone, data and internet expenses; and union fees and subscriptions to associations. Work-related expenses under the ‘other’ category is the largest category by total amount claimed (Table 2.35).

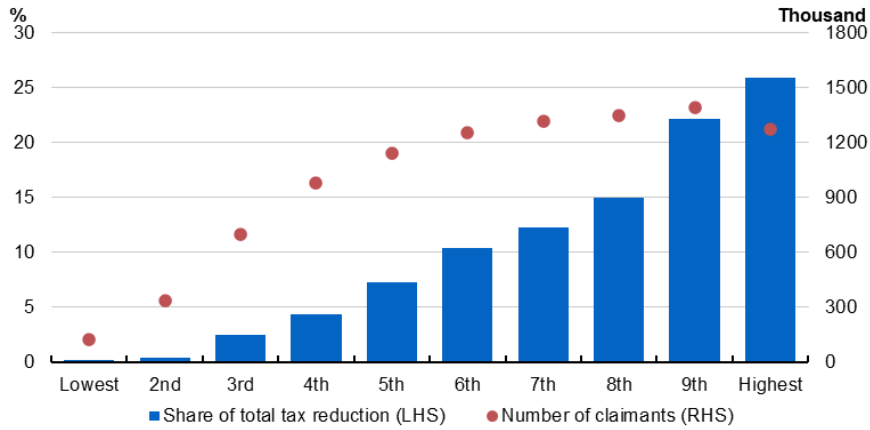
Table 2.35 Work-related expenses claims by income tax return labels, 2019–20

Type of deductions	Amount Claimed (\$ million)	Share of total (%)
Other work-related expenses	9,890	44
Work-related car expenses	7,940	35
Work-related travel expenses	1,900	8
Work-related clothing, laundry and dry-cleaning expenses	1,770	8
Work-related self-education expenses	1,140	5

In 2019–20, 86 per cent of the total tax reduction went to people with above median taxable income, and 26 per cent of the total tax reduction went to people in the top taxable income decile (Chart 2.31). The number of people claiming work-related expense deductions and the share of the total tax reduction rises with income.

¹² Estimates of the total tax reduction are produced by excluding work-related expense deductions from the calculation of taxable income and calculating the associated increase in revenue in the given income year.

Chart 2.31 Share of total tax reduction and claimants by taxable income decile, 2019–20



Source: Treasury

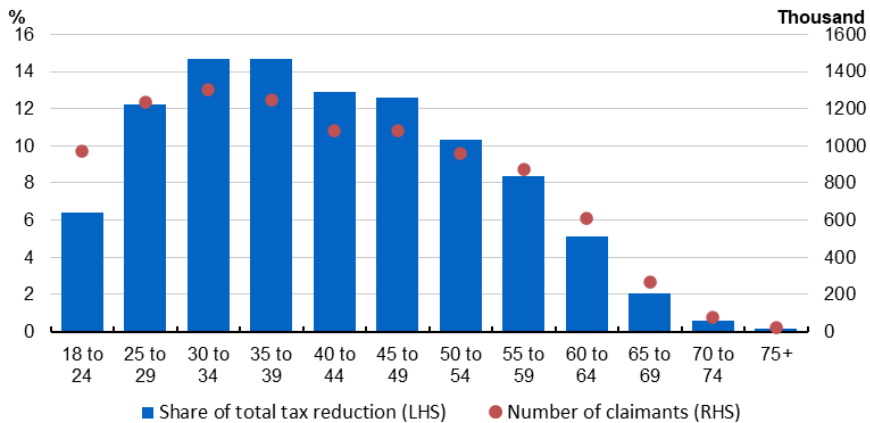
Table 2.36 Distributional effect by gender, 2019–20

Gender	Average tax reduction (\$)	Claimants (million)	Share of total tax reduction (%)
Men	1,050	5.1	65
Women	600	4.7	35
Total	840	9.8	100

Around 5.1 million men claimed work-related expense deductions compared to 4.7 million women (Table 2.36). Men also derive a greater tax reduction on average, driven by both higher average claims and higher average taxable incomes.

Work-related expenses are claimed broadly across the working age population (Chart 2.32). Around 71 per cent of those aged between 25 and 59 years old claimed work-related expense deductions in 2019–20, with the largest share of the total tax reduction received by those 30 to 39 years old.

Chart 2.32 Share of total tax reduction and claimants by age, 2019–20



Source: Treasury

2.20 Cost of managing tax affairs and other deductions

Individuals can claim a deduction for costs they incur in meeting their tax obligations including for tax advice and costs associated with preparing a tax return, as well as expenses relating to earning interest or dividend income.

Table 2.37 Estimates of aggregate tax reduction(\$m)

2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
1,400	1,400	1,300	1,500	1,600	1,600	1,600	1,700

It is estimated that around 6.6 million individuals claimed \$4.0 billion of these deductions associated with cost of managing tax affairs and other deductions in 2019-20. This would result in a total tax reduction of \$1.4 billion.¹³

The largest category in this grouping is ‘other expenses incurred in managing tax affairs’, which includes the cost of tax advice as well as purchases of tax software or reference materials. Dividend deductions are the second largest category and are available to claim for interest charged on money borrowed to buy shares and other related investments that assessable interest or dividend income is derived from.

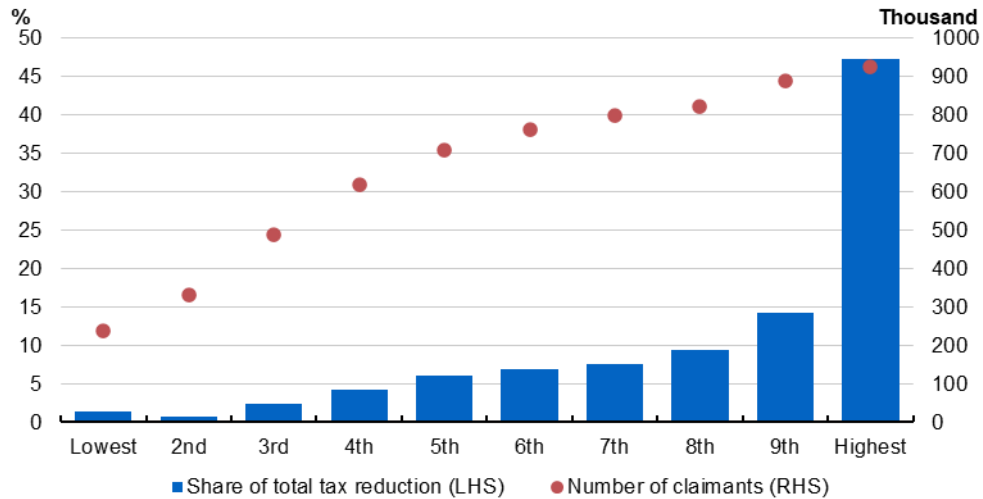
Table 2.38 Cost of managing tax affairs and investment deduction claims by income tax return labels, 2019–20

Type of deductions	Amount Claimed (\$ million)	Share of total (%)
Other expenses incurred in managing tax affairs	2,080	52
Dividend deductions	890	22
Interest deductions	650	16
Interest charged by the ATO	330	8
Litigation costs	20	1

In 2019–20, 85 per cent of the total tax reduction went to people with above median income, and 47 per cent of the total tax reduction went to people in the top income decile (Chart 2.33). Both the share of the total tax reduction and the number of people claiming deductions increases with income from the second decile. As with other types of deductions, individuals with higher taxable incomes receive a greater tax reduction per dollar of taxable income reduced by deductions.

¹³ Estimates of the total tax reduction are produced by excluding the cost of managing tax affairs, interest deductions and dividend deductions from the calculation of taxable income and calculating the associated increase in revenue in the given income year.

Chart 2.33 Share of total tax reduction and claimants by taxable income decile, 2019–20

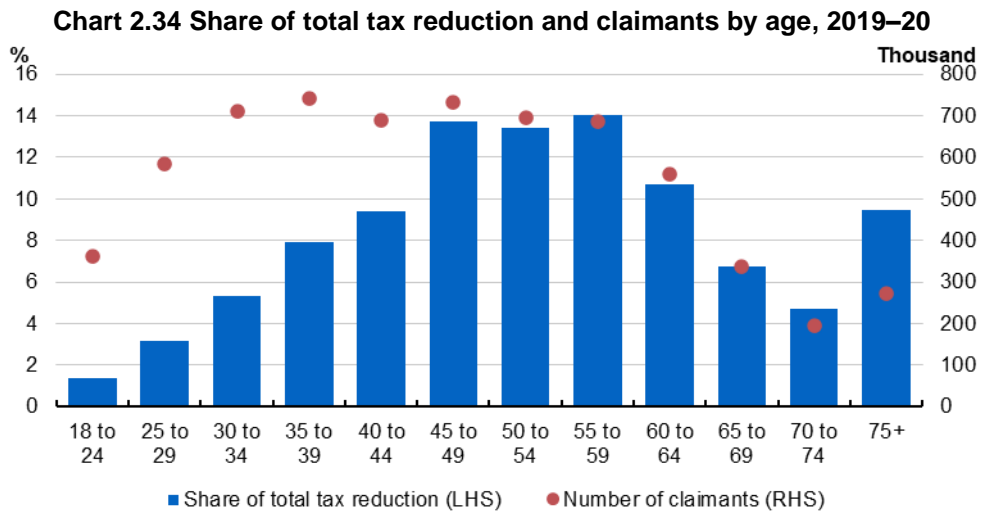


Source: Treasury

Around 3.6 million men claimed these deductions and received an average tax reduction of \$250 in 2019–20 (Table 2.39). Men claiming these deductions had average taxable incomes \$26,600 higher than women and claimed on average \$180 more in deductions.

Table 2.39 Distributional effect by gender, 2019–20

Gender	Average tax reduction (\$)	Claimants (million)	Share of total tax reduction (%)
Men	250	3.6	66
Women	150	3.0	34
Total	200	6.6	100



Source: Treasury

The number of individuals claiming cost of managing tax affairs and interest deductions broadly reflect the distribution of taxable income by age (Chart 2.34). Relative to the number of claimants, the average claim is particularly high for those aged 75 or older who have claimed these deductions. This is driven by a larger share of people claiming large interest and dividend deductions. The increase in the share of the total tax reduction above age 70 may reflect greater complexity of the tax affairs of individuals in these cohorts.

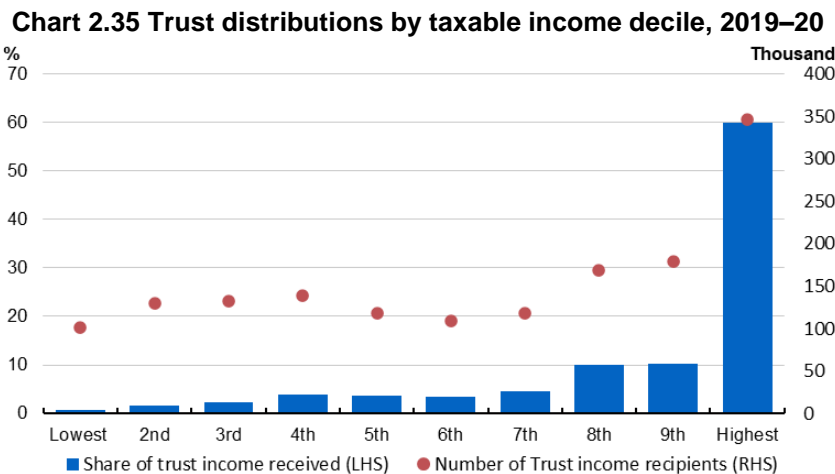
2.21 Trust distributions to individuals

Trusts are flow-through vehicles and are not considered separate tax units under the personal income tax benchmark. Income earned by trusts is generally taxable in the hands of the recipients and hence tax paid on trust income will depend on the average marginal tax rate of recipients. The following analysis examines the characteristics of recipients of income from trusts. Recipients can include companies. However, the analysis only examines the income received from trusts by individuals.¹⁴

Low-income individuals under the effective tax-free threshold, who received income but did not have any tax withheld during the year, may not need to lodge a tax return. Due to the lack of data, the analysis below only includes those individuals who have lodged a personal income tax return for the 2019–20 income year.¹⁵

Around 1.5 million individuals, reported receiving a total of almost \$52 billion in net trust income in 2019–20. This was just over 10 per cent of those lodging a tax return.

Around 75 per cent of individuals reporting income from trusts have taxable incomes, which includes their income from trusts and other sources, of less than \$120,000. For those in the ninth income decile and below, the share of income received from trusts in 2019–20 ranged from 1 per cent to 10 per cent (Chart 2.35). The top decile's share from trusts was almost 6 times larger at around 60 per cent.



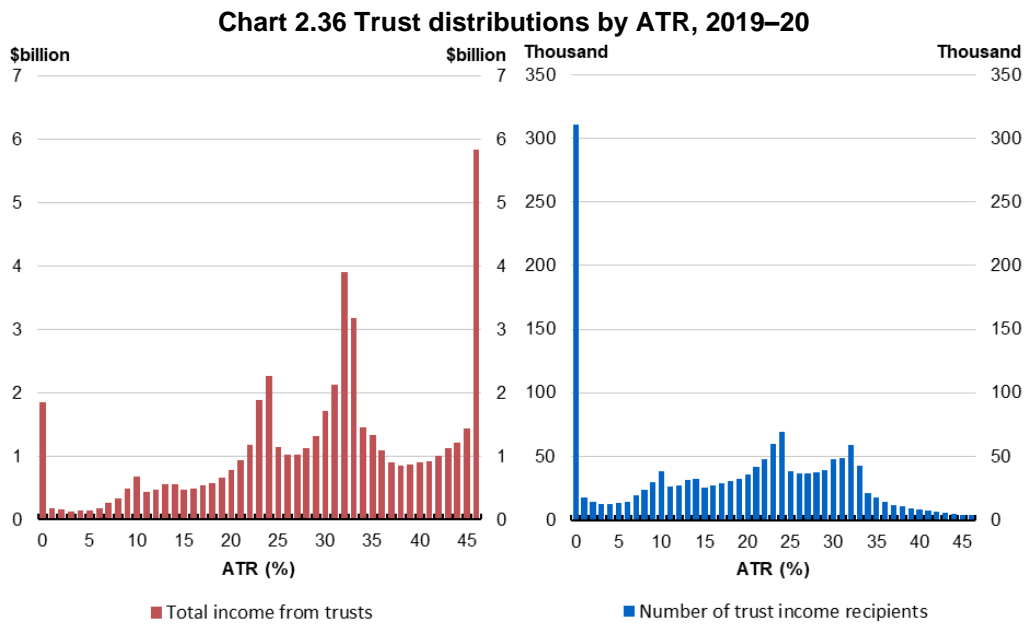
Source: Treasury

14 Income from trusts is derived from the supplementary section of the individual income tax returns and includes distributions from family and discretionary trusts and some unit trusts including managed funds.

15 Analysis draws on ATO Personal Income Tax Return data and does not include information from trust distribution statements. Deciles are calculated by including all individuals who lodge a tax return.

Around 22 per cent of those who receive trust distributions are in the top income decile, accounting for around 60 per cent of all trust distributions. This is due to a small number of individuals receiving very large amounts of income from trusts.

As income from trusts is ultimately taxed in the hands of the recipients, the distributions are subject to the marginal tax rates of the individual receiving the income. Examining income from trusts by average tax rates (ATRs)¹⁶ of recipients provides insights on how much tax is paid on trust income.



Source: Treasury

In 2019–20, around 80 per cent of income from trusts was subject to an ATR (including Medicare levy) of at least 20 per cent with almost 55 per cent subject to tax of greater than 30 per cent (Chart 2.36). There were a small number of individuals who receive significant income from trusts who have average tax rates of greater than 45 per cent.

Around 20 per cent of individuals receiving income from trusts were not subject to any tax as these individuals were under the effective tax-free threshold.

¹⁶ The average tax rate is the share of taxable income paid in personal income tax. This differs to the marginal tax rate which is the rate imposed on the last dollar of income.

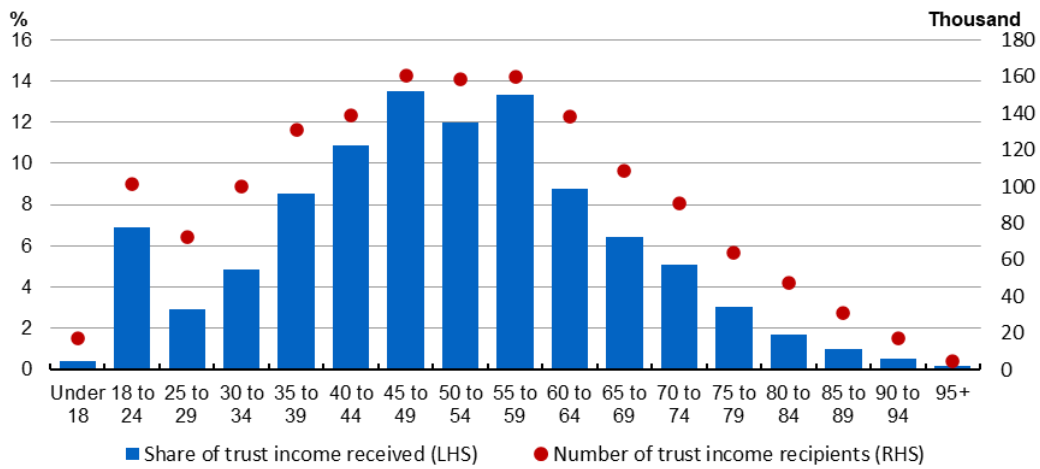
Table 2.40 Trust distributions by gender, 2019–20*

Gender	Average Trust Income (\$)	Median Trust Income (\$)	Recipients (million)	Share of total Trust Income (%)
Men	34,980	3,430	0.8	51
Women	32,290	3,940	0.8	49
Total	33,610	3,700	1.5	100

* Totals may not sum due to rounding.

While more women received a trust distribution, men received a larger share of total trust income because they received an average trust distribution of \$34,980 in 2019–20, while women received an average of \$32,290.

Chart 2.37 Share of trust distributions by age, 2019–20



Source: Treasury

Trust distributions are concentrated amongst the working age population, both by number of individuals receiving income from trusts and the share of trust income received (Chart 2.37). Around half of those receiving income from trusts in 2019–20 were aged between 35 and 60 years old and this cohort received about 60 per cent of all trust income.

There was a spike in the average income from trusts for individuals aged between 18 and 24 years old in 2019–20. The average distribution for this cohort was around \$35,150, slightly higher than the overall average of around \$33,610.

2.22 Franking credits received by individuals

Australian companies generally pay income tax on their profits before distributing some of those profits to their shareholders as dividends. These distributions can include a credit (referred to as a franking credit) for the tax already paid by the company. Individuals receiving such franked dividends include the dividend amount and the attached franking credits in their assessable income but have their tax liability reduced by a franking tax offset equivalent to the franking credit. Excess franking tax offset amounts are refunded, after any income tax and Medicare levy liabilities have been met.

These arrangements, known as dividend imputation, prevent the double taxation of company profits distributed to resident shareholders, consistent with the income tax benchmark.

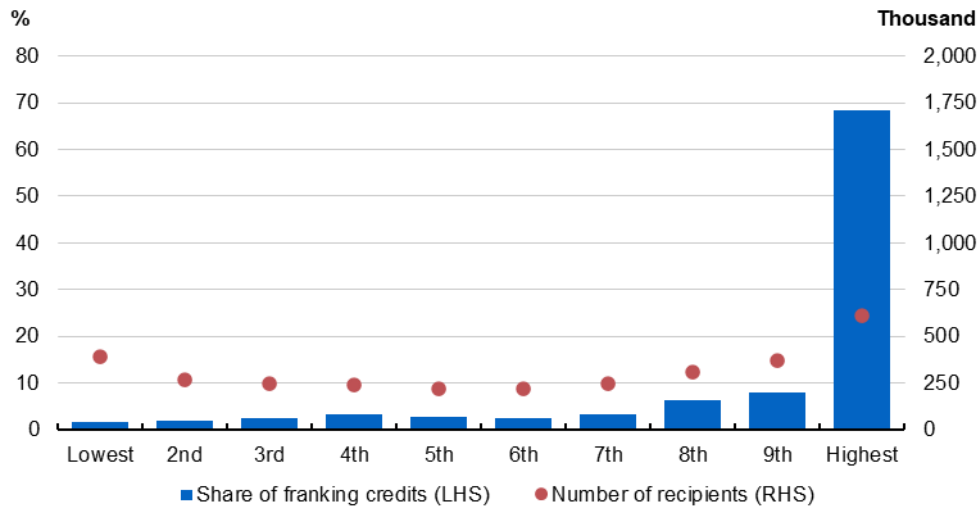
In 2019-20, around \$67 billion of franking credits were distributed by Australian companies. Around \$17.2 billion of these were claimed by 3.1 million residents on their individual tax returns that year, with the remainder flowing to other local entities including other companies, superannuation funds and charities, or overseas.¹⁷

Of the \$17.2 billion in franking credits claimed by individuals in 2019-20, around \$10.1 billion was received directly, with the remainder coming indirectly via one or more partnerships or trusts.¹⁸

17 In 2019-20, an estimated \$19 billion of franking credits flowed (whether directly or via a partnership or trust) to Australian companies, \$5.6 billion to Australian Prudential Regulation Authority-regulated and other superannuation funds, \$3.2 billion to self-managed superannuation funds and \$2.1 billion to income tax exempt entities. The remaining \$20 billion of credits distributed flowed elsewhere, including to foreigners not able to use them to offset Australian tax paid. The distributional information shown here focuses on individual recipients only, where the underlying data are most readily available and reliable.

18 Some people who do not lodge a tax return are able to claim their franking credits separately. These amounts, estimated to be approximately \$650 million are not included in the distributional analysis presented here.

Chart 2.38 Franking credits received by taxable income decile, 2019–20



Source: Treasury

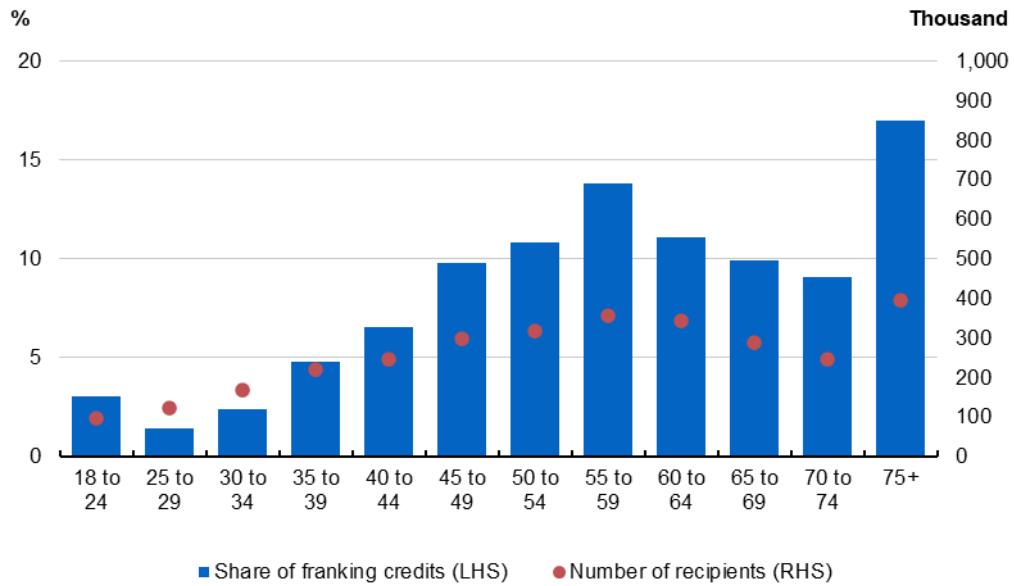
Around 88 per cent of this \$17.2 billion in franking credits were received by people with above median taxable income, including 68 per cent by people in the top taxable income decile (Chart 2.38). Around one-in-five (19 per cent) of people receiving franking credits were in the top income decile. They received an average of \$19,300 of franking credits.

Around the same number of men and women received franking credits in 2019-20, with men receiving a higher amount on average (Table 2.41). Overall, men received around 54 per cent of the franking credits flowing to resident individuals.

Table 2.41 Franking credits received by gender, 2019–20

Gender	Average franking credit amount (\$)	Recipients (million)	Share of total credits received (%)
Men	5,870	1.6	54
Women	5,100	1.6	46
Total	5,490	3.1	100

Chart 2.39 Franking credits received by age, 2019–20



Source: Treasury

Those aged 50 and over received nearly three-quarters (72 per cent) of the credits received by individuals, with the cohort aged 75 and over accounting for the largest number of individual credit recipients (395,000), highest average amount received (\$7,357), as well as the largest share of credits received in aggregate (Chart 2.39).

APPENDIX

This appendix provides further detailed information about the estimates of tax expenditures and the benchmark tax treatments used in the Statement.

A.1 Revenue forgone estimates for all tax expenditures

Appendix A.1 contains disaggregated estimates of revenue forgone over the forward estimates period due to all identified tax expenditures, consistent with the requirements outlined in Section 16 of the *Charter of Budget Honesty Act 1998*. It also includes a description of the operation of the tax expenditure as well as legislative references and date of commencement.

Tax expenditures have been grouped in this appendix by the type of taxpayer affected. Table A1.1 disaggregates tax expenditures by the type of taxpayer affected.

Table A1.1 Number of tax expenditures by category

Tax expenditure category	Number of tax expenditures
Personal income tax	62
Business income tax	89
Superannuation tax	12
Fringe benefits tax	52
Capital gains tax	32
Indirect taxes excluding GST	21
Natural resource taxes	7
Goods and services tax	26
Total	301

For each tax expenditure, the reliability of the estimate (where quantified) has been assessed by considering:

- the reliability of the available data
- the underlying assumptions made where no data, or insufficient data, is available
- other relevant factors (for example, the volatility of growth rates over time).

The following codes apply where a point estimate is not available:

- nil
- .. not zero but rounded to zero
- * unquantifiable
- nfp not for publication due to commercial sensitivities

Tax Expenditures and Insights Statement

Where tax expenditures are not quantifiable, an order of magnitude is provided using the categories set out below, with a sign indicating whether it is a positive or negative tax expenditure.

Category	Expected expenditure (\$m)
0	0 on average over reporting period
1	0-10
2	10-100
3	100-1,000
4	1,000 +
NA	not available

Personal income

TAX EXPENDITURES FOR GENERAL PUBLIC SERVICES

A1 Deduction for expenses incurred by election candidates

General public services – Legislative and executive affairs (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
5	5	5	5	5	5	5	4
<i>Tax expenditure type:</i>	Deduction				<i>2021 Code:</i>	A1	
<i>Estimate Reliability:</i>	Medium						
<i>Commencement date:</i>	Introduced before 1985				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Sections 25-60, 25-65 and 25-70 of the <i>Income Tax Assessment Act 1997</i>						

Under the benchmark, expenses are only deductible if they are connected to income earning activity. However, certain expenses incurred by candidates contesting federal, state and territory government elections are tax deductible, irrespective of whether they are successful or not. For local government elections, candidates can deduct expenses of up to \$1,000 per election. Candidates cannot usually deduct expenditure in respect of providing entertainment.

A2 Exemption of certain income earned by Australians working overseas

General public services – Foreign affairs and economic aid (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
50	45	35	35	*	*	*	*
<i>Tax expenditure type:</i>	Exemption				<i>2021 Code:</i>	A2	
<i>Estimate Reliability:</i>	Medium				<i>* Category</i>		2+
<i>Commencement date:</i>	Introduced before 1985				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Sections 23AF and 23AG of the <i>Income Tax Assessment Act 1936</i>						

The benchmark tax treatment is that income tax is paid on the taxable income of a taxpayer for an income year at their applicable rate of tax. However, income earned by Australians working overseas for a continuous period of 91 days or more may be exempt from income tax if they are employed to work on certain approved overseas projects or if their foreign employment is directly attributable to:

- the activities of the individual's employer in operating a developing country relief fund or a public disaster relief fund
- the activities of the individual's employer being a prescribed institution that is exempt from Australian income tax
- the individual's deployment outside Australia by an Australian government (or an authority thereof) as a member of a disciplined force
- an activity of a kind specified in the regulations.

Tax Expenditures and Insights Statement

This exemption may not apply where the foreign earnings are exempt from income tax in the foreign country.

A3 Exemption of income of certain visitors to Australia

General public services – Foreign affairs and economic aid (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption				<i>2021 Code:</i>	A3	
<i>Estimate Reliability:</i>	Not Applicable				<i>* Category</i>	1+	
<i>Commencement date:</i>	Introduced before 1985				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Sections 842-105 and 768-100 of the <i>Income Tax Assessment Act 1997</i>						

The benchmark tax treatment is that income tax is paid on the taxable income of a taxpayer for an income year at their applicable rate of tax. However, certain Australian-sourced income of some visitors to Australia (for example, visiting foreign government representatives and their entourages) is exempt from income tax. In addition, the official salary and foreign-sourced income of, for example, foreign government representatives visiting Australia when the Vienna Conventions on Consular or Diplomatic Relations do not apply, are exempt from income tax where their home countries provide a reciprocal exemption.

A4 Exemption of official remuneration of officials of prescribed international organisations

General public services – Foreign affairs and economic aid (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption				<i>2021 Code:</i>	A4	
<i>Estimate Reliability:</i>	Not Applicable				<i>* Category</i>	1+	
<i>Commencement date:</i>	Introduced before 1985				<i>Expiry date:</i>		
<i>Legislative reference:</i>	<i>International Organisations (Privileges and Immunities) Act 1963</i>						

The benchmark tax treatment is that personal services income derived by individuals is included in their assessable income and taxed at the applicable rate. However, the official remuneration of officials of prescribed international organisations (such as the Organisation for Economic Cooperation and Development) may be exempt from income tax as part of the privileges and immunities required under the terms of certain international agreements.

International tax expenditures

A5 Exemption for New Zealand sporting teams and support staff

Recreation and culture (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
-	-	*	*	*	*	*	-
<i>Tax expenditure type:</i>	Exemption				<i>2021 Code:</i>	A5	
<i>Estimate Reliability:</i>	Not Applicable				<i>* Category:</i>	1+	
<i>Commencement date:</i>	1 July 2020				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Legislation is yet to be passed						

The benchmark tax treatment under the Australia-New Zealand Double Tax Convention are that income tax and any associated fringe benefits tax liabilities is paid where New Zealand sportspersons and support staff spend more than 183 days in Australia in a 12-month period. However, employment income and associated fringe benefits for the 2020-21 and 2021-22 income and fringe benefits tax years for sportspersons and support staff of New Zealand sporting teams are exempt from tax in Australia where they have been required to spend an extended time in Australia to compete in league competitions due to COVID-19.

Tax expenditures for defence

A6 Australian Defence Force personnel – exemption of certain allowances

Defence (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
40	40	35	35	35	35	35	30
<i>Tax expenditure type:</i>	Exemption				<i>2021 Code:</i>	A6	
<i>Estimate Reliability:</i>	Medium						
<i>Commencement date:</i>	Introduced before 1985				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Section 51-5 of the <i>Income Tax Assessment Act 1997</i> Regulation 51-5.01 of the <i>Income Tax Assessment Regulations 1997</i>						

The benchmark tax treatment is that income tax is paid on the taxable income of a taxpayer for an income year at their applicable rate of tax. However, certain allowances payable to Australian Defence Force personnel are exempt from income tax. These include separation allowance, disturbance allowance, transfer allowance, deployment allowance and prescribed parts of rent allowance.

A7 Australian Defence Force personnel – exemption of compensation for lost deployment allowance

Defence (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption				<i>2021 Code:</i>	A7	
<i>Estimate Reliability:</i>	Not Applicable				<i>* Category</i>	1+	
<i>Commencement date:</i>	1996				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Sections 51-5 and 51-32 of the <i>Income Tax Assessment Act 1997</i>						

The benchmark tax treatment is that income tax is paid on the taxable income of a taxpayer for an income year at their applicable rate of tax. However, 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.

A8 Australian Defence Force personnel – exemption of pay and allowances earned while on eligible overseas duty

Defence (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
60	55	35	15	*	*	*	*
<i>Tax expenditure type:</i>	Exemption				<i>2021 Code:</i>	A8	
<i>Estimate Reliability:</i>	Not Applicable				<i>* Category</i>	2+	
<i>Commencement date:</i>	Introduced before 1985				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Section 23AD of the <i>Income Tax Assessment Act 1936</i>						

The benchmark tax treatment is that income tax is paid on the taxable income of a taxpayer for an income year at their applicable rate of tax. However, base pay and allowances made to Australian Defence Force personnel while on eligible overseas duty are exempt from income tax (provided they are not exempt from income tax under another provision of the income tax law).

A9 Australian Defence Force Reserve personnel – exemption of compensation for loss of pay and allowances

Defence (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
..
<i>Tax expenditure type:</i>	Exemption				<i>2021 Code:</i>	A9	
<i>Estimate Reliability:</i>	Medium				<i>Expiry date:</i>		
<i>Commencement date:</i>	1996				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Sections 51-5 and 51-33 of the <i>Income Tax Assessment Act 1997</i>						

The benchmark tax treatment is that income tax is paid on the taxable income of a taxpayer for an income year at their applicable rate of tax. However, Australian Defence Force Reserve personnel not engaged in continuous full-time service who are forced to resign due to injuries sustained while employed by the Reserves may receive

compensation for the loss of pay and allowances. Such compensation payments are exempt from income tax.

A10 Australian Defence Force Reserve personnel – exemption of pay and allowances for part-time personnel

Defence (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
85	95	90	95	100	100	95	95
<i>Tax expenditure type:</i>		Exemption			<i>2021 Code:</i>		A10
<i>Estimate Reliability:</i>		Medium					
<i>Commencement date:</i>		Introduced before 1985			<i>Expiry date:</i>		
<i>Legislative reference:</i>		Section 51-5 of the <i>Income Tax Assessment Act 1997</i>					

The benchmark tax treatment is that income tax is paid on the taxable income of a taxpayer for an income year at their applicable rate of tax. However, the pay and allowances made to part-time Australian Defence Force Reserve personnel are exempt from income tax.

A11 Exemption of some payments to Australian Federal Police and civilian personnel on service with an armed force of the United Nations

Defence (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
..
<i>Tax expenditure type:</i>		Exemption			<i>2021 Code:</i>		A11
<i>Estimate Reliability:</i>		Very Low					
<i>Commencement date:</i>		Introduced before 1985			<i>Expiry date:</i>		
<i>Legislative reference:</i>		Section 23AB of the <i>Income Tax Assessment Act 1936</i>					

The benchmark tax treatment is that income tax is paid on the taxable income of a taxpayer for an income year at their applicable rate of tax. However, Australian Federal Police and civilian personnel contributed by Australia to a United Nations armed force may receive compensation for death, impairment or incapacity resulting from their service. Such compensation payments are exempt from income tax. Associated payments, including to the estate of a deceased civilian, may also receive tax relief.

A12 Medicare levy exemption for current and veteran Australian Defence Force personnel and their relatives and associates

Defence (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
120	120	125	125	130	130	135	140
<i>Tax expenditure type:</i>		Exemption			<i>2021 Code:</i>		A12
<i>Estimate Reliability:</i>		Medium – High					
<i>Commencement date:</i>		Introduced before 1985			<i>Expiry date:</i>		
<i>Legislative reference:</i>		Sections 251T and 251U of the <i>Income Tax Assessment Act 1936</i>					

The benchmark tax treatment is that the Medicare levy is paid on the taxable income of a resident for an income year. However, a Medicare levy exemption applies to income earned by current and veteran Australian Defence Force personnel and certain others,

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for example, relatives and associates of Australian Defence Force personnel who are entitled to free medical treatment.

A13 Tax offsets for Australian Defence Force personnel serving overseas and for Australian Federal Police and civilians serving with United Nations forces

Defence (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Included in A43							
<i>Tax expenditure type:</i>	Offset				<i>2021 Code:</i>	A13	
<i>Estimate Reliability:</i>	Not Applicable						
<i>Commencement date:</i>	Introduced before 1985				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Sections 79B and 23AB(7) of the <i>Income Tax Assessment Act 1936</i>						

The benchmark tax treatment is that income tax is paid on the taxable income of a taxpayer for an income year at their applicable rate of tax. However, Australian Defence Force personnel who serve overseas in a locality specified by the Minister (because of its isolation and uncongenial nature), as well as civilian and Australian Federal Police personnel contributed by Australia to an armed force of the United Nations, may be eligible for a tax offset. The offset includes additional entitlements for individuals who maintain dependants.

Tax expenditures for education

A14 Denial of deductibility for HECS-HELP expenses

Education (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Denial of deduction				<i>2021 Code:</i>	A14	
<i>Estimate Reliability:</i>	Not Applicable				<i>* Category</i>	3-	
<i>Commencement date:</i>	1997				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Section 26-20 of the <i>Income Tax Assessment Act 1997</i>						

Under the benchmark, expenses are only deductible if they are connected to income earning activity. However, course fees and repayments for a Higher Education Contribution Scheme Higher Education Loan Program (HECS-HELP) place funded by the individual and some other loan schemes are not tax deductible, even for the proportion that relates to income earning activities.

