

STATEMENT 5: REVENUE

This statement contains details of the estimates of Australian Government revenue.

The Australian Government is providing additional personal tax relief of \$36.7 billion over four years and is increasing the diminishing value rate of depreciation of eligible company assets acquired from 10 May 2006.

The revenue estimates have been revised up since the *Mid-Year Economic and Fiscal Outlook 2005-06* (MYEFO), reflecting stronger growth in expected revenue from companies and individuals in 2005-06, together with a stronger outlook for corporate profits in 2006.

Information about GST revenue is provided in Budget Paper No. 3, *Federal Financial Relations 2006-07*.

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OVERVIEW

Relative to the *Mid-Year Economic and Fiscal Outlook 2005-06* (MYEFO), total revenue for 2006-07 is expected to be higher, reflecting stronger growth in expected revenue from companies and individuals in 2005-06, together with a stronger outlook for corporate profits in 2006. Strong underlying growth in revenue has been partly offset by policy decisions in this budget. Personal income tax cuts of \$36.7 billion (including a reduction in the fringe benefits tax rate) over four years will commence on 1 July 2006. These tax cuts are in addition to those announced in the 2005-06 Budget. The Government will also be increasing the diminishing value rate of depreciation of eligible company assets acquired from 10 May 2006, at a cost of \$3.7 billion over the forward estimates.

Revenue forecasts¹ for 2005-06 and 2006-07, together with projections for the period from 2007-08, are provided in Table 1.

Table 1: Total Australian Government general government revenue

	Actual	Estimates		Projections		
	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
Total taxation revenue (\$b)	194.1	208.1	217.2	226.1	236.7	249.5
Real growth on						
previous year(%)	6.2	2.6	1.9	3.3	3.7	3.4
Per cent of GDP	21.7	21.8	21.5	21.5	21.6	21.6
Non-taxation revenue (\$b)	12.5	14.8	14.5	14.6	15.3	16.2
Real growth on						
previous year(%)	-0.8	13.5	-4.2	-0.2	4.1	3.3
Per cent of GDP	1.4	1.5	1.4	1.4	1.4	1.4
Total revenue (\$b)	206.6	222.9	231.7	240.7	252.1	265.6
Real growth on						
previous year(%)	5.8	3.2	1.5	3.1	3.8	3.4
Per cent of GDP	23.1	23.3	23.0	22.9	23.0	23.0

1 All revenue estimates in this statement are reported on an accrual basis unless otherwise specified. An overview of the tax system is provided in Appendix A. Detailed estimates on a cash basis are provided in Appendix D. Commentary on accrual and cash taxation revenue and on revenue recognition issues more generally is provided in Appendix F. A historical time series of receipts outcomes is provided in Appendix H of this statement.

The revenue estimates in this statement exclude GST revenue, which is collected by the Australian Government and provided in full to the States and Territories. A discussion of GST revenue is provided in Budget Paper No. 3, *Federal Financial Relations 2006-07*.

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Total revenue as a percentage of GDP is expected to decrease over the forward estimates, from 23.3 per cent of GDP in 2005-06 to 23.0 per cent in 2009-10. Taxation revenue is expected to decrease from 21.8 per cent of GDP to 21.6 per cent.

VARIATIONS IN THE REVENUE ESTIMATES SINCE THE 2005-06 BUDGET

Table 2 is a reconciliation of this budget's revenue estimates with those at the 2005-06 Budget and the 2005-06 MYEFO.

Table 2: Reconciliation of total Australian Government general government revenue estimates from the 2005-06 Budget and the 2005-06 MYEFO

	Estimates		Projections	
	2005-06 \$m	2006-07 \$m	2007-08 \$m	2008-09 \$m
Revenue at 2005-06 Budget	214,511	222,882	233,405	245,326
Changes between 2005-06 Budget and MYEFO				
Effect of policy decisions	-81	-129	-126	-141
Effect of parameter and other variations	4,192	4,681	5,023	4,550
Total variations	4,111	4,552	4,896	4,409
Revenue at 2005-06 MYEFO	218,622	227,434	238,301	249,735
Changes between MYEFO and 2006-07 Budget				
Effect of policy decisions	3	-6,952	-9,939	-10,727
Effect of parameter and other variations	4,239	11,181	12,309	13,071
Total variations	4,242	4,228	2,370	2,343
Revenue at 2006-07 Budget	222,864	231,662	240,671	252,078

Total revenue for 2005-06

Since MYEFO, estimated total revenue for 2005-06 has been revised up by \$4.2 billion, largely reflecting strong growth in company profits, strong capital gains for investors and robust growth in full-time employment.

Total revenue for 2006-07

Total revenue for 2006-07 has also been revised up by \$4.2 billion since MYEFO. The upward revision represents the flow-on effect of stronger growth in expected revenue from companies and individuals in 2005-06, together with a stronger outlook for corporate profits in 2006.

These upward revisions have been partly offset by the impact of the Government's decision to provide additional personal tax relief and to increase the diminishing value rate of depreciation of eligible company assets acquired from 10 May 2006.

Effect of policy decisions

Policy decisions since the 2005-06 MYEFO are expected to reduce taxation revenue by around \$7.0 billion in 2006-07 and around \$39.1 billion over the forward years.

The Government's decision to provide additional personal income tax relief will reduce revenue by \$6.4 billion in 2006-07, and \$35.9 billion over the forward estimates period.

From 1 July 2006, the 30 per cent threshold will increase to \$25,001; the 42 per cent marginal tax rate will be cut to 40 per cent and the threshold will increase to \$75,001; and the top marginal tax rate will be reduced from 47 per cent to 45 per cent and the threshold will increase to \$150,001.

The Government's personal tax cuts package includes changes to the low income tax offset (LITO). From the 2006-07 income year, the LITO will increase from \$235 to \$600 and will begin to phase out from \$25,000. From 1 July 2006, the Medicare levy low income phase-in rate will also be reduced from 20 per cent to 10 per cent, ensuring that more low income taxpayers pay a reduced rate of Medicare levy.

In addition, the fringe benefits tax rate will be reduced to 46.5 per cent, effective from 1 April 2006, with a cost of \$870 million over the forward estimates.

Reducing the top marginal rate and increasing the top threshold will improve Australia's competitiveness compared with other OECD countries. From 2006-07, the top marginal tax rate will apply to only around 2 per cent of taxpayers.

The budget also contains a number of other major policy decisions.

- Increasing the diminishing value rate for determining depreciation deductions under the diminishing value method from 150 per cent to 200 per cent for eligible assets acquired on or after 10 May 2006, with a cost to revenue of \$3.7 billion over the forward estimates period.
- Taxing the distributions to non-resident trustee beneficiaries, which is expected to increase taxation revenue by \$250 million in 2007-08 and \$800 million over the forward estimates.
- Funding the Australian Taxation Office with an additional \$82 million over four years to maintain tax compliance by high wealth individuals and their associated entities. This funding is expected to raise an additional \$65 million in revenue in 2006-07 and \$615 million over the forward estimates.
- Preventing some public sector superannuation schemes from improperly using pre-1 July 1988 funding credits. This is expected to increase taxation revenue by \$150 million in 2006-07 and \$600 million over the forward estimates.

A detailed description of the policy decisions is provided in Budget Paper No. 2, *Budget Measures 2006-07*. A summary of revenue policy decisions since the 2005-06 MYEFO is provided in Table 3.

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Table 3: Revenue policy decisions since the 2005-06 MYEFO

	2006-07	2007-08	2008-09	2009-10	Total
Major policies	\$m	\$m	\$m	\$m	\$m
Personal income tax cuts(a)	-6,385	-9,205	-9,830	-10,435	-35,855
Fringe benefits tax - reduction in rate	-260	-195	-205	-210	-870
Uniform capital allowance - diminishing value rate	-500	-900	-1,100	-1,200	-3,700
Taxation of trusts - distributions to non-resident trustees	-	250	270	280	800
Tax compliance - high wealth individuals and associated entities	65	145	190	215	615
Superannuation - ensuring appropriate use of pre-1 July 1988 funding credits	150	150	150	150	600
Other policy decisions	-22	-184	-202	-261	-669
Total revenue policy decisions	-6,952	-9,939	-10,727	-11,461	-39,079

(a) The personal income tax cuts and related reduction in the fringe benefit tax rate total \$36.7 billion over four years.

Effect of parameter and other variations

Parameter and other variations are expected to increase revenue in 2005-06 by \$4.2 billion, and revenue in 2006-07 by \$11.2 billion, relative to the MYEFO forecasts.

Parameter variations

Taxation revenue growth has been revised up to 4.4 per cent in 2006-07.

The strength in taxation revenue largely stems from further improvement in corporate profitability, bolstered by the flow-on effect of stronger outcomes in 2005-06.

Looking ahead, expected growth in nominal GDP remains supportive of continued strength in revenue, particularly from the corporate sector. In underlying terms, personal income is expected to continue to grow strongly on the back of continued strength in compensation of employees and the realisation of capital gains by investors.

Further detail on how the revised outlook for the economy has affected individual revenue heads over the forward estimates is provided later in this statement. An analysis of the sensitivity of the taxation revenue estimates to changes in the major economic parameters is provided in Statement 2.

Other variations

Taxation collections to the end of the March quarter 2006 imply that the end of year outcome for taxation receipts will be 9.0 per cent above 2004-05 levels. This compares with MYEFO expectations of 7.3 per cent.

The strength in taxation collections observed since MYEFO largely reflects the cumulative effect of earlier rises in the terms of trade on corporate profits and labour market outcomes.

ESTIMATES OF REVENUE

Total revenue

Total revenue for 2006-07 is expected to increase by \$8.8 billion, 3.9 per cent higher than estimated taxation revenue for 2005-06. Of this, taxation revenue is expected to increase by 4.4 per cent (\$9.1 billion) and non-taxation revenue is expected to decrease by 1.9 per cent (\$274 million).