A15 Exemption of income from certain educational scholarships, payments to apprentices or similar forms of assistance

Education (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption				<i>2021 Code:</i>	A15	
<i>Estimate Reliability:</i>	Not Applicable				<i>* Category</i>	2+	
<i>Commencement date:</i>	Introduced before 1985				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Sections 51-10, 51-35, 51-40, 51-42 and 842-105 of the <i>Income Tax Assessment Act 1997</i>						

The benchmark tax treatment is that income tax is paid on the taxable income of a taxpayer for an income year at their applicable rate of tax. However, scholarships and other education allowances paid to full-time students 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, training or education entry payments provided under the *Social Security Act 1991*). A number of other exempt educational payments are listed in the *Income Tax Assessment Act 1997*.

A16 Threshold for the deductibility of self-education expenses

Education (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
-3	-3	-3	-3	-3	..	-	-
<i>Tax expenditure type:</i>	Denial of deduction				<i>2021 Code:</i>	A16	
<i>Estimate Reliability:</i>	Low				<i>Expiry date:</i>	30 June 2023	
<i>Commencement date:</i>	Introduced before 1985				<i>Expiry date:</i>	30 June 2023	
<i>Legislative reference:</i>	Section 82A of the <i>Income Tax Assessment Act 1936</i>						

Under the benchmark, expenses are only deductible if they are connected to income earning activity. As such, self-education expenses for the purpose of maintaining or improving skills or knowledge which the taxpayer uses in their current income earning activities are deductible. However, in certain circumstances the \$250 non-deductible threshold for work-related self-education expenses requires taxpayers to reduce their self-education deduction claims by \$250. Taxpayers can reduce the \$250 non-deductible threshold using certain other self-education expenses that are non-deductible, such as child care costs.

The \$250 non-deductible threshold for work-related self-education expenses has been removed for assessments for the 2022-23 income year and later income years.

Tax expenditures for health

A17 Exemption of the Private Health Insurance Rebate

Health (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
1,610	1,550	1,540	1,480	1,500	1,590	1,630	1,570
<i>Tax expenditure type:</i>		Exemption			<i>2021 Code:</i>		A17
<i>Estimate Reliability:</i>		Medium					
<i>Commencement date:</i>		1998			<i>Expiry date:</i>		
<i>Legislative reference:</i>		Subdivision 61-G of the <i>Income Tax Assessment Act 1997</i> Part 2-2 of the <i>Private Health Insurance Act 2007</i>					

Under the benchmark, government payments to individuals are included as part of taxable income; income tax is paid on the taxable income of a taxpayer for an income year at their applicable rate. However, the Private Health Insurance Rebate, whether provided directly to individuals through a refundable tax offset or through premium reductions, is not subject to income tax.

A18 Medicare levy exemption for blind pensioners, persons not entitled to Medicare benefits and foreign government representatives

Health (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
290	325	380	415	455	495	545	595
<i>Tax expenditure type:</i>		Exemption			<i>2021 Code:</i>		A18
<i>Estimate Reliability:</i>		Medium – High					
<i>Commencement date:</i>		Introduced before 1985			<i>Expiry date:</i>		
<i>Legislative reference:</i>		Sections 251T and 251U of the <i>Income Tax Assessment Act 1936</i>					

The benchmark tax treatment is that the Medicare levy is paid on the taxable income of a resident for an income year. However, the income of certain prescribed persons is exempt from the Medicare levy. The list of prescribed persons includes recipients of specified payments made under the *Social Security Act 1991*, certain permanent residents who qualify for an exemption because of their absence from Australia, temporary residents whose home country does not have a Reciprocal Health Care Agreement with Australia and foreign government representatives.

A19 Medicare levy exemption for residents with taxable income below the low-income thresholds

Health (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
1,900	1,950	1,950	2,000	2,050	2,050	2,100	2,100
<i>Tax expenditure type:</i>		Exemption			<i>2021 Code:</i>		A19
<i>Estimate Reliability:</i>		Medium					
<i>Commencement date:</i>		Introduced before 1985			<i>Expiry date:</i>		
<i>Legislative reference:</i>		Section 7 of the <i>Medicare Levy Act 1986</i>					

The benchmark tax treatment is that the Medicare levy is paid on the taxable income of a resident for an income year. However, residents whose taxable income falls below

prescribed thresholds are exempt from the Medicare levy, with the levy phased in once their income exceeds these thresholds. Different thresholds apply for individuals, families and seniors and pensioners.

A20 Medicare levy surcharge

Health (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
-380	-460	-540	-680	-840	-910	-940	-980
<i>Tax expenditure type:</i>	Increased rate				<i>2021 Code:</i>	A20	
<i>Estimate Reliability:</i>	Medium – Low						
<i>Commencement date:</i>	1 July 1997				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Sections 8B to 8D of the <i>Medicare Levy Act 1986</i> <i>A New Tax System (Medicare Levy Surcharge – Fringe Benefits) Act 1999</i>						

The benchmark tax treatment is that the Medicare levy is paid on the taxable income of a resident for an income year. Individuals and couples who do not have a specified level of private health insurance and whose income exceeds certain thresholds are subject to an increased Medicare levy, known as the Medicare levy surcharge.

A21 Medicare levy surcharge lump sum payment in arrears tax offset

Health (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
..	..	1	..	..	..	..	..
<i>Tax expenditure type:</i>	Offset				<i>2021 Code:</i>	A21	
<i>Estimate Reliability:</i>	High						
<i>Commencement date:</i>	1 July 2005				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Subdivision 61L of the <i>Income Tax Assessment Act 1997</i>						

The benchmark tax treatment is that the Medicare levy is paid on the taxable income of a resident for an income year. However, eligible taxpayers who incur a Medicare levy surcharge liability, or an increased liability, as a result of certain lump sum payments in arrears, for example, a Commonwealth education payment, receive concessional treatment in respect of their surcharge liability.

Tax expenditures for social security and welfare

A22 Concessional taxation of lump sum payments for unused recreation and long service leave

Social security and welfare (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
190	200	230	170	190	*	*	*
<i>Tax expenditure type:</i>	Concessional rate				<i>2021 Code:</i>	A22	
<i>Estimate Reliability:</i>	Medium				<i>* Category</i>	3+	
<i>Commencement date:</i>	1993				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Subdivisions 83-A and 83-B of the <i>Income Tax Assessment Act 1997</i>						

The benchmark tax treatment is that income tax is paid on the taxable income of a taxpayer for an income year at their applicable rate of tax. However, a maximum tax rate of 30 per cent, excluding 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.

A23 Concessional taxation of non-superannuation termination benefits

Social security and welfare (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
2,000	2,100	2,500	1,500	1,550	*	*	*
<i>Tax expenditure type:</i>	Concessional rate				<i>2021 Code:</i>	A23	
<i>Estimate Reliability:</i>	Low				<i>* Category</i>	4+	
<i>Commencement date:</i>	Introduced before 1985				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Division 82 of the <i>Income Tax (Transitional Provisions) Act 1997</i> Division 82 of the <i>Income Tax Assessment Act 1997</i> Subdivision 83-C of the <i>Income Tax Assessment Act 1997</i>						

The benchmark tax treatment is that income tax is paid on the taxable income of a taxpayer for an income year at their applicable rate of tax. However, non-superannuation termination payments, known as employment termination payments (ETPs), receive concessional tax treatment dependent on the circumstances of the taxpayer.

From 1 July 2019, the age below which persons can receive genuine redundancy and early retirement scheme payments was increased from 65 years of age to align with the Age Pension qualifying age. Genuine redundancy and early retirement scheme payments are tax-free up to a limit, and amounts in excess of this limit are taxed as an ETP.

A24 Concessional taxation of unused long service leave accumulated prior to 16 August 1978

Social security and welfare (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
20	20	15	15	10	10	10	10
<i>Tax expenditure type:</i>	Concessional rate				<i>2021 Code:</i>		A24
<i>Estimate Reliability:</i>	Medium – High						
<i>Commencement date:</i>	Introduced before 1985				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Subdivision 83-B of the <i>Income Tax Assessment Act 1997</i>						

The benchmark tax treatment is that income tax is paid on the taxable income of a taxpayer for an income year at their applicable rate of tax. However, a reduced tax rate applies to lump sum payments for unused long service leave which accrued prior to 16 August 1978. Five per cent of such payments is included in the taxpayer's assessable income and is subject to tax at marginal rates.

A25 Exemption for National Disability Insurance Scheme amounts

Social security and welfare (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
1,480	3,550	4,520	5,920	8,080	9,130	10,210	11,960
<i>Tax expenditure type:</i>	Exemption				<i>2021 Code:</i>		A25
<i>Estimate Reliability:</i>	Low						
<i>Commencement date:</i>	1 July 2013				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Sections 26-97, 40-235, and 52-180 of the <i>Income Tax Assessment Act 1997</i>						

Under the benchmark, government payments to individuals are included as part of taxable income; income tax is paid on the taxable income of a taxpayer for an income year at their applicable rate. However, payments and benefits provided under the National Disability Insurance Scheme (NDIS), whether directly or otherwise, to NDIS participants for approved reasonable and necessary supports are exempt from income tax.

A26 Exemption of Child Care Assistance payments

Social security and welfare (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
2,050	2,100	2,300	2,600	2,900	3,500	3,500	3,650
<i>Tax expenditure type:</i>	Exemption				<i>2021 Code:</i>		A26
<i>Estimate Reliability:</i>	Medium – Low						
<i>Commencement date:</i>	1 July 2007				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Section 52-150 of the <i>Income Tax Assessment Act 1997</i>						

Under the benchmark, government payments to individuals are included as part of taxable income; income tax is paid on the taxable income of a taxpayer for an income year at their applicable rate. However, the Child Care Subsidy, introduced on 2 July 2018 to replace the child care fee assistance provided by Child Care Benefit and Child Care Rebate payments, is exempt from income tax. The Child Care Rebate and Child Care Benefit were also exempt from income tax.

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A27 Exemption of disaster relief payments

Social security and welfare (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
60	80	140	3,950	*	*	*	*
<i>Tax expenditure type:</i>	Exemption				<i>2021 Code:</i>		A27
<i>Estimate Reliability:</i>	Medium – High				<i>* Category</i>		4+
<i>Commencement date:</i>	8 July 1997				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Sections 11-15, 51-30, 51-125, 52-40, 53-25, 59-60, 59-95 and 59-96 of the <i>Income Tax Assessment Act 1997</i>						

Under the benchmark, government payments to individuals are included as part of taxable income; income tax is paid on the taxable income of a taxpayer for an income year at their applicable rate. However, certain payments such as Australian Government disaster recovery payments are exempt from income tax.

Tax concessions for certain taxpayers

A28 Beneficiary tax offset

Social security and welfare (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
95	85	195	805	195	195	210	230
<i>Tax expenditure type:</i>	Offset				<i>2021 Code:</i>		A28
<i>Estimate Reliability:</i>	Medium – Low						
<i>Commencement date:</i>	Introduced before 1985				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Section 160AAA of the <i>Income Tax Assessment Act 1936</i>						

Under the benchmark, government payments to individuals are included as part of taxable income; income tax is paid on the taxable income of a taxpayer for an income year at their applicable rate. However, taxpayers who receive certain social security benefits and allowances may be eligible for the beneficiary tax offset, which ensures that people whose only income during the year is from the benefit or allowance will not pay any tax.

A29 Dependant (invalid and carer) tax offset

Social security and welfare (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
4	4	3	3	2	2	2	1
<i>Tax expenditure type:</i>	Offset				<i>2021 Code:</i>		A29
<i>Estimate Reliability:</i>	Low						
<i>Commencement date:</i>	Introduced before 1985				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Subdivision 61-A of the <i>Income Tax Assessment Act 1997</i>						

The benchmark tax treatment is that income tax is paid on the taxable income of a taxpayer for an income year at their applicable rate of tax. However, the dependant (invalid and carer) tax offset reduces the amount of tax payable for taxpayers who maintain a dependant or are unable to work due to carer obligations or disability.

A30 Release from particular tax liabilities in cases of serious hardship

Social security and welfare (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
43	30	36	32	*	*	*	*
<i>Tax expenditure type:</i>	Exemption, Concessional rate				<i>2021 Code:</i>	A30	
<i>Estimate Reliability:</i>	High				<i>* Category</i>	2+	
<i>Commencement date:</i>	Introduced before 1985				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Division 340 in Schedule 1 to the <i>Tax Administration Act 1953</i>						

The benchmark tax treatment is that income tax is paid on the taxable income of a taxpayer for an income year at their applicable rate of tax. However, 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 Seniors and pensioners tax offset

Social security and welfare (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
890	900	710	540	860	1,000	1,000	1,000
<i>Tax expenditure type:</i>	Offset				<i>2021 Code:</i>	A31	
<i>Estimate Reliability:</i>	Medium				<i>Expiry date:</i>		
<i>Commencement date:</i>	1 July 1996				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Sections 160AAAA and 160AAAB of the <i>Income Tax Assessment Act 1936</i>						

Under the benchmark, government payments to individuals are included as part of taxable income; income tax is paid on the taxable income of a taxpayer for an income year at their applicable rate. However, the seniors and pensioners tax offset reduces the tax payable by taxpayers who receive certain taxable pensions and payments, for example, the Age Pension and the Defence Force Income Support Allowance. It also reduces the tax payable by taxpayers who are of Age Pension age but who do not receive the Age Pension because of the income or assets tests.

A32 Pacific Australia Labour Mobility Scheme

Other economic affairs – Total labour and employment affairs (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
35	50	50	95	*	*	*	*
<i>Tax expenditure type:</i>	Concessional rate				<i>2021 Code:</i>	A32	
<i>Estimate Reliability:</i>	Not Applicable				<i>* Category</i>	2+	
<i>Commencement date:</i>	2022				<i>Expiry date:</i>		
<i>Legislative reference:</i>	<i>Income Tax (Seasonal Labour Mobility Program Withholding Tax) Act 2012</i>						

The benchmark tax treatment is that income tax is paid on the taxable income of a taxpayer for an income year at their applicable rate of tax. However, workers employed under the Pacific Australia Labour Mobility (PALM) scheme (formerly the Seasonal Worker Program) are subject to a final withholding tax of 15 per cent on income that is salary, wages or allowances paid to them under the scheme, and that they derive when they are a foreign resident.

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The Seasonal Worker Program was consolidated into the PALM scheme in April 2022. The concessional rate was extended to all foreign resident workers employed under the PALM scheme from 1 July 2022.

A33 Working holiday makers

Other economic affairs – Total labour and employment affairs (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
320	390	200	135	*	*	*	*
<i>Tax expenditure type:</i>	Concessional rate				<i>2021 Code:</i>	A33	
<i>Estimate Reliability:</i>	Not Applicable				<i>* Category</i>	3+	
<i>Commencement date:</i>	1 January 2017				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Part III of Schedule 7 to the <i>Income Tax Rates Act 1986</i>						

The benchmark tax treatment is that income tax is paid on the taxable income of a taxpayer for an income year at their applicable rate of tax depending on whether they are a resident of Australia for tax purposes or not. However, from 1 January 2017 to 30 June 2020, a 15 per cent income tax rate generally applies to the Australian sourced taxable income of most working holiday makers up to \$37,000, with ordinary tax rates applying to other taxable income. From 1 July 2020, a 15 per cent income tax rate generally applies to the Australian sourced taxable income of most working holiday makers up to \$45,000, with ordinary tax rates applying to all other taxable income.

Working holiday makers from jurisdictions with which Australia holds a double taxation agreement containing an enforceable non-discrimination article (Chile, Finland, Germany, Israel, Japan, Norway, Turkey and the United Kingdom) who are also residents of Australia for tax purposes are subject to the benchmark tax treatment, instead of the 15 per cent working holiday maker tax rate.

Whether a working holiday maker is a resident for tax purposes depends on their individual circumstances.

For non-resident working holiday makers the 15 per cent rate is concessional relative to the benchmark, under which they would be taxed at 32.5 per cent from their first dollar of income. This results in a positive tax expenditure.

In contrast, the legislated treatment constitutes a negative tax expenditure for resident working holiday makers. Under the benchmark, this group would have access to a tax-free threshold of \$18,200.

A34 Exemption of foreign termination payments

Other economic affairs – Other economic affairs, nec (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
..
<i>Tax expenditure type:</i>	Exemption				<i>2021 Code:</i>	A34	
<i>Estimate Reliability:</i>	Low						
<i>Commencement date:</i>	2007				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Subdivision 83-D of the <i>Income Tax Assessment Act 1997</i>						

Under the benchmark, income tax is paid on the taxable income of a taxpayer for an income year at their applicable rate of tax. However, termination payments from foreign employment are non-assessable and non-exempt income where the taxpayer is a foreign resident. Where the taxpayer is an Australian resident for some of the period to which the termination payment relates, the payment will be non-assessable and non-exempt if:

- it was received in consequence of the termination of a period of foreign employment or engagement for the purposes of Section 23AF or Section 23AG
- the payment relates only to that period of employment or engagement
- the payment is not exempt from income tax under the law of the foreign country.

This does not apply if the payment is a superannuation benefit or a pension or annuity.

A35 Foreign income exemption for temporary residents

Other economic affairs – Other economic affairs, nec (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
85	100	100	80	75	*	*	*
<i>Tax expenditure type:</i>	Exemption				<i>2021 Code:</i>	A35	
<i>Estimate Reliability:</i>	Low				<i>* Category</i>	3+	
<i>Commencement date:</i>	2006				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Subdivision 768-R of the <i>Income Tax Assessment Act 1997</i>						

The benchmark tax treatment is that income tax is paid on the taxable income of a taxpayer for an income year at their applicable rate of tax. However, foreign source income of temporary residents is generally non-assessable and non-exempt, and capital gains and losses are also generally disregarded for income tax purposes. Interest paid to foreign lenders by temporary residents is exempt from withholding tax.

A36 Income tax exemption for Australian staff of the Asian Development Bank

Other economic affairs – Other economic affairs, nec (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
1	1	1	1	1	1	1	1
<i>Tax expenditure type:</i>	Exemption				<i>2021 Code:</i>		A36
<i>Estimate Reliability:</i>	Medium – Low						
<i>Commencement date:</i>	2005				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Regulation 6 of the <i>Asian Development Bank (Privileges and Immunities) Regulations 1967</i>						

The benchmark tax treatment is that income tax is paid on the taxable income of a taxpayer for an income year at their applicable rate of tax. However, 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.

Tax exemptions for certain government income support payments

A37 Exemption of certain income support benefits, pensions or allowances

Social security and welfare (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
1,100	1,820	1,810	1,330	1,260	1,320	1,270	1,330
<i>Tax expenditure type:</i>	Exemption				<i>2021 Code:</i>		A37
<i>Estimate Reliability:</i>	Medium						
<i>Commencement date:</i>	Introduced before 1985				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Subdivisions 52-A, 52-E and 52-F of the <i>Income Tax Assessment Act 1997</i>						

Under the benchmark, government payments to individuals are included as part of taxable income; income tax is paid on the taxable income of a taxpayer for an income year at their applicable rate. However, certain social security payments are partly or fully exempt from income tax. These include: certain pensions; benefits; allowances and repatriation pensions paid under the *Social Security Act 1991*, for example, Disability Support Pension and Carer Payment paid to individuals under Age Pension age; certain amounts of Commonwealth education or training payment; certain parts of payments under the ABSTUDY scheme; and the one-off Cost of Living Payment.

A38 Exemption of Family Tax Benefit payments

Social security and welfare (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
1,800	1,910	1,790	1,550	1,790	1,980	1,900	1,960
<i>Tax expenditure type:</i>	Exemption				<i>2021 Code:</i>		A38
<i>Estimate Reliability:</i>	Medium						
<i>Commencement date:</i>	2000				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Section 52-150 of the <i>Income Tax Assessment Act 1997</i>						

Under the benchmark, government payments to individuals are included as part of taxable income; income tax is paid on the taxable income of a taxpayer for an income year at their applicable rate. However, Family Tax Benefit payments are exempt from income tax.

A39 Exemptions of certain veterans' pensions, allowances or benefits, compensation, and particular World War II-related payments for persecution

Social security and welfare (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
810	860	850	850	870	880	800	780
<i>Tax expenditure type:</i>	Exemption				<i>2021 Code:</i>		A39
<i>Estimate Reliability:</i>	Medium						
<i>Commencement date:</i>	Introduced before 1985				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Subdivisions 52-B, 52-C, 52-CA and 52-CB and Section 768-105 of the <i>Income Tax Assessment Act 1997</i>						

Under the benchmark, government payments to individuals are included as part of taxable income; income tax is paid on the taxable income of a taxpayer for an income year at their applicable rate. However, repatriation pensions, certain payments under the *Veterans Entitlements Act 1986* and *Military Rehabilitation and Compensation Act 2004*, payments under the *Australian Participants in British Nuclear Tests and British Commonwealth Occupation Force (Treatment) Act 2006*, certain foreign source World War II payments and compensation provided for legal advice to beneficiaries under the *Military Rehabilitation and Compensation Act 2004* are wholly or partly exempt from income tax.

Australian participants in the British nuclear tests of the 1950s and Australian veterans of the British Commonwealth Occupation Force that receive medical treatment using the Department of Veterans' Affairs Gold Card are exempt from the Medicare levy and Medicare levy surcharge.

Tax expenditures for housing and community amenities

A40 Denial of deduction of travel expenses for residential rental property

Housing and community amenities (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
-110	-130	-135	-120	-145	-170	-180	-170
<i>Tax expenditure type:</i>		Denial of deduction			<i>2021 Code:</i>		A40
<i>Estimate Reliability:</i>		Not Applicable					
<i>Commencement date:</i>		1 July 2017			<i>Expiry date:</i>		
<i>Legislative reference:</i>		Section 26-31 of the <i>Income Tax Assessment Act 1997</i>					

Under the benchmark, expenses connected to income earning activity or a business are deductible. However, taxpayers are not able to claim a deduction for travel expenses related to inspecting, maintaining or collecting rent for a residential rental property. Expenses incurred in engaging third parties such as real estate agents for property management services remain deductible.

A41 Denial of deductions for vacant land

Housing and community amenities (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
-	-	-25	-25	-25	-25	-25	-25
<i>Tax expenditure type:</i>		Denial of deduction			<i>2021 Code:</i>		A41
<i>Estimate Reliability:</i>		Low					
<i>Commencement date:</i>		1 July 2019			<i>Expiry date:</i>		
<i>Legislative reference:</i>		Section 26-102 of the <i>Income Tax Assessment Act 1997</i>					

Under the benchmark, expenses connected to income earning activity are deductible. From 1 July 2019, deductions are denied for some taxpayers for expenses associated with holding vacant land. Expenses for which deductions are denied that would ordinarily be a cost base element may be included in the cost base of the asset for capital gains tax purposes.

Deductions continue to be available in a range of circumstances, including where:

- there is a substantial building or structure on the land
- the land is being used, or held available for use, by the taxpayer or a related entity in carrying on a business, including a business of primary production (such as farming)
- the land is rented out by a taxpayer where they or a related entity are carrying on a business of primary production.

Furthermore, deductions continue to be available for land held by corporate tax entities, managed investment trusts, superannuation plans (other than self-managed superannuation funds), and public unit trusts.

A42 Exemption of payments made under the First Home Owner Grant scheme

Housing and community amenities (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
215	180	170	250	200	200	205	190
<i>Tax expenditure type:</i>	Exemption				<i>2021 Code:</i>		A42
<i>Estimate Reliability:</i>	Medium – Low						
<i>Commencement date:</i>	1 January 2000				<i>Expiry date:</i>		
<i>Legislative reference:</i>	A New Tax System (Commonwealth State Financial Arrangements) Act 1999 Appendix A, Intergovernmental Agreement on Federal Financial Relations Appropriation (Economic Security Strategy) Act (No. 2) 2008-09 and relevant state legislation.						

The benchmark tax treatment is that income tax is paid on the taxable income of a taxpayer for an income year at their applicable rate of tax. However, payments made under the First Home Owner Grant Scheme are exempt from income tax.

A43 Zone tax offsets

Housing and community amenities (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
130	130	125	120	120	125	130	135
<i>Tax expenditure type:</i>	Offset				<i>2021 Code:</i>		A43
<i>Estimate Reliability:</i>	Medium – High						
<i>Commencement date:</i>	Introduced before 1985				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Section 79A of the <i>Income Tax Assessment Act 1936</i>						

Note: estimates include tax expenditures A43 and A12

The benchmark tax treatment is that income tax is paid on the taxable income of a taxpayer for an income year at their applicable rate of tax. However, taxpayers who live in prescribed remote areas of Australia are eligible for a tax offset, reducing their tax payable. Eligibility and the amount of the tax offset varies depending on the taxpayer's location.

From 1 July 2015, 'fly-in fly-out' workers whose normal residence is not in a zone are excluded from the offset. If their normal residence is in a different zone to the one in which they work, they receive the offset applicable to the zone in which they normally reside.

Tax expenditures for recreation and culture

A44 Income averaging for authors, inventors, performing artists, production associates and sportspersons

Recreation and culture (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
40	40	40	40	40	40	35	35
<i>Tax expenditure type:</i>		Concessional rate			<i>2021 Code:</i>		A44
<i>Estimate Reliability:</i>		Medium – High					
<i>Commencement date:</i>		1998			<i>Expiry date:</i>		
<i>Legislative reference:</i>		Division 405 of the <i>Income Tax Assessment Act 1997</i>					

The benchmark tax treatment is that income tax is calculated on the taxable income of a taxpayer for an income year at their applicable rate of tax.

However, special professionals (such as authors, composers, artists, inventors, performing artists, production associates and sportspersons) whose income can fluctuate significantly between income years, may be eligible for an income averaging scheme that reduces their overall tax liability.

A45 Income tax exemption of certain Prime Minister's prizes

Recreation and culture (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
..
<i>Tax expenditure type:</i>		Exemption			<i>2021 Code:</i>		A45
<i>Estimate Reliability:</i>		Medium					
<i>Commencement date:</i>		1 July 2006			<i>Expiry date:</i>		
<i>Legislative reference:</i>		Section 51-60 of the <i>Income Tax Assessment Act 1997</i>					

The benchmark tax treatment is that income tax is paid on the taxable income of a taxpayer for an income year at their applicable rate of tax. However, the Prime Minister's Prize for Australian History, the Prime Minister's Prize for Science and the Prime Minister's Literary Award are exempt from income tax.

Tax expenditures for other economic affairs

A46 Deductibility of COVID-19 test expenses

Other economic affairs – Total labour and employment affairs (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
-	-	-	-	35	*	*	*
<i>Tax expenditure type:</i>	Deduction				<i>2021 Code:</i>	New	
<i>Estimate Reliability:</i>	Medium – High				<i>* Category</i>	2+	
<i>Commencement date:</i>	1 July 2021				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Section 25-125 <i>Income Tax Assessment Act 1997</i>						

Under the benchmark, expenses are only deductible if they are connected to income earning activity. However, from 1 July 2021, the costs of taking a COVID-19 test to attend a place of work are tax deductible for individuals.

A47 Non-commercial losses deductions allowed for certain taxpayers with an adjusted taxable income under \$250,000

Other economic affairs – Total labour and employment affairs (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Deduction				<i>2021 Code:</i>	A46	
<i>Estimate Reliability:</i>	Not Applicable				<i>* Category</i>	3+	
<i>Commencement date:</i>	1 July 2000				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Division 35 of the <i>Income Tax Assessment Act 1997</i>						

Under the benchmark, losses arising from non-commercial business activities generally cannot be claimed as a deduction against other assessable income.

However, under the non-commercial loss rules, individuals carrying on a business and who have an adjusted taxable income of less than \$250,000 may apply losses from a business activity against their other assessable income in that year if they satisfy one of four statutory tests, or if the Commissioner of Taxation exercises discretion.

This treatment results in some business activities that are non-commercial in nature being treated as commercial. Allowing losses from these activities to be offset against other assessable income gives rise to a tax expenditure.

A48 Non-commercial losses exception rules for primary producers and artists

Other economic affairs – Total labour and employment affairs (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
5	5	5	5	5	5	5	5
<i>Tax expenditure type:</i>		Exemption			<i>2021 Code:</i>		A47
<i>Estimate Reliability:</i>		Medium					
<i>Commencement date:</i>		1 July 2000			<i>Expiry date:</i>		
<i>Legislative reference:</i>		Subsection 35-10(4) of the <i>Income Tax Assessment Act 1997</i>					

Under the benchmark, losses arising from non-commercial business activities generally cannot be claimed as a deduction against other assessable income.

However, individuals that carry on a primary production or professional arts business, with assessable income from other sources of less than \$40,000 (except net capital gains), can generally apply these losses against their other income as they are exempt from the non-commercial loss rules.

This treatment results in some business activities that are non-commercial in nature being treated as commercial. Allowing losses from these activities to be offset against other assessable income gives rise to a tax expenditure.

A49 Tax concessions for employee share schemes income

Other economic affairs – Total labour and employment affairs (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>		Exemption, Deferral			<i>2021 Code:</i>		A48
<i>Estimate Reliability:</i>		Not Applicable			<i>* Category</i>		3+
<i>Commencement date:</i>		1 January 1995			<i>Expiry date:</i>		
<i>Legislative reference:</i>		Division 83A of the <i>Income Tax Assessment Act 1997</i>					

The benchmark tax treatment is that discounts on shares and rights acquired under an employee share scheme are included in a taxpayer's assessable income in the year the shares or rights are acquired. However, there are a range of concessions available. An upfront tax exemption of \$1,000 for eligible schemes is available to taxpayers earning less than \$180,000 and a deferral of tax is available where there is a real risk of forfeiture.

On 1 July 2015, additional tax concessions for employee share schemes took effect. The taxing point for rights now generally occurs when the rights are exercised (converted to shares). There is also a tax deferral (for rights) or exemption (for shares) on the discount component of employee share schemes provided at a small discount to employees of eligible start-up companies.

On 1 July 2022, the cessation of employment taxing point for tax-deferred employee share schemes available to all companies was removed. As a result, for these schemes tax is deferred until the earliest of the remaining taxing points, namely:

- where there is no risk of forfeiture and no restrictions on disposal
- the maximum period of deferral of 15 years.

A50 Tax deferral advantage arising from personal after-tax contributions to a pension or annuity

Other economic affairs – Total labour and employment affairs (\$m)

	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
	*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Deferral					<i>2021 Code:</i>	A49	
<i>Estimate Reliability:</i>	Not Applicable					<i>* Category</i>	2+	
<i>Commencement date:</i>	Introduced before 1985					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Section 27H of the <i>Income Tax Assessment Act 1936</i>							

Under the benchmark, earnings on savings held outside of the superannuation system are included as part of an individual's taxable income with tax paid at marginal rates in the income year they are received.

However, earnings on savings supporting non-superannuation pension or annuity payments are apportioned to the recipient's taxable income evenly over the term of the income stream in each income year these payments are received. This results in a tax expenditure because it provides a tax deferral advantage to the recipient between the year earnings are received and the year those earnings are included in taxable income.

A51 Union dues and subscriptions to business associations deduction

Other economic affairs – Total labour and employment affairs (\$m)

	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26

<i>Tax expenditure type:</i>	Deduction					<i>2021 Code:</i>	A50	
<i>Estimate Reliability:</i>	Medium							
<i>Commencement date:</i>	Introduced before 1985					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Section 25-55 of the <i>Income Tax Assessment Act 1997</i>							

Under the benchmark, expenses are only deductible if they are connected to income earning activity. As such, union dues or professional association fees related to earning assessable income are deductible. However, joining fees, union dues or subscriptions to trade, business or professional associations that are not related to earning assessable income are specifically tax deductible up to a maximum amount of \$42.

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A52 Denial of deductions for illegal activities

Other economic affairs – Other economic affairs, nec (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Denial of deduction				<i>2021 Code:</i>	A51	
<i>Estimate Reliability:</i>	Not Applicable				<i>* Category</i>	1-	
<i>Commencement date:</i>	1 July 1999 (bribery), 30 April 2005 (illegal activities)				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Sections 26-52, 26-53 and 26-54 of the <i>Income Tax Assessment Act 1997</i>						

Under the benchmark, expenses incurred in earning income are deductible at historical cost. Deductibility is denied for a loss or outgoing that is a bribe to a public official, including a foreign public official.

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.

A53 Increased tax rates for certain minors

Other economic affairs – Other economic affairs, nec (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
-3	-3	-3	-3	-3	-3	-3	-3
<i>Tax expenditure type:</i>	Increased rate				<i>2021 Code:</i>	A52	
<i>Estimate Reliability:</i>	Medium – High				<i>Expiry date:</i>		
<i>Commencement date:</i>	Introduced before 1985				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Part III Division 6AA of the <i>Income Tax Assessment Act 1936</i>						

The benchmark tax treatment is that income tax is paid on the taxable income of a taxpayer for an income year at their applicable rate of tax. However, higher rates of taxation apply to the unearned income of certain minors (for example, those classed as not being in a full-time occupation). Unearned income includes dividend, interest, rent, royalties and other income from property. Further, minors are unable to use the low income tax offset or the low and middle income tax offset to reduce the tax payable on unearned income.

A54 Limit plant and equipment depreciation deductions to outlays actually incurred by investors

Other economic affairs – Other economic affairs, nec (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
-45	-110	-115	-125	-135	-140	-140	-130
<i>Tax expenditure type:</i>	Denial of deduction				<i>2021 Code:</i>	A53	
<i>Estimate Reliability:</i>	Low				<i>Expiry date:</i>		
<i>Commencement date:</i>	1 July 2017				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Section 40-27 of the <i>Income Tax Assessment Act 1997</i>						

Under the benchmark, expenses are only deductible if they are connected to an income earning activity. However, from 1 July 2017, plant and equipment depreciation

deductions are limited to outlays actually incurred by investors in residential real estate properties. Plant and equipment items are usually mechanical fixtures or those which can be 'easily' removed from a property such as dishwashers and ceiling fans. Acquisitions of existing plant and equipment items will be reflected in the cost base for capital gains tax purposes for subsequent investors. Plant and equipment forming part of residential investment properties as of 9 May 2017 (including contracts already entered into at 7:30PM (AEST) on 9 May 2017) will continue to give rise to deductions for depreciation until either the investor no longer owns the asset, or the asset reaches the end of its effective life.

This results in a negative tax expenditure, which reflects the general principle that individual taxpayers are entitled to a deduction for expenses incurred in earning assessable income.

A55 Part-year tax free threshold

Other economic affairs – Other economic affairs, nec (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
-16	-16	-14	-10	-8	*	*	*
<i>Tax expenditure type:</i>	Increased rate				<i>2021 Code:</i>	A54	
<i>Estimate Reliability:</i>	Medium – High				<i>* Category</i>	2-	
<i>Commencement date:</i>	1 July 1986				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Sections 16 to 20 of the <i>Income Tax Rates Act 1986</i>						

Under the benchmark, income tax is paid on the taxable income of a taxpayer for an income year at their applicable rate. However, taxpayers who become an Australian resident for the first time, or cease to be an Australian resident, do not receive the full value of the statutory tax-free threshold. From 1 July 2012, they are able to access a tax-free threshold of at least \$13,464, plus a pro-rated share of \$4,736 corresponding to the number of months in the year that they are a resident for tax purposes.

A56 Philanthropy – deduction for gifts to deductible gift recipients

Other economic affairs – Other economic affairs, nec (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
1,395	1,730	1,595	1,505	1,405	1,490	1,535	1,445
<i>Tax expenditure type:</i>	Deduction				<i>2021 Code:</i>	A55	
<i>Estimate Reliability:</i>	Medium – Low						
<i>Commencement date:</i>	Introduced before 1985				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Division 30 of the <i>Income Tax Assessment Act 1997</i>						

Under the benchmark, expenses are only deductible if they are connected to income earning activity. However, gifts of cash and property (subject to certain conditions) of a value of \$2 or more to deductible gift recipients are tax deductible.

A57 Philanthropy – deduction for gifts to private ancillary funds

Other economic affairs – Other economic affairs, nec (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
445	240	355	530	390	400	410	420
<i>Tax expenditure type:</i>		Deduction			<i>2021 Code:</i>		A56
<i>Estimate Reliability:</i>		Medium – Low					
<i>Commencement date:</i>		1 October 2009			<i>Expiry date:</i>		
<i>Legislative reference:</i>		Item 2 of the table in Section 30-15 of the <i>Income Tax Assessment Act 1997</i>					

Under the benchmark, expenses are only deductible if they are connected to income earning activity. However, gifts of cash and property (subject to certain conditions) of a value of \$2 or more to private ancillary funds that have deductible gift recipient status are tax deductible. Private ancillary funds are funds established by businesses, families and individuals solely for the purpose of disbursing funds to deductible gift recipients, or the establishment of deductible gift recipients.

Concessions under the substantiation provisions for employment-related expenses

A58 Car expenses – alternatives to the logbook method

Other economic affairs – Total labour and employment affairs (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>		Deduction			<i>2021 Code:</i>		A57
<i>Estimate Reliability:</i>		Not Applicable			<i>* Category</i>		3+
<i>Commencement date:</i>		1 July 1986			<i>Expiry date:</i>		
<i>Legislative reference:</i>		Division 28 of the <i>Income Tax Assessment Act 1997</i>					

Under the benchmark, expenses are only deductible if they are connected to income earning activity. To value actual car expense deductions under the benchmark, taxpayers use the logbook method. However, the ‘cents per kilometre’ method is available up to a maximum of 5,000 business kilometres.

Miscellaneous tax expenditures

A59 Tax offset on certain payments of income received in arrears

Other economic affairs – Total labour and employment affairs (\$m)									
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26		
18	20	25	25	25	25	25	25		
<i>Tax expenditure type:</i>		Offset				<i>2021 Code:</i>		A58	
<i>Estimate Reliability:</i>		Medium							
<i>Commencement date:</i>		1 July 1986				<i>Expiry date:</i>			
<i>Legislative reference:</i>		Sections 159ZR to 159ZRD of the <i>Income Tax Assessment Act 1936</i>							

The benchmark tax treatment is that income tax is paid on the taxable income of a taxpayer for an income year at their applicable rate of tax. However, individual taxpayers who receive lump sum payments of certain income, for example, salary and wages, which accrued in earlier income years may be entitled to a tax offset.

A60 Exemption for personal injury annuities

Other economic affairs – Other economic affairs, nec (\$m)									
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26		
..	
<i>Tax expenditure type:</i>		Exemption				<i>2021 Code:</i>		A59	
<i>Estimate Reliability:</i>		Low							
<i>Commencement date:</i>		1 June 2002				<i>Expiry date:</i>			
<i>Legislative reference:</i>		Division 54 of the <i>Income Tax Assessment Act 1997</i>							

The benchmark tax treatment is that income tax is paid on the taxable income of a taxpayer for an income year at their applicable rate of tax. However, certain annuities provided to personal injury victims under structured settlements and orders are exempt from income tax. This allows 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.

A61 Exemption of post-judgment interest awards in personal injury compensation cases

Other economic affairs – Other economic affairs, nec (\$m)									
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26		
4	4	4	4	4	4	4	4	4	
<i>Tax expenditure type:</i>		Exemption				<i>2021 Code:</i>		A60	
<i>Estimate Reliability:</i>		Low							
<i>Commencement date:</i>		1992				<i>Expiry date:</i>			
<i>Legislative reference:</i>		Section 51-57 of the <i>Income Tax Assessment Act 1997</i>							

The benchmark tax treatment is that income tax is paid on the taxable income of a taxpayer for an income year at their applicable rate of tax. However, interest accruing on a judgment debt arising in personal injury compensation cases, which relates to the period between the original judgment and when the judgment is finalised, is exempt from income tax.

Tax Expenditures and Insights Statement

A62 Low-value depreciating assets – immediate deduction

Other economic affairs – Other economic affairs, nec (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Deduction				<i>2021 Code:</i>	A61	
<i>Estimate Reliability:</i>	Not Applicable				<i>* Category</i>	2+	
<i>Commencement date:</i>	2001				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Subsections 40-25(1) and 40-80(2) of the <i>Income Tax Assessment Act 1997</i>						

Under the benchmark, assets are depreciated over their effective lives. However, an immediate deduction is available for depreciating assets costing \$300 or less where those assets are used mostly to earn non-business income.

Business income

TAX EXPENDITURES FOR GENERAL PUBLIC SERVICES

B1 Local government bodies income tax exemption

Other purposes – General purpose inter-governmental transactions (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
1,850	1,660	1,720	1,750	1,770	1,790	1,810	1,830
<i>Tax expenditure type:</i>	Exemption				<i>2021 Code:</i>	B2	
<i>Estimate Reliability:</i>	Medium						
<i>Commencement date:</i>	Introduced before 1985				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Item 5.1 in the table in Section 50-25 of the <i>Income Tax Assessment Act 1997</i>						

Under the benchmark tax treatment, corporations are taxable units that are liable to pay tax. Local government bodies and municipal corporations are exempted from income tax, including local governing bodies in Norfolk, Cocos (Keeling) and Christmas Islands.

International tax expenditures

B2 Exemptions for prescribed international organisations

General public services – Foreign affairs and economic aid (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption				<i>2021 Code:</i>	B3	
<i>Estimate Reliability:</i>	Not Applicable				<i>* Category</i>	2+	
<i>Commencement date:</i>	1963				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Section 6 of the <i>International Organisations (Privileges and Immunities) Act 1963</i>						

Under the benchmark, income derived by organisations that are not exempt entities is generally taxable. However, the income of certain prescribed international organisations is exempt from income tax. Interest and dividends received by such organisations are also exempt from withholding tax. 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)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption				<i>2021 Code:</i>	B4	
<i>Estimate Reliability:</i>	Not Applicable				<i>* Category</i>	1+	
<i>Commencement date:</i>	1971				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Paragraph 128B(3)(aa) of the <i>Income Tax Assessment Act 1936</i>						

Under the benchmark, dividends and interest paid to non-residents are generally subject to withholding tax at a flat rate. However, 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.

B4 Investment Manager Regime

General public services – Foreign affairs and economic aid (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption				<i>2021 Code:</i>	B5	
<i>Estimate Reliability:</i>	Not Applicable				<i>* Category</i>	2+	
<i>Commencement date:</i>	1 July 2011				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Subdivision 842-1 of the <i>Income Tax Assessment Act 1997</i>						

The income tax law generally exempts non-resident investors in respect of capital gains made on 'non land rich' investments, however tax uncertainty can arise in some instances. The Investment Manager Regime (IMR) seeks to address this potential uncertainty by providing that, subject to meeting the appropriate tests, foreign investors that invest into Australia via a foreign fund or through an independent Australian fund manager can disregard certain Australian tax consequences in relation to gains and losses on the disposal of specific assets.

The effect of the IMR is that when a foreign investor invests in Australia through a foreign fund or an independent Australian fund manager it will generally be in the same tax position as if it had invested directly. The IMR does not apply to Australian residents or to returns or gains attributable to Australian real property.

B5 Reduced withholding tax under international tax treaties

General public services – Foreign affairs and economic aid (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
880	790	710	790	880	980	1,100	1,220
<i>Tax expenditure type:</i>		Exemption, Concessional rate			<i>2021 Code:</i>		B6
<i>Estimate Reliability:</i>		Low					
<i>Commencement date:</i>		2008			<i>Expiry date:</i>		
<i>Legislative reference:</i>		International Tax Agreements Act 1953					

Under the benchmark, dividends, interest and royalties paid to non-residents are generally subject to withholding tax at a flat rate. Tax treaties reduce or eliminate double taxation caused by the exercise of source and residence country taxing rights on cross border income flows. Under Australia's tax treaties, certain dividends, interest and royalties attract reduced withholding tax rates. For some treaties, these include interest withholding tax exemptions for financial institutions, pension funds and governments and dividend withholding tax exemptions for pension funds and governments, and where dividends are paid to companies with controlling interests in the companies paying the dividends, provided that certain integrity measures are satisfied.

Australia has signed 46 tax treaties, with 45 of the tax treaties being currently in force.

B6 Income tax exemption for persons connected with certain US Government projects in Australia

Defence (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>		Exemption			<i>2021 Code:</i>		B7
<i>Estimate Reliability:</i>		Not Applicable			<i>* Category</i>		1+
<i>Commencement date:</i>		Introduced before 1985			<i>Expiry date:</i>		
<i>Legislative reference:</i>		Section 23AA of the <i>Income Tax Assessment Act 1936</i>					

Under the benchmark, foreign residents are generally taxed on their Australian-sourced income, such as money they earn working in Australia. The profit and remuneration of United States contractors, armed forces members and their associated employees, or others connected with certain approved United States Government projects in Australia are exempt from Australian income tax, where the income is subject to tax in the United States. Projects to which the exemption applies include the North West Cape Naval Communication Station, the Joint Defence Space Research Facility, the Sparta project, the Joint Defence Space Communications Station, and the Force Posture Initiatives.

B7 Concessional tax treatment of offshore banking units

Other economic affairs – Other economic affairs, nec (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
335	365	330	370	360	250	..	..
<i>Tax expenditure type:</i>		Concessional rate			<i>2021 Code:</i>		B8
<i>Estimate Reliability:</i>		Medium					
<i>Commencement date:</i>		1992			<i>Expiry date:</i>		
<i>Legislative reference:</i>		Division 9A of Part III and Section 128GB of the <i>Income Tax Assessment Act 1936</i>					

Under the benchmark, company profits are taxed at 30 per cent. However, income (other than capital gains) derived by an offshore banking unit from eligible offshore banking activities is taxed at a concessional rate of 10 per cent. Interest paid by an offshore banking unit on qualifying offshore borrowings, and gold fees paid by an offshore banking unit on certain offshore gold borrowings, are exempt from withholding tax. From 1 July 2015, the list of eligible offshore banking activities has been updated to better target the regime and address integrity concerns. The concessional tax rate only applies to an entity that has been determined to be an offshore banking unit by the Minister. This concession will no longer apply from the end of taxpayers' 2022–23 income year.

B8 Exemption for foreign branch profits from income tax

Other economic affairs – Other economic affairs, nec (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>		Exemption			<i>2021 Code:</i>		B9
<i>Estimate Reliability:</i>		Not Applicable			<i>* Category</i>		4+
<i>Commencement date:</i>		1991			<i>Expiry date:</i>		
<i>Legislative reference:</i>		Section 23AH of the <i>Income Tax Assessment Act 1936</i>					

Under the benchmark, Australian resident companies are taxed on their worldwide income. However, 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. 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.

B9 Exemption from accruals taxation system for certain transferor trusts

Other economic affairs – Other economic affairs, nec (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>		Exemption			<i>2021 Code:</i>		B10
<i>Estimate Reliability:</i>		Not Applicable			<i>* Category</i>		2+
<i>Commencement date:</i>		1991			<i>Expiry date:</i>		
<i>Legislative reference:</i>		Section 102AAT of the <i>Income Tax Assessment Act 1936</i>					

Under the benchmark, the transferor would normally be subject to accruals taxation, as provided by the transferor trust rules. However, the rules do not apply in relation to certain transfers to family, discretionary or non-discretionary trusts, or to certain

transfers made before the transferor commenced being a resident. Transferor trust rules apply to Australian residents who have transferred property or services to a non-resident trust estate.

B10 Exemption from accruals taxation system for controlled foreign companies

Other economic affairs – Other economic affairs, nec (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption				<i>2021 Code:</i>	B11	
<i>Estimate Reliability:</i>	Not Applicable				<i>* Category</i>	2+	
<i>Commencement date:</i>	1991				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Sections 385 and 432 of the <i>Income Tax Assessment Act 1936</i>						

Under the benchmark, the accruals taxation system normally applies to income derived by controlled foreign companies (CFCs). However, most tainted income derived by CFCs in listed countries is exempt from the accruals taxation system (applied to the attributable taxpayer) as it is generally comparably taxed. An exemption also applies to CFCs that derive 95 per cent or more of their income from genuine business activities.

B11 Exemption from interest withholding tax on certain securities

Other economic affairs – Other economic affairs, nec (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
2,920	2,600	2,080	2,470	2,520	2,520	2,520	2,520
<i>Tax expenditure type:</i>	Exemption				<i>2021 Code:</i>	B12	
<i>Estimate Reliability:</i>	Medium						
<i>Commencement date:</i>	Introduced before 1985				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Section 128F and 128FA of the <i>Income Tax Assessment Act 1936</i>						

Under the benchmark, withholding tax from interest payments paid to a foreign resident is generally withheld at the rate of 10 per cent. Certain publicly offered debentures and debt interests are eligible for an exemption from interest withholding tax, where those debentures and debt interests are issued in Australia by a State or Territory, the Commonwealth, a resident Australian company, a non-resident company operating through a permanent establishment, or certain public unit trusts. The exemption is not available where it involves certain dealings between associated entities.

B12 Exemption of inbound non-portfolio dividends from income tax

Other economic affairs – Other economic affairs, nec (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
590	1,000	990	980	1,010	1,010	1,010	1,010
<i>Tax expenditure type:</i>	Exemption				<i>2021 Code:</i>	B13	
<i>Estimate Reliability:</i>	Low						
<i>Commencement date:</i>	1991			<i>Expiry date:</i>			
<i>Legislative reference:</i>	Section 768-5 of the <i>Income Tax Assessment Act 1997</i>						

Non-portfolio dividends are dividends paid to a company where that company has a 10 per cent or greater voting interest in the company paying the dividend. Under the benchmark, such dividends would normally be included in a recipient's assessable income. However, these dividends are exempt from income tax where they are paid to an Australian resident company by a company resident in a foreign country, on the basis these profits have already been comparably taxed in the foreign country.

B13 Interest withholding tax concession on interest payments by financial institutions

Other economic affairs – Other economic affairs, nec (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
35	25	10	20	25	25	25	25
<i>Tax expenditure type:</i>	Concessional rate				<i>2021 Code:</i>	B14	
<i>Estimate Reliability:</i>	Medium – Low						
<i>Commencement date:</i>	1994			<i>Expiry date:</i>			
<i>Legislative reference:</i>	Section 160ZZZJ of the <i>Income Tax Assessment Act 1936</i>						

Under the benchmark, tax from interest payments paid to a foreign resident is generally withheld at the rate of 10 per cent. The notional interest paid by an Australian branch of a foreign bank on borrowings from the foreign bank attracts a reduced effective rate of withholding tax of 5 per cent.

B14 International tax – concessional rate of final withholding tax on certain distributions by clean building managed investment trusts to foreign residents

Other economic affairs – Other economic affairs, nec (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Included in B89							
<i>Tax expenditure type:</i>	Concessional rate				<i>2021 Code:</i>	B15	
<i>Estimate Reliability:</i>							
<i>Commencement date:</i>	2012			<i>Expiry date:</i>			
<i>Legislative reference:</i>	Section 12-385 of Schedule 1 to the <i>Taxation Administration Act 1953</i> Regulation 34 of the <i>Taxation Administration Regulations 2017</i>						

Australia's default withholding tax rate for Managed Investment Trust (MIT) distributions of Australian source net income (other than dividends, interest and royalties) paid to foreign residents is 30 per cent. For distributions to residents of countries with which Australia has an information exchange arrangement, the withholding tax rate is reduced to 15 per cent.

However, for MITs that only hold energy efficient buildings that commenced construction on or after 1 July 2012, the withholding tax rate on distributions is 10 per cent, for residents of countries with which Australia has an information exchange arrangement. This is a final withholding tax.

B15 Threshold exemption for thin capitalisation

Other economic affairs – Other economic affairs, nec (\$m)

	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
	*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption					<i>2021 Code:</i>	B16	
<i>Estimate Reliability:</i>	Not Applicable					<i>* Category</i>	2+	
<i>Commencement date:</i>	2001					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Sections 820-35 and 820-37 of the <i>Income Tax Assessment Act 1997</i>							

The thin capitalisation regime is an integrity measure designed to ensure Australian and foreign owned multinational entities do not allocate an excessive amount of debt to their Australian operations.

Under the benchmark, the thin capitalisation regime applies to all inward and outward investing entities. However, taxpayers will not be subject to the regime if their debt deductions and those of their associate entities do not exceed the threshold amount of \$2 million. Outward investing entities are also excluded from the thin capitalisation regime if at least 90 per cent of their assets together with the assets of their associates are Australian assets.

Tax expenditures for defence

B16 Security agency transaction exemption

Defence (\$m)

	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
	*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption					<i>2021 Code:</i>	B17	
<i>Estimate Reliability:</i>	Not Applicable					<i>* Category</i>	1+	
<i>Commencement date:</i>	1 July 2005					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Division 850 of Schedule 1 to the <i>Taxation Administration Act 1953</i>							

Under the tax benchmark, tax laws apply broadly. The heads of the Australian Security Intelligence Organisation, the Australian Secret Intelligence Service and the Australian Signals Directorate have the power to declare that Commonwealth tax laws do not apply to a specified entity in relation to a specified transaction. This ensures that tax authorities do not need to obtain information that should remain secret in the interests of national security.

Tax expenditures for health

B17 Not-for-profit private health insurers income tax exemption

Health (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
95	110	30	100	100	100	100	100
<i>Tax expenditure type:</i>		Exemption			<i>2021 Code:</i>		B18
<i>Estimate Reliability:</i>		Medium – Low					
<i>Commencement date:</i>		Introduced before 1985			<i>Expiry date:</i>		
<i>Legislative reference:</i>		Item 6.3 of the table in Section 50-30 of the <i>Income Tax Assessment Act 1997</i>					

The benchmark tax treatment is that income tax is paid on the taxable income of an entity for an income year at its applicable rate of tax. However, the income of private health insurers covered by the *Private Health Insurance Act 2007* is exempt from income tax if the insurer is not operated for the gain or profit of its individual members.

Tax expenditures for social security and welfare

B18 Deductibility for entertainment provided without charge to those in need

Social security and welfare (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>		Deduction			<i>2021 Code:</i>		B19
<i>Estimate Reliability:</i>		Not Applicable			<i>* Category</i>		1+
<i>Commencement date:</i>		16 December 1985			<i>Expiry date:</i>		
<i>Legislative reference:</i>		Section 32-50 of the <i>Income Tax Assessment Act 1997</i>					

Under the tax benchmark, the cost of providing entertainment by way of food and drink is denied as a deduction. This rule does not apply where the entertainment is provided without charge to members of the public who are in need.

B19 Exemption for payments for mining on Aboriginal land

Social security and welfare (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>		Exemption			<i>2021 Code:</i>		B20
<i>Estimate Reliability:</i>		Not Applicable			<i>* Category</i>		1+
<i>Commencement date:</i>		8 July 1997			<i>Expiry date:</i>		
<i>Legislative reference:</i>		Section 59-15 of the <i>Income Tax Assessment Act 1997</i>					

Under the benchmark, payments in respect of mining rights are generally assessable to taxpayers. However, certain mining payments to Aboriginal and Torres Strait Islander persons or certain distributing bodies are exempt from income tax.

B20 Life insurance investment income taxation concession

Social security and welfare (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption, Offset, Concessional rate				<i>2021 Code:</i>	B21	
<i>Estimate Reliability:</i>	Not Applicable				<i>* Category</i>	1+	
<i>Commencement date:</i>	2000				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Sections 26AH and 160AAB of the <i>Income Tax Assessment Act 1936</i>						

Under the tax benchmark individuals are taxed on their investment returns at the tax rates applied to individuals. Some life insurance arrangements have the characteristics of an investment and are taxed partly at the level of the life insurance company at the company tax rate and partly when received by the individual. Individuals can also receive rebates to ensure that a reversionary bonus (the income distributed from a life insurance policy) on which the life insurance company has paid tax is not subject to double taxation in the hands of policyholders.

B21 Superannuation Guarantee amnesty

Social security and welfare (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
-	-	20	36	-	-	-	-
<i>Tax expenditure type:</i>	Deduction				<i>2021 Code:</i>	B22	
<i>Estimate Reliability:</i>	Medium – Low				<i>Expiry date:</i>	7 September 2022	
<i>Commencement date:</i>	24 May 2018						
<i>Legislative reference:</i>	Section 26-95(2) of the <i>Income Tax Assessment Act 1997</i>						

Under the benchmark, superannuation guarantee (SG) charge payments are not tax deductible, in contrast to ordinary SG payments. Employers become liable for SG charge payments if they do not comply with their requirements under the *Superannuation Guarantee (Administration) Act 1992* to make SG contributions on behalf of their employees. The SG charge includes the SG shortfall, being the amount of superannuation calculated on salary and wages (including overtime), plus a nominal interest component and an administrative fee. Additional penalties may also apply.

However, the SG charge is tax deductible for employers if it relates to a SG shortfall that qualified for the one-off SG amnesty. The one-off SG amnesty allowed employers with historical SG shortfalls incurred between 1 July 1992 and 30 March 2018 to come forward voluntarily to repay their employees' SG and nominal interest from 24 May 2018 to 7 September 2020. Historical SG shortfalls which were voluntarily disclosed to the ATO but paid after the amnesty period ended are not tax deductible. The different treatment of penalties provided during the SG amnesty is not included as part of the tax expenditure estimate.

Tax concessions for certain taxpayers

B22 Tax exemption for assistance provided through the 'boosting cash flow for employers' measure

General public services – Financial and fiscal affairs (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
-	-	1,860	3,030	660	30	..	-
<i>Tax expenditure type:</i>		Exemption			<i>2021 Code:</i>		B23
<i>Estimate Reliability:</i>		Medium					
<i>Commencement date:</i>		2020			<i>Expiry date:</i>		30 June 2026
<i>Legislative reference:</i>		Section 59-90 of the <i>Income Tax Assessment Act 1997</i>					

The benchmark tax treatment is that Commonwealth government payments to taxpayers are generally treated as assessable income and subject to income tax. However, payments received under the Boosting Cash Flow for Employers measure are exempt from tax to support eligible entities as part of the COVID-19 response package.

B23 Temporary loss carry-back for certain incorporated entities

General public services – Financial and fiscal affairs (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
-	-	-	1,570	1,480	2,830	-670	-510
<i>Tax expenditure type:</i>		Rebate			<i>2021 Code:</i>		B24
<i>Estimate Reliability:</i>		Low					
<i>Commencement date:</i>		6 October 2020			<i>Expiry date:</i>		30 June 2023
<i>Legislative reference:</i>		Section 67-23 of the <i>Income Tax Assessment Act 1997</i> , Subdivision 160-A of the <i>Income Tax Assessment Act 1997</i> Subdivision 160-B of the <i>Income Tax Assessment Act 1997</i>					

Under the benchmark, companies are required to carry losses forward to offset profits in future years. A tax expenditure will arise as eligible companies can carry back tax losses from their 2019–20, 2020–21, 2021–22 or 2022–23 income years to offset tax previously paid in 2018–19 or later income years.

Companies that do not elect to carry back losses can carry them forward as normal.

B24 Exemption of foreign currency gains and losses from certain low balance accounts

Other economic affairs – Other economic affairs, nec (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption				<i>2021 Code:</i>	B25	
<i>Estimate Reliability:</i>	Not Applicable				<i>* Category</i>	2+/-	
<i>Commencement date:</i>	1 July 2003				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Subdivision 775-D of the <i>Income Tax Assessment Act 1997</i>						

Under the benchmark, taxpayers include the change of value of accounts denominated in foreign currency (as an equivalent Australian dollar amount) when they make a withdrawal from or payment to the account in their assessable income or as an allowable tax deduction. 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 withdrawals and payments on these accounts) for tax purposes.

This option is available to all taxpayers other than 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.

B25 Off-market share buy-backs

Other economic affairs – Other economic affairs, nec (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Offset				<i>2021 Code:</i>	B26	
<i>Estimate Reliability:</i>	Low				<i>* Category</i>	3+	
<i>Commencement date:</i>	1990				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Division 16K of Part III and 177EA of the <i>Income Tax Assessment Act 1936</i>						

Under the benchmark, the proceeds from selling shares in a company as part of an off-market share buy-back are treated as a capital gain/loss in the hands of the seller, consistent with on-market share buy-backs. Currently, the proceeds paid to shareholders who participate in an off-market share buy-back may be split into a dividend component (which is not treated as a capital gain/loss) 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.

The Government has introduced into Parliament legislation that would align the tax treatment of off-market share buy-backs with that of on-market share buy-backs for publicly listed companies.

B26 Tax exemption for business recipients of disaster relief and recovery payments

Other purposes – Natural disaster relief (\$m)

	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
	*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption					<i>2021 Code:</i>	B27	
<i>Estimate Reliability:</i>	Not Applicable					<i>* Category</i>	2+	
<i>Commencement date:</i>	2021					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Sections 11-15, 11-55, 51-125, 59-60, 59-85, 59-86, 59-99 and 59-105 of the <i>Income Tax Assessment Act 1997</i>							

Under the benchmark, government payments to businesses are generally treated as assessable income and subject to income tax. A tax expenditure arises because certain government natural disaster relief is exempt from income tax.

Tax exemptions for certain government income support payments

B27 Tax exemption for COVID-19 business grants

Other economic affairs – Other economic affairs, nec (\$m)

	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
	-	-	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption					<i>2021 Code:</i>	B28	
<i>Estimate Reliability:</i>	Not Applicable					<i>* Category</i>	3+	
<i>Commencement date:</i>	2020					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Section 59-97 of the <i>Income Tax Assessment Act 1997</i>							

Under the benchmark, government payments to businesses are generally treated as assessable income and subject to income tax. A tax expenditure arises because certain state and territory COVID-19 business support grants are treated as non-assessable and non-exempt for income tax purposes.

Tax expenditures for housing and community amenities

B28 Tax exemption for National Rental Affordability Scheme incentives

Housing and community amenities (\$m)

	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
	80	67	66	73	68	63	52	50
<i>Tax expenditure type:</i>	Exemption					<i>2021 Code:</i>	B29	
<i>Estimate Reliability:</i>	Medium							
<i>Commencement date:</i>	1 July 2008					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Division 380 of the <i>Income Tax Assessment Act 1997</i>							

Under the benchmark, government payments to individuals are included as part of taxable income; income tax is paid on the taxable income of a taxpayer for an income year at their applicable rate. However, the National Rental Affordability Scheme offers tax and cash incentives to providers of new dwellings on the condition that they are rented to low and moderate income households at a rate that is at least 20 per cent below market rates. The tax expenditure arises as the incentives are exempt from income tax.

The scheme is no longer open to new providers.

Tax expenditures for recreation and culture

B29 Film industry concessions

Recreation and culture (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
43	62	58	81	114	120	124	113
<i>Tax expenditure type:</i>	Exemption				<i>2021 Code:</i>		B30
<i>Estimate Reliability:</i>	Medium						
<i>Commencement date:</i>	2001				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Division 376 of the <i>Income Tax Assessment Act 1997</i>						

Film production companies incurring expenditure on certain productions in Australia may be eligible for refundable tax offsets. The tax offsets are the location offset, the producer offset and the post, digital and visual effects offset. If a taxpayer's income tax liability is reduced to zero, any residual unused refundable tax offset amount can be refunded as cash to the company.

Under the benchmark, government payments to taxpayers are generally treated as assessable income and subject to tax. A tax expenditure arises when payments made under a refundable tax offset are exempt from tax.

Tax expenditures relating to prepayments and advance expenditures

B30 Exemption from the tax shelter prepayments measure for certain passive investments

Other economic affairs – Other economic affairs, nec (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Accelerated write-off				<i>2021 Code:</i>		B31
<i>Estimate Reliability:</i>	Not Applicable				<i>* Category</i>		2+
<i>Commencement date:</i>	11 November 1999				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Section 82KZME of the <i>Income Tax Assessment Act 1936</i>						

Under the benchmark, payments for business expenditure that relates to multiple income years (prepayments) are not wholly deductible in the income year in which the payment is made. The deduction for prepaid expenditure is spread over time and deductible over the shorter of 10 years, or the period to which the expenditure relates (the service period).

However, a prepayment is immediately deductible in the year in which the payment is made where it is in relation to:

- interest on money borrowed for investments in shares, units or rental property
- eligible insurance premiums

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- ‘excluded expenditure’ under the tax law
- certain other arrangements entered into before 11 November 1999
- an agreement subject to a product ruling made by the Commissioner of Taxation before 11 November 1999.

B31 Prepayment rule for eligible business taxpayers and non-business expenditure by individuals

Other economic affairs – Other economic affairs, nec (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Accelerated write-off				<i>2021 Code:</i>	B32	
<i>Estimate Reliability:</i>	Not Applicable				<i>* Category</i>	2+	
<i>Commencement date:</i>	25 May 1988				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Section 82KZM of the <i>Income Tax Assessment Act 1936</i>						

Under the benchmark, payments for business expenditure that relates to multiple income years (prepayments) are not wholly deductible in the income year in which the payment is made. The deduction for prepaid expenditure is spread over time and deductible over the shorter of 10 years, or the period to which the expenditure relates (the service period).

However, prepayments by eligible businesses and non-business prepayments by individual taxpayers that have service periods ending in the next income year but not exceeding 12 months may be immediately deductible in the year in which the payment is made. From 1 July 2020, the aggregated annual turnover threshold for eligible businesses to access this concession increased from \$10 million to \$50 million.

B32 The 10-year rule for prepayments

Other economic affairs – Other economic affairs, nec (\$m)						
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Accelerated write-off				<i>2021 Code:</i>	B33
<i>Estimate Reliability:</i>	Not Applicable				<i>* Category</i>	1+
<i>Commencement date:</i>	1988				<i>Expiry date:</i>	
<i>Legislative reference:</i>	Subsection 82KZL(1) of the <i>Income Tax Assessment Act 1936</i>					

The benchmark treatment of prepayments is that they are deductible over the period of the expenditure. 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 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.

Tax expenditures for agriculture, forestry and fishing

B33 Accelerated write-off for forestry managed investment schemes

Agriculture, forestry and fishing (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Accelerated write-off				<i>2021 Code:</i>	B34	
<i>Estimate Reliability:</i>	Not Applicable				<i>* Category</i>	1+/-	
<i>Commencement date:</i>	1 July 2007				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Division 394 of the <i>Income Tax Assessment Act 1997</i>						

Under the benchmark, expenditure on forestry managed investment schemes is generally deductible over the period where benefits are provided. However, investors in forestry managed investment schemes 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.

B34 Deferral of profit from early sale of double wool clips

Agriculture, forestry and fishing (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Deferral				<i>2021 Code:</i>	B35	
<i>Estimate Reliability:</i>	Not Applicable				<i>* Category</i>	1+	
<i>Commencement date:</i>	Introduced before 1985				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Section 385-135 of the <i>Income Tax Assessment Act 1997</i>						

Under the benchmark, income from business activities is generally assessable in the year in which it is derived.

However, as a consequence of drought, fire or flood, primary producers carrying on a sheep grazing business in Australia may conduct shearing in advance. In these circumstances, a woolgrower may elect to have the assessment of the profit from the advanced shearing deferred to the following income year.

B35 Deferral or spreading of profit from the forced disposal or death of livestock

Agriculture, forestry and fishing (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Deferral				<i>2021 Code:</i>	B36	
<i>Estimate Reliability:</i>	Not Applicable				<i>* Category</i>	2+/-	
<i>Commencement date:</i>	Introduced before 1985				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Subdivision 385-E of the <i>Income Tax Assessment Act 1997</i>						

The benchmark tax treatment of profit from the disposal of stock by a primary producer is that such amounts are assessable income in the year in which they are derived. However, primary producers who make any profit from the forced disposal or death of livestock can elect to defer the recognition of this profit and use it to reduce the cost of replacement livestock within the disposal year and any of:

- the next five income years
- the next 10 income years if the forced disposal or death was in relation to bovine tuberculosis.

Alternatively, primary producers can elect to spread such amounts over the disposal year and the next four income years.

B36 Farm Management Deposits scheme

Agriculture, forestry and fishing (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
280	215	75	50	250	*	*	*
<i>Tax expenditure type:</i>	Deferral				<i>2021 Code:</i>	B37	
<i>Estimate Reliability:</i>	Medium				<i>* Category</i>	3+	
<i>Commencement date:</i>	1999				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Division 393 of the <i>Income Tax Assessment Act 1997</i>						

Under the benchmark, income from primary production is generally assessable in the year in which it is derived. However, the Farm Management Deposits (FMD) scheme allows primary producers (with no more than \$100,000 of non-primary production income) to defer the recognition of assessable income where the income is deposited into an FMD account.

Primary producers can claim deductions for deposits made into their FMD account in the income year of deposit, with subsequent withdrawals being assessed in the income year of withdrawal. The FMD scheme has a maximum limit on deposits of \$800,000 from 1 July 2016.

B37 Income tax averaging for primary producers

Agriculture, forestry and fishing (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
160	130	160	*	*	*	*	*
<i>Tax expenditure type:</i>	Concessional rate				<i>2021 Code:</i>	B38	
<i>Estimate Reliability:</i>	Not Applicable				<i>* Category</i>	3+	
<i>Commencement date:</i>	Introduced before 1985				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Division 392 of the <i>Income Tax Assessment Act 1997</i>						

The benchmark tax treatment is that income tax is calculated on the taxable income of a taxpayer for an income year at their applicable rate of tax. However, primary producers, unless they have opted out, calculate their tax at a tax rate based on their average income earned over the previous five income years to smooth their income tax liability. Primary producers that choose to opt out of income tax averaging are able to re-enter the system after 10 income years.

B38 Primary producers – concessional tax treatment for carbon abatement income

Agriculture, forestry and fishing (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
-	-	-	-	-	2	2	3
<i>Tax expenditure type:</i>	Concessional rate				<i>2021 Code:</i>	New	
<i>Estimate Reliability:</i>	Low				<i>Expiry date:</i>		
<i>Commencement date:</i>	1 July 2022				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Legislation yet to be passed.						

Under the benchmark, Australian Carbon Credit Unit (ACCU) holders are taxed based on changes in the value of their ACCUs held each year, with increases in the value of ACCUs held resulting in assessable income and decreases in value resulting in deductions.

For ACCUs held from 1 July 2022, primary producers meeting the eligibility requirements for the FMD scheme and tax averaging are afforded a more concessional treatment. Eligible primary producers will not be taxed based on changes in the value of their ACCUs held each year, and will instead be taxed on the proceeds from the sale of ACCUs in the year of sale.

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B39 Spreading of insurance income for loss of timber or livestock

Agriculture, forestry and fishing (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Deferral				<i>2021 Code:</i>	B39	
<i>Estimate Reliability:</i>	Not Applicable				<i>* Category</i>	2+	
<i>Commencement date:</i>	Introduced before 1985				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Section 385-130 of the <i>Income Tax Assessment Act 1997</i>						

The benchmark tax treatment is that insurance proceeds are consideration for the item that was lost or destroyed and may be assessable to the taxpayer. However, primary producers who receive insurance payouts in respect of trees lost because of fire, or livestock lost due to natural disasters, can elect to spread the income equally over five income years, resulting in a deferral of income tax.

B40 Sustainable Rural Water Use and Infrastructure Program

Agriculture, forestry and fishing (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
-10	-20	-10	..	..	..	..	..
<i>Tax expenditure type:</i>	Exemption				<i>2021 Code:</i>	B40	
<i>Estimate Reliability:</i>	Medium – Low				<i>Expiry date:</i>		
<i>Commencement date:</i>	1 April 2010				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Sections 59-65 to 59-80 of the <i>Income Tax Assessment Act 1997</i>						

Under the benchmark treatment, payments under the Sustainable Rural Water Use and Infrastructure Program would be assessable income, and the associated expenditure deductible or, in cases of capital expenditure, included in the cost base for calculating a capital gain. Taxpayers can instead choose to make payments received under eligible Sustainable Rural Water Use and Infrastructure Program agreements free of income tax (including capital gains tax), with expenditures funded by such payments not being deductible.

B41 Valuation of livestock from natural increase

Agriculture, forestry and fishing (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Discounted valuation				<i>2021 Code:</i>	B41	
<i>Estimate Reliability:</i>	Not Applicable				<i>* Category</i>	2+	
<i>Commencement date:</i>	1 July 1997				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Section 70-55 of the <i>Income Tax Assessment Act 1997</i>						

Under the benchmark, trading stock would be allocated a closing stock value of either cost, market value or replacement value. However, the cost of livestock acquired by natural increase may be calculated using the actual cost of the animal or the cost prescribed by regulations for a particular type of animal. The use of the prescribed rate may produce a value different to the benchmark.

Tax expenditures for transport and communications

B42 Denial of depreciation deduction for car value above the car limit

Transport and communication (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
-150	-160	-150	-180	-200	-230	-230	-230
<i>Tax expenditure type:</i>		Denial of deduction			<i>2021 Code:</i>		B42
<i>Estimate Reliability:</i>		Low					
<i>Commencement date:</i>		1 July 2001			<i>Expiry date:</i>		
<i>Legislative reference:</i>		Section 40-230 of the <i>Income Tax Assessment Act 1997</i>					

The benchmark treatment is that the full value of a car used for income-producing purposes should be depreciated. However, if the value of a car used for income-producing purposes exceeds a certain amount ('car limit'), the amount of depreciation deductions that can be claimed is capped at the 'car limit'.

B43 Shipping – investment incentives

Transport and communication (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>		Exemption, Accelerated write-off, Deferral			<i>2021 Code:</i>		B43
<i>Estimate Reliability:</i>		Not Applicable					
<i>Commencement date:</i>		1 July 2012			<i>Expiry date:</i>		
<i>Legislative reference:</i>		Section 51-100 of the <i>Income Tax Assessment Act 1997</i> Subsection 128B(3) of the <i>Income Tax Assessment Act 1936</i> Item 10 of the table to Subsection 40-102(4) of the <i>Income Tax Assessment Act 1997</i> Section 40-362 of the <i>Income Tax Assessment Act 1997</i> Subsection 40-285(5) of the <i>Income Tax Assessment Act 1997</i>					

Under the benchmark, vessels are depreciated over their effective lives, shipping income and gains on the sale of vessels are generally assessable, and royalty withholding tax is applicable on payments made for the lease of vessels.

Tax incentives are provided to encourage investment in the Australian shipping industry and to facilitate Australian competition on international routes. The investment incentives that may be available and which cause a tax expenditure to arise include accelerated depreciation of eligible vessels via a cap of 10 years on the effective life of those vessels, an income tax exemption for ship operators on qualifying shipping income, the deferral of taxation on balancing adjustment amounts on disposal of eligible vessels, roll over relief from income tax on the sale of an eligible vessel, and an exemption from royalty withholding tax for payments made for the lease of eligible vessels.

B44 Shipping – refundable tax offset for employers of qualifying Australian seafarers

Transport and communication (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
3	3	3	3	3	3	3	3
<i>Tax expenditure type:</i>	Exemption				<i>2021 Code:</i>	B44	
<i>Estimate Reliability:</i>	Medium						
<i>Commencement date:</i>	1 July 2012				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Subdivision 61-N of the <i>Income Tax Assessment Act 1997</i>						

Under the benchmark, government payments to taxpayers are generally treated as assessable income and subject to tax. A tax expenditure arises when payments made under a refundable tax offset are exempt from tax.