The increase has resulted primarily from higher estimated revenue from companies (up \$6.4 billion) and individuals (up \$810 million). The revenue estimates for 2005-06 and 2006-07 are provided in Table 4. Descriptions of the revenue heads are provided in Appendix C.

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Table 4: Australian Government general government revenue

	Estimates		Change on 2005-06	
	2005-06 \$m	2006-07 \$m	\$m	%
<i>Income taxation</i>				
Individuals and other withholding				
Gross income tax withholding	103,830	104,010	180	0.2
Gross other individuals	26,410	28,480	2,070	7.8
less: Refunds	15,350	16,790	1,440	9.4
Total individuals and other withholding taxation	114,890	115,700	810	0.7
Fringe benefits tax(a)	3,660	3,720	60	1.6
Superannuation funds				
Contributions and earnings	5,390	5,890	500	9.3
Superannuation surcharge	1,030	680	-350	-34.0
Total superannuation funds	6,420	6,570	150	2.3
Company tax	50,480	56,860	6,380	12.6
Petroleum resources rent tax	1,970	2,490	520	26.4
Income taxation revenue	177,420	185,340	7,920	4.5
<i>Excise and customs</i>				
Excise duty				
Petrol	7,280	7,310	30	0.4
Diesel	6,240	6,420	180	2.9
Other fuel products	220	450	230	104.5
Crude oil	330	470	140	42.4
Beer	1,730	1,760	30	1.7
Potable spirits	810	890	80	9.9
Tobacco	5,290	5,320	30	0.6
Total excise duty	21,900	22,620	720	3.3
Customs duty				
Textiles, clothing and footwear	830	870	40	4.8
Passenger motor vehicles	1,258	1,300	42	3.3
Excise-like goods	1,810	2,160	350	19.3
Other imports	1,603	1,608	5	0.3
less: Refunds and drawbacks	330	300	-30	-9.1
Total customs duty	5,171	5,638	467	9.0
Excise and customs revenue	27,071	28,258	1,187	4.4
<i>Other taxation</i>				
Wine equalisation tax	660	660	0	0.0
Luxury car tax	320	320	0	0.0
Agricultural levies	607	619	11	1.9
Other taxes	2,007	1,960	-47	-2.3
Other taxation revenue	3,594	3,559	-35	-1.0
Taxation revenue	208,085	217,157	9,072	4.4
<i>Non-taxation</i>				
Sales of goods and services	4,898	4,846	-52	-1.1
Interest received	2,386	3,717	1,330	55.7
Dividends	4,321	2,701	-1,621	-37.5
Other	3,173	3,241	68	2.2
Non-tax revenue	14,779	14,505	-274	-1.9
Total revenue	222,864	231,662	8,798	3.9

(a) See fringe benefits tax description in Appendix C.

Box 5.1: Revised revenue recognition methodology

Accrual accounting was introduced by the Australian Government in the 1999-2000 Budget. The AAS and GFS standards for accrual accounting (refer to Appendix A in Statement 2 for an explanation of these reporting standards) require that taxation revenue be recognised in the reporting period in which the taxpayer earns the income that is subsequently subject to taxation – this is known as the Economic Transactions Method (ETM). But the standards also permit government reporting using an alternative approach when the ETM approach would generate unreliable measures of taxation revenues.

Because ETM is an unreliable measure for several significant revenue heads – and these account for the majority of total revenue – all taxation revenue has been recognised in all accrual budget-related documentation since the 1999-2000 Budget using the Tax Liability Method (TLM). Under TLM, taxation revenue is accounted for at the time a taxpayer makes a self-assessment or when an assessment of a taxation liability is raised by the relevant authority.

Commencing with this budget, the Government has adopted ETM revenue recognition for all revenue heads where the measurement issues are not material, but will retain TLM revenue recognition where ETM measurement issues may be material. Consequently, the taxation revenues that will continue to be recognised on a TLM basis are:

- individuals and other withholding taxation;
- company income taxation; and
- superannuation taxation.

Further details about taxation revenue recognition are provided in Appendix F.

Revenue estimates by revenue head

Income taxation revenue

Individuals and other withholding taxation

Estimated revenue from individuals for 2005-06, 2006-07 and the projection years is provided in Table 5. Estimated revenue from individuals in 2006-07 is expected to increase by \$810 million (0.7 per cent), reflecting solid labour market outcomes and moderate growth in personal investment income, partially offset by personal income tax cuts.

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Table 5: Individuals and other withholding taxation revenue

	Actual	Estimates		Projections		
	2004-05 \$m	2005-06 \$m	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m
Individuals and other withholding						
Gross income tax withholding	98,250	103,830	104,010	109,540	116,620	124,870
Gross other individuals	24,003	26,410	28,480	29,670	32,000	34,770
less: Refunds	13,734	15,350	16,790	18,690	19,970	21,260
Total	108,519	114,890	115,700	120,520	128,650	138,380
<i>Includes Medicare levy(a)</i>						
<i>revenue of:</i>	6,105	6,560	6,950	7,410	7,840	8,330

(a) Medicare levy for 2004-05 is an estimate.

Gross income tax withholding

Gross income tax withholding (ITW) revenue is expected to increase by \$180 million (0.2 per cent) in 2006-07, reflecting the continuing strength in compensation of employees partially offset by the Government's decision to provide additional personal income tax relief.

Gross other individuals

Gross revenue from other individuals is expected to increase by \$2.1 billion (7.8 per cent) in 2006-07.

This increase reflects expected personal investment income from capital gains from continued strength in the share market, partially offset by the effect of additional tax cuts.

Income tax refunds for individuals

Refunds for individuals are expected to increase by \$1.4 billion (9.4 per cent) in 2006-07.

Refunds are generally related to movements in revenue from ITW and gross other individuals in the previous year.

Medicare levy

Revenue from the Medicare levy is expected to increase by \$390 million in 2006-07. Movements in revenue from the Medicare levy are generally consistent with growth in personal taxable income.

Fringe benefits tax

Estimated revenue from fringe benefits tax for 2005-06, 2006-07 and the projection years is provided in Table 6.

Table 6: Fringe benefits tax revenue

	Actual	Estimates		Projections		
	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
	\$m	\$m	\$m	\$m	\$m	\$m
Fringe benefits tax(a)	3,476	3,660	3,720	3,810	3,920	4,050

(a) See fringe benefits tax description in Appendix C.

Revenue from fringe benefits tax is expected to increase by \$60 million (1.6 per cent) in 2006-07. The revised estimate for 2006-07 reflects the reduction in the tax rate to 46.5 per cent.

Superannuation funds

Estimated revenue from superannuation funds for 2005-06, 2006-07 and the projection years is provided in Table 7.

Table 7: Superannuation funds revenue

	Actual	Estimates		Projections		
	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
	\$m	\$m	\$m	\$m	\$m	\$m
Superannuation funds						
Contributions and earnings	5,083	5,390	5,890	6,400	6,950	7,560
Superannuation surcharge	1,326	1,030	680	110	40	30
Total	6,410	6,420	6,570	6,510	6,990	7,590

Superannuation funds taxation

Taxation revenue from superannuation contributions and earnings income is expected to increase by \$500 million (9.3 per cent) in 2006-07, reflecting strong earnings growth.

Superannuation surcharge

Revenue from the superannuation surcharge is expected to decrease by \$350 million (34.0 per cent) in 2006-07, reflecting the effect of its abolition. While the abolition of the surcharge extinguishes future liabilities from accruing, allowance has been made over the forward estimates period in relation to the identification of liabilities which accrued prior to 1 July 2005.

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Company and other related income taxation

Estimated revenue from companies for 2005-06, 2006-07 and the projection years is provided in Table 8.

Table 8: Company and other related income taxation revenue

	Actual	Estimates		Projections		
	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
	\$m	\$m	\$m	\$m	\$m	\$m
Company tax	43,106	50,480	56,860	59,400	59,950	61,800
Petroleum resource rent tax	1,465	1,970	2,490	3,250	3,740	4,000
Total	44,570	52,450	59,350	62,650	63,690	65,800

Company income taxation

Company tax revenue is anticipated to increase by \$6.4 billion (12.6 per cent) in 2006-07, largely driven by strength in the finance, insurance and mining industries.

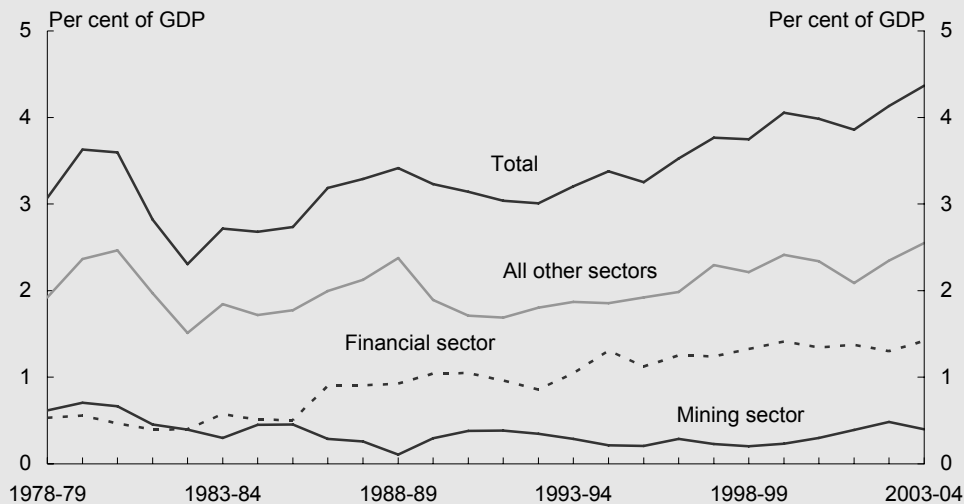
With business conditions remaining favourable, profit growth is expected to remain strong through 2006-07. In particular, Australian mining companies have benefited from a surge in external demand for bulk commodities – particularly from China. However, as detailed in Statement 3, supply chain disruptions and adverse weather conditions affected the ability of Australian mining companies to fulfil their contracted export volumes in 2005-06. In 2006-07, it is anticipated that these temporary factors will abate and additional capacity will come on stream – boosting both company profits and company tax revenue in the budget year.

The company tax revenue estimates over the projection years of 2007-08, 2008-09 and 2009-10 reflect a technical assumption that coal and iron ore prices will return to long-term average levels over the first two years of the projection period (see Box 6 in Statement 3).

Box 5.2: Some observations on trends in company tax collections

The strength of company tax collections has been highlighted in previous budgets, and it continues to be a major contributor to the strength in forecast revenue in 2006-07. This strength has been underpinned by Australia's long economic expansion and the consequent strong growth in corporate profitability.

Company profits have been growing faster than GDP. Company taxation revenue has also been increasing as a proportion of GDP – Chart 1. At an industry level, profits in the financial sector and, more recently, the mining sector, have grown faster than the rest of the corporate sector. Reflecting this, these industries made significant contributions to the growth in company taxation revenue as a proportion of GDP.

Chart 1: Company tax revenue

Source: Treasury estimates using ATO *Taxation Statistics* and ABS cat. no. 5206.

In previous budgets, attention was drawn to a number of other factors which have also contributed to the growth in revenue. These include the privatisation of major Government Business Enterprises, growth in capital gains derived by companies, the dividend imputation system and more effective compliance activities of the Australian Taxation Office.

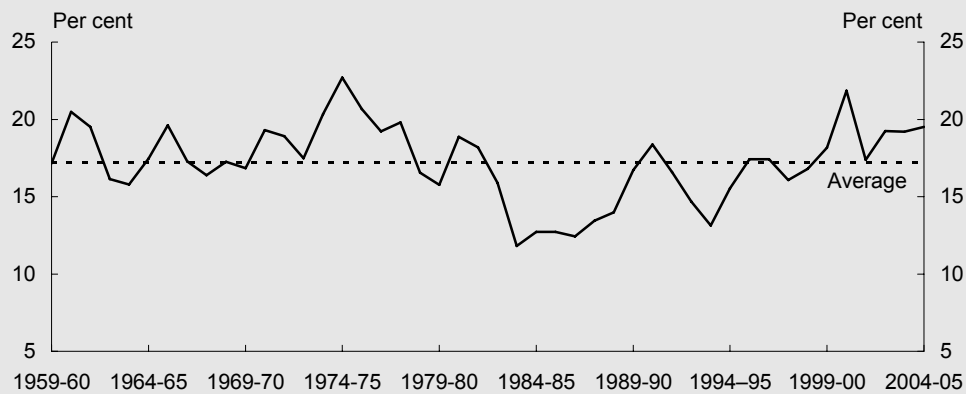
This box contains some further observations on the impact of developments in the corporate income base on trends in company taxation revenue. These developments include the interaction of the high inflation environment of the 1980s with company tax payment arrangements and the high corporate debt-servicing ratios that prevailed in the 1980s and early 1990s.

Box 5.2: Some observations on trends in company tax collections (continued)

The effective corporate tax rate

The strength of company taxation receipts has seen the effective corporate tax rate (measured as the ratio of company income tax paid to gross operating surplus) rise in recent years. It is currently not far above its long-run average – Chart 2.

Chart 2: The effective corporate tax rate



Source: ABS cat. no. 5206.

One factor contributing to the rise in the observed effective corporate tax rate has been reforms to company tax payment arrangements.

Until the late 1980s, a company's taxation liability was due for payment entirely in the year following the year of income, providing companies with a taxation deferral advantage relative to other taxpayers. Consequently, in an environment of profit growth, the effective tax rate measured one year's tax liability over the next year's higher income. The deferral advantage had the effect of artificially lowering the effective tax rate in the 1980s.

Payment system reforms since the late 1980s have brought forward the timing of the payments, so that they are now broadly contemporaneous with the year of income, and the effective tax rate is higher as a consequence.

Company debt-servicing ratio

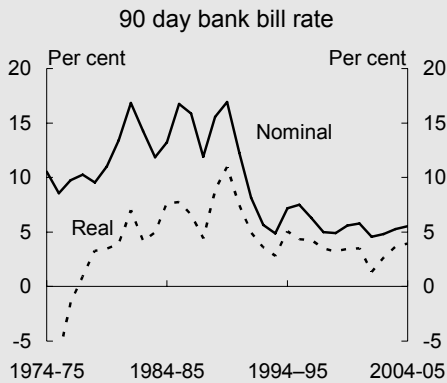
Trends in the debt-servicing ratios of corporations can also help to explain movements in the effective company tax rate, and in particular its unusually low level through the 1980s and into the 1990s.

Nominal and real interest rates rose sharply in late 1970s and remained high, by current standards, until the return to a low inflation environment in the early 1990s – Chart 3. At the same time, corporate debt levels were also rising, with this

Box 5.2: Some observations on trends in company tax collections (continued)

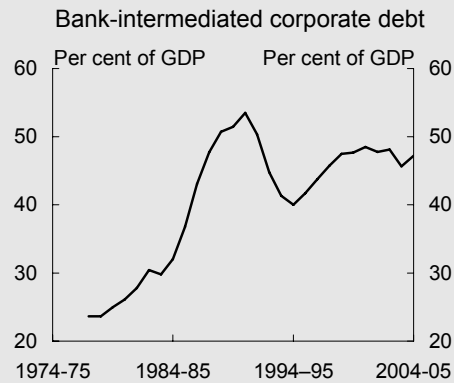
trend accelerating sharply over the second half of the 1980s, following financial deregulation, before a subsequent period of debt reduction in the early 1990s – Chart 4. These developments saw the debt-servicing ratio of corporations jump sharply in the 1980s and remain high until the early part of the 1990s – Chart 5.

Chart 3: Nominal and real interest rates



Source: RBA Bulletin and Treasury estimates.

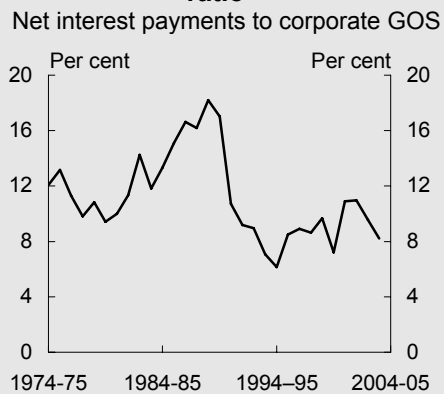
Chart 4: Corporate debt indicator



Source: RBA Bulletin and ABS cat. no. 5206.

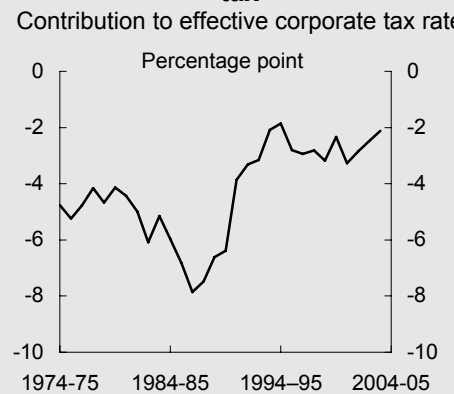
The high levels of the corporate debt-servicing ratio in the 1980s and early 1990s had the effect of depressing the effective corporate tax rate over this period, since the interest costs of debt finance are generally deductible in calculating taxable income. As the gearing of corporations returned to more sustainable levels, and interest rates fell in line with the resumption of low inflation, the corporate debt-servicing ratio fell in the 1990s, unwinding the earlier depressing effect on the effective corporate tax rate – Chart 6.

Chart 5: Corporate debt-servicing ratio^(a)



(a) Non-financial corporations.
Source: Treasury estimates using ATO *Taxation Statistics* and ABS cat. no. 5206.

Chart 6: Impact of debt^(a) on company tax



(a) Non-financial corporations.
Source: Treasury estimates using ATO *Taxation Statistics* and ABS cat. no. 5206.

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Petroleum resource rent tax

Estimated revenue from the petroleum resource rent tax is expected to increase by \$520 million (26.4 per cent) in 2006-07, reflecting the impact of higher expected profitability of offshore petroleum projects from higher oil prices in Australian dollars.

Excise and customs revenue

Estimates for 2005-06, 2006-07 and the projection years are provided in Table 9 for excise and customs revenue.

Table 9: Excise and customs revenue

	Actual	Estimates		Projections		
	2004-05 \$m	2005-06 \$m	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m
Excise duty						
Petroleum and other fuel products						
Petrol	7,371	7,280	7,310	7,400	7,490	7,590
Diesel	6,164	6,240	6,420	6,650	6,860	7,080
Other fuel products	147	220	450	470	520	510
Total	13,682	13,740	14,180	14,520	14,870	15,180
Crude oil	668	330	470	310	200	120
Beer	1,653	1,730	1,760	1,790	1,820	1,850
Potable spirits	741	810	890	970	1,070	1,180
Tobacco	5,237	5,290	5,320	5,340	5,360	5,380
Total excise duty	21,981	21,900	22,620	22,930	23,320	23,710
Customs duty						
Textiles, clothing and footwear	966	830	870	930	990	760
Passenger motor vehicles	1,397	1,258	1,300	1,370	1,440	1,190
Excise-like goods	1,697	1,810	2,160	2,290	2,410	2,550
Other imports	1,793	1,603	1,608	1,718	1,839	1,958
/ess: Refunds and drawbacks	306	330	300	300	300	300
Total customs duty	5,548	5,171	5,638	6,008	6,379	6,158
Total	27,529	27,071	28,258	28,938	29,699	29,868

Excise duty

In 2006-07, revenue from excise duty on petroleum is expected to increase by \$30 million (or 0.4 per cent), which is a decline in real terms. Excise from other fuel products is expected to increase by \$230 million (104.5 per cent) in 2006-07. This arises principally from recent fuel tax changes which apply the full rate of excise which is netted off by a credit scheme. This head records the revenue. The credit scheme is recorded in expenses. While revenue increases, so do expenses.