A refundable tax offset is available to qualifying companies that employ qualifying Australian seafarers. If a taxpayer’s income tax liability is reduced to zero, any residual unused refundable tax offset amount can be refunded as cash to the company.

B45 Deductions for boat expenditure

Other economic affairs – Tourism and area promotion (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Deduction				<i>2021 Code:</i>	B45	
<i>Estimate Reliability:</i>	Not Applicable				<i>* Category</i>	1+	
<i>Commencement date:</i>	2007				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Section 26-47 of the <i>Income Tax Assessment Act 1997</i>						

Under the benchmark, expenses connected to income earning activity, or a business are generally deductible. However, a tax expenditure arises as taxpayers who cannot demonstrate they are carrying on a business using a boat may only claim deductions for expenses incurred in boating activities up to the level of income generated in that year from their boating activity. These taxpayers can also carry forward any excess deductions from their boating activity and apply them against income from that boating activity in future income years.

Tax expenditures for other economic affairs

B46 Digital Games Tax Offset

Recreation and culture (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
-	-	-	-	-	3	6	10
<i>Tax expenditure type:</i>	Exemption				<i>2021 Code:</i>	B46	
<i>Estimate Reliability:</i>	Medium – Low						
<i>Commencement date:</i>	1 July 2022				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Legislation is yet to be passed.						

Under the benchmark, government payments to taxpayers are generally treated as assessable income and subject to tax. A tax expenditure arises when payments made under a refundable tax offset are exempt from tax.

Eligible companies incurring expenditure in relation to the development of digital games in Australia may be eligible for a refundable tax offset calculated at 30 per cent of qualifying expenditure, capped at \$20 million per year. Qualifying expenditure must be incurred on or after 1 July 2022. If a taxpayer's income tax liability is reduced to zero, any residual unused refundable tax offset amount can be refunded as cash to the company.

B47 Additional deduction for external training expenses

Other economic affairs – Total labour and employment affairs (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
-	-	-	-	-	150	250	150
<i>Tax expenditure type:</i>	Deduction				<i>2021 Code:</i>	New	
<i>Estimate Reliability:</i>	Medium						
<i>Commencement date:</i>	29 March 2022				<i>Expiry date:</i>	30 June 2024	
<i>Legislative reference:</i>	Legislation is yet to be passed.						

Under the benchmark, the cost of expenses incurred in earning assessable income is deductible. A tax expenditure arises because eligible business entities can access an additional deduction for the cost of certain expenses on employee training.

Small businesses with an aggregated annual turnover of less than \$50 million will have access to an additional 20 per cent deduction for eligible expenditure incurred on external training delivered to their employees by providers registered in Australia.

Subject to the passage of legislation, the additional deduction will apply to eligible expenditure incurred from 7:30pm (AEDT) on 29 March 2022 until 30 June 2024.

B48 Additional deduction for digital adoption expenses

Other economic affairs – Other economic affairs, nec (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
-	-	-	-	-	500	350	150
<i>Tax expenditure type:</i>	Deduction				<i>2021 Code:</i>	New	
<i>Estimate Reliability:</i>	Medium						
<i>Commencement date:</i>	29 March 2022				<i>Expiry date:</i>	30 June 2023	
<i>Legislative reference:</i>	Legislation is yet to be passed.						

Under the benchmark, the cost of expenses incurred in earning assessable income is deductible and the cost of a depreciating asset is deducted over its effective life. A tax expenditure arises because eligible business entities can access an additional deduction for the cost of certain expenditure on digital operations.

Small businesses with an aggregated annual turnover of less than \$50 million will have access to an additional 20 per cent deduction for the cost of eligible expenses and depreciating assets that support their digital operations or digitising their operations. The additional deduction does not affect any other deductions in the tax law.

Subject to the passage of legislation, the additional deduction will apply to eligible expenditure incurred from 7:30pm (AEDT) on 29 March 2022 until 30 June 2023. An annual cap will apply so that total expenditure of up to \$100,000 per income year will be eligible, with a maximum additional deduction of \$20,000 per income year.

B49 Capital gains tax concession for carried interests paid to venture capital partners

Other economic affairs – Other economic affairs, nec (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Deferral				<i>2021 Code:</i>	B47	
<i>Estimate Reliability:</i>	Not Applicable				<i>* Category</i>	2+	
<i>Commencement date:</i>	2002				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Sections 104-255 and 118-21 of the <i>Income Tax Assessment Act 1997</i> <i>Venture Capital Act 2002</i>						

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 generally taxable income of the partner as they accrue. However, a tax expenditure that arises as an entitlement to receive a carried interest is a capital gains tax event in the hands of venture capital fund partners and is not treated as income. Consequently, taxation of carried interests is deferred until a capital gain is realised. Individual partners may also be eligible for the 50 per cent discount on their carried interest.

B50 Clarification of the debt or equity treatment of perpetual subordinated debt

Other economic affairs – Other economic affairs, nec (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Deduction				<i>2021 Code:</i>	B48	
<i>Estimate Reliability:</i>	Not Applicable				<i>* Category</i>	2+	
<i>Commencement date:</i>	1 July 2001				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Division 974 of the <i>Income Tax Assessment Act 1997</i> Division 974 of the <i>Income Tax Assessment Regulations 1997</i>						

Issuers can defer payments on Upper Tier 2 perpetual cumulative subordinated notes because of clauses on ‘profitability, insolvency or negative earnings conditions’. In these circumstances, these notes can be classified as debt interests for tax purposes. As such, distributions on the notes may be tax deductible. Under the benchmark debt equity rules, the notes would be equity interests and distributions will not be tax deductible.

B51 Deduction for borrowing expenses

Other economic affairs – Other economic affairs, nec (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Deduction				<i>2021 Code:</i>	B49	
<i>Estimate Reliability:</i>	Not Applicable				<i>* Category</i>	2+	
<i>Commencement date:</i>	1 July 1997				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Section 25-25 of the <i>Income Tax Assessment Act 1997</i>						

Under the benchmark treatment, up front borrowing expenses (such as fees) incurred when borrowing to buy an asset used to produce assessable income would be capital in nature and included in the cost base of the asset. However, a taxpayer is able to claim a deduction (spread over the shorter of the term of the loan or five years) for these expenses.

B52 Deduction for certain co-operatives repaying government loans

Other economic affairs – Other economic affairs, nec (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Deduction				<i>2021 Code:</i>	B50	
<i>Estimate Reliability:</i>	Not Applicable				<i>* Category</i>	2+	
<i>Commencement date:</i>	Introduced before 1985				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Sections 117 and 120 of the <i>Income Tax Assessment Act 1936</i>						

Under the benchmark, a repayment of the principal on a loan is generally not deductible. However, co-operative companies whose primary object is the acquisition from their shareholders of commodities or animals for disposal or distribution can claim a deduction for repayments of certain Australian and state government loans.

The deduction is allowed only if 90 per cent or more of the value of the company is held by shareholders who supply the company with the commodities or animals.

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B53 Denial of deductibility for non-compliant payments

Other economic affairs – Other economic affairs, nec (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
-	-	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Denial of deduction				<i>2021 Code:</i>	B51	
<i>Estimate Reliability:</i>	Not Applicable				<i>* Category</i>	1-	
<i>Commencement date:</i>	2019				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Section 26-105 of the <i>Income Tax Assessment Act 1997</i>						

Under the benchmark, a deduction is generally allowed to entities such as businesses for the payment of salary and wages, or payment for services made to another entity such as a contractor.

From 1 July 2019, a deduction will be denied for these payments where an entity fully fails to comply with their withholding and reporting obligations, unless certain exemptions apply.

B54 Family trust loss rules

Other economic affairs – Other economic affairs, nec (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Deduction				<i>2021 Code:</i>	B52	
<i>Estimate Reliability:</i>	Not Applicable				<i>* Category</i>	3+	
<i>Commencement date:</i>	9 May 1995				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Divisions 267 and 270 and subdivisions 272-D and 272-E of Schedule 2F to the <i>Income Tax Assessment Act 1936</i>						

The benchmark treatment is that trust losses and debt deductions are quarantined in the trust.

However, the family trust rules provide a concession to the individual specified in a family trust election (the test individual) of a family trust, and their family group, by allowing the transfer of the tax benefit of tax losses and certain debt deductions to members of the family trust.

B55 Immediate deduction for professional expenses

Other economic affairs – Other economic affairs, nec (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
5	2	15	12	9	6	3	..
<i>Tax expenditure type:</i>	Accelerated write-off				<i>2021 Code:</i>	B53	
<i>Estimate Reliability:</i>	Low				<i>Expiry date:</i>		
<i>Commencement date:</i>	1 July 2015				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Section 40-880 of the <i>Income Tax Assessment Act 1997</i>						

Under the benchmark, professional expenses associated with starting a new business, such as professional, legal and accounting advice are deductible over a 5 year period.

However, eligible businesses can immediately deduct these professional expenses in the year in which the expenditure is made. From 1 July 2020, the aggregated annual turnover threshold for eligible businesses to access this concession increased from \$10 million to \$50 million.

B56 Income tax exemption for prescribed entities

Other economic affairs – Other economic affairs, nec (\$m)

	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
	*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption					<i>2021 Code:</i>	B54	
<i>Estimate Reliability:</i>	Not Applicable					<i>* Category</i>	4+	
<i>Commencement date:</i>	Introduced before 1985					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Division 50 of the <i>Income Tax Assessment Act 1997</i>							

The benchmark tax treatment is that income tax is paid on the taxable income of an entity for an income year at its applicable rate of tax. However, the income of various prescribed entities is exempt from income tax. Prescribed entities include, amongst other things:

- Commonwealth, state and territory public authorities
- public and not-for-profit hospitals
- trade unions and employer associations
- industry-specific not-for-profit associations predominantly devoted to promoting the development of aviation, tourism, agriculture, manufacturing or industry
- registered charities, public educational institutions, scientific research funds, and community service entities
- associations and clubs established for the encouragement of sports, music, art or literature
- certain international sporting organisations that receive Australian-sourced income relating to global sporting events held in Australia for time-limited periods before and after the events.

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B57 Income tax exemptions for foreign government entities

Other economic affairs – Other economic affairs, nec (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
-	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption				<i>2021 Code:</i>	B55	
<i>Estimate Reliability:</i>	Not Applicable				<i>* Category</i>	3+	
<i>Commencement date:</i>	Introduced before 1985				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Division 880 of the <i>Income Tax Assessment Act 1997</i>						

Where the income of an eligible foreign government entity is a return on a portfolio-like membership interest, debt interest or non-share equity interest in an Australian company or managed investment trust, this income is non-assessable non-exempt income that is also exempt from withholding tax.

The benchmark tax treatment is the default withholding rate for dividends (30 per cent), interest (10 per cent), royalties (30 per cent), and managed investment trust payments (30 per cent). Where a tax treaty or exchange of information agreement has the effect of reducing the relevant default withholding rate, the benchmark rate is the rate specified in the applicable treaty or agreement (refer to B5).

B58 Income tax exemptions for foreign superannuation funds

Other economic affairs – Other economic affairs, nec (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption				<i>2021 Code:</i>	B56	
<i>Estimate Reliability:</i>	Not Applicable				<i>* Category</i>	2+	
<i>Commencement date:</i>	1981				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Section 128B(3)(jb) of the <i>Income Tax Assessment Act 1936</i>						

Interest income and dividends received by foreign superannuation funds are exempt from interest and dividend withholding taxes if this income is exempt from income tax in the country in which the foreign superannuation fund resides and if the superannuation fund has a portfolio-like interest in the entity that pays the interest or dividends to it.

The benchmark tax treatment is the default withholding rate for interest (10 per cent) and dividends (30 per cent), or where a tax treaty reduces the relevant default withholding rate, the rate specified in the applicable treaty (refer to B6).

B59 Lower tax rate for small companies

Other economic affairs – Other economic affairs, nec (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
1,100	1,100	2,400	3,900	3,600	2,500	3,500	3,700
<i>Tax expenditure type:</i>		Concessional rate			<i>2021 Code:</i>		B57
<i>Estimate Reliability:</i>		Medium					
<i>Commencement date:</i>		1 July 2015			<i>Expiry date:</i>		
<i>Legislative reference:</i>		Subsection 23(2) of the <i>Income Tax Rates Act 1986</i>					

Under the benchmark treatment company income tax is paid at the headline corporate tax rate of 30 per cent. However, companies with aggregated annual turnover below \$50 million and with 80 per cent or less of assessable income that is passive in nature face a company tax rate of 25 per cent.

B60 Managed investment trusts – election to allow capital gains tax to be the primary code for disposals of certain assets

Other economic affairs – Other economic affairs, nec (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>		Concessional rate			<i>2021 Code:</i>		B58
<i>Estimate Reliability:</i>		Not Applicable			<i>* Category</i>		4+
<i>Commencement date:</i>		1 July 2008			<i>Expiry date:</i>		
<i>Legislative reference:</i>		Division 275 of the <i>Income Tax Assessment Act 1997</i>					

Gains and losses on disposals of assets by managed investment trusts (MITs) may be on revenue or capital account. Gains and losses that are treated on capital account are taxed under the CGT regime. Beneficiaries who are individuals or superannuation funds are entitled to the CGT tax concessions on distributions of capital gains. Foreign resident beneficiaries of a MIT are generally not subject to tax on a MIT distribution attributable to a CGT gain unless the gain relates to taxable Australian property.

However, from the 2008–09 income year, eligible MITs can make an irrevocable election to treat gains and losses on disposals of certain assets (primarily shares, units and real property) on capital account, and subject to the capital gains tax regime. If an eligible MIT does not make an irrevocable election to have capital account treatment, then gains and losses on disposals of shares and units may be treated as ordinary income.

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B61 Philanthropy – income tax exemption for not-for-profit companies

Other economic affairs – Other economic affairs, nec (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
..
<i>Tax expenditure type:</i>	Exemption				<i>2021 Code:</i>		B59
<i>Estimate Reliability:</i>	Medium						
<i>Commencement date:</i>	Introduced before 1985				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Subsection 23(6) of the <i>Income Tax Rates Act 1986</i>						

The benchmark tax treatment is that income tax is paid on the taxable income of a company for an income year at the applicable company tax rate. However, the rate of income tax payable by a not-for-profit company that has a taxable income not exceeding \$416 in a given income year is nil. Income tax is payable at a rate of 55 per cent on taxable income greater than \$416 until the not-for-profit company's effective company tax rate reaches its applicable company tax rate. When its taxable income has exceeded that level (for example, in 2021–22 this would be above \$763 for base rate entities or \$915 for other companies), the applicable company tax rate is applied on the not-for-profit company's entire taxable income.

B62 Philanthropy – refund of franking credits for certain income tax exempt philanthropic entities

Other economic affairs – Other economic affairs, nec (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
1,490	2,095	1,040	*	*	*	*	*
<i>Tax expenditure type:</i>	Rebate				<i>2021 Code:</i>		B60
<i>Estimate Reliability:</i>	Not Applicable				<i>* Category</i>		4+
<i>Commencement date:</i>	1 July 2000				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Subdivision 207-E of the <i>Income Tax Assessment Act 1997</i>						

Entities that are not subject to Australian tax generally cannot benefit from franking credits on distributions from Australian companies. However, entities that are endorsed as income tax exempt charities or income tax exempt deductible gift recipients are able to claim a refund of franking credits on distributions from Australian companies.

B63 Tax exemption for small and medium credit unions

Other economic affairs – Other economic affairs, nec (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
..
<i>Tax expenditure type:</i>	Exemption				<i>2021 Code:</i>		B61
<i>Estimate Reliability:</i>	Medium						
<i>Commencement date:</i>	Introduced before 1985				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Sections 6H and 23G of the <i>Income Tax Assessment Act 1936</i> Subsection 23(7) of the <i>Income Tax Rates Act 1986</i>						

The benchmark tax treatment is that interest derived from loans is assessable and taxed at the applicable tax rate for the entity. However, recognised small credit unions are exempt from tax on interest derived from loans to members.

Recognised medium credit unions are subject to an effective tax rate based on a sliding scale according to their level of taxable income.

B64 Tax incentives for early stage investors

Other economic affairs – Other economic affairs, nec (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
30	30	25	25	25	25	25	25
<i>Tax expenditure type:</i>	Exemption, Offset				<i>2021 Code:</i>	B62	
<i>Estimate Reliability:</i>	Low						
<i>Commencement date:</i>	2016				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Division 360 of the <i>Income Tax Assessment Act 1997</i>						

The benchmark tax treatment is that gains and income from investments are generally assessable.

A tax expenditure arises because eligible investors in qualifying early stage innovation companies receive a 20 per cent non-refundable carry forward tax offset based on their investment, which reduces the amount of tax that would otherwise be payable, capped at a total offset amount of \$200,000 per investor in each income year. Non-sophisticated investors are also subject to an annual \$50,000 investment cap. Eligible investors also receive a ten year exemption from capital gains tax on their investment provided a minimum 12 month holding period has been met.

B65 Tax incentives for Venture Capital Limited Partnerships and Early Stage Venture Capital Limited Partnerships

Other economic affairs – Other economic affairs, nec (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption, Offset				<i>2021 Code:</i>	B63	
<i>Estimate Reliability:</i>	Not Applicable				<i>* Category</i>	NA	
<i>Commencement date:</i>	2002 and 2006				<i>Expiry date:</i>		
<i>Legislative reference:</i>	<i>Venture Capital Act 2002</i> Sections 26-68, 51-52 and 51-54 and Subdivisions 118-F and 118-G (ESVCLPs and VCLPs) of the <i>Income Tax Assessment Act 1997</i>						

The benchmark tax treatment is that gains and income from investments are generally assessable.

A tax expenditure arises because foreign investors are generally exempt from tax on capital gains derived in respect of their investments in Venture Capital Limited Partnerships. Similarly, eligible Australian and foreign investors in Early Stage Venture Capital Limited Partnerships (ESVCLPs) are generally exempt from tax on income, revenue and capital gains derived by the ESVCLP.

Since 1 July 2016, additional tax incentives have been available to ESVCLPs and their investors including a non-refundable carry-forward tax offset of up to 10 per cent for capital invested in new ESVCLPs, which reduces the amount of tax that would otherwise be payable.

B66 Treatment of distributions on certain term subordinated notes

Other economic affairs – Other economic affairs, nec (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Deduction				<i>2021 Code:</i>	B64	
<i>Estimate Reliability:</i>	Not Applicable				<i>* Category</i>	1+	
<i>Commencement date:</i>	1 July 2001				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Division 974 of the <i>Income Tax Assessment Act 1997</i> Division 974 of the <i>Income Tax Assessment Regulations 1997</i>						

Issuers can defer payment on certain Tier 2 regulatory capital (subordinated notes) because of ‘insolvency or capital adequacy conditions’. In these circumstances, the notes can be classified as debt interests for tax purposes. As such, distributions on the notes may be tax deductible. Under the benchmark debt-equity rules, the notes would be equity interests and distributions will not be tax deductible.

B67 Treatment of finance leases

Other economic affairs – Other economic affairs, nec (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Deduction				<i>2021 Code:</i>	B65	
<i>Estimate Reliability:</i>	Not Applicable				<i>* Category</i>	NA	
<i>Commencement date:</i>	1936				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Divisions 240, 242 and 250 of the <i>Income Tax Assessment Act 1997</i>						

Under the benchmark, finance leases are taxed as a loan from the lessor to the lessee to acquire the leased asset. That is, the related interest payments would be deductible to the lessee and assessable to the lessor, and the lessee would be able to claim depreciation deductions for the user cost of the leased asset. This is because a finance lease is, in substance, equivalent to a loan from the lessor to the lessee to finance the purchase of the leased asset. The lessor (financier) acquires the leased asset at the request of the lessee (borrower) and leases the asset to the lessee. On expiry of the lease, legal ownership of the asset is transferred to the lessee at minimal or no cost. During the term of the lease, while the lessor is the legal owner of the leased asset, the lessee has effective economic ownership through having control, use and enjoyment of the asset.

A tax expenditure arises because except where specific provisions apply, for example, Divisions 240 and 250 of the *Income Tax Assessment Act 1997*, finance leases are taxed as leases rather than as loans.

B68 Unincorporated small business tax discount

Other economic affairs – Other economic affairs, nec (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
450	460	460	630	730	740	730	750
<i>Tax expenditure type:</i>		Offset			<i>2021 Code:</i>		B66
<i>Estimate Reliability:</i>		Medium – Low					
<i>Commencement date:</i>		1 July 2015			<i>Expiry date:</i>		
<i>Legislative reference:</i>		Subdivision 328-F of the <i>Income Tax Assessment Act 1997</i>					

Under the benchmark, business income is generally fully assessable to the taxpayer. However, individual taxpayers with business income from an unincorporated small business that had aggregated annual turnover of less than \$5 million were eligible for an 8 per cent tax discount on the income tax payable on that business income from 1 July 2016. This discount rate increased to 13 per cent in 2020–21 and increased to 16 per cent in 2021–22 and later income years. The discount is capped at \$1,000 per individual for each income year and is delivered as a non-refundable tax offset.

Tax expenditures relating to capital expenditure, effective life and depreciation**B69 Accelerated depreciation for business entities**

General public services – Financial and fiscal affairs (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
-	..	900	4,300	7,800	6,600	-3,700	-6,000
<i>Tax expenditure type:</i>		Accelerated write-off			<i>2021 Code:</i>		B67
<i>Estimate Reliability:</i>		Medium – Low					
<i>Commencement date:</i>		2019			<i>Expiry date:</i>		30 June 2023
<i>Legislative reference:</i>		Section 40-82 of the <i>Income Tax Assessment Act 1997</i> Subdivision 40-BA of the <i>Income Tax (Transitional Provisions) Act 1997</i> Subdivision 40-BB of the <i>Income Tax (Transitional Provisions) Act 1997</i>					

Under the benchmark, depreciating assets are generally written off over their effective lives.

A tax expenditure arises because business entities with an aggregated annual turnover below a threshold can access accelerated depreciation arrangements for eligible assets. Where a business entity is eligible for multiple concessions for a particular asset, only one can apply.

For assets purchased from 7:30pm (AEDT) on 2 April 2019 and first used and installed by 11 March 2020, medium-sized businesses with an aggregated annual turnover between \$10 million and \$50 million could fully deduct eligible new and second-hand assets costing less than \$30,000.

From 12 March 2020 to 31 December 2020, businesses with an aggregated annual turnover between \$10 million and \$500 million could fully deduct eligible new and

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second-hand assets costing less than \$150,000. Eligible assets had to be purchased by 31 December 2020 and then first used or installed by 30 June 2021.

For assets purchased from 12 March 2020 and first used or installed by 30 June 2021, businesses with an aggregated annual turnover of less than \$500 million could deduct 50 per cent of the cost of new eligible assets, of any value, in the year of first use or installation, with ordinary depreciation rules applying to the balance of an asset's cost. This initiative is known as the Backing Business Investment incentive.

Eligible businesses, including those with an aggregated annual turnover of less than \$5 billion, can fully deduct the cost of eligible assets acquired from 7:30pm (AEDT) on 6 October 2020 and first used or installed by 30 June 2023. This initiative is known as temporary full expensing. Eligible assets include new depreciating assets and the cost of improvements to existing eligible assets. Small and medium-sized businesses with an aggregated annual turnover of less than \$50 million can also fully deduct the cost of second-hand assets.

B70 Accelerated depreciation of fencing and fodder storage assets for primary producers

Agriculture, forestry and fishing (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
65	125	130	100	120	120	120	125
<i>Tax expenditure type:</i>	Accelerated write-off			<i>2021 Code:</i>		B68	
<i>Estimate Reliability:</i>	Low						
<i>Commencement date:</i>	12 May 2015			<i>Expiry date:</i>			
<i>Legislative reference:</i>	Section 40-10 and Subdivision 40-F of the <i>Income Tax Assessment Act 1997</i>						

Under the benchmark, fences and fodder storage assets are depreciated over their effective lives. However, primary producers can immediately deduct capital expenditure on fencing assets, and from 19 August 2018, they can immediately deduct capital expenditure on fodder storage assets, such as silos and hay sheds, used to store grain and other animal feed.

Prior to 19 August 2018, primary producers could depreciate the cost of fodder storage assets over three years.

B71 Accelerated write-off for expenditure on water facilities for primary producers

Agriculture, forestry and fishing (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
35	40	30	30	25	25	25	20
<i>Tax expenditure type:</i>	Accelerated write-off				<i>2021 Code:</i>	B69	
<i>Estimate Reliability:</i>	Medium – Low						
<i>Commencement date:</i>	Introduced before 1985				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Subdivision 40-F of the <i>Income Tax Assessment Act 1997</i>						

Under the benchmark, expenditure on water facilities is generally deductible over the effective life of the asset. However, primary producers can immediately deduct capital expenditure on water facilities, such as dams, tanks and pumps, from 12 May 2015. Previously this expenditure was deductible over three years. The expenditure must be incurred primarily for conserving or conveying water for use in primary production.

B72 Accelerated write-off for horticultural plants

Agriculture, forestry and fishing (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Accelerated write-off				<i>2021 Code:</i>	B70	
<i>Estimate Reliability:</i>	Not Applicable						
<i>Commencement date:</i>	1995				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Subdivision 40-F of the <i>Income Tax Assessment Act 1997</i>						

Under the benchmark, capital expenditure on assets generally forms part of the cost of the asset or is deductible over the effective life of the asset. However, 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 three or more years can be depreciated over a shorter period than their effective life using the maximum write-off periods set out in the legislation.

B73 Accelerated write-off for irrigation water providers

Agriculture, forestry and fishing (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Included in B71							
<i>Tax expenditure type:</i>	Accelerated write-off				<i>2021 Code:</i>	B71	
<i>Estimate Reliability:</i>	Not Applicable						
<i>Commencement date:</i>	1 July 2004				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Subdivision 40-F of the <i>Income Tax Assessment Act 1997</i> Subdivision 40-G of the <i>Income Tax Assessment Act 1997</i>						

Under the benchmark, expenditure on landcare and water facilities is generally deductible over the effective life of the asset. However, certain irrigation water providers can claim an immediate deduction for capital expenditure on landcare activities and water facilities.

B74 Accelerated write-off for landcare operations

Agriculture, forestry and fishing (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Included in B71							
<i>Tax expenditure type:</i>	Accelerated write-off				<i>2021 Code:</i>	B72	
<i>Estimate Reliability:</i>	Not Applicable						
<i>Commencement date:</i>	Introduced before 1985				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Subdivision 40-G of the <i>Income Tax Assessment Act 1997</i>						

Under the benchmark, capital expenditure on landcare operations is generally deductible over the effective life of the asset. However, primary producers and business users of rural land can claim an immediate deduction for capital expenditure on landcare operations, such as constructing a levee or prevention of land degradation.

B75 Accelerated write-off for telephone lines and electricity connections

Agriculture, forestry and fishing (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Accelerated write-off				<i>2021 Code:</i>	B73	
<i>Estimate Reliability:</i>	Not Applicable						
<i>Commencement date:</i>	Introduced before 1985				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Subdivision 40-G of the <i>Income Tax Assessment Act 1997</i>						

Under the benchmark, assets are generally depreciated over their effective lives. A tax expenditure arises because 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 10 years.

B76 Closing stock valuation options for horse breeding stock

Agriculture, forestry and fishing (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Deduction, Discounted valuation				<i>2021 Code:</i>	B74	
<i>Estimate Reliability:</i>	Not Applicable						
<i>Commencement date:</i>	1992				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Sections 70-60 and 70-65 of the <i>Income Tax Assessment Act 1997</i>						

Under the benchmark, horse breeding trading stock would be allocated a closing stock value of either cost, market value or replacement value. However, taxpayers can elect to write down the closing value of horse breeding stock that is at least 3 years old, at up to 25 per cent of the cost of sires per annum and up to 33½ per cent of the cost of mares (under 12 years old) per annum, on a prime cost basis. Mares that are 12 years old or older can be valued at \$1.

B77 Exploration and prospecting deduction

Mining, manufacturing and construction (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
-310	-300	-200	70	120	220	290	280
<i>Tax expenditure type:</i>	Deduction				<i>2021 Code:</i>		B75
<i>Estimate Reliability:</i>	Medium						
<i>Commencement date:</i>	1968				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Sections 40-25 and 40-730, and Subsections 40-80(1) and 40-95(12) of the <i>Income Tax Assessment Act 1997</i>						

Under the benchmark, business capital expenditures not elsewhere recognised within the taxation laws are deductible over five years. However, expenditure on exploration or prospecting for the purpose of mining (including for petroleum) and quarrying is immediately deductible.

Under the benchmark, expenditure on a depreciating asset is deductible over the effective life of the asset. However, the cost of a depreciating asset is immediately deductible if the taxpayer first uses the asset for exploration or prospecting for minerals (including petroleum) or quarry materials obtainable by mining operations, subject to certain conditions.

From 14 May 2013, the cost of a mining, quarrying or prospecting right or information first used for exploration is generally deductible over its effective life or 15 years, whichever is shorter. However, realignment and farm-in, farm-out arrangements remain immediately deductible.

B78 Statutory effective life caps

Transport and communication (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Accelerated write-off				<i>2021 Code:</i>		B76
<i>Estimate Reliability:</i>	Not Applicable				<i>* Category</i>		4+
<i>Commencement date:</i>	2002				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Section 40-102 of the <i>Income Tax Assessment Act 1997</i>						

Under the tax benchmark deductions for depreciation are made over the effective life of an asset. Statutory effective life caps provide a write-off period for some assets, shorter than the effective life determined by the Commissioner of Taxation. Statutory caps exist for assets such as aircraft, trucks, truck trailers, buses, tractors and harvesters.

B79 Absence of depreciation recapture for certain assets

Other economic affairs – Other economic affairs, nec (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Deduction				<i>2021 Code:</i>	B77	
<i>Estimate Reliability:</i>	Not Applicable				<i>* Category</i>	2+	
<i>Commencement date:</i>	1982				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Division 43 and Section 110-45 of the <i>Income Tax Assessment Act 1997</i>						

Under the benchmark, deductions for expenses related to economic benefits that are spread over time are spread over the period of the benefit. For depreciating assets this outcome is usually ensured through balancing adjustments that modify tax outcomes when assets are sold or disposed. A tax expenditure occurs because 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.

B80 Capital works expenditure deduction

Other economic affairs – Other economic affairs, nec (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
1,220	1,280	1,330	1,270	1,270	1,280	1,280	1,200
<i>Tax expenditure type:</i>	Accelerated write-off				<i>2021 Code:</i>	B78	
<i>Estimate Reliability:</i>	Medium – Low				<i>Expiry date:</i>		
<i>Commencement date:</i>	21 August 1979				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Division 43 of the <i>Income Tax Assessment Act 1997</i>						

Under the tax benchmark assets are depreciated over their effective lives. A taxpayer can claim a deduction for capital works expenditure over a period that is generally shorter than the effective life of the asset. Capital works can be deducted at 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.

B81 Depreciation balancing adjustment roll-over relief

Other economic affairs – Other economic affairs, nec (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Deferral				<i>2021 Code:</i>	B79	
<i>Estimate Reliability:</i>	Not Applicable				<i>* Category</i>	1+	
<i>Commencement date:</i>	1952				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Section 40-340 of the <i>Income Tax Assessment Act 1997</i>						

‘Balancing adjustments’ arise when the disposal value of a depreciating asset differs from its depreciated value. Under the benchmark, the net balancing adjustment amount is generally included in or deducted from assessable income. However, 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.

B82 Depreciation pooling for low value assets

Other economic affairs – Other economic affairs, nec (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Accelerated write-off				<i>2021 Code:</i>	B80	
<i>Estimate Reliability:</i>	Not Applicable				<i>* Category</i>	2+	
<i>Commencement date:</i>	2000				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Subdivision 40-E of the <i>Income Tax Assessment Act 1997</i>						

Under the tax benchmark assets are depreciated over their effective life. 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.

Eligible small businesses can access the Simplified depreciation rules (B85).

B83 Research and development – exemption of refundable tax offset

Other economic affairs – Other economic affairs, nec (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
-415	-435	-440	-460	-485	-510	-520	-540
<i>Tax expenditure type:</i>	Exemption, Denial of deduction				<i>2021 Code:</i>	B81	
<i>Estimate Reliability:</i>	Medium – Low						
<i>Commencement date:</i>	1 July 2011				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Division 355 of the <i>Income Tax Assessment Act 1997</i>						

Under the benchmark, government payments to taxpayers are generally treated as assessable income and subject to tax. A tax expenditure arises when payments made under a refundable tax offset are exempt from tax. Additionally, companies that claim the research and development (R&D) refundable tax offset are unable to claim tax deductions for the R&D expenditure. The absence of these deductions constitutes a negative tax expenditure.

For income years beginning on or after 1 July 2016 but before 1 July 2021, the R&D refundable tax offset is available to companies with an aggregated annual turnover of less than \$20 million at a rate of 43.5 per cent for the first \$100 million of expenditure on eligible R&D activities.

For income years beginning on or after 1 July 2021, the R&D refundable tax offset is available at a rate of 18.5 percentage points above the claimant's company tax rate for the first \$150 million of expenditure on eligible R&D activities.

A refundable tax offset at the prevailing company tax rate applies to the amount of the expenditure that exceeds the R&D expenditure threshold. If a taxpayer's income tax liability is reduced to zero, any residual unused refundable tax offset amount can be refunded as cash to the company.

B84 Research and development – non-refundable tax offset

Other economic affairs – Other economic affairs, nec (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
520	380	430	420	530	570	570	570
<i>Tax expenditure type:</i>		Offset			<i>2021 Code:</i>		B82
<i>Estimate Reliability:</i>		Low					
<i>Commencement date:</i>		1 July 2011			<i>Expiry date:</i>		
<i>Legislative reference:</i>		Division 355 of the <i>Income Tax Assessment Act 1997</i>					

Under the benchmark, companies may be able to claim a tax deduction for expenditure incurred on R&D activities. A tax expenditure arises because the R&D non-refundable tax offset reduces the amount of tax payable to a greater extent than a tax deduction.

For income years beginning on or after 1 July 2016 but before 1 July 2021, the R&D non-refundable tax offset is available to companies with an aggregated annual turnover of \$20 million or more at a rate of 38.5 per cent for the first \$100 million of expenditure on eligible R&D activities.

For income years beginning on or after 1 July 2021, the non-refundable R&D tax offset is calculated using a two-tiered marginal R&D premium, whereby the level of support increases with the intensity (i.e. R&D expenditure as a proportion of total expenses) of the claimant’s incremental R&D expenditure. The R&D premium is the claimant’s company tax rate plus:

- 8.5 percentage points for R&D expenditure between 0 per cent and 2 per cent R&D intensity
- 16.5 percentage points for R&D expenditure above 2 per cent R&D intensity.

The R&D expenditure threshold also increased from \$100 million to \$150 million per annum.

A non-refundable tax offset at the prevailing company tax rate applies to the amount of the expenditure that exceeds the R&D expenditure threshold. The non-refundable tax offset can be carried forward to be applied against future income tax liabilities. If a company’s income tax liability is zero, unused offset amounts cannot be applied to reduce other tax liabilities.

B85 Simplified depreciation rules

Other economic affairs – Other economic affairs, nec (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
700	700	3,900	7,200	4,800	2,900	-4,700	-6,200
<i>Tax expenditure type:</i>		Accelerated write-off			<i>2021 Code:</i>		B83
<i>Estimate Reliability:</i>		Medium – Low					
<i>Commencement date:</i>		2001			<i>Expiry date:</i>		
<i>Legislative reference:</i>		Subdivision 328-D of the <i>Income Tax Assessment Act 1997</i>					

Under the benchmark, depreciating assets are generally written off over their effective lives.

A tax expenditure arises because small business entities with an aggregated annual turnover of less than \$10 million can access concessional depreciation arrangements for eligible assets.

Under the concessions, small business entities can deduct the full cost of eligible assets costing less than a threshold amount. From 7.30pm (AEST) on 12 May 2015 to 28 January 2019, the threshold was \$20,000. From 29 January 2019 to before 7.30pm (AEDT) on 2 April 2019, the threshold was \$25,000. From 7.30pm (AEDT) on 2 April 2019 to 11 March 2020, the threshold was \$30,000. From 12 March 2020 to 31 December 2020, the threshold was \$150,000 for eligible assets purchased by 31 December 2020 and first used or installed by 30 June 2021. No threshold applies to eligible assets purchased from 7:30pm (AEDT) on 6 October 2020 and first used or installed by 30 June 2023.

Small business entities can depreciate assets above the threshold through simplified pooling arrangements. The general small business pool is fully deducted at the end of the income year if its balance is less than the applicable threshold (before deducting depreciation for the year). For income years ending in the period while no threshold applies, the balance of the pool is deducted regardless of value.

Small business entities can choose not to access the simplified depreciation rules. See related expenditure B69 on accelerated depreciation for business entities.

Tax Expenditures and Insights Statement

B86 Simplified trading stock rules

Other economic affairs – Other economic affairs, nec (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Deferral				<i>2021 Code:</i>	B84	
<i>Estimate Reliability:</i>	Not Applicable				<i>* Category</i>	1+	
<i>Commencement date:</i>	2001				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Subdivision 328-E of the <i>Income Tax Assessment Act 1997</i>						

Under the benchmark, changes in the value of trading stock are generally accounted for at the end of the income year.

However, eligible entities with aggregated annual turnover of less than \$50 million (\$10 million before 1 July 2021) can 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 formal stocktaking is not required at the end of the income year.