Revenue from crude oil excise duty is expected to increase by \$140 million (42.4 per cent) in 2006-07, reflecting the effect of higher estimated oil prices on desired production levels.

Other excise revenue is expected to increase by \$140 million (1.8 per cent) in 2006-07, reflecting higher estimated revenue from beer and the ready to drink category of alcoholic beverages.

Customs duty

Customs duty revenue is expected to increase by \$467 million (9.0 per cent) in 2006-07, reflecting solid growth in expected imports.

Other taxation revenue

Revenue estimates for 2005-06, 2006-07 and the projection years are provided in Table 10 for the wine equalisation tax, the luxury car tax, agricultural levies and other taxes.

Table 10: Other taxation revenue

	Actual	Estimates		Projections		
	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
Wine equalisation tax	693	660	660	670	690	710
Luxury car tax	302	320	320	340	360	380
Agricultural levies	584	607	619	614	605	424
Other taxes	2,068	2,007	1,960	2,024	2,137	2,249
Total	3,647	3,594	3,559	3,648	3,792	3,763

Total other taxation revenue is estimated to decrease by \$35 million (1.0 per cent) in 2006-07.

Revenue from the wine equalisation tax and the luxury car tax is expected to remain unchanged from 2005-06 levels, reflecting underlying demand in both those markets.

Revenue from agriculture levies in 2006-07 is also expected to be largely unchanged from the 2005-06 levels.

Other taxes are expected to decrease by \$47 million (2.3 per cent) in 2006-07, largely reflecting the phasing out of the aircraft noise levy for Sydney Airport and the stevedoring levy.

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Non-taxation revenue

Revenue estimates for 2005-06, 2006-07 and the forward years are provided in Table 11 for the various categories of non-taxation revenue. Item descriptions are in Appendix C.

Table 11: Non-taxation revenue

	Actual	Estimates		Projections		
	2004-05 \$m	2005-06 \$m	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m
Sales of goods and services	4,388	4,898	4,846	4,975	5,114	5,255
Dividends	3,176	4,321	2,701	2,866	3,058	3,228
Interest received	1,621	2,386	3,717	3,457	4,005	4,647
Other non-taxation revenue(a)	3,271	3,173	3,241	3,297	3,160	3,021
Total	12,455	14,779	14,505	14,595	15,338	16,151

(a) Includes all other non-taxation revenue collected by the Australian Government agencies.

Non-taxation revenue is expected to decrease by \$274 million (1.9 per cent) in 2006-07, largely reflecting decreased dividend income as a result of the sale of Telstra. This is partially offset by interest and dividends earned by the Future Fund. The fund received its seed funding of \$18 billion in May 2006 and the estimates assume that the proceeds from the Telstra sale will be transferred to the Future Fund.

APPENDIX A: AUSTRALIA'S TAX SYSTEM

AUSTRALIA'S TAX SYSTEM COMPARED WITH THE OECD

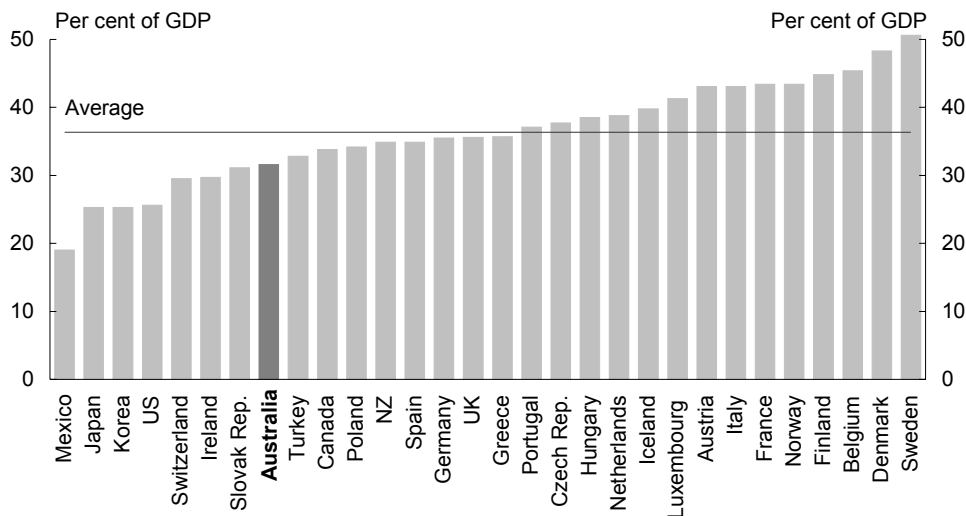
The analysis in this section includes the tax systems of all levels of government combined – national, state and local. Comparisons are provided with the tax systems of other OECD economies.

Tax burden

Australia has a low tax burden, both currently and historically. In 2003, Australia had the eighth lowest tax burden of the OECD countries (Chart A1) and has typically ranked in the bottom third of countries for the period since 1965.

- Australia's tax burden as a proportion of GDP is 31.6 per cent, which is below the OECD average of 36.3 per cent.

Chart A1: Total tax burden for OECD countries, 2003^(a)



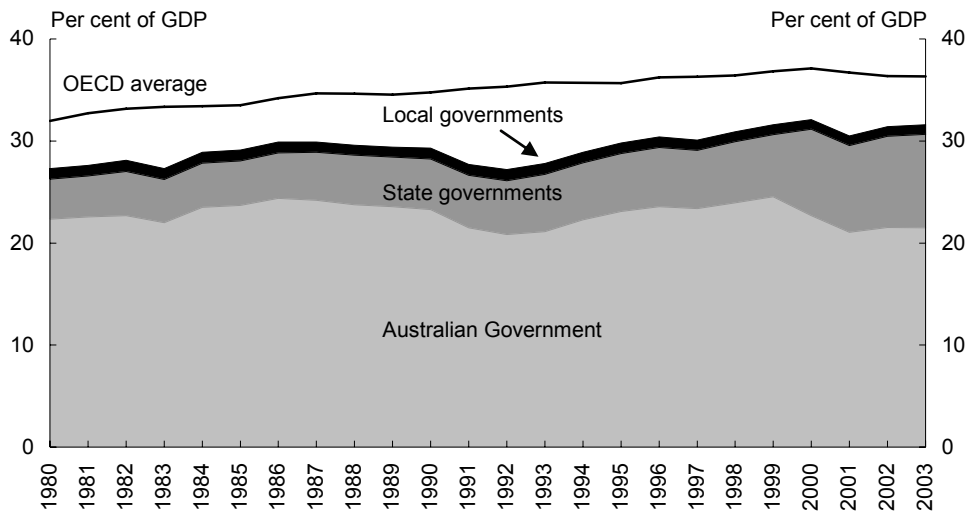
(a) The OECD's measure of the tax burden is the total taxation revenue of national, state and local governments expressed as a percentage of gross domestic product. For Australia, the data are for the 2003-04 financial year, the latest year where comparable international data are available.

Source: OECD *Revenue Statistics*, 2005.

While the total tax burden for Australia has been relatively steady over recent years, the tax burden of the Australian Government has fallen while the tax burden of the states has increased (Chart A2).

Chart A2: The Australian tax burden by government sector

Total taxation revenue as a proportion of GDP, 1980-2003



Source: OECD Revenue Statistics, 2005.

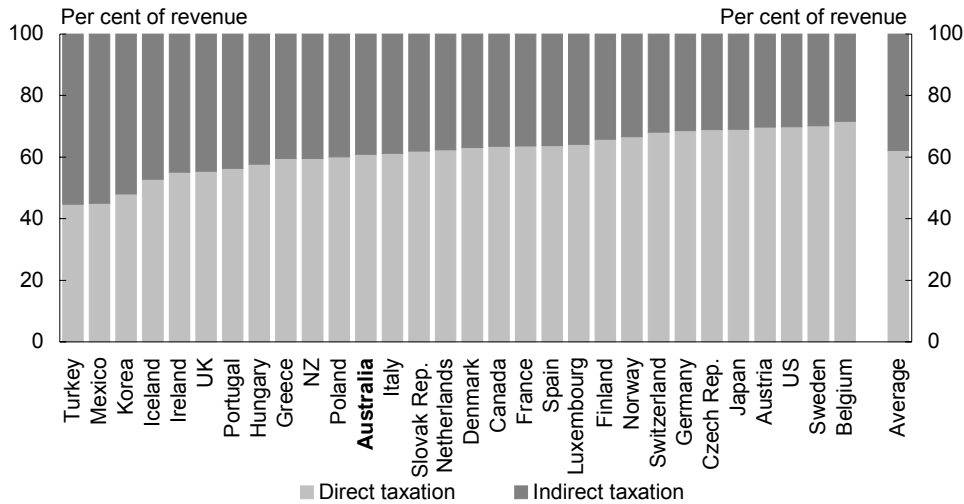
The tax burden of Australia's state governments increased from 6.1 per cent of GDP in 1999 to 8.5 per cent of GDP with the introduction of the goods and services tax in July 2000. The goods and services tax replaced a range of state government taxes and grants from the Australian Government. Since 2000, the tax burden of the state governments has increased by a further 8 per cent (or 0.7 percentage points), taking the state government tax burden to 9.2 per cent of GDP in 2003.

Tax mix

The Australian tax mix is broadly similar to most OECD countries (Chart A3), although there are a few distinguishing features.

- Like most other advanced countries, Australia raises the majority of its taxation revenue (60.9 per cent in 2003) from direct taxation levied on incomes – wages, salaries, payrolls and profits. This is below the OECD average of 62.2 per cent. Japan (69.0 per cent) and the United States (69.8 per cent) have a higher reliance on direct taxation than Australia.
- The remaining 39.1 per cent of Australia's taxation revenue is derived from indirect taxation – including the goods and services tax (value added tax), excise and customs duty, and property taxes. The OECD average is 37.8 per cent.

Chart A3: Direct and indirect taxation revenue as a proportion of total taxation revenue for OECD countries, 2003

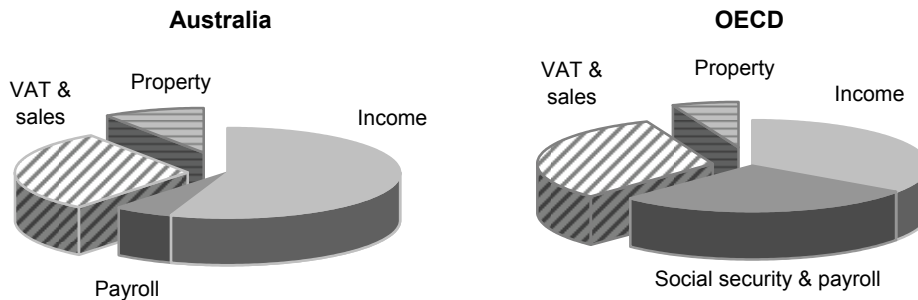


Source: OECD Revenue Statistics, 2005.

When income taxes, payroll taxes and social security taxes are taken together, the share of Australia’s direct taxes in total taxation is broadly comparable with the OECD average (Chart A4). However, for a significant number of countries, social security taxes are now the largest source of direct taxation revenue.

Chart A4: Australia’s tax mix compared with the OECD average

Direct and indirect taxation revenue as a proportion of total taxation revenue, 2003



Source: OECD Revenue Statistics, 2005.

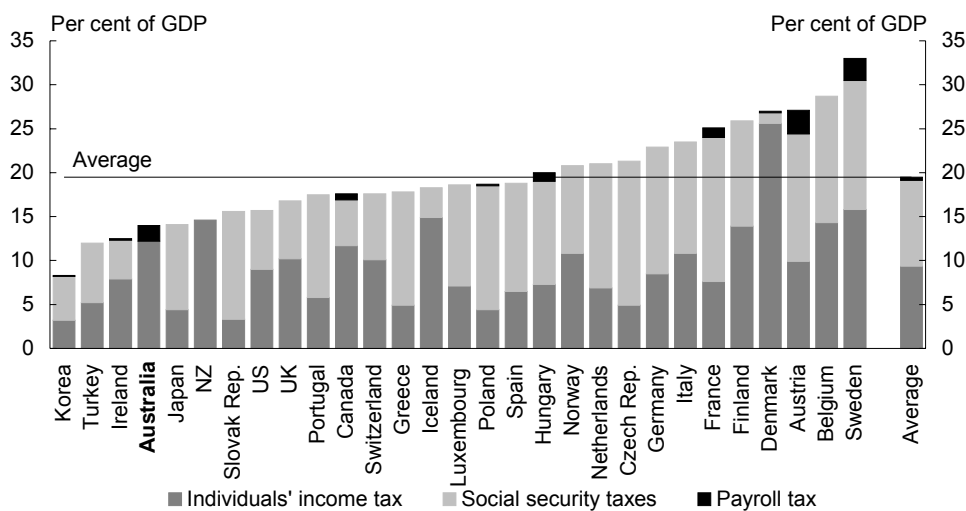
- Social security taxes are payments to institutions of general government that are earmarked to provide social security benefits. They usually consist of two components – one withheld from employees’ wages and the other paid by employers. Both components are treated by the OECD as a tax on the income of individuals because they form part of an employee’s remuneration.
- Examples of social security benefits funded through social security taxes include: unemployment insurance benefits and supplements; accident, injury and sickness

Statement 5: Revenue

benefits; old age, disability and survivors' pensions; family allowances; reimbursements for medical and hospital expenses; and provision of hospital or medical services. Australia funds these types of government programmes through general taxation revenue rather than a specific social security tax.

Australia has the fourth lowest level of direct taxation on individuals and payrolls in the OECD (Chart A5). Australia's tax burden (14.0 per cent of GDP) is significantly lower than the OECD average (19.5 per cent).

Chart A5: Components of direct taxation in respect of individuals and payrolls, 2003



Source: OECD Revenue Statistics, 2005.

AUSTRALIAN GOVERNMENT TAXES

The analysis in the previous section included the tax systems of all levels of government combined. This section includes just the taxes of the Australian Government – that is, it excludes taxes imposed by state and local governments.

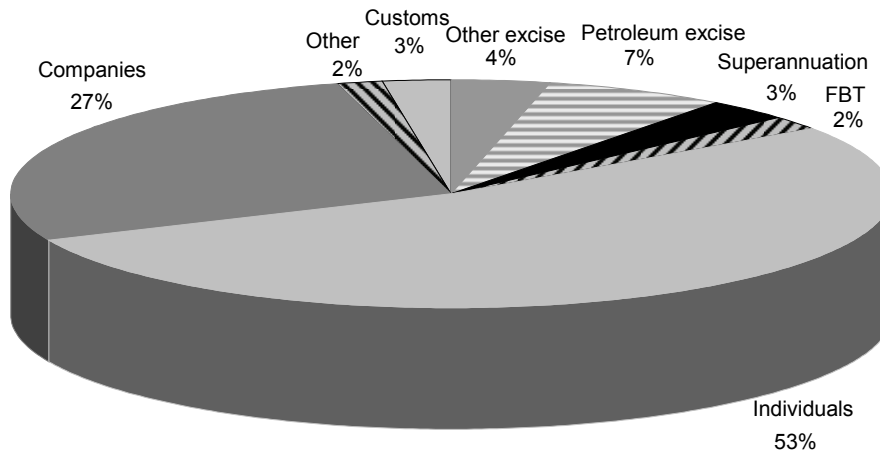
Tax mix

The Australian Government's main source of revenue is through the raising of taxes on income. These represent around 85 per cent of total taxation revenue (Chart A6).

- Of this, 53 per cent of total taxation revenue is sourced from personal income taxes. A further 3 per cent comes from taxes levied on superannuation and 2 per cent from taxes on fringe benefits payments.
- Company income taxes account for 27 per cent of total taxation revenue.

Most of the remaining taxation revenue is accounted for by excise and customs duties, which contribute 13 per cent of total taxation revenue.

Chart A6: Australian Government tax mix, 2006-07



Personal income tax distribution

The personal income tax system is progressive in nature. The intent of a progressive tax system is for the tax burden to be borne by those individuals who are best placed to bear it, while those individuals who have limited means bear relatively little or no tax.

- For the 2003-04 income year (the latest year for which tax return data is available from the ATO), 50 per cent of personal income tax was collected from the 14 per cent of taxpayers who were in the top marginal tax bracket, and 63 per cent of the tax burden was collected from the 24 per cent of taxpayers who earned more than \$52,000 in taxable income.
- In comparison, the 23 per cent of taxpayers who earned less than \$21,600 in taxable income paid only 3 per cent of the tax burden.
- The 53 per cent of middle income tax payers (in the \$21,600 to \$52,000 income range) paid only 34 per cent of the tax burden.

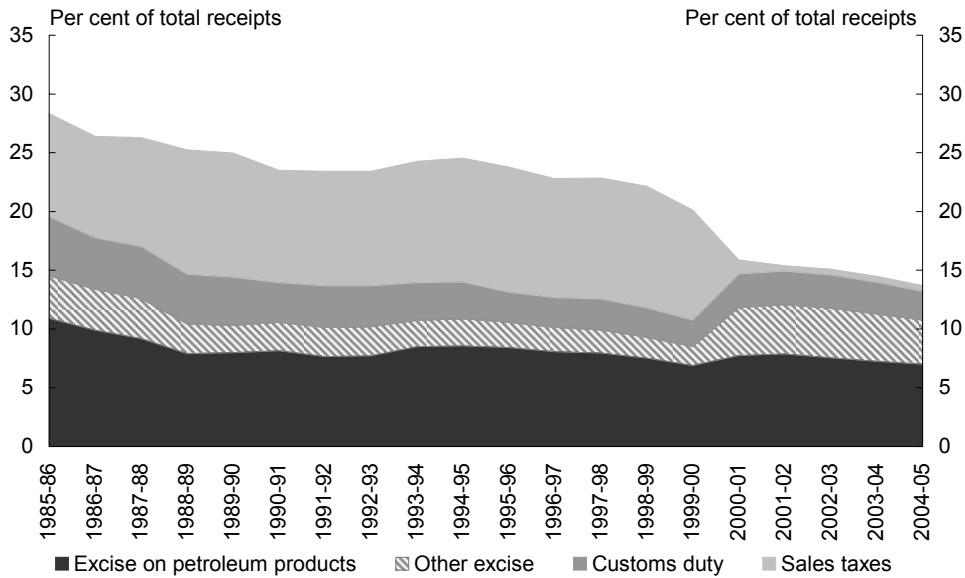
Company income tax distribution

Most company income tax is paid by a relatively small group of large companies. For the 2003-04 income year (the latest year for which tax return data is available from the ATO), around three-quarters of company income tax was collected from the 3 per cent of incorporated taxpayers which earned more than \$10 million in total income.