Petroleum

B87 Timor Sea Maritime Boundaries Treaty

Fuel and energy (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption				<i>2021 Code:</i>	B85	
<i>Estimate Reliability:</i>	Not Applicable				<i>* Category</i>	2+	
<i>Commencement date:</i>	2019				<i>Expiry date:</i>		
<i>Legislative reference:</i>	The Treasury Laws Amendment (Timor Sea Maritime Boundaries Treaty) Act 2019						

Under the benchmark, expenses connected to income earning activity, or a business in another jurisdiction are generally not deductible in Australia and losses may only be offset against income that is taxable in Australia. The tax positions of petroleum projects directly affected by *The Treaty between Australia and the Democratic Republic of Timor-Leste Establishing their Maritime Boundaries in the Timor Sea* (The Treaty) have been preserved in the Australian tax system. This fulfils Australia's obligation under the Treaty to provide 'conditions equivalent' to participants in transitioned petroleum activities affected by the Treaty in respect of their taxation affairs.

Miscellaneous tax expenditures

B88 Patent box concession for Australian medical and biotechnology innovations, agricultural sector innovations, and low emissions technology innovations

General public services – General research (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
-	-	-	-	-	70	110	160
<i>Tax expenditure type:</i>	Concessional rate				<i>2021 Code:</i>	B86	
<i>Estimate Reliability:</i>	Medium – Low						
<i>Commencement date:</i>	1 July 2022				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Legislation is yet to be passed.						

The benchmark corporate tax rate is 30 per cent. Australian resident corporate tax entities or foreign resident corporate tax entities operating in Australia through a permanent establishment that have income derived from eligible patents can elect for that income to be taxed under the patent box. The patent box provides an effective corporate rate of 17 per cent on eligible income.

The medical and biotechnology patent box will apply from income years starting on or after 1 July 2022, subject to the passage of enabling legislation. The regime will apply to income derived from medical and biotechnology patents granted or issued after 11 May 2021. Eligible patent income must be linked to a therapeutic good registered on the Australian Register of Therapeutic Goods regulated by the Therapeutic Goods Administration. Updated policy specifications permit relevant Australian standard patents granted by the Commissioner of Patents (IP Australia), United States utility patents issued by the United States Patent and Trademark Office, and European patents granted under the European Patent Convention to be eligible.

For income years starting on or after 1 July 2023 the patent box will also apply to eligible corporate income derived from low emissions technology patents or agricultural patents or Plant Breeders Rights granted after 29 March 2022, subject to the passage of enabling legislation. The Government will consult with industry before settling the detailed design of the patent box expansions to these sectors.

B89 International tax – concessional rate of final withholding tax on certain distributions by Australian managed investment trusts to foreign residents

General public services – General services (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
505	570	610	550	570	565	565	560
<i>Tax expenditure type:</i>		Concessional rate			<i>2021 Code:</i>		B87
<i>Estimate Reliability:</i>		Low					
<i>Commencement date:</i>		1 July 2008			<i>Expiry date:</i>		
<i>Legislative reference:</i>		Subdivision 12-H of Schedule 1 to the <i>Taxation Administration Act 1953</i> Regulation 34 of the <i>Taxation Administration Regulations 2017</i>					

Note: estimates include tax expenditures B89 and B14

Australia’s default withholding tax rate for distributions of Australian source net income (other than dividends, interest and royalties) by managed investment trusts (MITs) to foreign residents is 30 per cent. However, since 1 July 2012, a concessional 15 per cent withholding tax rate has applied to MIT fund payments to foreign residents of countries with which Australia has an information exchange arrangement (contained in Regulation 34 of the *Taxation Administration Regulations 2017*). From 1 July 2019, the MIT withholding tax rate was increased to 30 per cent for income classified as non-concessional MIT income. The MIT withholding tax rate is a final withholding tax.

B90 Exception to equity interest test for certain related party at call loans

Other economic affairs – Other economic affairs, nec (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>		Deduction			<i>2021 Code:</i>		B88
<i>Estimate Reliability:</i>		Not Applicable			<i>* Category</i>		2+
<i>Commencement date:</i>		1 July 2005			<i>Expiry date:</i>		
<i>Legislative reference:</i>		Division 974 of the <i>Income Tax Assessment Act 1997</i>					

Under the debt/equity rules benchmark, ‘at call’ loans may be classified as either debt or equity; this classification will have consequences on whether an interest payment made by a company would be deductible or not. However, for companies that have an annual turnover of less than \$20 million, related party at call loans, are taken to be debt interests. Therefore, payments on the loan are deductible debt interest (as compared to non-deductible equity interest under the benchmark).

Retirement savings

TAX EXPENDITURES FOR SOCIAL SECURITY AND WELFARE

C1 Concessional taxation of capital gains for superannuation funds

Social security and welfare (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
1,250	1,100	2,350	2,100	1,350	1,300	1,350	1,450
<i>Tax expenditure type:</i>	Reduction in taxable value				<i>2021 Code:</i>	C1	
<i>Estimate Reliability:</i>	Low						
<i>Commencement date:</i>	1999				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Paragraph 115-10(b) and subparagraph 115-100(b)(i) of the <i>Income Tax Assessment Act 1997</i>						

Under the benchmark, the full nominal value of capital gains realised by superannuation funds are included in taxable income. However, 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 12 months. This effectively results in capital gains being taxed at a 10 per cent rate, rather than a 15 per cent rate.

See C4 for the tax expenditure relating to the concessional taxation of superannuation earnings.

C2 Concessional taxation of employer superannuation contributions

Social security and welfare (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
17,900	19,050	19,300	21,700	23,300	25,250	23,550	24,650
<i>Tax expenditure type:</i>	Exemption, Concessional rate				<i>2021 Code:</i>	C2	
<i>Estimate Reliability:</i>	Medium						
<i>Commencement date:</i>	Introduced before 1985				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Divisions 290, 291, 293 and 295 of the <i>Income Tax Assessment Act 1997</i>						

Under the benchmark, contributions made to superannuation are made from after-tax income. However, employer superannuation contributions (up to the concessional contributions caps) are instead included in the assessable income of a superannuation entity and taxed at a concessional rate of 15 per cent. For individuals whose combined income and concessional contributions exceed \$250,000, the effective rate is 30 per cent.

Before 1 July 2017, the effective rate was 30 per cent for individuals whose combined income and concessional contributions exceeded \$300,000.

C3 Concessional taxation of personal superannuation contributions

Social security and welfare (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
1,050	1,200	1,100	2,050	1,550	1,500	1,550	1,450
<i>Tax expenditure type:</i>		Exemption, Concessional rate			<i>2021 Code:</i>		C3
<i>Estimate Reliability:</i>		Medium					
<i>Commencement date:</i>		Introduced before 1985			<i>Expiry date:</i>		
<i>Legislative reference:</i>		Divisions 290, 291, 293 and 295 of the <i>Income Tax Assessment Act 1997</i>					

Under the benchmark, contributions made to superannuation are made from after-tax income. However, subject to the concessional contributions caps, deducted personal superannuation contributions to eligible superannuation funds are included in the fund's assessable income and taxed at a concessional rate of 15 per cent. For individuals whose combined income and concessional contributions exceed \$250,000, the effective rate is 30 per cent.

Before 1 July 2017, only individuals earning less than 10 per cent of their income as an employee were able to make deductible personal superannuation contributions up to the concessional cap to eligible superannuation funds. Before 1 July 2017, for individuals whose combined income and concessional contributions exceeded \$300,000 the effective rate was 30 per cent.

C4 Concessional taxation of superannuation entity earnings

Social security and welfare (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
19,750	14,650	13,200	19,200	21,500	20,450	19,900	20,350
<i>Tax expenditure type:</i>		Exemption, Concessional rate			<i>2021 Code:</i>		C4
<i>Estimate Reliability:</i>		Low					
<i>Commencement date:</i>		Introduced before 1985			<i>Expiry date:</i>		
<i>Legislative reference:</i>		Divisions 115, 294 and 295 of the <i>Income Tax Assessment Act 1997</i> Sections 26 and 29 of the <i>Income Tax Rates Act 1986</i>					

Under the benchmark, superannuation earnings are taxed at marginal rates. However, the tax rate on earnings, including capital gains, for complying superannuation entities is generally 15 per cent (accumulation phase) or nil where the earnings are derived from assets which are used to meet current pension liabilities (retirement phase). Complying superannuation entities are entitled to refunds of excess imputation credits attached to dividends payable to them.

A complying superannuation entity is one that has elected to be regulated and has complied with certain prudential requirements in the *Superannuation Industry (Supervision) Act 1993*.

These concessional rates do not apply to the non-arm's length income and no-TFN contributions income components of a complying superannuation entity. These rates are 45 per cent, and an additional 32 per cent, respectively.

Since 1 July 2017, the value of assets transferred to the retirement phase has been limited by the general transfer balance cap.

C5 Concessional taxation of unfunded superannuation

Social security and welfare (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
530	550	560	640	710	740	760	780
<i>Tax expenditure type:</i>	Exemption, Offset, Concessional rate				<i>2021 Code:</i>	C5	
<i>Estimate Reliability:</i>	Medium						
<i>Commencement date:</i>	Introduced before 1985				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Part 3-30 and subdivision 320-D of the <i>Income Tax Assessment Act 1997</i> Part 3-30 of the <i>Income Tax (Transitional Provisions) Act 1997</i>						

In the case of unfunded superannuation, no employer contributions are made until the benefit is provided on the member's retirement. The benchmark tax treatment of unfunded superannuation benefits is taxation at marginal rates on receipt by the member.

Unfunded superannuation lump sums are subject to the same concessional tax treatment as funded superannuation lump sums from untaxed funds (see C11). Similarly, unfunded superannuation income streams are taxed in the same way as funded superannuation income streams from untaxed funds (see C10).

The tax treatment of a death benefit paid to a dependant as an income stream depends on the age of the fund member and the dependant. If either was aged 60 or over at the time of death, then the taxable component of payments to the dependant will be taxed at marginal rates with a 10 per cent tax offset. If both were under age 60 at the time of death, the taxable component of the pension will be taxed at the dependant's marginal rate and will become eligible for the 10 per cent offset once the dependant reaches age 60.

Where an individual's income stream from an unfunded scheme exceeds the defined benefit income cap (currently \$106,250 per annum), the amount in excess of the threshold does not receive the 10 per cent tax offset.

C6 Deductibility of life and total and permanent disability insurance premiums provided inside of superannuation

Social security and welfare (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
2,400	2,250	2,150	2,180	2,380	2,530	2,460	2,580
<i>Tax expenditure type:</i>	Deduction, Concessional rate				<i>2021 Code:</i>	C6	
<i>Estimate Reliability:</i>	Medium						
<i>Commencement date:</i>	15 March 2007				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Subdivision 295-G of the <i>Income Tax Assessment Act 1997</i>						

Life, total and permanent disability (TPD) and income protection insurance policies can be provided inside of superannuation and premiums paid out of members' superannuation balances. These premiums are deductible (either partially or fully) for

Tax Expenditures and Insights Statement

the fund. Therefore, the income used to purchase members' premiums is effectively exempt from tax.

By contrast, life and TPD insurance policies that are purchased by individuals outside of the superannuation system are not tax deductible and must be purchased with after-tax income.

This item estimates the difference between the effective tax-exempt status of income used to purchase life and TPD insurance in superannuation, and the tax that would be paid on this income by the individual policy holder had it been purchased outside of superannuation.

As income protection policies purchased outside the superannuation system are tax deductible, a tax expenditure does not arise when such policies are provided inside superannuation.

The Protecting Your Super and Putting Members' Interests First Packages are expected to reduce the amount of insurance premiums paid within superannuation. These measures will reduce the number of inactive accounts, accounts with low balances, and accounts owned by individuals aged under 25 which purchase life and TPD insurance policies.

C7 Small business capital gains retirement exemption

Social security and welfare (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
610	530	500	670	570	600	630	660
<i>Tax expenditure type:</i>	Exemption				<i>2021 Code:</i>	C7	
<i>Estimate Reliability:</i>	Medium – Low						
<i>Commencement date:</i>	1997				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Subdivision 152-D of the <i>Income Tax Assessment Act 1997</i>						

Under the benchmark, realised capital gains are generally assessable to taxpayers at their applicable tax rate in the year they arise. However, eligible small businesses can exclude gains arising from the sale of active small business assets, where the proceeds of the sale are used for retirement. There is a lifetime limit of \$500,000 in respect of any one individual.

C8 Superannuation measures for low-income earners

Social security and welfare (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
210	160	160	160	160	160	170	160
<i>Tax expenditure type:</i>	Exemption, Reduction in taxable value				<i>2021 Code:</i>	C8	
<i>Estimate Reliability:</i>	Medium – Low						
<i>Commencement date:</i>	Co-contribution introduced 1/7/2003 Low income superannuation contribution introduced 1/7/2012 Low income superannuation tax offset introduced 1/7/2017				<i>Expiry date:</i>	Low income superannuation contribution ended 30/6/2017 Low income superannuation tax offset is ongoing	
<i>Legislative reference:</i>	Superannuation (Government Co-Contribution for Low Income Earners) Act 2003 Subdivision 290-D of the <i>Income Tax Assessment Act 1997</i>						

Under the benchmark, contributions made to superannuation are made from after-tax income. However, government contributions made under the Superannuation Co-contribution and Low Income Superannuation Tax Offset are tax free. These are government payments designed to increase the retirement savings of eligible low-income taxpayers.

The Low Income Superannuation Tax Offset has been in effect since 1 July 2017; a Low Income Superannuation Contribution applied up to that date. The payments are expense payments and are not included in the reporting of tax expenditures. The amounts indicated represent the impact of these payments not being taxed.

In addition, a tax offset is available for after-tax contributions to the superannuation account of a low-income spouse.

C9 Tax on excess non-concessional superannuation contributions

Social security and welfare (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
-2	-4	-6	-4	*	*	*	*
<i>Tax expenditure type:</i>	Exemption, Reduction in taxable value				<i>2021 Code:</i>	C9	
<i>Estimate Reliability:</i>	Not Applicable				<i>* Category</i>	1-	
<i>Commencement date:</i>	2006 Excess contributions made after 1 July 2013 can be withdrawn				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Division 292 of the <i>Income Tax Assessment Act 1997</i> Division 292 of the <i>Income Tax (Transitional Provisions) Act 1997</i> <i>Superannuation (Excess Non-Concessional Contributions Tax) Act 2007</i>						

Under the benchmark, all superannuation contributions are made from after-tax income and are therefore not taxed upon transfer into a superannuation fund. However, non-concessional (after-tax) contributions above the non-concessional caps may be

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subject to the excess contributions tax levied at the top marginal tax rate, including the Medicare levy (and temporary budget repair levy between 1 July 2014 and 30 June 2017).

In addition, between 1 July 2017 and 30 June 2021, non-concessional contributions made by individuals with a total superannuation balance of \$1.6 million or more may be subject to the excess contributions tax. On 1 July 2021, this total superannuation balance limit increased to \$1.7 million under existing indexation arrangements. Non-concessional contributions above the non-concessional cap can be withdrawn, in which case, they are not subject to the excess contributions tax.

On 1 July 2017, the annual non-concessional contributions cap was lowered from \$180,000 to \$100,000. On 1 July 2021, this cap increased to \$110,000 under existing indexation arrangements.

A three-year bring forward of annual non-concessional contributions exists for individuals below age 75 at any time in a financial year since 1 July 2022 (below age 67 between 1 July 2020 and 30 June 2022, and below age 65 between 1 July 2008 and 30 June 2020), but is also modified to accommodate the total superannuation balance test.

C10 Tax on funded superannuation income streams

Social security and welfare (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
-230	-190	-170	-150	-140	-130	-110	-110
<i>Tax expenditure type:</i>	Increased rate				<i>2021 Code:</i>	C10	
<i>Estimate Reliability:</i>	Medium						
<i>Commencement date:</i>	Introduced before 1985				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Divisions 301 and 302 and Part 3-30 of the <i>Income Tax Assessment Act 1997</i> Part 3-30 of the <i>Income Tax (Transitional Provisions) Act 1997</i>						

Under the benchmark, superannuation benefits are generally tax free. As such, taxes raised on income stream payments from superannuation result in a negative tax expenditure.

Superannuation income stream payments from a taxed source are tax free for persons aged 60 and over. The taxable component of superannuation income stream payments from a taxed source to persons below age 60 is included in assessable income. A death benefit paid from a taxed source as a reversionary pension from a deceased person who was aged under 60 to a dependant beneficiary aged under 60 is taxed (but receives a 15 per cent tax offset), and also creates a negative tax expenditure.

Some offsets reduce the amount of tax paid – for instance, a 15 per cent tax offset applies to the taxed element of the taxable component of superannuation income stream benefits paid to persons aged between preservation age and 60, and to disability income stream benefits paid to persons under preservation age.

The taxable component of superannuation income stream payments from an untaxed source is included in the recipient's assessable income, with the tax rate depending on the age of the recipient (see C5).

Where an individual's income stream exceeds \$106,250 per annum (indexed), the amount in excess of the threshold does not receive the 10 per cent tax offset. Where an income stream from a taxed source exceeds \$106,250 per annum, 50 per cent of the amount in excess of the threshold is taxed at the individual's marginal rate.

Proceeds from life insurance claims that are taken as an income stream are taxed as a death benefit. Proceeds from total and permanent disability (TPD) insurance claims that are taken as an income stream are taxed as a disability benefit.

C11 Tax on funded superannuation lump sums

Social security and welfare (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
-540	-600	-560	-540	-590	-620	-650	-680
<i>Tax expenditure type:</i>	Increased rate				<i>2021 Code:</i>	C11	
<i>Estimate Reliability:</i>	Low						
<i>Commencement date:</i>	Introduced before 1985				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Divisions 301, 302 and 307 and Part 3-30 of the <i>Income Tax Assessment Act 1997</i> Part 3-30 of the <i>Income Tax (Transitional Provisions) Act 1997</i> <i>Superannuation (Departing Australia Superannuation Payments Tax) Act 2007</i>						

Under the benchmark, superannuation benefits are generally tax free. As such, taxes raised on lump sum payments from superannuation result in a negative tax expenditure.

The taxable component of lump sums paid from a taxed fund is tax free for a person aged 60 or over. For a person aged between preservation age and 60, it is tax free up to the low rate cap (indexed) and up to 15 per cent thereafter. For a person below preservation age a maximum tax rate of 20 per cent applies.

The taxable component of lump sums paid from untaxed funds to persons aged 60 or over is taxed at a maximum rate of 15 per cent up to the untaxed plan cap (indexed) and at the top marginal rate thereafter. For persons aged between preservation age and 60, the tax rate is a maximum rate of 15 per cent up to the low rate cap, a maximum of 30 per cent above the low rate cap but below the untaxed plan cap and at the top marginal rate thereafter. For persons under preservation age the tax rate is up to 30 per cent up to the untaxed plan cap and at the top marginal rate thereafter.

Special arrangements apply to lump sums paid to certain temporary residents who have departed Australia, with the taxed and untaxed elements of the taxable component subject to a tax rate of 35 per cent and 45 per cent respectively. A tax rate of 65 per cent applies to the taxable component of lump sums paid to temporary residents who held working holidaymaker visas.

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While lump sum death benefits paid to dependents are tax free, death benefit payments to non-dependants are taxed at a maximum rate of 15 per cent where paid from a taxed source and a maximum rate of 30 per cent where paid from an untaxed source.

Lump sums paid from life insurance proceeds are taxed as a death benefit. Lump sums paid from total and permanent disability (TPD) insurance proceeds are taxed as standard lump sums above, with the rate depending on the component, the age of the individual and the amount.

Lump sums released under the First Home Super Saver Scheme are generally taxed at the individual's marginal tax rate less a 30 per cent offset.

Lump sums paid under the temporary coronavirus compassionate ground of early release were tax free. Applications for early release under these grounds closed on 31 December 2020.

Tax expenditures for other economic affairs

C12 Exemption for small business assets held for more than 15 years

Other economic affairs – Other economic affairs, nec (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
520	470	540	750	750	750	750	750
<i>Tax expenditure type:</i>	Exemption				<i>2021 Code:</i>		C12
<i>Estimate Reliability:</i>	Medium						
<i>Commencement date:</i>	1999				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Subdivision 152-B of the <i>Income Tax Assessment Act 1997</i>						

Under the benchmark, realised capital gains are generally assessable to taxpayers at their applicable tax rate in the year they arise. However, gains arising from the disposal of active small business assets that have been held continuously for 15 years are exempt from capital gains tax where the taxpayer is permanently incapacitated or reaches the age of 55 and retires.

Fringe Benefits Tax

TAX EXPENDITURES FOR PUBLIC ORDER AND SAFETY

D1 Exemption for compensation-related benefits, occupational health and counselling services and some training courses

Public order and safety (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption				<i>2021 Code:</i>	D1	
<i>Estimate Reliability:</i>	Not Applicable				<i>* Category</i>	3+	
<i>Commencement date:</i>	1986				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Sections 58J, 58K and 58M of the <i>Fringe Benefits Tax Assessment Act 1986</i>						

Under the income tax benchmark, fringe benefits are classified as individual employee income, with the grossed-up value taxed at the employee's marginal income tax rate. However, certain benefits in relation to compensable work-related trauma, medical services, 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.

D2 Exemption for safety award benefits

Public order and safety (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption				<i>2021 Code:</i>	D2	
<i>Estimate Reliability:</i>	Not Applicable				<i>* Category</i>	1+	
<i>Commencement date:</i>	1987				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Section 58R of the <i>Fringe Benefits Tax Assessment Act 1986</i>						

Under the income tax benchmark, fringe benefits are classified as individual employee income, with the grossed-up value taxed at the employee's marginal income tax rate. However, 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.

D3 Reduction in taxable value for car expenses incurred for occupational health and counselling services and some training courses

Public order and safety (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Reduction in taxable value				<i>2021 Code:</i>	D3	
<i>Estimate Reliability:</i>	Not Applicable				<i>* Category</i>	1+	
<i>Commencement date:</i>	1987				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Section 61F of the <i>Fringe Benefits Tax Assessment Act 1986</i>						

Under the income tax benchmark, fringe benefits are classified as individual employee income, with the grossed-up value taxed at the employee’s marginal income tax rate. However, 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 for the car expenses incurred calculated based on the distance travelled by the car.

Tax expenditures for general public services

D4 Exemption for benefits provided by certain international organisations

General public services – Foreign affairs and economic aid (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption				<i>2021 Code:</i>	D4	
<i>Estimate Reliability:</i>	Not Applicable				<i>* Category</i>	1+	
<i>Commencement date:</i>	1986				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Sections 55 and 56 of the <i>Fringe Benefits Tax Assessment Act 1986</i>						

Under the income tax benchmark, fringe benefits are classified as individual employee income, with the grossed-up value taxed at the employee’s marginal income tax rate. However, 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*, the *Consular Privileges and Immunities Act 1972* or the *Diplomatic Privileges and Immunities Act 1967* and by organisations established under international agreements which oblige Australia to grant the organisation a general tax exemption.

Tax expenditures for defence

D5 Exemption for benefits received by Australian Government employees in receipt of military compensation payments

Defence (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
115	145	155	170	190	190	175	175
<i>Tax expenditure type:</i>		Exemption			<i>2021 Code:</i>		D5
<i>Estimate Reliability:</i>		Medium					
<i>Commencement date:</i>		1995			<i>Expiry date:</i>		
<i>Legislative reference:</i>		Sections 6AA and 6AB of the <i>Fringe Benefits Tax (Application to the Commonwealth) Act 1986</i>					

Under the income tax benchmark, fringe benefits are classified as individual employee income, with the grossed-up value taxed at the employee's marginal income tax rate. However, benefits provided to Australian Government employees in receipt of military compensation payments are exempt from fringe benefits tax.

D6 Exemption for war service loans

Defence (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
..
<i>Tax expenditure type:</i>		Exemption			<i>2021 Code:</i>		D6
<i>Estimate Reliability:</i>		Medium – High					
<i>Commencement date:</i>		1986			<i>Expiry date:</i>		
<i>Legislative reference:</i>		Section 6 of the <i>Fringe Benefits Tax (Application to the Commonwealth) Act 1986</i>					

Under the income tax benchmark, fringe benefits are classified as individual employee income, with the grossed-up value taxed at the employee's marginal income tax rate. However, loan concessions authorised under the *Defence Service Homes Act 1918* and made by virtue of an employee's war service are exempt from fringe benefits tax.

Tax expenditures for education

D7 Exemption for certain retraining and reskilling benefits

Education (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
-	-	1	1	1	1	1	1
<i>Tax expenditure type:</i>		Exemption			<i>2021 Code:</i>		D7
<i>Estimate Reliability:</i>		Low					
<i>Commencement date:</i>		2 October 2020			<i>Expiry date:</i>		
<i>Legislative reference:</i>		Section 58ZE of the <i>Fringe Benefits Tax Assessment Act 1986</i>					

Under the income tax benchmark, fringe benefits are classified as individual employee income, with the grossed-up value taxed at the employee's marginal income tax rate. However, retraining and reskilling benefits provided by employers to redundant, or soon to be redundant employees, where the benefits may not be related to their current

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employment are exempt from fringe benefits tax. This measure commenced from 2 October 2020.

D8 Reduction in taxable value for education costs of children of employees posted overseas

Education (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Reduction in taxable value				<i>2021 Code:</i>	D8	
<i>Estimate Reliability:</i>	Not Applicable				<i>* Category:</i>	1+	
<i>Commencement date:</i>	1987				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Section 65A of the <i>Fringe Benefits Tax Assessment Act 1986</i>						

Under the income tax benchmark, fringe benefits are classified as individual employee income, with the grossed-up value taxed at the employee's marginal income tax rate. However, the taxable value of fringe benefits (including a car, expense payment, property or residual benefit) in respect of full-time education of children of employees posted overseas may be reduced. The extent of the reduction relates to the period of the employee's service overseas.

Tax expenditures for health

D9 Exemption for health care benefits provided to members of the Defence Force

Defence (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
590	520	450	490	540	540	500	520
<i>Tax expenditure type:</i>	Exemption				<i>2021 Code:</i>	D9	
<i>Estimate Reliability:</i>	Medium						
<i>Commencement date:</i>	1995				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Section 6AC of the <i>Fringe Benefits Tax (Application to the Commonwealth) Act 1986</i>						

Under the income tax benchmark, fringe benefits are classified as individual employee income, with the grossed-up value taxed at the employee's marginal income tax rate. However, all health care benefits provided by the Australian Government to members of the Australian Defence Force (because of their membership) are exempt from fringe benefits tax.

D10 Exemption for charities promoting the prevention or control of disease in human beings

Health (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
130	135	130	135	145	145	140	145
<i>Tax expenditure type:</i>	Exemption				<i>2021 Code:</i>		D10
<i>Estimate Reliability:</i>	Medium – High						
<i>Commencement date:</i>	2001				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Section 5B and Subsection 57A(5) of the <i>Fringe Benefits Tax Assessment Act 1986</i>						

Under the income tax benchmark, fringe benefits are classified as individual employee income, with the grossed-up value taxed at the employee's marginal income tax rate. However, charities whose principal activity is to promote the prevention or control of diseases in human beings are provided with an exemption from fringe benefits tax for up to \$30,000 of the grossed up taxable value of fringe benefits per employee in each fringe benefits tax year.

D11 Exemption for public and not-for-profit hospitals and public ambulance services

Health (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
1,650	1,600	1,750	1,850	2,000	2,050	1,900	2,000
<i>Tax expenditure type:</i>	Exemption				<i>2021 Code:</i>		D11
<i>Estimate Reliability:</i>	Medium						
<i>Commencement date:</i>	2000				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Sections 57A(3) and 57A(4) of the <i>Fringe Benefits Tax Assessment Act 1986</i>						

Under the income tax benchmark, fringe benefits are classified as individual employee income, with the grossed-up value taxed at the employee's marginal income tax rate. However, public and not-for-profit hospitals and public ambulance services are provided with an exemption from fringe benefits tax for up to \$17,000 of the grossed-up taxable value of fringe benefits per employee in each fringe benefits tax year.

D12 Exemption for travel costs of employees and their families associated with overseas medical treatment

Health (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption				<i>2021 Code:</i>		D12
<i>Estimate Reliability:</i>	Not Applicable				<i>* Category</i>		1+
<i>Commencement date:</i>	1987				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Section 58L of the <i>Fringe Benefits Tax Assessment Act 1986</i>						

Under the income tax benchmark, fringe benefits are classified as individual employee income, with the grossed-up value taxed at the employee's marginal income tax rate. However, benefits that meet the costs of travel away from a workplace located in a

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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

D13 Exemption for accommodation, fuel and meals for live-in employees caring for the elderly or disadvantaged

Social security and welfare (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption				<i>2021 Code:</i>	D13	
<i>Estimate Reliability:</i>	Not Applicable				<i>* Category</i>	1+	
<i>Commencement date:</i>	1986				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Sections 58 and 58U of the <i>Fringe Benefits Tax Assessment Act 1986</i>						

Under the income tax benchmark, fringe benefits are classified as individual employee income, with the grossed-up value taxed at the employee’s marginal income tax rate. However, certain benefits that are provided to people employed in caring for elderly or disadvantaged persons and who reside with them in their own homes are exempt from fringe benefits tax. The benefits that are exempt are accommodation, residential fuel, meals and other food and drink provided in the home to the employee.

D14 Exemption for emergency assistance

Social security and welfare (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption				<i>2021 Code:</i>	D14	
<i>Estimate Reliability:</i>	Not Applicable				<i>* Category</i>	1+	
<i>Commencement date:</i>	1987				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Section 58N of the <i>Fringe Benefits Tax Assessment Act 1986</i>						

Under the income tax benchmark, fringe benefits are classified as individual employee income, with the grossed-up value taxed at the employee’s marginal income tax rate. However, certain benefits provided by way of emergency assistance to employees 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.

D15 Exemption for public benevolent institutions (excluding hospitals)

Social security and welfare (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
1,850	2,000	2,100	2,250	2,450	2,500	2,450	2,550
<i>Tax expenditure type:</i>		Exemption			<i>2021 Code:</i>		D15
<i>Estimate Reliability:</i>		Medium – High					
<i>Commencement date:</i>		2001			<i>Expiry date:</i>		
<i>Legislative reference:</i>		Subsection 57A(1) of the <i>Fringe Benefits Tax Assessment Act 1986</i>					

Under the income tax benchmark, fringe benefits are classified as individual employee income, with the grossed-up value taxed at the employee's marginal income tax rate. However, public benevolent institutions (excluding hospital activities) are provided with an exemption from fringe benefits tax for up to \$30,000 of the grossed-up taxable value of fringe benefits per employee.

D16 Exemption from the fringe benefit cap for meal entertainment and entertainment facility leasing expenses

Social security and welfare (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
260	260	300	320	350	350	330	340
<i>Tax expenditure type:</i>		Exemption			<i>2021 Code:</i>		D16
<i>Estimate Reliability:</i>		Medium – High					
<i>Commencement date:</i>		1 January 2001			<i>Expiry date:</i>		
<i>Legislative reference:</i>		Section 5B and Subsections 57A(1) and 57A(5) of the <i>Fringe Benefits Tax Assessment Act 1986</i>					

Under the income tax benchmark, fringe benefits are classified as individual employee income, with the grossed-up value taxed at the employee's marginal income tax rate. However, charitable institutions whose principal activity is to promote the prevention or control of diseases in human beings, public and not-for-profit hospitals, public ambulance services, and public benevolent institutions (excluding hospital activities) are provided with an exemption from fringe benefits tax for meal entertainment and entertainment facility leasing expenses. The fringe benefits tax exemption on these items is subject to a \$5,000 cap on the grossed-up taxable value of fringe benefits per employee imposed.

Tax expenditures for housing and community amenities

D17 Exemption for meals for primary production employees in remote areas

Housing and community amenities (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption				<i>2021 Code:</i>	D17	
<i>Estimate Reliability:</i>	Not Applicable				<i>* Category</i>	2+	
<i>Commencement date:</i>	2000				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Section 58ZD of the <i>Fringe Benefits Tax Assessment Act 1986</i>						

Under the income tax benchmark, fringe benefits are classified as individual employee income, with the grossed-up value taxed at the employee's marginal income tax rate. However, certain meals provided on working days to employees of primary producers in remote areas are exempt from fringe benefits tax.

D18 Exemption for remote area housing and reduction in taxable value for housing assistance

Housing and community amenities (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption, Reduction in taxable value				<i>2021 Code:</i>	D18	
<i>Estimate Reliability:</i>	Not Applicable				<i>* Category</i>	3+	
<i>Commencement date:</i>	1986, 1988, 2000				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Sections 58ZC, 59, 60, and 65CC of the <i>Fringe Benefits Tax Assessment Act 1986</i>						

Under the income tax benchmark, fringe benefits are classified as individual employee income, with the grossed-up value taxed at the employee's marginal income tax rate. However, housing benefits (the right to use accommodation as a usual place of residence) 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 may include housing loans, or the reimbursement of rent paid by an employee.

Tax expenditures for recreation and culture

D19 Exemption for certain fringe benefits provided to live-in employees providing domestic services to religious institutions and practitioners

Recreation and culture (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption				<i>2021 Code:</i>	D19	
<i>Estimate Reliability:</i>	Not Applicable				<i>* Category</i>	2+	
<i>Commencement date:</i>	1986				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Section 58T of the <i>Fringe Benefits Tax Assessment Act 1986</i>						

Under the income tax benchmark, fringe benefits are classified as individual employee income, with the grossed-up value taxed at the employee's marginal income tax rate. However, accommodation, residential 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.

D20 Exemption for fringe benefits provided to certain employees of religious institutions

Recreation and culture (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
80	80	75	80	85	90	85	90
<i>Tax expenditure type:</i>	Exemption				<i>2021 Code:</i>	D20	
<i>Estimate Reliability:</i>	Low				<i>Expiry date:</i>		
<i>Commencement date:</i>	1986				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Section 57 of the <i>Fringe Benefits Tax Assessment Act 1986</i>						

Under the income tax benchmark, fringe benefits are classified as individual employee income, with the grossed-up value taxed at the employee's marginal income tax rate. However, benefits provided to an employee, or to a spouse or child of the employee, of a religious institution are exempt from fringe benefits tax if the employee is a religious practitioner and only if the benefit is provided principally in respect of pastoral duties or any other duties or activities that are directly related to the practice, study, teaching or propagation of religious beliefs.

Tax expenditures for other economic affairs

D21 Application of statutory formula to value car benefits

Other economic affairs – Total labour and employment affairs (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
1,000	970	840	830	840	820	700	750
<i>Tax expenditure type:</i>		Discounted valuation			<i>2021 Code:</i>		D21
<i>Estimate Reliability:</i>		Medium – Low					
<i>Commencement date:</i>		1986			<i>Expiry date:</i>		
<i>Legislative reference:</i>		Section 9 of the <i>Fringe Benefits Tax Assessment Act 1986</i>					

Under the income tax benchmark, fringe benefits are classified as individual employee income, with the grossed-up value taxed at the employee's marginal income tax rate. A fringe benefit arises where an employee is provided with a car for private use. A car fringe benefit can be valued using the statutory formula method, under which the value of a person's car fringe benefit is determined by multiplying the cost of the car by the proportion of days the vehicle is used privately by the statutory rate of 20 per cent.

D22 Approved worker entitlement fund payment exemption

Other economic affairs – Total labour and employment affairs (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
160	165	155	160	160	160	145	150
<i>Tax expenditure type:</i>		Exemption			<i>2021 Code:</i>		D22
<i>Estimate Reliability:</i>		Low					
<i>Commencement date:</i>		30 June 2003			<i>Expiry date:</i>		
<i>Legislative reference:</i>		Sections 58PA and 58PB of the <i>Fringe Benefits Tax Assessment Act 1986</i>					

Under the income tax benchmark, fringe benefits are classified as individual employee income, with the grossed-up value taxed at the employee's marginal income tax rate. However, payments to approved worker entitlement funds providing for entitlements such as redundancy and long service leave of employees are exempt from fringe benefits tax. The funds must be either endorsed by the Commissioner of Taxation or be a long service leave fund established under a Commonwealth, State or Territory law.

D23 Australian Traineeship System – exemptions for certain employees

Other economic affairs – Total labour and employment affairs (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>		Exemption			<i>2021 Code:</i>		D23
<i>Estimate Reliability:</i>		Not Applicable			<i>* Category</i>		1+
<i>Commencement date:</i>		1987			<i>Expiry date:</i>		
<i>Legislative reference:</i>		Section 58S of the <i>Fringe Benefits Tax Assessment Act 1986</i>					

Under the income tax benchmark, fringe benefits are classified as individual employee income, with the grossed-up value taxed at the employee's marginal income tax rate. However, food, drink and accommodation provided to people training under the Australian Traineeship System may be exempt from fringe benefits tax if the benefit is

provided in accordance with an award or an industry custom. Benefits relating to food or drink must not be provided at a party, reception or other social function.

D24 Car parking benefits

Other economic affairs – Total labour and employment affairs (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Discounted valuation				<i>2021 Code:</i>	D24	
<i>Estimate Reliability:</i>	Not Applicable				<i>* Category</i>	2+	
<i>Commencement date:</i>	1 April 1993				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Division 10A of the <i>Fringe Benefits Tax Assessment Act 1986</i>						

Under the income tax benchmark, fringe benefits are classified as individual employee income, with the grossed-up value taxed at the employee's marginal income tax rate. A car parking fringe benefit arises if a car is parked at premises that are owned or leased by, or otherwise under the control of, the provider, there is a commercial parking station within one kilometre radius of the car parking premises charging an all-day fee greater than \$9.72 (for the year commencing 1 April 2022) and certain other conditions are met. There are five methods for valuing car parking fringe benefits, four of those may result in a non-market valuation.