Indirect taxes

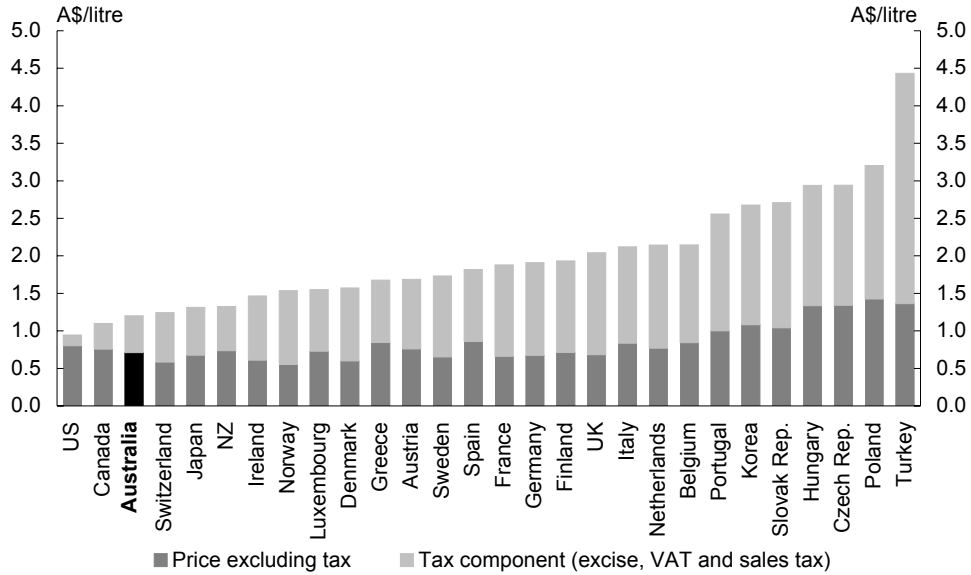
The share of indirect taxes in total revenue is in long term decline because some of the indirect tax bases do not grow as quickly as the income tax bases and also because of policy decisions taken by governments to reform the indirect tax bases (Chart A7). With the abolition of wholesale sales tax, the removal of indexation from petroleum excise and trade liberalisation, indirect taxation revenue is expected to continue to decline in relative importance for the Australian Government.

Chart A7: Australian Government indirect taxes



The rate of excise duty on unleaded petrol in Australia is 38.1 cents per litre. It has been at this level since the indexation of petrol rates to the consumer price index (CPI) ceased in March 2001. The impact of nominal tax rates on unleaded petrol, combined with the impact of general consumption taxes (VAT, GST and sales taxes), is shown in Chart A8 for OECD countries. Under this combined measure, which illustrates the total tax impost on consumers, the average level of tax included in petrol prices for the OECD countries shown was A\$1.15 per litre in the last quarter of 2005. In comparison, the level of tax included in unleaded petrol prices in Australia for this quarter was less than half this amount at A\$0.49 per litre – the third lowest of the OECD countries for which comparable data are available.

Chart A8: Unleaded petrol prices^(a)
 OECD countries, fourth quarter 2005



(a) Converted to Australian dollars using OECD Purchasing Power Parities. Data is for the fourth quarter of 2005 or the latest available. Data for Iceland and Mexico was not available.
 Source: Australian Treasury estimates based on International Energy Agency data.

APPENDIX B: NET TAX THRESHOLDS

The impact of taxes on Australian households should be assessed alongside the level of assistance going to families from the government, either as offsets to tax or through direct payments.

Since 1996, the Government has substantially increased the level of Family Allowance and Family Tax Benefit provided to families (from around 1.3 per cent of GDP to 1.8 per cent of GDP in 2005-06). In particular, the Government has increased the real disposable income of families through the introduction of measures such as the Family Tax Benefit and the Baby Bonus, which will increase from \$3,000 to \$4,000 from 1 July 2006.

One way of illustrating the combined effect of cash transfers and tax for families is by showing the change in the real net tax threshold. The net tax threshold is the point at which taxes paid begin to exceed cash transfers received. Table B1 shows that the net tax threshold will have increased by more than 38 per cent in real terms between 1996-97 and 2006-07 for a range of families.

Table B1: Increases in real net tax thresholds for families^(a), 1996-97 to 2006-07

Family type(b)	Real net tax threshold		Per cent change
	1996-97	2006-07	
Sole parent	\$34,594	\$48,065	38.9
Single income couple with children	\$34,021	\$48,065	41.3
Dual income couple with children (75:25 split)	\$34,650	\$51,829	49.6
Dual income couple with children (60:40 split)	\$34,749	\$50,910	46.5
Dual income couple with children (67:33 split)	\$34,703	\$51,808	48.1

(a) The net tax threshold is the level of private income at which income tax paid first exceeds cash benefits received. Dollar amounts are calculated in 2005-06 prices.

(b) Families are assumed to have two children — one aged 3 years and the other aged 8 years. The numbers in brackets represent the wages of each working adult in the family, expressed as a proportion of average weekly ordinary time earnings for full-time employees (AWOTE).

APPENDIX C: DESCRIPTION OF THE REVENUE HEADS

Income taxation

Individuals and other withholding taxation

These revenue heads broadly cover all personal income tax. A schedule of the personal income tax rates for the period covered in this budget is provided in Table C1.

Gross income tax withholding

Gross income tax withholding includes all taxes withheld from payments made under the Pay-As-You-Go (PAYG) withholding system and amounts withheld because no Tax File Number or Australian Business Number was quoted. It also includes applicable Medicare levy revenue.

The bulk of ITW revenue arises from taxes withheld from wage and salary income, but also includes all other withholding taxes levied on natural resource payments, dividends, interest and royalties paid to non-residents, and payments to Australian indigenous groups for the use of land for mineral exploration and mining. These taxes are often withheld from companies, rather than individuals, but are not separately identified from other PAYG revenues.

Gross other individuals

Gross revenue from other individuals consists of income tax paid by individuals other than that collected through the PAYG withholding system, and includes applicable Medicare levy revenue. It comprises:

- PAYG instalments paid directly by individuals – that is, not withheld by employers; and
- debit assessments on income tax returns.

Taxpayers in this category derive their income from many sources, including:

- profits from small unincorporated businesses, primary production and investment activities;
- wages and salaries (when PAYG withholding credits are insufficient to meet the tax liability on assessment); and
- capital gains.

Most revenue from other individuals is collected directly from the taxpayer through the PAYG instalment system. Individuals with annual tax liabilities of \$8,000 or more and individuals who are registered for the GST will generally make quarterly payments. Individuals who have annual taxation liabilities of less than \$8,000 and are

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not registered for the GST have the choice of making quarterly payments or an annual payment.

Income tax refunds for individuals

A final assessment of the income tax liabilities of individual taxpayers is normally made on the basis of returns lodged after the end of each financial year. Refunds from the ATO are made where tax credits to an individual exceed their final liability on assessment. Conversely, when tax credits are insufficient to meet the final tax liability, taxpayers are required to make an additional payment for the difference.

Medicare levy

Medicare is the scheme that gives Australian residents access to public health care. To help fund the scheme, resident taxpayers pay a Medicare levy. The amount of levy paid is based on an individual's taxable income and is normally calculated at 1.5 per cent of taxable income, but this rate may vary depending on circumstances. An individual may be exempt from the levy or it may be reduced if the taxpayer has a low income. Individuals and families on higher incomes who do not have an appropriate level of private hospital cover may also have to pay the Medicare levy surcharge, which is calculated at an additional 1 per cent of taxable income.

Low income tax offset

The low income tax offset provides targeted tax relief to low income earners. The LITO is claimable on assessment and reduces a taxpayer's tax liability.

Table C1: Personal income tax rates^(a)

	From 1 July 2003		From 1 July 2004		From 1 July 2005		From 1 July 2006	
	Taxable income	Per cent	Taxable income	Per cent	Taxable income	Per cent	Taxable income	Per cent
Residents	\$0-\$6,000	Nil	\$0-\$6,000	Nil	\$0-\$6,000	Nil	\$0-\$6,000	Nil
	\$6,001-\$21,600	17	\$6,001-\$21,600	17	\$6,001-\$21,600	15	\$6,001-\$25,000	15
	\$21,601-\$52,000	30	\$21,601-\$58,000	30	\$21,601-\$63,000	30	\$25,001-\$75,000	30
	\$52,001-\$62,500	42	\$58,001-\$70,000	42	\$63,001-\$95,000	42	\$75,001-\$150,000	40
	> \$62,500	47	> \$70,000	47	> \$95,000	47	> \$150,000	45
Non-residents	\$0-\$21,600	29	\$0-\$21,600	29	\$0-\$21,600	29	\$0-\$25,000	29
	\$21,601-\$52,000	30	\$21,601-\$58,000	30	\$21,601-\$63,000	30	\$25,001-\$75,000	30
	\$52,001-\$62,500	42	\$58,001-\$70,000	42	\$63,001-\$95,000	42	\$75,001-\$150,000	40
	> \$62,500	47	> \$70,000	47	> \$95,000	47	> \$150,000	45
Medicare levy for singles(b)	\$0-\$15,529	Nil	\$0-\$15,902	Nil	\$0-\$16,284	Nil	\$0-\$16,284	Nil
	\$15,530-\$16,788	20% of >	\$15,903-\$17,191	20% of >	\$16,285-\$17,604	20% of >	\$16,285-\$19,157	10% of >
	> \$16,788	\$15,529	> \$17,191	\$15,902	> \$17,604	\$16,284	> \$19,157	\$16,284
	1.5		1.5		1.5		1.5	
Low Income Tax Offset	\$0-\$21,600	Amount	\$0-\$21,600	Amount	\$0-\$21,600	Amount	\$0-\$25,000	Amount
	\$21,601-\$27,475	\$235	\$21,601-\$27,475	\$235	\$21,601-\$27,475	\$235	\$25,001-\$40,000	\$600
	> \$27,475	less 4% of >	> \$27,475	less 4% of >	> \$27,475	less 4% of >	> \$40,000	less 4% of >
	\$21,600		\$21,600		\$21,600		\$25,000	
	Nil		Nil		Nil		Nil	

(a) These standard income tax rates can be offset by a range of concessional arrangements, including the senior Australians tax offset, the spouse tax offset, the low income tax offset and the mature age worker tax offset.

(b) These standard Medicare levy rates apply to singles. Different concessional and penalty rates apply in certain circumstances.

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Fringe benefits tax

Fringe benefits tax is paid on non-salary benefits provided by employers to employees which are provided in place of, or in addition to, the salary and wages of employees.

The tax is payable by employers and is assessed on the value of the fringe benefits provided to employees or their associates. From 1 April 2006, fringe benefits tax will be levied at 46.5 per cent of the grossed-up taxable value of benefits, as calculated under the fringe benefits tax rules.

Following a reclassification in Government Finance Statistics reporting standards, fringe benefits tax now includes revenue collected from employees of Australian Government agencies.

Taxation on superannuation funds

These taxes cover all income taxes generally paid by superannuation funds on behalf of their members on their contributions and earnings. A schedule of the superannuation funds tax rates for the period covered in this budget is provided in Table C2.

Table C2: Superannuation funds tax rates

	From 1/7/2004	From 1/7/2005	From 1/7/2006
	Per cent	Per cent	Per cent
Superannuation funds			
Complying funds	15	15	15
Non-complying funds	47	47	45(a)
Superannuation surcharge			
Surcharge rate	12.5	0	0
Lower surcharge threshold	\$99,710	-	-
Upper surcharge threshold	\$121,075	-	-

(a) See measure description for personal tax cuts (consequential changes) in Budget Paper No. 2, *Budget Measures 2006-07*.

Superannuation funds taxation

Like companies, superannuation funds are taxed through the PAYG instalment system, but generally at a concessional rate of 15 per cent in relation to taxable contributions received, capital gains and investment income. Only two-thirds of a capital gain is included in assessable income if the asset is held for at least 12 months.

Superannuation surcharge

The surcharge is levied on the surchargeable contributions of a superannuation fund member whose adjusted taxable income exceeds the superannuation surcharge lower income threshold in a financial year.

Surchargeable contributions include employer contributions, certain rolled-over 'golden handshakes' and tax deductible personal contributions made to

superannuation funds. A termination payment surcharge applies to certain 'golden handshakes' retained as cash.

The surcharge was abolished with effect from 1 July 2005. It does not apply for the 2005-06 and later financial years. However, assessments of surcharge and amended assessments continue to be issued in respect of the 2004-05 and earlier financial years. Interest will still accrue on any surcharge debt an individual has incurred.

Company and other related income taxation

These revenue heads broadly cover all income taxes paid by corporate type entities. A schedule of the company income tax rates for the period covered in this budget is provided in Table C3.

Table C3: Company and other related income tax rates

	From 1/7/2004	From 1/7/2005	From 1/7/2006
	Per cent	Per cent	Per cent
Company tax	30	30	30
Petroleum resource rent tax	40	40	40

Company income taxation

Company income taxation includes all income taxes paid by companies, including incorporated and unincorporated associations, limited partnerships and some public unit trusts.

Generally, every resident company that derives assessable income (including capital gains), whether sourced within or outside of Australia, and every non-resident company that derives assessable income from Australian sources, is required to pay company tax.

Company income taxation has been collected through the PAYG instalment system since the financial year beginning 1 July 2000. This system replaced the provisional tax and company tax instalment systems. Under the PAYG instalment system, most company taxpayers now pay their liability through four quarterly instalment payments and a balancing payment five months after the final instalment, although some small companies are able to make an annual payment.

Petroleum resource rent tax

Petroleum resource rent tax is levied at a rate of 40 per cent on economic profits in respect of offshore petroleum projects other than some of the North-West Shelf production and associated exploration areas, which are subject to excise (included in excise on petroleum and other fuel products) and royalties. The amount paid is deductible from a company's total profit when determining its company tax liability.

Excise and customs duty

Excise duty

The major categories of excisable products are petroleum and other fuel products, crude oil, oils and lubricants, tobacco and alcoholic beverages. Equivalent duties on identical imported products are imposed through, and reported under, customs duty.

Petroleum and other fuel excise includes excise on petrol, diesel fuel, biodiesel, aviation gasoline, aviation kerosene, fuel ethanol, fuel oil, heating oil and kerosene. It is imposed at specific rates per litre of product.

- Petrol includes unleaded petrol and lead replacement petrol (which replaced leaded petrol but is taxed at the unleaded petrol rate).
- All revenue from excise duty on aviation gasoline and aviation kerosene contributes to the funding of aviation activities undertaken by the Civil Aviation Safety Authority. The rates of excise applying to aviation fuels are adjusted, as necessary, depending on the funding requirements of those activities.

Crude oil excise provides a return to the community for the exploitation of its natural resources. The crude oil excise regime applies to:

- production from offshore fields in the North-West Shelf production licence areas that are not subject to petroleum resource rent tax; and
- production from onshore fields and fields in coastal waters.

The rate of excise varies according to the quantity of crude oil sold, the sale price of the crude oil, and the dates of discovery and development of the oil field.

Other excise is derived from beer, spirits, other alcoholic beverages (other than wine) and tobacco products.

- For beer, spirits and other alcoholic beverages, excise is imposed on the alcohol content. The excise rate on beer in containers greater than 48 litres (draught beer) is lower than for other beer.
- Excise is imposed on a *per stick* basis for cigarettes that do not exceed 0.8 grams (actual tobacco content) and on a *per kilogram* basis for other tobacco products.

Wine is not subject to excise, but is subject to the wine equalisation tax.

Excise indexation

The excise rates for petroleum products and oils and lubricants are no longer indexed. Excise indexation for petroleum products was removed in March 2001.

The rates of duty for other excisable products are adjusted every August and February in line with half yearly CPI movements (Table C4). If the change in the CPI is negative, the excise rate is not reduced. Instead the decline is carried forward to be set off against the next positive CPI movement.

Table C4: Excise rates

Commodity	Rates	Rates	Rates	Rates
	applying from 2 Aug 2004	applying from 1 Feb 2005	applying from 1 Aug 2005	applying from 1 Feb 2006
	\$	\$	\$	\$
Petroleum and other fuel products (per litre)				
Unleaded petrol	0.38143	0.38143	0.38143	0.38143
Ultra low sulphur diesel	0.38143	0.38143	0.38143	0.38143
Other diesel	0.40143	0.40143	0.40143	0.40143
Aviation gasoline(a)	0.03114	0.03114	0.03114	0.02854
Aviation kerosene(a)	0.03151	0.03151	0.03151	0.02854
Fuel oil(b)	0.07557	0.07557	0.07557	0.07557
Heating oil and kerosene (for burner use)(b)	0.07557	0.07557	0.07557	0.07557
Fuel ethanol	0.38143	0.38143	0.38143	0.38143
Biodiesel	0.38143	0.38143	0.38143	0.38143
Greases (per kilogram)	0.05449	0.05449	0.05449	0.05449
Oils and lubricants, excluding greases (per litre)	0.05449	0.05449	0.05449	0.05449
Beer (per litre of alcohol over 1.15 per cent)				
Draught beer, low strength	6.09	6.16	6.24	6.33
Draught beer, mid strength	19.12	19.35	19.60	19.89
Draught beer, high strength	25.02	25.32	25.65	26.03
Other beer, low strength	30.49	30.86	31.26	31.73
Other beer, mid strength	35.53	35.96	36.43	36.98
Other beer, high strength	35.53	35.96	36.43	36.98
Other beverages, not exceeding 10 per cent alcohol content	35.53	35.96	36.43	36.98
Potable spirits (per litre of alcohol)				
Brandy	56.21	56.88	57.62	58.48
Fruit brandy, whisky, rum and liqueurs	60.20	60.92	61.71	62.64
Other spirits, exceeding 10 per cent alcohol content	60.20	60.92	61.71	62.64
Cigarettes, cigars and tobacco (tobacco content of 0.8 grams or less per stick)	0.22353	0.22621	0.22915	0.23259
Tobacco products (per kilogram)	279.41	282.76	286.44	290.74

(a) Aviation fuel rates were reduced to \$0.02854 per litre with effect from 1 November 2005.

(b) Excise rates for these fuels will increase to \$0.38143 on 1 July 2006.

Customs duty

Customs duty is imposed as a percentage of the value of the imported good and/or on a volumetric basis (where duty is applied per unit of quantity) for excise equivalent products. In general, other dutiable goods attract a general tariff rate of 5 per cent.

Tariffs on passenger motor vehicles and textile, clothing and footwear account for around one-third of the total duty collected. Approximately 40 per cent of customs

Statement 5: Revenue

duty revenue is derived from duty imposed on imports of petroleum products, tobacco, beer and spirits, which is akin to excise duty on these items.