D25 Certain relocation and recruitment expenses exemption and reduction in taxable value

Other economic affairs – Total labour and employment affairs (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption, Reduction in taxable value				<i>2021 Code:</i>	D25	
<i>Estimate Reliability:</i>	Not Applicable				<i>* Category</i>	2+	
<i>Commencement date:</i>	1986				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Sections 58A to 58D and 58F of the <i>Fringe Benefits Tax Assessment Act 1986</i> Sections 61B to 61E of the <i>Fringe Benefits Tax Assessment Act 1986</i>						

Under the income tax benchmark, fringe benefits are classified as individual employee income, with the grossed-up value taxed at the employee's marginal income tax rate. However, certain benefits associated with relocation and recruitment expenses, including transport, temporary accommodation, relocation consultants and other benefits, are exempt from fringe benefits tax, while others may be eligible for a reduction in taxable value.

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D26 Compassionate travel exemption

Other economic affairs – Total labour and employment affairs (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption				<i>2021 Code:</i>	D26	
<i>Estimate Reliability:</i>	Not Applicable				<i>* Category</i>	1+	
<i>Commencement date:</i>	1989				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Section 58LA of the <i>Fringe Benefits Tax Assessment Act 1986</i>						

Under the income tax benchmark, fringe benefits are classified as individual employee income, with the grossed-up value taxed at the employee’s marginal income tax rate. However, certain travel costs provided on compassionate grounds to an employee, or their close relatives, are exempt from fringe benefits tax.

D27 Discounted valuation for board meals

Other economic affairs – Total labour and employment affairs (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
4	5	5	5	6	6	5	6
<i>Tax expenditure type:</i>	Discounted valuation				<i>2021 Code:</i>	D27	
<i>Estimate Reliability:</i>	Low				<i>Expiry date:</i>		
<i>Commencement date:</i>	1986				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Section 36 of the <i>Fringe Benefits Tax Assessment Act 1986</i>						

Under the income tax benchmark, fringe benefits are classified as individual employee income, with the grossed-up value taxed at the employee’s marginal income tax rate. However, where an employee is entitled to accommodation and to at least two meals a day, eligible meals (known as ‘board meals’) are valued at concessional rates for the purposes of fringe benefits tax. The taxable value is \$2 per meal per adult, or \$1 per meal per child under the age of 12.

D28 Discounted valuation for holidays for employees and their families when posted overseas

Other economic affairs – Total labour and employment affairs (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Discounted valuation				<i>2021 Code:</i>	D28	
<i>Estimate Reliability:</i>	Not Applicable				<i>* Category</i>	1+	
<i>Commencement date:</i>	1986				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Sections 61A and 143C of the <i>Fringe Benefits Tax Assessment Act 1986</i>						

Under the income tax benchmark, fringe benefits are classified as individual employee income, with the grossed-up value taxed at the employee’s marginal income tax rate. However, the value of an overseas holiday provided as industry custom or under an industrial award to an employee and their family while posted overseas, is reduced by 50 per cent or 50 per cent of a benchmark holiday cost, whichever is lower. Overseas transport, meals and accommodation are included.

D29 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)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Discounted valuation				<i>2021 Code:</i>	D29	
<i>Estimate Reliability:</i>	Not Applicable				<i>* Category</i>	2+	
<i>Commencement date:</i>	1986				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Sections 42, 48 and 49 of the <i>Fringe Benefits Tax Assessment Act 1986</i>						

Under the income tax benchmark, fringe benefits are classified as individual employee income, with the grossed-up value taxed at the employee's marginal income tax rate. However, the taxable value of in-house property and residual fringe benefits (generally, goods or services sold by the employer to the public) is 75 per cent of the lowest retail price charged to the public in the ordinary course of business. This includes airline transport fringe benefits. This treatment is not available for in-house fringe benefits accessed by way of a salary sacrifice arrangement.

D30 Employees of public transport providers – free or discounted travel exemption

Other economic affairs – Total labour and employment affairs (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
60	50	75	85	90	90	85	90
<i>Tax expenditure type:</i>	Exemption				<i>2021 Code:</i>	D30	
<i>Estimate Reliability:</i>	Low				<i>Expiry date:</i>		
<i>Commencement date:</i>	1986				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Subsection 47(1) of the <i>Fringe Benefits Tax Assessment Act 1986</i>						

Under the income tax benchmark, fringe benefits are classified as individual employee income, with the grossed-up value taxed at the employee's marginal income tax rate. However, where an employer operates a business of providing public transport, the provision of free or discounted travel (other than in an aircraft) to employees of that business for travelling to and from work is exempt from fringe benefits tax. Free or discounted travel on a scheduled metropolitan service is also exempt from fringe benefits tax. This exemption excludes benefits provided under a salary sacrifice arrangement.

D31 Employer contributions to secure childcare places exemption

Other economic affairs – Total labour and employment affairs (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption				<i>2021 Code:</i>	D31	
<i>Estimate Reliability:</i>	Not Applicable				<i>* Category</i>	1+	
<i>Commencement date:</i>	1986				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Subsection 47(8) of the <i>Fringe Benefits Tax Assessment Act 1986</i>						

Under the income tax benchmark, fringe benefits are classified as individual employee income, with the grossed-up value taxed at the employee's marginal income tax rate. However, payments made by employers to obtain priority access to approved child care services for children of employees are exempt from fringe benefits tax.

D32 Employer-provided motor vehicle parking exemptions

Other economic affairs – Total labour and employment affairs (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption				<i>2021 Code:</i>	D32	
<i>Estimate Reliability:</i>	Not Applicable				<i>* Category</i>	2+	
<i>Commencement date:</i>	1987				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Section 58G of the <i>Fringe Benefits Tax Assessment Act 1986</i> Regulations 12 and 14 of the <i>Fringe Benefits Tax Assessment Regulations 2018</i>						

Under the income tax benchmark, fringe benefits are classified as individual employee income, with the grossed-up value taxed at the employee's marginal income tax rate. However, parking for disabled employees, and for employees of scientific, religious, charitable or other public educational institutions, is exempt from fringe benefits tax.

D33 Exemption for Electric Vehicles

Other economic affairs – Total labour and employment affairs (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
-	-	-	-	25	50	75	110
<i>Tax expenditure type:</i>	Exemption				<i>2021 Code:</i>	New	
<i>Estimate Reliability:</i>	Medium – Low				<i>Expiry date:</i>		
<i>Commencement date:</i>	1 July 2022				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Section 8A of the <i>Fringe Benefits Tax Assessment Act 1986</i>						

Under the income tax benchmark, fringe benefits are classified as individual employee income, with the grossed-up value taxed at the employee's marginal income tax rate. However, from 1 July 2022, benefits provided for battery, hydrogen fuel cell and plug-in hybrid electric cars that are below the luxury car tax threshold for fuel-efficient cars are exempt from fringe benefits tax. The car must not have been held or used before 1 July 2022. Arrangements to provide plug-in hybrid electric cars must be entered into between 1 July 2022 and 31 March 2025 to be eligible for the exemption.

D34 Expenses for employees living away from home exemptions

Other economic affairs – Total labour and employment affairs (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
50	50	40	50	50	50	40	40
<i>Tax expenditure type:</i>		Exemption			<i>2021 Code:</i>		D33
<i>Estimate Reliability:</i>		Very Low					
<i>Commencement date:</i>		1986			<i>Expiry date:</i>		
<i>Legislative reference:</i>		Sections 21, 31, 47(5), 58D, 58E and 63 of the <i>Fringe Benefits Tax Assessment Act 1986</i>					

Under the income tax benchmark, fringe benefits are classified as individual employee income, with the grossed-up value taxed at the employee's marginal income tax rate. However, accommodation, food, household goods and payments for extra expenses 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. A range of requirements must be satisfied in order to access this concession.

D35 In house fringe benefits – reduction in the aggregate taxable value

Other economic affairs – Total labour and employment affairs (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>		Reduction in taxable value			<i>2021 Code:</i>		D34
<i>Estimate Reliability:</i>		Not Applicable			<i>* Category</i>		3+
<i>Commencement date:</i>		1986			<i>Expiry date:</i>		
<i>Legislative reference:</i>		Section 62 of the <i>Fringe Benefits Tax Assessment Act 1986</i>					

Under the income tax benchmark, fringe benefits are classified as individual employee income, with the grossed-up value taxed at the employee's marginal income tax rate. However, the taxable value of in-house fringe benefits (for example, goods sold by the employer to the public) provided to an employee is reduced by \$1,000, or the taxable value of the benefits is reduced to zero if the benefits are less than \$1,000. The reduction in taxable value does not apply where the benefits are provided under a salary sacrifice arrangement.

D36 Loan benefits exemption

Other economic affairs – Total labour and employment affairs (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>		Exemption			<i>2021 Code:</i>		D35
<i>Estimate Reliability:</i>		Not Applicable			<i>* Category</i>		1+
<i>Commencement date:</i>		1986			<i>Expiry date:</i>		
<i>Legislative reference:</i>		Section 17 of the <i>Fringe Benefits Tax Assessment Act 1986</i>					

Under the income tax benchmark, fringe benefits are classified as individual employee income, with the grossed-up value taxed at the employee's marginal income tax rate. However, certain in-house loan benefits, certain loans to employees to meet employment-related expenses and certain loans to employees to pay amounts in respect of accommodation are exempt from fringe benefits tax.

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D37 Long service awards exemption

Other economic affairs – Total labour and employment affairs (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption				<i>2021 Code:</i>	D36	
<i>Estimate Reliability:</i>	Not Applicable				<i>* Category</i>	1+	
<i>Commencement date:</i>	18 December 1987				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Section 58Q of the <i>Fringe Benefits Tax Assessment Act 1986</i>						

Under the income tax benchmark, fringe benefits are classified as individual employee income, with the grossed-up value taxed at the employee’s marginal income tax rate. However, long service awards granted in recognition of 15 years or more service, up to a specified maximum amount, are exempt from fringe benefits tax.

D38 Minor benefits exemption

Other economic affairs – Total labour and employment affairs (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption				<i>2021 Code:</i>	D37	
<i>Estimate Reliability:</i>	Not Applicable				<i>* Category</i>	2+	
<i>Commencement date:</i>	1987				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Section 58P of the <i>Fringe Benefits Tax Assessment Act 1986</i>						

Under the income tax benchmark, fringe benefits are classified as individual employee income, with the grossed-up value taxed at the employee’s marginal income tax rate. However, minor benefits, worth less than \$300 and where it is unreasonable to treat them as fringe benefits, are exempt from fringe benefits tax.

D39 Minor private use of company motor vehicle exemption

Other economic affairs – Total labour and employment affairs (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption				<i>2021 Code:</i>	D38	
<i>Estimate Reliability:</i>	Not Applicable				<i>* Category</i>	2+	
<i>Commencement date:</i>	1986				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Subsection 47(6) of the <i>Fringe Benefits Tax Assessment Act 1986</i>						

Under the income tax benchmark, fringe benefits are classified as individual employee income, with the grossed-up value taxed at the employee’s marginal income tax rate. However, 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 between home and 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.

D40 Philanthropy – exemption for donations to deductible gift recipients

Other economic affairs – Total labour and employment affairs (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption				<i>2021 Code:</i>	D39	
<i>Estimate Reliability:</i>	Not Applicable				<i>* Category</i>	2+	
<i>Commencement date:</i>	1 July 2008				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Subsection 148(2A) of the <i>Fringe Benefits Tax Assessment Act 1986</i>						

Under the income tax benchmark, fringe benefits are classified as individual employee income, with the grossed-up value taxed at the employee's marginal income tax rate. However, donations to deductible gift recipients made under salary sacrifice arrangements are exempt from fringe benefits tax.

D41 Police officers – free or discounted travel to and from duty on public transport exemption

Other economic affairs – Total labour and employment affairs (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption				<i>2021 Code:</i>	D40	
<i>Estimate Reliability:</i>	Not Applicable				<i>* Category</i>	1+	
<i>Commencement date:</i>	1 April 2000				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Subsection 47(1A) of the <i>Fringe Benefits Tax Assessment Act 1986</i>						

Under the income tax benchmark, fringe benefits are classified as individual employee income, with the grossed-up value taxed at the employee's marginal income tax rate. However, 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.

D42 Private use of business property exemption

Other economic affairs – Total labour and employment affairs (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption				<i>2021 Code:</i>	D41	
<i>Estimate Reliability:</i>	Not Applicable				<i>* Category</i>	2+	
<i>Commencement date:</i>	1986				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Sections 41 and 47(3) of the <i>Fringe Benefits Tax Assessment Act 1986</i>						

Under the income tax benchmark, fringe benefits are classified as individual employee income, with the grossed-up value taxed at the employee's marginal income tax rate. However, the personal use of property (other than a motor vehicle) principally used directly in connection with business operations is exempt from fringe benefits tax. The property must be onsite or ordinarily located onsite, and provided to or consumed by an employee on a working day. This exemption excludes meals provided under a salary sacrifice arrangement.

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D43 Provision of food and drink in certain circumstances exemption

Other economic affairs – Total labour and employment affairs (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption				<i>2021 Code:</i>	D42	
<i>Estimate Reliability:</i>	Not Applicable				<i>* Category</i>	1+	
<i>Commencement date:</i>	1986				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Sections 54 and 58V of the <i>Fringe Benefits Tax Assessment Act 1986</i>						

Under the income tax benchmark, fringe benefits are classified as individual employee income, with the grossed-up value taxed at the employee’s marginal income tax rate. However, where employees receive meals that are board fringe benefits, any additional food and drink supplied to them in certain circumstances is exempt from fringe benefits tax. Food and drink provided to domestic employees who do not ‘live-in’ may also be exempt if consumed at the place of employment and the employer is a religious institution or individual.

D44 Recreational or child care facilities on an employer’s business premises exemption

Other economic affairs – Total labour and employment affairs (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption				<i>2021 Code:</i>	D43	
<i>Estimate Reliability:</i>	Not Applicable				<i>* Category</i>	2+	
<i>Commencement date:</i>	1986				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Subsection 47(2) of the <i>Fringe Benefits Tax Assessment Act 1986</i>						

Under the income tax benchmark, fringe benefits are classified as individual employee income, with the grossed-up value taxed at the employee’s marginal income tax rate. However, recreational facilities or child care are exempt from fringe benefits tax if the facilities are provided on an employer’s business premises for the benefit of employees.

D45 Remote area holiday benefits discounted valuation

Other economic affairs – Total labour and employment affairs (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Discounted valuation				<i>2021 Code:</i>	D44	
<i>Estimate Reliability:</i>	Not Applicable				<i>* Category</i>	1+	
<i>Commencement date:</i>	1986				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Sections 60A and 61 of the <i>Fringe Benefits Tax Assessment Act 1986</i>						

Under the income tax benchmark, fringe benefits are classified as individual employee income, with the grossed-up value taxed at the employee’s marginal income tax rate. However, 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 in some cases family members) are generally reduced by 50 per cent.

D46 Small business employee car parking exemption

Other economic affairs – Total labour and employment affairs (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption				<i>2021 Code:</i>	D45	
<i>Estimate Reliability:</i>	Not Applicable				<i>* Category</i>	2+	
<i>Commencement date:</i>	1997				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Section 58GA of the <i>Fringe Benefits Tax Assessment Act 1986</i>						

Under the income tax benchmark, fringe benefits are classified as individual employee income, with the grossed-up value taxed at the employee's marginal income tax rate. However, car parking benefits provided to employees of small businesses are exempt from fringe benefits tax if the parking is not provided in a commercial car park. The employer must not be a government body, listed public company or subsidiary of a listed public company and the employer's aggregated annual turnover must be less than \$50 million.

D47 Taxi travel to or from place of work exemption

Other economic affairs – Total labour and employment affairs (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption				<i>2021 Code:</i>	D46	
<i>Estimate Reliability:</i>	Not Applicable				<i>* Category</i>	2+	
<i>Commencement date:</i>	1995				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Section 58Z of the <i>Fringe Benefits Tax Assessment Act 1986</i>						

Under the income tax benchmark, fringe benefits are classified as individual employee income, with the grossed-up value taxed at the employee's marginal income tax rate. However, any benefit arising from taxi travel in a motor vehicle (other than a limousine) 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 or related to sickness or injury of the employee.

D48 Transport for oil rig and remote area employees exemption

Other economic affairs – Total labour and employment affairs (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption				<i>2021 Code:</i>	D47	
<i>Estimate Reliability:</i>	Not Applicable				<i>* Category</i>	2+	
<i>Commencement date:</i>	1986				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Subsection 47(7) of the <i>Fringe Benefits Tax Assessment Act 1986</i>						

Under the income tax benchmark, fringe benefits are classified as individual employee income, with the grossed-up value taxed at the employee's marginal income tax rate. However, transport provided to employees working in remote areas or on oil rigs may be exempt from fringe benefits tax.

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D49 Work-related items exemption

Other economic affairs – Total labour and employment affairs (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption				<i>2021 Code:</i>	D48	
<i>Estimate Reliability:</i>	Not Applicable				<i>* Category</i>	2+	
<i>Commencement date:</i>	1995				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Section 58X of the <i>Fringe Benefits Tax Assessment Act 1986</i>						

Under the income tax benchmark, fringe benefits are classified as individual employee income, with the grossed-up value taxed at the employee’s marginal income tax rate. However, eligible work-related items (such as mobile phones, laptop computers, protective clothing and tools of trade) provided by an employer to an employee primarily for use in the employee’s employment are exempt from fringe benefits tax.

D50 Fringe benefits tax record keeping exemption

Other economic affairs – Other economic affairs, nec (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
..
<i>Tax expenditure type:</i>	Record keeping exemption				<i>2021 Code:</i>	D49	
<i>Estimate Reliability:</i>	High				<i>Expiry date:</i>		
<i>Commencement date:</i>	1998				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Part XIA of the <i>Fringe Benefits Tax Assessment Act 1986</i>						

Under the income tax benchmark, fringe benefits are classified as individual employee income, with the grossed-up value taxed at the employee’s marginal income tax rate. However, certain employers are eligible to use record keeping exemption arrangements when calculating their fringe benefits tax liability. The employer’s liability is based on their aggregate fringe benefits amount in the most recent base year (a year beginning on or after 1 April 1996) in which they qualified to use the exemption arrangements. This may result in concessional tax treatment compared to being required to keep full fringe benefits tax records.

D51 Meal entertainment fringe benefits – 50/50 valuation method

Other economic affairs – Other economic affairs, nec (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Record keeping exemption				<i>2021 Code:</i>	D50	
<i>Estimate Reliability:</i>	Not Applicable				<i>* Category</i>	2+	
<i>Commencement date:</i>	1995				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Sections 37B and 37BA of the <i>Fringe Benefits Tax Assessment Act 1986</i>						

Under the income tax benchmark, fringe benefits are classified as individual employee income, with the grossed-up value taxed at the employee’s marginal income tax rate. However, an employer may elect to value meal entertainment fringe benefits using the 50/50 method, under which the taxable value is equal to 50 per cent of total food and drink entertainment expenditure incurred in an FBT year relating to employees and their associates as well as third parties.

D52 Philanthropy – rebate for certain not for profit, non government bodies

Other economic affairs – Other economic affairs, nec (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
60	60	50	45	55	55	35	40
<i>Tax expenditure type:</i>		Rebate			<i>2021 Code:</i>		D51
<i>Estimate Reliability:</i>		Medium					
<i>Commencement date:</i>		1994			<i>Expiry date:</i>		
<i>Legislative reference:</i>		Section 65J of the <i>Fringe Benefits Tax Assessment Act 1986</i>					

Under the income tax benchmark, fringe benefits are classified as individual employee income, with the grossed-up value taxed at the employee's marginal income tax rate. However, certain not-for-profit, non-government bodies (including, in general, charitable institutions, schools, and trade unions) are eligible for a partial 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 Exemption for valour or brave conduct decorations

Defence (\$m)								
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	
..
<i>Tax expenditure type:</i>	Exemption				<i>2021 Code:</i>		E1	
<i>Estimate Reliability:</i>	Low							
<i>Commencement date:</i>	20 September 1985				<i>Expiry date:</i>			
<i>Legislative reference:</i>	Paragraph 118-5(b) of the <i>Income Tax Assessment Act 1997</i>							

Under the benchmark, realised capital gains are generally assessable to taxpayers at their applicable tax rate in the year they arise. However, capital gains or losses arising from the disposal of a decoration awarded for valour or brave conduct are exempt from capital gains tax (CGT). 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 Roll-over for membership interests in medical defence organisations

Health (\$m)								
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	
*	*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Deferral				<i>2021 Code:</i>		E2	
<i>Estimate Reliability:</i>	Not Applicable				<i>* Category</i>		1+	
<i>Commencement date:</i>	2007				<i>Expiry date:</i>			
<i>Legislative reference:</i>	Subdivision 124-P of the <i>Income Tax Assessment Act 1997</i>							

Under the benchmark, realised capital gains are generally assessable to taxpayers at their applicable tax rate in the year they arise. However, a CGT 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 and subject to certain other conditions, until the ultimate disposal of the replacement membership interest.

Tax expenditures for social security and welfare

E3 Exemptions for special disability trusts

Social security and welfare (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption				<i>2021 Code:</i>	E3	
<i>Estimate Reliability:</i>	Not Applicable				<i>* Category</i>	1+	
<i>Commencement date:</i>	1 July 2006				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Sections 118-85 and 118-215 to 118-230 of the <i>Income Tax Assessment Act 1997</i>						

Under the benchmark, realised capital gains are generally assessable to taxpayers at their applicable tax rate in the year they arise. A tax expenditure arises because assets donated to a special disability trust (SDT) are exempt from CGT. A trustee of a SDT is also eligible for the CGT main residence exemption to the extent that the individual who is or has been the principal beneficiary of the trust uses the dwelling as a home.

Tax concessions for certain taxpayers

E4 Additional 10 per cent Capital Gains Tax discount for affordable housing

Housing and community amenities (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
-	-	-	*	*	*	*	*
<i>Tax expenditure type:</i>	Reduction in taxable value				<i>2021 Code:</i>	E4	
<i>Estimate Reliability:</i>	Not Applicable				<i>* Category</i>	1+	
<i>Commencement date:</i>	1 January 2018				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Schedule 2 of the <i>Treasury Laws Amendment (Reducing Pressure on Housing Affordability Measures) Act 2019</i>						

Under the benchmark, realised capital gains are generally assessable to taxpayers at their applicable tax rate in the year they arise. From 1 January 2018, resident individuals who dispose of an investment in qualifying affordable housing will receive an additional CGT discount of up to ten percentage points, increasing the discount from 50 per cent to 60 per cent.

The tax expenditure occurs beyond 2020–21 due to the qualifying condition that a property is rented as affordable housing for at least 3 years after the commencement date.

See tax expenditure E15 for detail on the 50 per cent discount applying to assets held by individuals or trusts where the asset has been owned for at least 12 months.

Tax Expenditures and Insights Statement

E5 Exemption for granny flat arrangements

Housing and community amenities (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
-	-	-	-	*	*	*	*
<i>Tax expenditure type:</i>	Exemption				<i>2021 Code:</i>	E5	
<i>Estimate Reliability:</i>	Not Applicable				<i>* Category</i>	1+	
<i>Commencement date:</i>	Income Tax Assessment Act 1997 Division 137				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Division 137 of the <i>Income Tax Assessment Act 1997</i>						

Under the benchmark, realised capital gains are generally assessable to taxpayers at their applicable tax rate in the year they arise. However, from 1 July 2021, capital gains or losses on the creation, variation and disposal of formal granny flat arrangements will be exempt from CGT. The exemption applies to granny flat arrangements entered into with Australians who have reached age pension age or those with a disability.

Tax expenditures for housing and community amenities

E6 Concessions for conservation covenants

Housing and community amenities (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Reduction in taxable value				<i>2021 Code:</i>	E6	
<i>Estimate Reliability:</i>	Not Applicable				<i>* Category</i>	1+	
<i>Commencement date:</i>	15 June 2000				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Section 104-47 of the <i>Income Tax Assessment Act 1997</i>						

Under the benchmark, realised capital gains are generally assessable to taxpayers at their applicable tax rate in the year they arise. However, for CGT 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. Landowners can also benefit from any CGT concession or exemption that may apply to the capital gain.

E7 Main residence exemption

Housing and community amenities (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
18,000	18,500	22,500	27,000	22,000	18,500	18,000	19,000
<i>Tax expenditure type:</i>	Exemption				<i>2021 Code:</i>	E7	
<i>Estimate Reliability:</i>	Low						
<i>Commencement date:</i>	1985				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Subdivision 118-B of the <i>Income Tax Assessment Act 1997</i>						

Under the benchmark, realised capital gains are generally assessable to taxpayers at their applicable tax rate in the year they arise. However, capital gains or losses on the disposal of an individual's main residence and up to two hectares of adjacent land are exempt from CGT, to the extent the dwelling is used as a home.

Foreign residents are unable to access the CGT main residence exemption when they sell property in Australia, other than when specific life events occur and a person is a foreign resident for a period of six years or less. This was introduced from 9 May 2017, and transitional arrangements enabled foreign tax residents who held property on 9 May 2017 to access the exemption if they sold their property before 1 July 2020.

This tax expenditure covers the exemption of any capital gain or loss after the 50 per cent CGT discount for individuals and trusts has been applied. See tax expenditure E8 for the 50 per cent discount component of the main residence exemption.

E8 Main residence exemption – discount component

Housing and community amenities (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
21,000	22,000	26,500	32,000	26,000	21,500	21,000	22,000
<i>Tax expenditure type:</i>		Reduction in taxable value			<i>2021 Code:</i>		E8
<i>Estimate Reliability:</i>		Low					
<i>Commencement date:</i>		1999			<i>Expiry date:</i>		
<i>Legislative reference:</i>		Division 115 of the <i>Income Tax Assessment Act 1997</i>					

Under the benchmark, realised capital gains are generally assessable to taxpayers at their applicable tax rate in the year they arise. However, capital gains or losses on the disposal of an individual's main residence and up to two hectares of adjacent land are exempt from CGT, to the extent the dwelling is used as a home.

Disposals of other assets by individuals or trusts receive a CGT exemption applying to 50 per cent of any nominal gain where the asset has been owned for at least 12 months. The 50 per cent CGT discount is not available to the extent that a capital gain was accrued while the individual was a foreign or temporary resident.

The CGT treatment of the main residence effectively provides a 100 per cent exemption. Conceptually, this can be split into a component reflecting the 50 per cent discount provided to disposals of non-main residence assets and a 'top up' component that brings the concession up to 100 per cent.

See tax expenditure E7 for the remainder of the value of the CGT main residence exemption. See tax expenditure E15 for detail on the 50 per cent discount applying to other assets.

Tax Expenditures and Insights Statement

E9 Main residence exemption extensions

Housing and community amenities (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Included in E7							
<i>Tax expenditure type:</i>	Exemption				<i>2021 Code:</i>	E9	
<i>Estimate Reliability:</i>	Not Applicable						
<i>Commencement date:</i>	1985 and 1996				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Sections 118-145, 118-195 and 118-200 of the <i>Income Tax Assessment Act 1997</i>						

Under the benchmark, realised capital gains are generally assessable to taxpayers at their applicable tax rate in the year they arise. However, capital gains or losses on the disposal of an individual's main residence and up to two hectares of adjacent land are exempt from CGT, to the extent the dwelling is used as a home.

A taxpayer's dwelling may continue to be treated as their main residence even if it ceases to be their main residence for up to six years, if the dwelling is used to produce assessable income; or indefinitely, if the dwelling is not used to produce assessable income. This is provided that no other dwelling is treated as the taxpayer's main residence during the period of absence.

In addition, 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 disregard all or a proportion of a capital gain or loss if certain conditions are met.

Tax expenditures for recreation and culture

E10 Exemption for the disposal of assets under the Cultural Gifts program

Recreation and culture (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption				<i>2021 Code:</i>	E10	
<i>Estimate Reliability:</i>	Not Applicable				<i>* Category</i>	1+	
<i>Commencement date:</i>	1999				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Subsection 118-60(2) of the <i>Income Tax Assessment Act 1997</i>						

Under the benchmark, realised capital gains are generally assessable to taxpayers at their applicable tax rate in the year they arise. However, capital gains or losses arising from gifts made under the Cultural Gifts program are exempt from CGT. The Cultural Gifts program, which does not apply to testamentary gifts, encourages donations of significant cultural items from private collections to public art galleries, public museums and public libraries or Artbank by offering tax incentives to the donor.

Tax expenditures for other economic affairs

E11 Roll-over for worker entitlement funds

Other economic affairs – Total labour and employment affairs (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Deferral				<i>2021 Code:</i>	E11	
<i>Estimate Reliability:</i>	Not Applicable				<i>* Category</i>	2+	
<i>Commencement date:</i>	2003				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Subdivision 126-C of the <i>Income Tax Assessment Act 1997</i>						

Under the benchmark, realised capital gains are generally assessable to taxpayers at their applicable tax rate in the year they arise. However, a CGT roll-over 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.

E12 Concession for non-portfolio interests in foreign companies with active businesses

Other economic affairs – Other economic affairs, nec (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Reduction in taxable value				<i>2021 Code:</i>	E12	
<i>Estimate Reliability:</i>	Not Applicable				<i>* Category</i>	3+	
<i>Commencement date:</i>	2004				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Section 768-505 of the <i>Income Tax Assessment Act 1997</i>						

Under the benchmark, Australian companies are generally subject to tax on any capital gains made on the disposal of their interests in a foreign company. However, capital gains and losses of Australian companies and controlled foreign companies arising from certain CGT events related to non-portfolio interests in foreign companies with active business assets are reduced. The reduction reflects the degree to which the assets of the foreign company are used in active business. The concession applies where the Australian company holds a direct voting percentage of 10 per cent or more in the foreign company throughout a 12-month period.

E13 Deferral of liability when taxpayer dies

Other economic affairs – Other economic affairs, nec (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Deferral				<i>2021 Code:</i>	E13	
<i>Estimate Reliability:</i>	Not Applicable				<i>* Category</i>	3+	
<i>Commencement date:</i>	1985				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Division 128 of the <i>Income Tax Assessment Act 1997</i>						

Under the benchmark, realised capital gains are generally assessable to taxpayers at their applicable tax rate in the year they arise. However, there is no CGT 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 CGT asset later disposes of it. An exception

Tax Expenditures and Insights Statement

applies if the asset passes to an exempt entity, the trustee of a complying superannuation entity, or a foreign resident.

E14 Demerger concessions

Other economic affairs – Other economic affairs, nec (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption, Deferral				<i>2021 Code:</i>	E14	
<i>Estimate Reliability:</i>	Not Applicable				<i>* Category</i>	3+	
<i>Commencement date:</i>	2002				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Division 125 of the <i>Income Tax Assessment Act 1997</i> Subsection 44(4) of the <i>Income Tax Assessment Act 1936</i>						

The benchmark treatment is that capital gains are taxed upon realisation at the taxpayer’s marginal tax rate, or the headline rate where they are a company. 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 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
- an income tax exemption for certain ‘demerger dividends’.

E15 Discount for individuals and trusts

Other economic affairs – Other economic affairs, nec (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
10,820	9,240	9,240	17,020	23,690	10,510	10,390	10,240
<i>Tax expenditure type:</i>	Reduction in taxable value				<i>2021 Code:</i>	E15	
<i>Estimate Reliability:</i>	Medium – Low						
<i>Commencement date:</i>	1999				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Division 115 of the <i>Income Tax Assessment Act 1997</i>						

Under the benchmark, realised capital gains are generally assessable to taxpayers at their applicable tax rate in the year they arise. However, a CGT exemption applies to 50 per cent of any nominal capital gain made by a resident individual or trust where the asset has been owned for at least 12 months. Different rules may apply to assets acquired before 21 September 1999.

E16 Discount for investors in listed investment companies

Other economic affairs – Other economic affairs, nec (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
75	150	80	60	100	90	90	85
<i>Tax expenditure type:</i>		Deduction			<i>2021 Code:</i>		E16
<i>Estimate Reliability:</i>		Low					
<i>Commencement date:</i>		2001			<i>Expiry date:</i>		
<i>Legislative reference:</i>		Subdivision 115-D of the <i>Income Tax Assessment Act 1997</i>					

Under the benchmark treatment, capital gains are taxed at the company level at the corporate tax rate. Distributions to stakeholders may then be franked and shareholders taxed at their marginal personal income tax rate on the distribution. However, 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 equivalent to the CGT 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. The shareholders receive their concession when the listed company has advised their share of the attributable part.

E17 Exemption for assets acquired before commencement of CGT

Other economic affairs – Other economic affairs, nec (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>		Exemption			<i>2021 Code:</i>		E17
<i>Estimate Reliability:</i>		Not Applicable			<i>* Category</i>		2+
<i>Commencement date:</i>		1985			<i>Expiry date:</i>		
<i>Legislative reference:</i>		Division 104 of the <i>Income Tax Assessment Act 1997</i> Section 102-25(2) of the <i>Income Tax (Transitional Provisions) Act 1997</i>					

Under the benchmark, realised capital gains are generally assessable to taxpayers at their applicable tax rate in the year they arise. However, capital gains or losses on assets acquired before 20 September 1985 (or before 24 October 2015 for Norfolk Island residents) are generally exempt from CGT.

E18 Exemption for demutualisation of mutual entities

Other economic affairs – Other economic affairs, nec (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>		Exemption			<i>2021 Code:</i>		E18
<i>Estimate Reliability:</i>		Not Applicable			<i>* Category</i>		2+
<i>Commencement date:</i>		1995 (mutual entities); 2007 (health insurers); 2008 (friendly societies)			<i>Expiry date:</i>		
<i>Legislative reference:</i>		Division 9AA and Schedule 2H of the <i>Income Tax Assessment Act 1936</i> Division 315 and 316 of the <i>Income Tax Assessment Act 1997</i>					

Under the tax benchmark capital gains are taxed when they are realised, which would include during a demutualisation event. However, capital gains and losses arising under the demutualisation of a mutual entity, including a life insurer, general insurer or health

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insurer are disregarded for members and/or policyholders that receive shares in the demutualised entity. Special rules determine the cost base of the shares received.

E19 Exemption for testamentary gifts to deductible gift recipients

Other economic affairs – Other economic affairs, nec (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption				<i>2021 Code:</i>	E19	
<i>Estimate Reliability:</i>	Not Applicable				<i>* Category</i>	2+	
<i>Commencement date:</i>	1999 (expanded 2005)				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Subsections 118-60(1) and (1A) of the <i>Income Tax Assessment Act 1997</i>						

Under the benchmark, realised capital gains are generally assessable to taxpayers at their applicable tax rate in the year they arise. However, testamentary gifts (gifts made under a will) of certain property to deductible gift recipients are exempt from CGT.

E20 Exemption from the market value substitution rule for certain interests in widely held entities

Other economic affairs – Other economic affairs, nec (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption				<i>2021 Code:</i>	E20	
<i>Estimate Reliability:</i>	Not Applicable				<i>* Category</i>	1+	
<i>Commencement date:</i>	2006				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Section 116-30 of the <i>Income Tax Assessment Act 1997</i>						

The benchmark treatment of disposals of capital assets for less than their market value, or where the market value of the proceeds cannot be ascertained is to deem the proceeds to be the market value (the market value substitution rule). Disposal of membership interests in widely-held entities by way of a redemption, cancellation or surrender of the interest are exempt from the market value substitution rule, that is, they are subject to CGT at their disposal value.

E21 Legacy arrangements for the indexation of the cost base

Other economic affairs – Other economic affairs, nec (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Reduction in taxable value				<i>2021 Code:</i>	E21	
<i>Estimate Reliability:</i>	Not Applicable				<i>* Category</i>	1+	
<i>Commencement date:</i>	20 September 1985				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Section 110-36 and Division 114 of the <i>Income Tax Assessment Act 1997</i>						

Under the benchmark, realised capital gains are generally assessable to taxpayers at their applicable tax rate in the year they arise. However, for assets acquired at or before 11:45 am AEST on 21 September 1999, taxpayers may choose to calculate the capital gain on the asset by reference to its indexed cost base. The indexed cost base for these assets was frozen as at 30 September 1999. Taxpayers that choose to use the indexed cost base cannot access the CGT discount.

E22 Quarantining of capital losses

Other economic affairs – Other economic affairs, nec (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Denial of deduction				<i>2021 Code:</i>	E22	
<i>Estimate Reliability:</i>	Not Applicable				<i>* Category</i>	4-	
<i>Commencement date:</i>	1985				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Section 100-50 of the <i>Income Tax Assessment Act 1997</i>						

Under the benchmark, expenses are deductible if they are connected to income earning activity. However, capital losses are quarantined from ordinary income which means they may only be offset against capital gains.

E23 Removal of taxation of certain financial instruments at point of conversion or exchange

Other economic affairs – Other economic affairs, nec (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Deferral				<i>2021 Code:</i>	E23	
<i>Estimate Reliability:</i>	Not Applicable				<i>* Category</i>	2+	
<i>Commencement date:</i>	2002				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Sections 26BB and 70B of the <i>Income Tax Assessment Act 1936</i>						

The benchmark treatment is that generally there would be a taxing point upon the conversion or exchange of a traditional security into ordinary shares. In broad terms, the cost of the traditional security at that time would be compared with the value of the shares received on conversion to determine if an amount is to be included in assessable income or allowed as a deduction.

Taxation of gains or losses from conversion or exchange of convertible or exchangeable interests issued after 14 May 2002 is deferred until the ultimate disposal of the shares. This tax treatment applies only to those traditional securities that convert into ordinary shares and those traditional securities that exchange into ordinary shares.

Traditional securities are, broadly, securities in the form of debentures, bonds and other loans that do not have a deferred interest element, are not capital indexed and are not issued at a deep discount.

Convertible interests are financial instruments that may convert into shares in the company that issued the convertible interest. Exchangeable interests are instruments that may convert into shares in a company other than the issuer.

This tax expenditure avoids cash flow difficulties for taxpayers arising from having to pay tax on a gain on conversion or exchange that is settled in the form of shares rather than cash.

E24 Roll-over for assets compulsorily acquired, lost or destroyed

Other economic affairs – Other economic affairs, nec (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Deferral				<i>2021 Code:</i>	E24	
<i>Estimate Reliability:</i>	Not Applicable				<i>* Category</i>	1+	
<i>Commencement date:</i>	1985				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Subdivision 124-B of the <i>Income Tax Assessment Act 1997</i>						

Under the benchmark, realised capital gains are generally assessable to taxpayers at their applicable tax rate in the year they arise. However, a CGT roll-over is available for capital gains where an asset is compulsorily acquired (whether by a private or public acquirer), lost or destroyed and the taxpayer purchases a replacement asset. The capital gains liability is deferred until the ultimate disposal of the replacement asset.

E25 Roll-over for complying superannuation funds in certain circumstances

Other economic affairs – Other economic affairs, nec (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Deferral				<i>2021 Code:</i>	E25	
<i>Estimate Reliability:</i>	Not Applicable				<i>* Category</i>	2+	
<i>Commencement date:</i>	1994 (ADFs); 2008 (merging funds)				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Subdivision 126-C (trust deeds), and Division 310 (merging funds) of the <i>Income Tax Assessment Act 1997</i>						

Tax relief is provided for superannuation funds which merge, where a complying superannuation fund or a complying Approved Deposit Fund amends or replaces its trust deed, in certain circumstances.

From 24 December 2008, complying superannuation funds that merge are able to transfer capital and revenue losses to a new merged fund and to defer the taxation consequences on gains and losses from revenue and capital assets that are rolled over. Without the tax relief, the merged fund would not be able to access past losses and members would be taxed as if they had disposed and repurchased their assets at the time of the merger.

E26 Roll-over for replacement small business active assets

Other economic affairs – Other economic affairs, nec (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
280	320	320	360	360	360	360	360
<i>Tax expenditure type:</i>		Deferral			<i>2021 Code:</i>		E26
<i>Estimate Reliability:</i>		Medium					
<i>Commencement date:</i>		1997			<i>Expiry date:</i>		
<i>Legislative reference:</i>		Subdivision 152-E of the <i>Income Tax Assessment Act 1997</i>					

Under the benchmark, realised capital gains are generally assessable to taxpayers at their applicable tax rate in the year they arise. However, a CGT roll-over is available for eligible small businesses, for gains arising from the disposal of active small business assets if the proceeds of the sale are used to purchase a replacement asset or make capital improvements to an existing asset. Active assets include assets used in carrying on a business and intangible assets inherently connected with a business (for example, goodwill).

E27 Roll-over for statutory licences and water entitlements

Other economic affairs – Other economic affairs, nec (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>		Deferral			<i>2021 Code:</i>		E27
<i>Estimate Reliability:</i>		Not Applicable			<i>* Category</i>		1+
<i>Commencement date:</i>		1985, 2005 and 2006			<i>Expiry date:</i>		
<i>Legislative reference:</i>		Subdivisions 124-C (statutory licences) and 124-R (water entitlements) of the <i>Income Tax Assessment Act 1997</i>					

Under the benchmark, realised capital gains are generally assessable to taxpayers at their applicable tax rate in the year they arise. However, a CGT 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. In addition, a CGT roll-over is available where a taxpayer's ownership of one or more water entitlements ends and the taxpayer receives one or more replacement water entitlements.

E28 Roll-over for transfer of assets on marriage or relationship breakdown

Other economic affairs – Other economic affairs, nec (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>		Deferral			<i>2021 Code:</i>		E28
<i>Estimate Reliability:</i>		Not Applicable			<i>* Category</i>		2+
<i>Commencement date:</i>		1985			<i>Expiry date:</i>		
<i>Legislative reference:</i>		Subdivision 126-A of the <i>Income Tax Assessment Act 1997</i>					

Under the benchmark, realised capital gains are generally assessable to taxpayers at their applicable tax rate in the year they arise. However, an automatic roll-over is available where a CGT asset is transferred to a spouse or former spouse because of a marriage or relationship breakdown, or under a binding financial agreement or an arbitral award

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entered into under the *Family Law Act 1975* or similar arrangements under state, territory or foreign legislation.

E29 Roll-overs not otherwise recognised

Other economic affairs – Other economic affairs, nec (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Deferral				<i>2021 Code:</i>	E29	
<i>Estimate Reliability:</i>	Not Applicable				<i>* Category</i>	NA	
<i>Commencement date:</i>	Various				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Divisions 106(b), 122(a,b,d,e,f,l,n,q), 124(j,k,l,m,p,s) 125, 126(b,e,g), 128, 328(g) 615 of the <i>Income Tax Assessment Act 1997</i>						

Capital gains or losses are generally included in assessable income when an asset is sold or otherwise disposed of. A CGT rollover allows the taxpayer to defer or disregard a capital gain or loss from a CGT event until another CGT event happens.

This tax expenditure encompasses other CGT roll-overs not specifically covered in existing CGT roll-over tax expenditures.

For example, the crown lease roll-over in Subdivision 124-J, the roll-over for the disposal of assets by a trust to a company provided in Subdivision 124-N, and the roll-overs facilitating a change to a company structure in Division 122 of the *Income Tax Assessment Act 1997*.

E30 Scrip-for-scrip roll-over

Other economic affairs – Other economic affairs, nec (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
*	*	*	*	*	*	*	*
245	45	-20	870	*	*	*	*
<i>Tax expenditure type:</i>	Deferral				<i>2021 Code:</i>	E30	
<i>Estimate Reliability:</i>	Low				<i>* Category</i>	3+	
<i>Commencement date:</i>	1999				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Subdivision 124-M of the <i>Income Tax Assessment Act 1997</i>						

Generally a capital gain or loss is included in assessable income when an asset is sold or otherwise disposed of.

A CGT roll-over is available for capital gains arising from an exchange of interests in companies or fixed trusts, removing impediments to takeovers or similar arrangements. The roll-over ensures that an equity holder who exchanges original shares or other equity for new equity in a takeover or merger can defer a CGT liability arising from the exchange until the ultimate disposal of the replacement asset.

The roll-over provides a deferral of CGT only. The financial impact of this tax expenditure is volatile as in any year new deferrals may be claimed by taxpayers (reducing revenue collections) and CGT may be paid on the ultimate disposal or replacement of assets that have previously accessed the deferral (increasing revenue collections).

E31 Small business 50 per cent reduction

Other economic affairs – Other economic affairs, nec (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
880	810	750	930	930	930	930	930
<i>Tax expenditure type:</i>		Exemption			<i>2021 Code:</i>		E31
<i>Estimate Reliability:</i>		Medium					
<i>Commencement date:</i>		1999			<i>Expiry date:</i>		
<i>Legislative reference:</i>		Subdivision 152-C of the <i>Income Tax Assessment Act 1997</i>					

Under the benchmark, realised capital gains are generally assessable to taxpayers at their applicable tax rate in the year they arise. However, a gain that arises from the sale of active assets held in an eligible small business can be reduced by 50 per cent. This applies in addition to any CGT 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).

E32 Small business restructure roll-over

Other economic affairs – Other economic affairs, nec (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
20	20	20	20	20	20	25	25
<i>Tax expenditure type:</i>		Deferral			<i>2021 Code:</i>		E32
<i>Estimate Reliability:</i>		Very Low					
<i>Commencement date:</i>		1 July 2016			<i>Expiry date:</i>		
<i>Legislative reference:</i>		Subdivision 328-G of the <i>Income Tax Assessment Act 1997</i>					

Under the benchmark, realised capital gains are generally assessable to taxpayers at their applicable tax rate in the year they arise. However, owners of small business active assets are eligible for roll-over relief when they change the legal structure of their business, provided the underlying economic ownership of the assets is unchanged.

Commodity and other indirect taxes

TAX EXPENDITURES FOR AGRICULTURE, FORESTRY AND FISHING

F1 Primary industry levy exemptions

Agriculture, forestry and fishing (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption				<i>2021 Code:</i>	F1	
<i>Estimate Reliability:</i>	Not Applicable				<i>* Category</i>	1+	
<i>Commencement date:</i>	Introduced before 1985				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Primary Industries (Customs) Charges Act 1999 Primary Industries (Excise) Levies Act 1999						

Under the benchmark, primary industry levies would generally apply to all participants in a primary industry. However certain producers are exempt from primary industry levies. While the specific exemptions differ on a commodity-by-commodity basis, they are all in some way related to the quantity or value of the particular commodity produced in a given year.

TAX EXPENDITURES FOR TRANSPORT AND COMMUNICATIONS

F2 Exemptions from radiocommunications taxes for not-for-profit community or government entities

General public services – General services (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
12	13	13	14	15	16	16	17
<i>Tax expenditure type:</i>	Exemption, Deferral				<i>2021 Code:</i>	F2	
<i>Estimate Reliability:</i>	Medium						
<i>Commencement date:</i>	1992				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Section 107 of the <i>Radiocommunications Act 1992</i> and Regulation 5 of the <i>Radiocommunications Taxes Collection Regulations 1985</i>						

Under the benchmark, radiocommunications licenses are subject to taxes, including apparatus licences. However, an exemption from the apparatus licence fee is available to organisations or individuals who are: diplomatic and consular missions; surf lifesaving and remote area ambulance services; emergency services or services for the safe-guarding of human life – such as rural fire fighting and coast guard services. These must be staffed principally by volunteers and be exempt from paying income tax.

F3 Passenger Movement Charge exemptions

Transport and communication (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
210	160	40	70	190	220	260	260
<i>Tax expenditure type:</i>		Exemption			<i>2021 Code:</i>		F3
<i>Estimate Reliability:</i>		Low					
<i>Commencement date:</i>		Introduced before 1985			<i>Expiry date:</i>		
<i>Legislative reference:</i>		Section 5 of the <i>Passenger Movement Charge Collection Act 1978</i>					

The benchmark treatment is that a flat Passenger Movement Charge is imposed on persons upon their departure from Australia. However, certain persons are exempt from the Passenger Movement Charge including foreign diplomats, children and outbound crew.

F4 Luxury car tax

Other economic affairs – Other economic affairs, nec (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
-688	-632	-900	-963	-1,120	-860	-890	-930
<i>Tax expenditure type:</i>		Increased rate			<i>2021 Code:</i>		F4
<i>Estimate Reliability:</i>		Medium					
<i>Commencement date:</i>		1 July 2000			<i>Expiry date:</i>		
<i>Legislative reference:</i>		<i>A New Tax System (Luxury Car Tax) Act 1999</i> <i>A New Tax System (Luxury Car Tax Imposition-General) Act 1999</i> <i>A New Tax System (Luxury Car Tax Imposition-Customs) Act 1999</i> <i>A New Tax System (Luxury Car Tax Imposition-Excise) Act 1999</i>					

The benchmark tax treatment is that purchases of new motor vehicles are only subject to the GST at the rate of 10 per cent. However, the luxury car tax also applies to purchases of most motor vehicles that have a GST-inclusive value above the relevant luxury car tax threshold: currently, \$79,659 for fuel-efficient vehicles and \$69,152 for other vehicles. The luxury car tax is imposed at the rate of 33 per cent on the GST-inclusive value above the luxury car tax threshold, less an adjustment for GST. The luxury car tax is a negative tax expenditure.

The purchase of certain vehicles is not subject to luxury car tax, including: motor homes, campervans, emergency vehicles, and commercial vehicles not designed mainly for carrying passengers. Also, vehicles that are imported by endorsed public institutions for the sole purpose of public display are not subject to luxury car tax. Capped refunds of the luxury car tax paid are also available to primary producers and tourism operators when eligible vehicles are purchased.

TAX EXPENDITURES FOR OTHER ECONOMIC AFFAIRS

F5 Tourism – inwards duty free

Other economic affairs – Other economic affairs, nec (\$m)

	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
	*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption					<i>2021 Code:</i>	F5	
<i>Estimate Reliability:</i>	Not Applicable					<i>* Category</i>	3+	
<i>Commencement date:</i>	Introduced before 1985 1 July 2000 (WET)					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Item 15 of Schedule 4 to the Customs Tariff Act 1995 Section 7-15 of the A New Tax System (Wine Equalisation Tax) Act 1999 Customs By-Law No. 1700571							

The benchmark tax treatment is that goods imported into Australia are subject to the same taxes on consumption as domestically produced goods. However, tobacco and alcohol products brought into Australia by inbound international travellers aged 18 years and over, within an allowance, are not subject to excise-equivalent customs duty or wine equalisation tax (WET). The standard duty-free concession enables adults to bring in 2.25 litres of alcoholic beverages and up to 25 grams of tobacco products, equivalent to approximately 25 cigarettes, plus up to 25 cigarettes in an open packet.

FUEL

F6 Concessional rate of excise levied on aviation gasoline and aviation turbine fuel

Fuel and energy (\$m)

	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
	1,310	1,090	760	950	1,190	1,200	1,260	1,290
<i>Tax expenditure type:</i>	Concessional rate					<i>2021 Code:</i>	F6	
<i>Estimate Reliability:</i>	Medium							
<i>Commencement date:</i>	Introduced before 1985					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Item 10 of the Schedule to the Excise Tariff Act 1921 Section 160A of the Excise Act 1901							

The benchmark rates for fuel consumed in an internal combustion engine are based on categories of energy density of the fuel types. However, aviation gasoline and aviation turbine fuel are subject to a lower rate of excise than the benchmark rate. Consistent with its obligation as a signatory of the Convention on International Civil Aviation, Australia does not charge fuel excise on aviation fuel used for international civil aviation activities.

F7 Excise concessions for 'alternative fuels'

Fuel and energy (\$m)		2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	
		160	140	100	80	80	100	110	110	
<i>Tax expenditure type:</i>	Concessional rate, Increased rate						<i>2021 Code:</i>	F7		
<i>Estimate Reliability:</i>	Low									
<i>Commencement date:</i>	1985					<i>Expiry date:</i>				
<i>Legislative reference:</i>	Section 6FAA of the <i>Excise Tariff Act 1921</i> Section 6J of the <i>Excise Tariff Act 1921</i> The Schedule to the <i>Excise Tariff Act 1921</i> Section 77HA of the <i>Excise Act 1901</i>									

The benchmark rates for fuel consumed in an internal combustion engine are based on categories of energy density of the fuel types. There are categories for high, medium and low energy density fuels.

Alternative fuels including liquefied petroleum gas (LPG), liquefied natural gas (LNG), compressed natural gas (CNG) and domestically produced biodiesel and ethanol are subject to lower excise rates than the benchmark.

In June 2015, the Government passed legislation to gradually increase excise duty on domestically produced biodiesel and fuel ethanol.

Before 1 July 2015, domestically produced biodiesel and fuel ethanol were subject to the same excise rates as petrol and diesel, with grants available to producers to offset the excise. From 1 July 2015, the excise rates for these fuels were reduced to zero and the grants ceased. The excise rates for domestically manufactured fuel ethanol and biodiesel then increase on 1 July of each subsequent year until the final rates are reached. For fuel ethanol, the final rate was reached on 1 July 2020 and for biodiesel, the final rate will be reached on 1 July 2030.

The final rates for biodiesel (a high energy content fuel) and fuel ethanol (a medium energy content fuel) will be 50 per cent of the respective benchmark rates.

Since 1 July 2015, the excise rates for LPG, LNG and CNG have been 50 per cent of the benchmark rate applying to high energy content fuels.

Users of small, non-commercial scale, domestically-based compressed natural gas refuellers are exempt from paying excise duty on compressed natural gas used to fuel their vehicles.

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F8 Excise levied on fuel oil, heating oil and kerosene

Fuel and energy (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
-130	-115	-95	-90	-100	-110	-120	-125
<i>Tax expenditure type:</i>		Increased rate			<i>2021 Code:</i>		F8
<i>Estimate Reliability:</i>		Medium – Low					
<i>Commencement date:</i>		2006			<i>Expiry date:</i>		
<i>Legislative reference:</i>		Item 10 of the Schedule to the <i>Excise Tariff Act 1921</i>					

The benchmark excise rate for fuels consumed for a purpose other than in an internal combustion engine is zero. Fuel oil, heating oil, and kerosene are subject to excise equivalent to that applying to petroleum and diesel. Business users of these products are eligible for a fuel tax credit of an equivalent value.

F9 Excise levied on fuel products used for purposes other than as fuel

Fuel and energy (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
-50	-50	-50	-45	-50	-60	-65	-65
<i>Tax expenditure type:</i>		Increased rate			<i>2021 Code:</i>		F9
<i>Estimate Reliability:</i>		Medium – Low					
<i>Commencement date:</i>		1 July 2006			<i>Expiry date:</i>		
<i>Legislative reference:</i>		Item 10 of the Schedule to the <i>Excise Tariff Act 1921</i>					

The benchmark excise rate for fuels consumed for a purpose other than in an internal combustion engine is zero. Some fuels, when used for a purpose other than in an internal combustion engine, are subject to excise equivalent to that applying to petroleum and diesel. These fuels include toluene, mineral turpentine and white spirits. Business users of these products are eligible for a fuel tax credit of an equivalent value.

TOBACCO

F10 Higher rate of excise levied on cigarettes not exceeding 0.8 grams of tobacco

Health (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
-1,540	-1,685	-1,080	-905	-885	-910	-935	-960
<i>Tax expenditure type:</i>		Increased rate			<i>2021 Code:</i>		F10
<i>Estimate Reliability:</i>		Low					
<i>Commencement date:</i>		1999			<i>Expiry date:</i>		
<i>Legislative reference:</i>		Item 5 of the Schedule to the <i>Excise Tariff Act 1921</i>					

The benchmark excise rate is the rate per kilogram applying to tobacco products not in stick form (“loose leaf”) or in stick form and containing more than 0.8 grams of tobacco. Cigarette and cigar sticks not exceeding 0.8 grams of tobacco pay excise at a flat excise rate per stick, which is equivalent to the excise rate per kilogram using an equalisation weight of 0.7 grams per stick.

As a result, cigarette and cigar sticks containing less tobacco than the equalisation weight will have a higher excise liability per gram of tobacco than if they were subject to the benchmark rate. Conversely, cigarette and cigar sticks containing more tobacco than the equalisation weight but less than or equal to 0.8 grams will have a lower rate of excise per gram of tobacco than if they were subject to the benchmark rate. The tax expenditure represents the difference in total excise payable between the actual stick tobacco weight and the equalisation weight. Cigarette and cigar sticks containing more than 0.8 grams of tobacco are taxed at the benchmark rate.

The equalisation weight was reduced to 0.775 grams per stick from 1 September 2017, 0.75 grams per stick from 1 September 2018, 0.725 grams per stick from 1 September 2019 and 0.70 grams per stick from 1 September 2020.

ALCOHOL

F11 Concessional rate of excise levied on brandy

Other economic affairs – Other economic affairs, nec (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
5	5	6	6	7	7	7	7
<i>Tax expenditure type:</i>		Concessional rate			<i>2021 Code:</i>		F11
<i>Estimate Reliability:</i>		Medium					
<i>Commencement date:</i>		9 November 1979			<i>Expiry date:</i>		
<i>Legislative reference:</i>		Item 3 of the Schedule to the <i>Excise Tariff Act 1921</i>					

Under the benchmark tax treatment, spirits are taxed at a single rate per litre of alcohol. However, brandy is subject to a lower rate of excise than the rate applying to other spirits.

F12 Concessional rate of excise levied on brewed-on-premises beer

Other economic affairs – Other economic affairs, nec (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
3	4	4	7	8	8	8	8
<i>Tax expenditure type:</i>		Concessional rate			<i>2021 Code:</i>		F12
<i>Estimate Reliability:</i>		Medium					
<i>Commencement date:</i>		1 January 1993			<i>Expiry date:</i>		
<i>Legislative reference:</i>		Item 1 of the Schedule to the <i>Excise Tariff Act 1921</i>					

The benchmark excise rate for beer is that which applies to full-strength, commercially produced beer stored in containers of less than eight litres. Brewed-on-premises beer (that is, beer produced for non-commercial purposes using commercial facilities or equipment) is subject to a lower rate of excise than the benchmark rate.

F13 Concessional rate of excise levied on draught beer

Other economic affairs – Other economic affairs, nec (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
180	150	155	150	160	165	175	180
<i>Tax expenditure type:</i>		Concessional rate			<i>2021 Code:</i>		F13
<i>Estimate Reliability:</i>		Medium					
<i>Commencement date:</i>		1 January 2001			<i>Expiry date:</i>		
<i>Legislative reference:</i>		Item 1 of the Schedule to the <i>Excise Tariff Act 1921</i>					

The benchmark excise rate for beer is that which applies to full strength, commercially produced beer stored in containers of less than eight litres. Draught beer (that is, beer stored in individual containers of eight litres or more) is subject to a lower rate of excise than the benchmark rate.

F14 Concessional rate of excise levied on low strength packaged beer

Other economic affairs – Other economic affairs, nec (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
7	6	6	5	5	6	6	6
<i>Tax expenditure type:</i>		Concessional rate			<i>2021 Code:</i>		F14
<i>Estimate Reliability:</i>		Medium					
<i>Commencement date:</i>		21 August 1984			<i>Expiry date:</i>		
<i>Legislative reference:</i>		Item 1 of the Schedule to the <i>Excise Tariff Act 1921</i>					

The benchmark excise rate for beer is that which applies to full strength, commercially produced beer stored in containers of less than eight litres. However, low strength beer with an alcohol content of no more than 3 per cent is subject to a lower rate of excise than the benchmark rate of similarly packaged full strength beer.

F15 Excise concession for alcohol producers

Other economic affairs – Other economic affairs, nec (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
15	35	50	120	130	130	140	145
<i>Tax expenditure type:</i>		Rebate			<i>2021 Code:</i>		F15
<i>Estimate Reliability:</i>		Medium					
<i>Commencement date:</i>		1 July 2021 (brewers) 1 July 2021 (distillers)			<i>Expiry date:</i>		
<i>Legislative reference:</i>		Item 10 of table in subclause 2(1) of Schedule 1 to the <i>Excise Regulation 2015</i> Item 7 of table in Regulation 12(2) of the <i>Excise Regulation 2015</i>					

The benchmark tax treatment is that breweries and distilleries pay excise on all beer, spirits and other excisable beverages (such as liqueurs, pre-mixed spirit-based drinks and fermented products that are not subject to the WET) that they manufacture.

Since 1 July 2021, eligible brewers and distillers can claim a full remission of any excise paid, up to a cap of \$350,000 per financial year. Prior to that, breweries and distilleries could only claim a refund of 60 per cent of excise paid, up to a maximum amount of \$100,000 per financial year.

F16 Excise exemption for privately produced beer

Other economic affairs – Other economic affairs, nec (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption				<i>2021 Code:</i>	F16	
<i>Estimate Reliability:</i>	Not Applicable				<i>* Category</i>	2+	
<i>Commencement date:</i>	18 April 1973				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Schedule to the <i>Excise Tariff Act 1921</i>						

The benchmark excise rate for beer is that which applies to full strength, commercially produced beer stored in containers of less than eight litres. However, beer made for personal use by private individuals is exempt from the payment of excise.

F17 Wine equalisation tax exemption for privately produced wine

Other economic affairs – Other economic affairs, nec (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption				<i>2021 Code:</i>	F17	
<i>Estimate Reliability:</i>	Not Applicable				<i>* Category</i>	2+	
<i>Commencement date:</i>	19 August 1970				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Section 5-5 of <i>A New Tax System (Wine Equalisation Tax) Act 1999</i>						

Under the benchmark tax treatment, wine is taxed under the wine equalisation tax (WET) at 29 per cent of its last wholesale value. However, wine made for personal use by private individuals is exempt from the WET.

F18 Wine equalisation tax producer rebate

Other economic affairs – Other economic affairs, nec (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
260	250	320	320	350	350	370	380
<i>Tax expenditure type:</i>	Rebate				<i>2021 Code:</i>	F18	
<i>Estimate Reliability:</i>	Medium						
<i>Commencement date:</i>	1 October 2004				<i>Expiry date:</i>		
	1 July 2018 (tightened eligibility criteria and reduced rebate cap)						
<i>Legislative reference:</i>	Division 19 of <i>A New Tax System (Wine Equalisation Tax) Act 1999</i>						

Under the benchmark tax treatment, wine is taxed under the WET at 29 per cent of its last wholesale value. However, wine producers are able to claim a rebate of any WET they have paid, up to \$350,000 per financial year. The rebate also extends to producers of other fruit and vegetable wines, traditional cider, perry, mead, and sake.

From 1 July 2018, eligibility for the rebate was tightened, including by requiring wine producers to own at least 85 per cent of the grapes used to make the wine throughout the winemaking process, and for wine to be branded and packaged in a container not exceeding five litres (51 litres for cider and perry).

Tax Expenditures and Insights Statement

The tightened eligibility criteria has applied to all wine from the 2018 vintage irrespective of when the rebate is claimed.

GENERAL CONSUMPTION TAX EXPENDITURES

F19 Certain exemptions for diplomats, diplomatic missions and approved international organisations

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

	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
	1	1	1	1	1	1	1	1
<i>Tax expenditure type:</i>	Exemption					<i>2021 Code:</i>	F19	
<i>Estimate Reliability:</i>	Medium – High							
<i>Commencement date:</i>	21 August 1940					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Regulation 8 and Schedule 1 of the <i>Excise Regulation 2015</i> Section 9 of the <i>Diplomatic Privileges and Immunities Act 1967</i> Section 7 of the <i>Consular Privileges and Immunities Act 1972</i> Section 11B of the <i>International Organisations (Privileges and Immunities) Act 1963</i> Section 12 of the <i>Overseas Missions (Privileges and Immunities) Act 1995</i>							

Under the benchmark tax treatment, fuel, tobacco and alcohol (other than wine) are subject to excise and excise-equivalent customs duty, and wine and luxury cars are subject to the wine equalisation tax and luxury car tax, respectively. However, these taxes are not payable (or the amount paid is refundable) on items acquired for official purposes by diplomatic missions and consulates, for personal use by privileged individuals, or for official use by approved international organisations. Any refunds provided must be within the scope of the *Diplomatic Privileges and Immunities Act 1967*, the *Consular Privileges and Immunities Act 1972*, or the *International Organisations (Privileges and Immunities) Act 1963*.

F20 Certain exemptions for Australian military seagoing vessels

Defence (\$m)

	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
	*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption					<i>2021 Code:</i>	F20	
<i>Estimate Reliability:</i>	Not Applicable					<i>* Category</i>	1+	
<i>Commencement date:</i>	1934					<i>Expiry date:</i>		
<i>Legislative reference:</i>	Item 6 of Table 2 of Schedule 1 to the <i>Excise Regulation 2015</i>							

Under the benchmark tax treatment, tobacco and alcohol (other than wine) are subject to excise and excise-equivalent customs duty. However, 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.

F21 Customs duty

Mining, manufacturing and construction (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
-1,990	-1,700	-1,770	-1,960	-2,070	-1,910	-1,500	-1,030
<i>Tax expenditure type:</i>	Increased rate				<i>2021 Code:</i>	F21	
<i>Estimate Reliability:</i>	Medium – High						
<i>Commencement date:</i>	4 October 1901				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Customs Act 1901 Customs Tariff Act 1995						

The benchmark tax treatment is that imported goods are subject to the same taxes on consumption as domestically produced goods and, therefore, are free from customs duty (except for excise-equivalent customs duty). Customs duty is collected on certain goods imported into Australia (for example, most cars are subject to 5 per cent customs duty upon importation, unless a free-trade agreement applies). This is a negative tax expenditure.

Natural resources taxes

TAX EXPENDITURES FOR MANUFACTURING AND MINING

G1 Junior Minerals Exploration Incentive

Mining, manufacturing and construction (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
-	1	1	1	2	5	4	4
<i>Tax expenditure type:</i>	Exemption				<i>2021 Code:</i>	G1	
<i>Estimate Reliability:</i>	Medium						
<i>Commencement date:</i>	1 July 2014				<i>Expiry date:</i>	30 June 2025	
<i>Legislative reference:</i>	Division 418 of the <i>Income Tax Assessment Act 1997</i> .						

Under the benchmark, government payments to taxpayers are generally treated as assessable income and subject to tax. A tax expenditure arises when payments made under a refundable tax offset are exempt from tax.

The Junior Minerals Exploration Incentive provides a tax benefit to Australian resident investors that purchase newly issued shares in small minerals exploration companies that are raising capital to fund greenfields exploration activity. Eligible companies can create exploration credits by giving up a portion of their tax losses relating to their exploration expenditure, which can then be distributed to investors. Most investors that receive a credit are entitled to a refundable tax offset or an additional franking credit if the investor is a company.

The Junior Minerals Exploration Incentive applies from 2017–18 to 30 June 2025, replacing the former Exploration Development Incentive which applied from 2014–15 to 30 June 2017.

PETROLEUM

G2 Crude Oil Excise

Fuel and energy (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Deduction				<i>2021 Code:</i>	G2	
<i>Estimate Reliability:</i>	Not Applicable				<i>* Category</i>	NA	
<i>Commencement date:</i>	1 July 2012				<i>Expiry date:</i>		
<i>Legislative reference:</i>	<i>Petroleum Resource Rent Tax Assessment Act 1987</i>						

Under the natural resource benchmark, crude oil excise is treated as a prepayment of Petroleum Resource Rent Tax (PRRT) liabilities and to the extent that the crude oil excise exceeds the PRRT payable in a year, a negative tax expenditure will arise for that period. Where crude oil excise credits are carried forward and used to reduce PRRT in later periods, a tax expenditure will arise in the year the carried forward credit is utilised.

G3 PRRT – denial of refund of tax credits for losses at project end

Fuel and energy (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Denial of refund				<i>2021 Code:</i>	G3	
<i>Estimate Reliability:</i>	Not Applicable				<i>* Category</i>	1-	
<i>Commencement date:</i>	1 July 1990				<i>Expiry date:</i>		
<i>Legislative reference:</i>	<i>Petroleum Resource Rent Tax Act 1987</i>						

Under the natural resources benchmark, any unutilised tax losses that are available when a petroleum project closes down are refunded. However under the PRRT, there is no general refund of the tax value of losses available when the project closes down. Closing-down expenditure is the only category of expenditure that is refundable and that is limited to the total amount of PRRT paid in respect of the project.

G4 PRRT – expenditure uplift rate

Fuel and energy (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Deduction				<i>2021 Code:</i>	G4	
<i>Estimate Reliability:</i>	Not Applicable				<i>* Category</i>	2+	
<i>Commencement date:</i>	1 July 1990				<i>Expiry date:</i>		
<i>Legislative reference:</i>	<i>Petroleum Resource Rent Tax Act 1987</i>						

The natural resources benchmark includes immediate expensing of project expenditures. To the extent that losses are carried forward because they cannot be utilised immediately, they are uplifted at the long-term government bond rate (a proxy for the risk-free rate). The uplift rate compensates investors for the delay in the recognition of the tax credit and preserves the value of the tax credit over time.

Under the PRRT, expenditure that generates project losses is uplifted at a number of different rates depending on when the expenditure took place and the nature of the expenditure. A significant amount of expenditure is uplifted at rates that exceed the long-term government bond rate.

G5 PRRT – gas transfer price regulations

Fuel and energy (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Deduction				<i>2021 Code:</i>	G5	
<i>Estimate Reliability:</i>	Not Applicable				<i>* Category</i>	2+	
<i>Commencement date:</i>	20 December 2005				<i>Expiry date:</i>		
<i>Legislative reference:</i>	<i>Petroleum Resource Rent Tax Assessment Regulation 2015</i>						

The natural resources benchmark is a 40 per cent tax rate on the economic rents earned on the extraction of petroleum resources including natural gas.

Tax Expenditures and Insights Statement

The PRRT gas transfer price regulation stipulates rules for calculating the value of gas at the PRRT taxing point attributable to extraction activities where there is no arm's length transaction to determine the price of that gas in an integrated liquefied natural gas (LNG) project. The regulations rely on formulaic rules to determine the assessable receipts of the PRRT project.

The regulations include provisions in the calculation of the gas transfer price that reduce the estimated upstream gas price by half the difference between the estimated 'upstream' price and the estimated 'downstream' price where the upstream price is the higher.

G6 PRRT – starting base and uplift rate for capital assets

Fuel and energy (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Deduction				<i>2021 Code:</i>	G6	
<i>Estimate Reliability:</i>	Not Applicable				<i>* Category</i>	2+	
<i>Commencement date:</i>	1 July 2012				<i>Expiry date:</i>		
<i>Legislative reference:</i>	<i>Petroleum Resource Rent Tax Assessment Act 1987</i>						

The natural resources benchmark includes immediate expensing of project expenditures. To the extent that losses are carried forward because they cannot be utilised immediately, they are uplifted at the long-term government bond rate (a proxy for the risk-free rate).

Existing investments of projects brought under the PRRT on 1 July 2012 are recognised through the provision of a starting base allowance. The starting base allowance recognises assets relating to the upstream assets of the PRRT project on 2 May 2010. Unused starting base losses are uplifted at the long-term bond rate plus 5 percentage points. Unused exploration expenditure under the look back valuation option is uplifted at the long-term bond rate plus 15 percentage points.

G7 Decommissioning levy for Laminaria-Corallina oil fields

Mining, manufacturing and construction (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
-	-	-	390	nfp	nfp	nfp	nfp
<i>Tax expenditure type:</i>	Increased rate				<i>2021 Code:</i>	G7	
<i>Estimate Reliability:</i>	Not Applicable						
<i>Commencement date:</i>	1 July 2021				<i>Expiry date:</i>		
<i>Legislative reference:</i>	<i>Offshore Petroleum (Laminaria and Corallina Decommissioning Cost Recovery Levy) Act 2022.</i>						

From 1 July 2021, registered holders of petroleum production licences under the *Offshore Petroleum and Greenhouse Gas Storage Act 2006* are liable to pay a levy of 48 cents per barrel of oil equivalent petroleum production from offshore titles. The levy will not be deductible for PRRT or corporate income tax. The levy will cease in 2029–30 at the latest.

Goods and Services Tax

TAX EXPENDITURES FOR GENERAL PUBLIC SERVICES

H1 Financial supplies – financial acquisitions threshold – input tax credits

General public services – Financial and fiscal affairs (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Concessional rate				<i>2021 Code:</i>	H1	
<i>Estimate Reliability:</i>	Not Applicable				<i>* Category</i>	3+	
<i>Commencement date:</i>	1 July 2000				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Sections 11-15(4) and 189-5 of the <i>A New Tax System (Goods and Services Tax) Act 1999</i>						

The benchmark tax treatment is that GST applies at the rate of 10 per cent to most supplies of goods and services and that entities may claim input tax credits for GST they pay on their inputs. However, financial supplies are generally input taxed – that is, they are not subject to GST and input tax credits cannot be claimed for anything acquired or imported to make the supply. In addition, entities that make financial supplies without exceeding the financial acquisitions threshold are entitled to input tax credits for acquisitions used or intended to be used for making the financial supplies. This allows entities to claim input tax credits for financial supplies, where they have principal commercial activities other than providing financial supplies.

An entity does not exceed the financial acquisitions threshold if the input tax credits it would have been entitled to for the acquisitions do not exceed \$150,000 or 10 per cent of their total input tax credits for the year.

H2 Financial supplies – input taxed treatment

General public services – Financial and fiscal affairs (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
4,100	2,950	4,050	3,900	4,650	4,800	5,000	5,200
<i>Tax expenditure type:</i>	Exemption, Concessional rate				<i>2021 Code:</i>	H2	
<i>Estimate Reliability:</i>	Medium – Low						
<i>Commencement date:</i>	1 July 2000				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Subdivision 40-A of the <i>A New Tax System (Goods and Services Tax) Act 1999</i>						

The benchmark tax treatment is that GST applies at the rate of 10 per cent to most supplies of goods and services and that entities may claim input tax credits for the GST they pay on their inputs. However, generally, financial supplies are not subject to GST and input tax credits cannot be claimed for such supplies. For example, banks do not charge GST on the supply of bank accounts to customers, and cannot claim back the GST component of the costs they incur in supplying bank accounts. A positive tax expenditure arises in this situation as the GST paid is less than 10 per cent of the final value of the financial supply.

Tax Expenditures and Insights Statement

A negative tax expenditure arises where the financial supply is to a business. This is because no GST would actually be payable under the benchmark (subjecting financial services to GST) in this situation as businesses would claim an input tax credit for the GST amount. However, under actual tax arrangements, some GST is paid as input tax credits cannot be claimed on financial supplies to businesses.

Financial supplies are input taxed due to the difficulty in valuing them. The input tax treatment of financial supplies in Australia is consistent with international practice.

H3 Financial supplies – reduced input tax credits

General public services – Financial and fiscal affairs (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
1,000	750	1,000	1,000	1,150	1,200	1,250	1,300
<i>Tax expenditure type:</i>	Concessional rate				<i>2021 Code:</i>	H3	
<i>Estimate Reliability:</i>	Medium – Low						
<i>Commencement date:</i>	1 July 2000				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Division 70 of the A New Tax System (Goods and Services Tax) Act 1999						

The benchmark tax treatment is that GST applies at the rate of 10 per cent to most supplies of goods and services and that entities may claim input tax credits for the GST they pay on their inputs. However, generally, financial supplies are not subject to GST and input tax credits cannot be claimed for such supplies. However, input tax credits may be claimed for the acquisition of certain supplies, (including cash management, funds transfer, and debt collection services) but at a reduced rate (either 55 or 75 per cent of the standard input tax credit entitlement depending on the acquisition).

Reduced input tax credits are designed to reduce the bias between insourcing and outsourcing the relevant services, as GST can apply where these services are outsourced, but not when they are provided internally by employees.

H4 Charities and non-profit bodies

General public services – General services (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption				<i>2021 Code:</i>	H4	
<i>Estimate Reliability:</i>	Not Applicable						
<i>Commencement date:</i>	1 July 2000				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Subdivision 38-G of the A New Tax System (Goods and Services Tax) Act 1999						

Broadly, the benchmark tax treatment is that GST applies at the rate of 10 per cent to most supplies of goods and services. Non-profit bodies are entitled to a higher GST registration threshold of \$150,000. They are entitled to GST-free treatment on non-commercial activities, certain retirement village services, bingo, and sale of second-hand goods. Charities can elect to have fundraising treated as input taxed. This option is also available to deductible gift recipients and government schools.

H5 Child care services

Housing and community amenities (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
1,380	1,300	1,520	1,670	1,710	2,050	2,160	2,270
<i>Tax expenditure type:</i>		Exemption, Concessional rate			<i>2021 Code:</i>		H5
<i>Estimate Reliability:</i>		Medium – Low					
<i>Commencement date:</i>		1 July 2000			<i>Expiry date:</i>		
<i>Legislative reference:</i>		Subdivision 38-D of the <i>A New Tax System (Goods and Services Tax) Act 1999</i>					

The benchmark tax treatment is that GST applies at the rate of 10 per cent to most supplies of goods and services. Generally, child care will be GST-free where the provider is eligible to receive government funding, or if the provider is a registered carer or child care service for the purposes of the relevant Commonwealth legislation. All supplies that are directly related to child care are also GST-free.

H6 Water, sewerage and drainage

Housing and community amenities (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
1,060	1,100	1,090	1,110	1,130	1,160	1,190	1,220
<i>Tax expenditure type:</i>		Exemption			<i>2021 Code:</i>		H6
<i>Estimate Reliability:</i>		Medium					
<i>Commencement date:</i>		1 July 2000			<i>Expiry date:</i>		
<i>Legislative reference:</i>		Subdivision 38-I of the <i>A New Tax System (Goods and Services Tax) Act 1999</i>					

The benchmark tax treatment is that GST applies at the rate of 10 per cent to most supplies of goods and services. However, a supply of water is GST-free unless it is supplied in, or transferred into, a container with a capacity of less than 100 litres. The draining of storm water, the emptying of a septic tank and sewerage and sewerage-like services are also GST-free. Water sold as a beverage is included in tax expenditure H26.

INTERNATIONAL TAX EXPENDITURES

H7 Diplomats, diplomatic missions and approved international organisations

General public services – Foreign affairs and economic aid (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
10	11	13	13	13	13	13	13
<i>Tax expenditure type:</i>	Exemption				<i>2021 Code:</i>	H7	
<i>Estimate Reliability:</i>	High						
<i>Commencement date:</i>	1 July 2000				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Section 10B of the <i>Diplomatic Privileges and Immunities Act 1967</i> Section 10A of the <i>Consular Privileges and Immunities Act 1972</i> Section 11C of the <i>International Organisations (Privileges and Immunities) Act 1963</i>						

The benchmark tax treatment is that GST applies at the rate of 10 per cent to most supplies of goods and services within the indirect tax zone. However, the amount of GST paid is refundable on items acquired for official purposes by diplomatic missions and consulates, for personal use by privileged individuals, or for official use by approved international organisations. Any refunds provided must be within the scope of the *Diplomatic Privileges and Immunities Act 1967*, the *Consular Privileges and Immunities Act 1972*, or the *International Organisations (Privileges and Immunities) Act 1963*.

H8 Global roaming by visitors to Australia

Transport and communication (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption				<i>2021 Code:</i>	H8	
<i>Estimate Reliability:</i>	Not Applicable				<i>* Category</i>	1+	
<i>Commencement date:</i>	1 July 2000				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Section 38-570 of the <i>A New Tax System (Goods and Services Tax) Act 1999</i>						

The benchmark tax treatment is that GST applies at the rate of 10 per cent to most supplies of goods and services. However, telecommunication supplies for global roaming services provided to visitors to Australia are GST-free, consistent with Australia's treaty obligations under the International Telecommunication Regulations (the Melbourne Agreement).

H9 Tourist refund scheme

Other economic affairs – Tourism and area promotion (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
250	190	20	45	170	225	250	250
<i>Tax expenditure type:</i>	Exemption			<i>2021 Code:</i>		H9	
<i>Estimate Reliability:</i>	Low						
<i>Commencement date:</i>	1 July 2000			<i>Expiry date:</i>			
<i>Legislative reference:</i>	Division 168 of the <i>A New Tax System (Goods and Services Tax) Act 1999</i> Division 168 of the <i>A New Tax System (Goods and Services Tax) Regulations 2019</i>						

The benchmark tax treatment is that GST applies at the rate of 10 per cent to most supplies of goods and services. However, international travellers visiting Australia and Australians travelling overseas may be able to claim a refund of GST paid on certain goods bought in Australia if the total value of the goods is \$300 or more, they are purchased within 60 days of departure and the goods are taken with the traveller when they depart Australia.

In addition, residents of Australia's external territories, such as Norfolk, Cocos (Keeling) and Christmas Islands, can claim refunds of GST under the tourist refund scheme. Claims can be made if Australian external territory residents leaving Australia can show proof that the goods have been exported to their external territory within the required period after the goods were acquired.

H10 Boats for export

Other economic affairs – Other economic affairs, nec (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
19	18	18	18	18	18	18	17
<i>Tax expenditure type:</i>	Exemption			<i>2021 Code:</i>		H10	
<i>Estimate Reliability:</i>	Medium – Low						
<i>Commencement date:</i>	1 July 2000			<i>Expiry date:</i>			
<i>Legislative reference:</i>	Item 4A of Section 38-185 of the <i>A New Tax System (Goods and Services Tax) Act 1999</i>						

The benchmark tax treatment is that GST applies at the rate of 10 per cent to most supplies of goods and services but does not apply to goods which are exported from Australia within 60 days. However, supplies of eligible boats used for recreational purposes are GST-free if the boats are exported by the purchaser from Australia within 12 months, with effect from 1 July 2011.

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H11 Tourism – domestic travel as part of an international arrangement

Other economic affairs – Other economic affairs, nec (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption				<i>2021 Code:</i>	H11	
<i>Estimate Reliability:</i>	Not Applicable				<i>* Category</i>	2+	
<i>Commencement date:</i>	1 July 2000				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Section 38-355 of the <i>A New Tax System (Goods and Services Tax) Act 1999</i>						

The benchmark tax treatment is that GST applies at the rate of 10 per cent to most supplies of goods and services within the indirect tax zone. However, domestic air or sea travel within Australia by residents or non-residents as part of a wider international travel arrangement is not subject to GST. In addition, the transport of passengers to the first place of arrival in, or from the last point of departure within, the indirect tax zone is GST-free. Domestic air travel within Australia by non-residents is also GST-free if the ticket is purchased while the passenger is outside Australia. Transport insurance for the above supplies is also GST-free.

H12 Tourism – inwards duty free

Other economic affairs – Other economic affairs, nec (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption				<i>2021 Code:</i>	H12	
<i>Estimate Reliability:</i>	Not Applicable				<i>* Category</i>	3+	
<i>Commencement date:</i>	1 July 2000				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Section 38-415 of the <i>A New Tax System (Goods and Services Tax) Act 1999</i>						

The benchmark tax treatment is that GST applies at the rate of 10 per cent to most goods imported into the Australian indirect tax zone. However, supplies made through an inwards duty free shop to inbound international travellers are not subject to GST.

H13 Tourism – travel agents arranging overseas travel

Other economic affairs – Other economic affairs, nec (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
240	180	5	35	275	290	305	310
<i>Tax expenditure type:</i>	Exemption				<i>2021 Code:</i>	H13	
<i>Estimate Reliability:</i>	Low				<i>* Category</i>		
<i>Commencement date:</i>	1 July 2000				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Section 38-360 of the <i>A New Tax System (Goods and Services Tax) Act 1999</i>						

The benchmark tax treatment is that GST applies at the rate of 10 per cent to most supplies of goods and services. However, the arranging of overseas travel, accommodation and other services by travel agents in Australia in the course of their business is GST-free. The arranging service must relate to a holiday or supply that takes place or is used overseas.

TAX EXPENDITURES FOR EDUCATION

H14 Education

Education (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
4,600	5,100	5,300	5,550	5,850	6,100	6,400	6,650
<i>Tax expenditure type:</i>	Exemption				<i>2021 Code:</i>	H14	
<i>Estimate Reliability:</i>	Medium						
<i>Commencement date:</i>	1 July 2000				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Subdivision 38-C of the A New Tax System (Goods and Services Tax) Act 1999						

The benchmark tax treatment is that GST applies at the rate of 10 per cent to most supplies of goods and services. However, certain education supplies are GST-free. These include education courses, directly related administrative services provided by the same provider as the education course, sale of course materials or lease of curriculum-related goods to a student undertaking a pre-school or primary or secondary course by the same provider as the education course, student accommodation for students attending a primary, secondary or special education course provided by the same provider as the education course, excursions and field trips (excluding food and accommodation provided as part of a tertiary course, tertiary residential college course or professional or trade course) and supplies related to the recognition of prior learning.

TAX EXPENDITURES FOR HEALTH

H15 Health – drugs and medicinal preparations

Health (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
500	510	560	580	640	680	720	760
<i>Tax expenditure type:</i>	Exemption				<i>2021 Code:</i>	H15	
<i>Estimate Reliability:</i>	Medium						
<i>Commencement date:</i>	1 July 2000				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Section 38-50 of the A New Tax System (Goods and Services Tax) Act 1999						

The benchmark tax treatment is that GST applies at the rate of 10 per cent to most supplies of goods and services. However, most medicines for human use are GST-free. GST-free medicines include: medicines that can only be supplied on prescription; medicines supplied as a pharmaceutical benefit; non-prescription drugs that can only be supplied by a doctor, dentist, pharmacist or other prescribed person as described by relevant state or territory law; medicines supplied under the Special Access Scheme; and certain analgesics covered by a written determination by the Federal Health Minister.

H16 Health – medical aids and appliances

Health (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
290	300	330	340	380	400	420	445
<i>Tax expenditure type:</i>		Exemption			<i>2021 Code:</i>		H16
<i>Estimate Reliability:</i>		Low					
<i>Commencement date:</i>		1 July 2000			<i>Expiry date:</i>		
<i>Legislative reference:</i>		Sections 38-38, 38-45, 38-47 and Subdivision 38-P of the <i>A New Tax System (Goods and Services Tax) Act 1999</i>					

The benchmark tax treatment is that GST applies at the rate of 10 per cent to most supplies of goods and services. However, a medical aid or appliance is GST-free if the medical aid or appliance is listed in Schedule 3 to the *A New Tax System (Goods and Services Tax) Act 1999*, or specified in the regulations and specifically designed for people with an illness or disability and not widely used by others.

The supply of cars for use by disabled persons, spare parts for medical aids and appliances and the services related to the provision of the medical aid or appliance are GST-free. Goods that are the subject of a written determination by the Federal Health Minister are also GST-free, including certain disability support delivered under the *National Disability Insurance Scheme Act 2013*.

H17 Health – medical and health services

Health (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
4,200	3,950	4,350	4,500	5,000	5,300	5,550	5,900
<i>Tax expenditure type:</i>		Exemption			<i>2021 Code:</i>		H17
<i>Estimate Reliability:</i>		Medium					
<i>Commencement date:</i>		1 July 2000			<i>Expiry date:</i>		
<i>Legislative reference:</i>		Sections 38-7, 38-10, 38-15, 38-20 of the <i>A New Tax System (Goods and Services Tax) Act 1999</i>					

The benchmark tax treatment is that GST applies at the rate of 10 per cent to most supplies of goods and services. However, certain medical and health services are GST-free.

For instance, the supply of a service for which a Medicare benefit is payable under the *Health Insurance Act 1973*, or any other service supplied by or on behalf of a medical practitioner or approved pathology practitioner that is generally accepted in the medical profession as being necessary for the appropriate treatment of the recipient of the supply, will be GST-free.

Further, the supply of a prescribed ‘other health service’ will be GST-free if it is supplied by a recognised professional, and the supply is generally accepted in the relevant profession as being necessary for the appropriate treatment of the recipient of the supply. The supply of hospital treatments and certain other government funded health services are also GST-free.

H18 Health – residential care, community care and other care services

Health (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
1,210	1,260	1,390	1,430	1,600	1,680	1,780	1,870
<i>Tax expenditure type:</i>	Exemption				<i>2021 Code:</i>		H18
<i>Estimate Reliability:</i>	Medium						
<i>Commencement date:</i>	1 July 2000				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Sections 38-25, 38-30, 38-35, 38-38 of the <i>A New Tax System (Goods and Services Tax) Act 1999</i>						

The benchmark tax treatment is that GST applies at the rate of 10 per cent to most supplies of goods and services. However, some services provided by care and specialist disability providers are GST-free. The quality of care principles set out in the *Aged Care Act 1997* apply in determining the tax status of specific care services. In general, publicly funded aged or disability care services are GST-free, as are privately funded aged care services which meet the quality of care principles set out in the *Aged Care Act 1997* and are provided to those needing daily living activities assistance or nursing services. Certain disability supports delivered under the *National Disability Insurance Scheme Act 2013* are also GST-free.

H19 Private health insurance

Health (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
370	320	400	470	480	490	500	510
<i>Tax expenditure type:</i>	Exemption				<i>2021 Code:</i>		H19
<i>Estimate Reliability:</i>	Medium						
<i>Commencement date:</i>	1 July 2000				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Section 38-55 of the <i>A New Tax System (Goods and Services Tax) Act 1999</i>						

The benchmark tax treatment is that GST applies at the rate of 10 per cent to most supplies of goods and services. However, a supply of private health insurance by a private health insurer (within the meaning of the *Private Health Insurance Act 2007*) is GST-free.

TAX CONCESSIONS FOR CERTAIN TAXPAYERS

H20 Religious services

Recreation and culture (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
20	20	20	20	20	20	20	20
<i>Tax expenditure type:</i>	Exemption				<i>2021 Code:</i>	H20	
<i>Estimate Reliability:</i>	Low						
<i>Commencement date:</i>	1 July 2000				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Section 38-220 of the A New Tax System (Goods and Services Tax) Act 1999						

The benchmark tax treatment is that GST applies at the rate of 10 per cent to most supplies of goods and services. However, supplies of religious services are GST-free if supplied by a religious institution and the supplied service is integral to the practice of that religion.

H21 Supplies of farm land

Agriculture, forestry and fishing (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption				<i>2021 Code:</i>	H21	
<i>Estimate Reliability:</i>	Not Applicable				<i>* Category</i>	3+	
<i>Commencement date:</i>	1 July 2000				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Subdivision 38-O of the A New Tax System (Goods and Services Tax) Act 1999						

The benchmark tax treatment is that GST applies at the rate of 10 per cent to most supplies of goods and services. However, specific supplies of farm land are GST-free. This includes: farm land supplied for farming on which a farming business has been carried on for at least five years and upon which a farming business is intended to continue to be carried on; and subdivided farm land that is potential residential land when supplied to associates for nil or inadequate consideration.

H22 Registration thresholds

Other economic affairs – Other economic affairs, nec (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption				<i>2021 Code:</i>	H22	
<i>Estimate Reliability:</i>	Not Applicable				<i>* Category</i>	3+	
<i>Commencement date:</i>	1 July 2000				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Section 23-15 and Part 4-5 of the A New Tax System (Goods and Services Tax) Act 1999 Regulations 23-15.01 and 23-15.02 of the A New Tax System (Goods and Services Tax) Regulation 2019						

The benchmark tax treatment is that GST applies at the rate of 10 per cent to most supplies of goods and services. Entities (other than taxi operators) with a GST turnover of less than \$75,000, or \$150,000 for non-profit entities, are not required to register for GST. Supplies made by unregistered entities are not subject to GST.

H23 Simplified accounting methods

Other economic affairs – Other economic affairs, nec (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
15	15	14	14	14	14	13	13
<i>Tax expenditure type:</i>	Concessional rate				<i>2021 Code:</i>		H23
<i>Estimate Reliability:</i>	Low						
<i>Commencement date:</i>	1 July 2000			<i>Expiry date:</i>			
<i>Legislative reference:</i>	Division 123 of the <i>A New Tax System (Goods and Services Tax) Act 1999</i>						

The benchmark tax treatment is that GST applies at the rate of 10 per cent to most supplies of goods and services. The Commissioner of Taxation can create simplified accounting methods (SAMs) that some small businesses can choose to apply to reduce their GST compliance costs. SAMs allow taxpayers to apply simple ratios to calculate their GST liabilities (or components of them) rather than accounting for each supply to determine if it is taxable or non-taxable. Being ratios, SAMs will benefit some taxpayers by reducing their GST liabilities while increasing the GST liabilities of others, relative to the amounts calculated using a full GST calculation.

While SAMs are designed to reduce compliance costs rather than provide a tax concession, entities that expect to receive a tax benefit from applying SAMs are more likely to adopt this methodology than those that do not. This is expected to result in a positive tax expenditure.

TAX EXPENDITURES FOR MANUFACTURING AND MINING**H24 Precious metal**

Mining, manufacturing and construction (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption				<i>2021 Code:</i>		H24
<i>Estimate Reliability:</i>	Not Applicable				<i>* Category</i>		NA
<i>Commencement date:</i>	1 July 2000			<i>Expiry date:</i>			
<i>Legislative reference:</i>	Subdivision 38-L of the <i>A New Tax System (Goods and Services Tax) Act 1999</i>						

The benchmark tax treatment is that GST applies at the rate of 10 per cent to most supplies of goods and services. However, the first supply of precious metal (after its refining by or on behalf of the supplier) to a precious metal dealer is GST-free. Any other supply of precious metal is input taxed. The GST-free treatment of precious metals recognises that precious metal prices are internationally fixed, and dealers cannot pass on the GST on sales they make. Making the initial supply after refining GST-free is intended to ensure that there is no GST embedded in the price of that sale.

TAX EXPENDITURES FOR TRANSPORT AND COMMUNICATIONS

H25 Cross-border transport supplies

Transport and communication (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
*	*	*	*	*	*	*	*
<i>Tax expenditure type:</i>	Exemption				<i>2021 Code:</i>	H25	
<i>Estimate Reliability:</i>	Not Applicable				<i>* Category</i>	1+	
<i>Commencement date:</i>	1 July 2010				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Section 13-20 of the A New Tax System (Goods and Services Tax) Act 1999						

The benchmark tax treatment is that GST applies at the rate of 10 per cent to most supplies of goods and services. However, since 1 July 2010, the supply of domestic transport services made to a foreign entity for non-postal imports is GST-free. From this date, the cost of domestic transport services for non-postal imports is instead included in the calculation of the 'value of the taxable importation', which is used to determine the GST liability on importation.

TAX EXPENDITURES FOR OTHER ECONOMIC AFFAIRS

H26 Food

Other economic affairs – Other economic affairs, nec (\$m)							
2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
7,300	7,700	8,000	8,100	8,400	8,700	9,000	9,400
<i>Tax expenditure type:</i>	Exemption				<i>2021 Code:</i>	H26	
<i>Estimate Reliability:</i>	Medium						
<i>Commencement date:</i>	1 July 2000				<i>Expiry date:</i>		
<i>Legislative reference:</i>	Subdivision 38-A of the A New Tax System (Goods and Services Tax) Act 1999						

The benchmark tax treatment is that GST applies at the rate of 10 per cent to most supplies of goods and services. Most staples and basic foods are GST-free. Examples of GST-free food include fresh fruit and vegetables, fish, dairy products, bread and meat. Examples of GST-free beverages include unflavoured milk products, tea, coffee, water and fruit juices. Food and beverages subject to GST include: restaurant and takeaway meals, confectionary, savoury snacks, ice cream, biscuits and soft drinks.

A.2 Benchmarks

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

Broadly, benchmarks comprise the following elements:

- 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
- the tax period – the period in which the activities or transactions are undertaken.

INCOME TAX BENCHMARK

The starting point for defining the income tax benchmark is the Schanz-Haig-Simons (SHS) definition of income. Under this definition, income is equal to the increase in an 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.

However, the income tax benchmark departs from the SHS definition of income in places – for example, it does not include unrealised capital gains. The benchmark also incorporates features of the tax system not addressed by the SHS definition – for example, the progressive personal tax rate scale, which is included in the benchmark as it is considered to be a structural feature of the tax system.

Tax base

Under the income tax benchmark, income includes:

- wages and salaries
- allowances
- business receipts
- realised capital gains (except where they form part of the normal trading activities of a business)
- interest, royalties and dividends
- partnership income
- government cash transfers
- distributions from trusts.

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

The income tax benchmark incorporates a range of features of the tax system.

- Assessment applies to nominal rather than real income. Expenses incurred in earning income are deductible at the nominal cost that applied in the year they were incurred.
- The taxable income of some taxpayers (typically individuals) is assessed on a cash basis – that is, as it is actually received by the taxpayer. The taxable income of other taxpayers (typically businesses) is assessed on an accruals basis – that is, when the right to the income arises (even if it has not yet been received).
- Depreciation 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. Expenditure incurred in earning imputed rent is not deductible. The impact of including imputed rent in the benchmark tax treatment was discussed in Chapter 2 of the 2018 Statement.
- Certain gains, such as gains received by way of compensation for damage or any wrong or injury suffered by a taxpayer, or gains or winnings from gambling (where

taxpayers are not considered to be carrying on a business of gambling), are not included in income.

- 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.
 - Non-commercial loss rules prevent individuals carrying on unprofitable business activities from claiming deductions for losses arising from such activities against their other income. The denial of losses from non-commercial activities is part of the benchmark.
- Depreciation deductions are made over the effective life of the asset, and balancing adjustments on disposal reconcile differences between the outstanding tax and economic values of the asset.
- Business capital expenditures not elsewhere recognised within the taxation laws are deductible over five years.
- 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.
- The benchmark incorporates arrangements to reduce or eliminate double taxation, for example, the imputation system, which eliminates the double taxation of company profits distributed to resident shareholders.
- The superannuation guarantee charge is not tax-deductible under the benchmark.

Under the income tax benchmark, Australian residents are taxed on their Australian source and foreign source income. The benchmark also incorporates international tax arrangements.

- 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 and trust rules ensure Australian residents cannot escape or defer taxation of certain income (often passive in nature) by interposing a foreign resident legal entity.
- Transfer pricing and thin capitalisation rules, targeted anti-avoidance rules, and interest, dividend and royalty withholding taxes aim to tax appropriately Australian sourced income and prevent profit-shifting, and are included in the benchmark.

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- 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.
- The benchmark for Australian residents includes their worldwide capital gains. For foreign residents, the benchmark includes the limitation of 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).
- Taxation treaties primarily operate to allocate taxing rights over income between the source country of income and the taxpayer's country of residence. However, some articles (by incorporation into Australia's domestic law) have the effect of imposing taxation or determining source. For distributions of Australian source income to foreign residents, the basic rates of Australian tax (typically imposed as withholding tax) prescribed in these treaties in respect of specified classes of income, such as interest, dividend and royalty income, are included in the benchmark as the applicable tax rates.
 - Under this approach, the benchmark rate of interest, dividend and royalty withholding rates will vary depending on whether the country in question has a tax treaty with Australia.
 - If a tax treaty exists, the benchmark rates of withholding tax for a class of income will be the 'basic rate', where the basic rate is the highest rate specified in the treaty for each withholding tax.
 - Exemptions or reductions relative to the basic rates prescribed in a particular tax treaty will give rise to tax expenditures.
 - If a tax treaty does not apply, any exemptions or reductions from the standard domestic statutory rates will give rise to tax expenditures.

Tax rates

The income tax benchmark includes:

- for resident individuals: the tax-free threshold, the progressive personal income tax rate scale, low income tax offset, low and middle income tax offset (from 2018–19 to 2021–22), and the Medicare levy
- for non-resident individuals: the foreign resident income tax scale, non-eligibility for the low income tax offset and low and middle income tax offset and non-liability for the Medicare levy
- for companies: the relevant company tax rate.

Tax unit

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

For companies, the benchmark tax unit is the company (including the head entity of a consolidated group or a multiple entry consolidated group).

Sole traders, partnerships and trusts are not separate tax units. Income earned by these entities is taxable in the hands of the recipient.

Tax period

Generally, the tax period under the income tax benchmark is the financial year (1 July to 30 June). However, the benchmark also includes arrangements for entities whose accounting period differs from the standard financial year (for example, companies with a substituted accounting period).

Superannuation

Superannuation may be taxed at three stages:

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

The income tax benchmark treatment of superannuation is that contributions are made from after-tax income, earnings are taxed at marginal rates and benefits from superannuation are untaxed. Any costs associated with superannuation investments are deductible under the benchmark.

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Fringe benefits

Under the income tax benchmark:

- fringe benefits are classified as individual employee income
- the tax base includes property rights, privileges or services. However, 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 that the employee pays from after-tax income
- the tax rate is the employee's marginal income tax rate
- 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
- the unit liable to pay fringe benefits tax is the employer, however, for consistency with the benchmark treatment, the relevant unit to the benchmark is the individual employee
- generally, employers may claim the cost of providing fringe benefits and the amount of fringe benefits tax paid as income tax deductions
- the tax period is the fringe benefits tax year (1 April to 31 March).

INDIRECT TAX BENCHMARKS

The main indirect taxes are:

- the goods and services tax
- taxes on commodities such as fuel, tobacco, alcoholic beverages and motor vehicles
- crude oil excise and the petroleum resource rent tax
- miscellaneous taxes including agricultural levies and the passenger movement charge.

Unlike the income tax benchmark, there is no starting point such as the Schanz-Haig-Simons definition of income for determining the benchmarks for indirect taxes. Each indirect tax therefore has its own benchmark that reflects the standard

features of the tax in question. Identifying the standard features of a tax unavoidably involves judgment.

Generally, for each tax, the tax unit under the benchmark is the entity that has the legal obligation to pay the tax.

Goods and services tax

Broadly, the tax base for the goods and services tax (GST) benchmark is the supply of all goods and services to households in Australia. The definition of 'goods and services' is broad and includes, for example, commercial property.

The supply of some goods and services, however, is either:

- exempt from GST - that is, where no GST is payable on the supply and the supplier is entitled to claim input tax credits (ITCs)
- input-taxed - that is, where no GST is payable on the supply but the supplier cannot claim ITCs (or can only claim reduced credits).

ITCs do not constitute tax expenditures as they are an integral part of the GST system, ensuring that tax doesn't distort production processes.

Features of the benchmark tax base include:

- exports are exempt from GST
- non-commercial activities of governments are exempt from GST
- the supply of private residential accommodation¹⁹ is input-taxed (meaning rent is not subject to GST)
- the sale of pre-existing residential premises is input-taxed
- the sale of new residential premises and the supply of alterations, additions and improvements to residential premises are subject to GST
- goods and services supplied to oneself are not subject to GST
- The tax rate for the GST benchmark is 10 per cent.

Fuel

The Australian Government imposes a volumetric tax on the consumption of fuel (that is, tax is charged as a fixed proportion of the quantity sold).

¹⁹ Including owner-occupied housing and long-term commercial residential accommodation.

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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)
- 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 established using an energy band system and in reference to the rate applying high energy content fuels. The bands used are:

- high energy content fuels, with an energy content of more than 30 megajoules per litre (such as petrol, diesel, biodiesel and aviation fuel)
- medium energy content fuels, with an energy content between 20 and 30 megajoules per litre (such as liquefied petroleum gas (LPG) and fuel ethanol), and an excise rate approximately two thirds of that applying to high energy content fuels
- low energy content fuels, with an energy content of less than 20 megajoules per litre (such as methanol), and an excise rate approximately 45 per cent of that applying to high energy content fuels
- liquefied natural gas (LNG) and compressed natural gas (CNG) fuels, which are taxed on a mass basis using a conversion rate of approximately 1.37 litres per kilogram.

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

Tobacco

The Australian Government imposes a volumetric tax on the consumption of tobacco (that is, tax is charged as a fixed proportion of the quantity sold).

The benchmark for the consumption of tobacco and tobacco products is the excise rate that applies to tobacco by weight of tobacco content.

Alcoholic beverages

The Australian Government imposes volumetric taxes on the consumption of beer and spirits (that is, tax is charged as a fixed proportion of the quantity sold) and an ad

valorem tax on the consumption of wine (that is, tax is charged as a fixed proportion of the value of the commodity sold).

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 such as beer
- the consumption of higher alcohol content beverages (beverages with greater than 10 per cent alcohol content) such as brandy and other spirits (including spirits mixed in ready to drink beverages)
- 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
- The benchmark rate for wine and alcoholic cider is the ad valorem wine equalisation tax rate.

Motor vehicles

Generally, motor vehicle purchases are only subject to goods and services tax. Consequently, the luxury car tax is a negative tax expenditure.

Customs duties

The customs duty benchmark treats goods imported into Australia as being subject to the same taxes as domestically produced goods, the main taxes being goods and services tax and excises on tobacco, alcohol and fuel. Customs duty (other than on excise-equivalent goods) therefore constitutes a negative tax expenditure.

Natural resources

The natural resources benchmark applies to the offshore extraction of petroleum products (crude oil, natural gas, LPG and condensate) subject to the petroleum resource rent tax (PRRT). The benchmark does not apply to the extraction of other natural resources.

The benchmark is a 40 per cent tax rate on the economic rents earned on the extraction of these resources. There is a full tax-loss offset which can be utilised by transferring tax

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losses among commonly owned projects that are subject to the same tax rate. The tax unit is the project interest.

The benchmark also includes immediate expensing of project expenditures. To the extent that losses are carried forward because they cannot be utilised immediately, they are uplifted at the long-term government bond rate (a proxy for the risk-free rate). The uplift rate compensates investors for the delay in the recognition of the tax credit and preserves the value of the tax credit over time. A refund of unutilised tax credits is available when the project closes down.

Crude oil excise is payable in respect of certain petroleum production, and is creditable against the project's PRRT liabilities. Where this occurs, the crude oil excise paid in a period is treated as a prepayment of the PRRT liability for that period. To the extent that the tax prepayment exceeds the PRRT liability in a year, a negative tax expenditure arises for the year, while credits for overpayments recouped in subsequent years would count as positive tax expenditure in those years.

Passenger movement charge

The passenger movement charge is a flat rate imposed on all persons upon their departure from Australia. Exemptions from the charge create a tax expenditure.

Visa application charges

Visa application charges are set such that all visa applicants with similar characteristics, applying for the same visa, pay the same charge. The benchmark tax treatment is equivalent to the current charges levied.

Primary industry levies

Primary industry levies provide collective industry funding for activities such as research and development, promotion and marketing, residue testing and plant and animal health programs. The levies are levied on the volume or value of the relevant type of produce. Exemptions from levies create tax expenditures (except exemptions for products which are unfit for human consumption or exemptions for products used by the producer for domestic purposes).

Major bank levy

The benchmark for the major bank levy has been taken to be equivalent to the levy as outlined in the *Major Bank Levy Act 2017*.

Other Miscellaneous Taxes

There are a range of minor miscellaneous indirect taxes, including but not limited to, radiocommunications taxes and taxes on regulated entities for the purpose of providing regulatory activities.

Generally, the benchmark for these taxes is taken to be the tax rate stated in applicable legislation. Any exemptions or concessions from these taxes would create a tax expenditure.

A.3 Data and methodology for distributional analysis

Analysis of tax expenditures relating to individuals is based on tax data for around 15 million personal tax filers in 2019–20, which is the most recent year where the ATO’s comprehensive *Taxation Statistics* (TaxStats) is available.

Distributional analysis of tax expenditures has been produced using Treasury’s microsimulation models, and reflects estimates of final tax liabilities, including tax paid by expected late lodgers. This may differ from estimates published in TaxStats.

Analysis by taxable income decile uses the deciles from personal income tax data, which only captures people who lodge a tax return (Table A3.1). Tables A3.2 and A3.3 show summary statistics for tax filers by age and gender.²⁰

Table A3.1 Income ranges for personal income tax filers, 2019–20

	Range of taxable income for individuals
Lowest	Under \$9,000
Second	\$9,000-\$20,200
Third	\$20,200-\$28,700
Fourth	\$28,700-\$38,300
Fifth	\$38,300-\$48,100
Sixth	\$48,100-\$58,600
Seventh	\$58,600-\$72,100
Eighth	\$72,100-\$90,000
Ninth	\$90,000-\$121,700
Highest	Over \$121,700

Table A3.2 Breakdown of personal income tax filers by age, 2019–20

	Number of tax filers	Average income	Share of tax paid (%)
18-24	1,833,000	\$33,600	3.3
25-29	1,742,000	\$51,800	7.2
30-34	1,790,000	\$62,600	10.4
35-39	1,718,000	\$72,200	12.8
40-44	1,498,000	\$80,500	13.3
45-49	1,510,000	\$83,600	14.2
50-54	1,367,000	\$82,200	12.6
55-59	1,318,000	\$76,700	10.9
60-64	1,084,000	\$64,400	7.2
65-69	721,000	\$51,200	3.5
70-74	458,000	\$44,400	1.9
75+	577,000	\$45,700	2.5

20 Breakdowns by gender are based on tax data collected by the Australian Taxation Office (ATO). Statistics are not presented for taxpayers with indeterminate gender, to protect taxpayer confidentiality. As the ATO has collected this information at different points in time and from several sources, it is not able to appropriately distinguish between the distinct concepts of sex and gender. It is recognised that some individuals would identify differently to how they are represented in the data.

Table A3.3 Breakdown of personal income tax filers by gender, 2019–20

	Number of tax filers	Average income	Share of tax paid (%)
Men	8,043,000	\$74,000	64.2
Women	7,741,000	\$52,600	35.8

Analysis of tax expenditures relating to businesses is based on tax data for around 1.4 million personal and 1 million company tax filers in 2019–20 (Table A3.4). Where used, industry distributions are based on Australian and New Zealand Standard Industry Classification (ANZSIC) divisions, with the following combined categories used for ease of presentation:

- Wholesale and Retail Trade are combined
- Non-Market Services includes Public Administration and Safety Services, Education and Training Services and Health Care and Social Assistance
- Other Services include Accommodation and Food Services, Administrative and Support Services, Arts and Recreation Services and Other Services.

The industry associated with the business income of some recipients is not reported – for example, because their business income is distributed from a trust.

Table A3.4 Breakdown of company tax filers by industry, 2019–20

Industry	No. of companies	With Tax Payable
Agriculture	22,400	7,200
Mining	7,100	1,800
Manufacturing	52,700	19,900
Electricity, Gas, Water and Waste Services	4,100	1,500
Construction	155,100	60,000
Wholesale and Retail Trade	111,300	44,300
Other Services	130,200	43,300
Transport, Postal and Warehousing	44,900	16,600
Information Media and Telecommunications	17,800	5,800
Financial and Insurance Services	152,500	78,400
Rental, Hiring and Real Estate Services	142,800	54,700
Professional, Scientific and Technical Services	173,900	69,200
Non-Market Services	68,100	28,100
Total	1,082,900	430,800

Distributional analyses of tax expenditures affecting the Goods and Services Tax (GST) paid are based on data from the Household Expenditure Survey, last conducted in 2015–16. While businesses are generally legally liable to collect GST, these costs are ultimately passed on to consumers. The ABS measures consumption at a household level reflecting the ability of members of a household to share expenses.

Based on their weekly equivalised disposable household income (EDHI), the households have been divided into deciles with each containing approximately 10 per cent of the Australian population. This measure of income represents income from private sources and government payments, less tax paid. Income has been equivalised to adjust for

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differences in household size and composition, using the OECD-modified equivalence scale. Table A3.5 shows the number of households in each decile of EDHI. The number of households in the second decile is higher than other deciles due to smaller household sizes.

Share of GST paid generally rises with household income because households with higher incomes consume more goods and services than households with lower incomes.

Table A3.5 Ranges of equivalised disposable household income, 2015–16

	Range of weekly equivalised household disposable income	Number of households	Share of GST paid
Lowest	Under \$435	961,000	6.3%
Second	\$435-\$525	1,198,000	6.7%
Third	\$525-\$635	865,000	7.0%
Fourth	\$635-\$740	837,000	7.8%
Fifth	\$740-\$860	838,000	8.6%
Sixth	\$860-\$985	787,000	9.4%
Seventh	\$985-\$1,160	882,000	10.6%
Eighth	\$1,160-\$1,370	831,000	11.7%
Ninth	\$1,370-\$1,700	857,000	13.1%
Highest	Over \$1,700	908,000	18.8%