Table C5: Tariff rates

	Applying before 1 January 2005	Applying from 1 January 2005	Applying from 11 May 2005
	Per cent	Per cent	Per cent
General tariff	5	5	5
Passenger motor vehicles	15	10	10
Textiles clothing and footwear			
Clothing and finished textiles	25	17.5	17.5
Cotton sheeting, fabric, carpet and footwear	15	10	10
Sleeping bags, table linen and footwear parts	10	7.5	7.5
Tariff concession order			
Consumer goods	0	0	0
Other (business inputs)	3	3	0

Other taxation

Wine equalisation tax

All wines, meads, perries, ciders and sakes are subject to a wine equalisation tax (WET) of 29 per cent on the wholesale value of the goods. The tax was introduced as part of *The New Tax System* to offset the removal of the previous wholesale sales tax on wine and the application of the goods and services tax. The WET was set at a rate to ensure that the price of cask wine need only increase by the estimated general price rise.

Unlike alcohol excises, the wine equalisation tax is an *ad valorem* tax. It is calculated at a rate of 29 per cent of the final wholesale price or, in certain other permitted circumstances, of a nominal wholesale value calculated as 50 per cent of the retail price, or alternatively at the average wholesale price for identical wine.

From 1 October 2004, a rebate has been payable on the first \$290,000 in wine equalisation tax paid annually by any producer or producer group. This rebate will increase to \$500,000 from 1 July 2006.

Luxury car tax

The luxury car tax was introduced as part of *The New Tax System* to maintain a tax differentiation between luxury vehicles and other vehicles sold in Australia.

The luxury car tax applies at a rate of 25 per cent for every dollar over the luxury car threshold. The current luxury car threshold is \$57,009. The threshold is indexed annually using the motor vehicle purchase component of the CPI, which is composed of observed price movements for new vehicles sold in Australia.

Agricultural levies

Agricultural levies and charges are used to fund industry activities, such as research and development, marketing and promotion, residue testing, and animal health programmes.

The need for a levy is usually identified by the industry itself and the levy is generally collected at the first point of sale of the primary produce or point of further processing.

All levies and charges are paid into the Consolidated Revenue Fund without deduction and then disbursed to fund the relevant programme.

Other taxes

The major contributors to this category are the passenger movement charge and import processing and depot charges administered by the Australian Customs Service.

Other contributors include broadcasting licence fees, which are payable by all commercial radio and television licensees and are calculated as a percentage of licensees' gross earning for the previous year. Other taxes also include the Superannuation Guarantee Charge and the Universal Service Obligation levy.

Non-taxation revenue

Sales of goods and services

This category consists of revenue from the direct provision of goods and services by the Australian Government general government sector, including reimbursement of GST administration costs received from the states.

Dividends

The main sources of dividends are the Australian Government's business enterprises, the Reserve Bank of Australia (RBA) and the Future Fund. Dividend payments from the RBA can be volatile, as they are sensitive to movements in interest rates and the exchange rate.

Interest

Interest from other governments

This category mainly consists of revenue from the States for interest on General Purpose and Specific Purpose borrowings.

The Australian Government receives interest payments from the States in respect of General Purpose borrowings made on behalf of the States under the State Governments' Loan Council Programme (and from the Northern Territory in respect of advances made under similar General Purpose capital assistance arrangements). Payments relating to these advances are made, in turn, by the Australian Government to bond holders.

Statement 5: Revenue

Interest from the States on General Purpose borrowings is declining as a result of the June 1990 Loan Council decision that the States and Territories make additional payments to the Australian Government each year to facilitate the redemption of all maturing Australian Government securities issued on their behalf. The reduction in interest revenue from the States is matched by a reduction in public debt interest expenses.

The Australian Government also receives interest on Specific Purpose borrowings to the States, including on advances made under the Commonwealth-State Housing Agreements, States (Works and Housing) Assistance Acts, Northern Territory Housing Advances, and by the Australian Capital Territory on debts assumed upon self-government.

Interest from other sources

This item includes interest income on Australian Government cash balances and on other financial assets including assets held by the Future Fund. It excludes swap transactions entered into as part of the Australian Government's debt management strategy, as they are reported separately in the Statement of Other Economic Flows under Government Finance Statistics standards. The Australian Office of Financial Management is responsible for the management and reporting of the Australian Government's net debt portfolio.

Other sources of non-taxation revenue

Other non-taxation revenue includes petroleum royalties paid by producers operating in the Timor Sea and the North-West Shelf oil and gas fields, Child Support Trust Revenue (collected by the Child Support Agency) and seigniorage from circulation coin production.

APPENDIX D: FORWARD ESTIMATES**Table D1: Australian Government general government revenue (accrual basis)**

	Actual	Estimates		Projections		
	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
	\$m	\$m	\$m	\$m	\$m	\$m
<i>Income taxation</i>						
Individuals and other withholding taxes						
Gross income tax withholding	98,250	103,830	104,010	109,540	116,620	124,870
Gross other individuals	24,003	26,410	28,480	29,670	32,000	34,770
less: Refunds	13,734	15,350	16,790	18,690	19,970	21,260
Total individuals and other withholding taxation	108,519	114,890	115,700	120,520	128,650	138,380
Fringe benefits tax(a)	3,476	3,660	3,720	3,810	3,920	4,050
Superannuation funds						
Contributions and earnings	5,083	5,390	5,890	6,400	6,950	7,560
Superannuation surcharge	1,326	1,030	680	110	40	30
Total superannuation taxation	6,410	6,420	6,570	6,510	6,990	7,590
Company tax	43,106	50,480	56,860	59,400	59,950	61,800
Petroleum resource rent tax	1,465	1,970	2,490	3,250	3,740	4,000
Income taxation revenue	162,975	177,420	185,340	193,490	203,250	215,820
<i>Excise and customs</i>						
<i>Excise duty</i>						
Petrol	7,371	7,280	7,310	7,400	7,490	7,590
Diesel	6,164	6,240	6,420	6,650	6,860	7,080
Other fuel products	147	220	450	470	520	510
Crude oil	668	330	470	310	200	120
Beer	1,653	1,730	1,760	1,790	1,820	1,850
Potable spirits	741	810	890	970	1,070	1,180
Tobacco	5,237	5,290	5,320	5,340	5,360	5,380
Total excise duty revenue	21,981	21,900	22,620	22,930	23,320	23,710
<i>Customs duty</i>						
Textiles, clothing and footwear	966	830	870	930	990	760
Passenger motor vehicles	1,397	1,258	1,300	1,370	1,440	1,190
Excise-like goods	1,697	1,810	2,160	2,290	2,410	2,550
Other imports	1,793	1,603	1,608	1,718	1,839	1,958
less: Refunds and drawbacks	306	330	300	300	300	300
Total customs duty revenue	5,548	5,171	5,638	6,008	6,379	6,158
Excise and customs revenue	27,529	27,071	28,258	28,938	29,699	29,868
<i>Other taxation</i>						
Wine equalisation tax	693	660	660	670	690	710
Luxury car tax	302	320	320	340	360	380
Agricultural levies	584	607	619	614	605	424
Other taxes	2,068	2,007	1,960	2,024	2,137	2,249
Other taxation revenue	3,647	3,594	3,559	3,648	3,792	3,763
Taxation revenue	194,150	208,085	217,157	226,076	236,741	249,452
<i>Non-taxation</i>						
Sales of goods and services	4,388	4,898	4,846	4,975	5,114	5,255
Dividends	3,176	4,321	2,701	2,866	3,058	3,228
Interest received	1,621	2,386	3,717	3,457	4,005	4,647
Other non-taxation revenue	3,271	3,173	3,241	3,297	3,160	3,021
Non-taxation revenue	12,455	14,779	14,505	14,595	15,338	16,151
Total revenue	206,605	222,864	231,662	240,671	252,078	265,603

(a) See fringe benefits tax description in Appendix C.

Statement 5: Revenue

Table D2: Australian Government general government receipts (cash basis)

	Actual	Estimates		Projections		
	2004-05 \$m	2005-06 \$m	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m
<i>Income taxation</i>						
Individuals and other withholding taxes						
Gross income tax withholding	97,304	103,230	103,420	108,900	115,940	124,150
Gross other individuals	22,554	24,930	26,810	27,940	30,180	32,840
less: Refunds	13,734	15,350	16,790	18,690	19,970	21,260
Total individuals and other withholding taxation	106,123	112,810	113,440	118,150	126,150	135,730
Fringe benefits tax(a)	3,703	3,830	3,690	3,780	3,890	4,020
Superannuation funds						
Contributions and earnings	5,014	5,350	5,840	6,350	6,890	7,500
Superannuation surcharge	1,233	920	650	100	40	40
Total superannuation taxation	6,248	6,270	6,490	6,450	6,930	7,540
Company tax	40,404	49,800	56,130	58,620	59,170	61,010
Petroleum resource rent tax	1,459	1,970	2,490	3,250	3,740	4,000
Income taxation receipts	157,937	174,680	182,240	190,250	199,880	212,300
<i>Excise and customs</i>						
Excise duty						
Petrol	7,330	7,280	7,310	7,400	7,490	7,590
Diesel	6,131	6,240	6,420	6,650	6,860	7,080
Other fuel products	147	220	450	470	520	510
Crude oil	668	330	470	310	200	120
Beer	1,653	1,730	1,760	1,790	1,820	1,850
Potable spirits	739	810	890	970	1,070	1,180
Tobacco	5,220	5,290	5,320	5,340	5,360	5,380
Total excise duty receipts	21,888	21,900	22,620	22,930	23,320	23,710
Customs duty						
Textiles, clothing and footwear	966	830	870	930	990	760
Passenger motor vehicles	866	650	700	770	840	630
Excise-like goods	1,697	1,810	2,160	2,290	2,410	2,550
Other imports	1,789	1,590	1,600	1,710	1,830	1,950
less: Refunds and drawbacks	306	330	300	300	300	300
Total customs duty receipts	5,012	4,550	5,030	5,400	5,770	5,590
Excise and customs receipts	26,900	26,450	27,650	28,330	29,090	29,300
<i>Other taxation</i>						
Wine equalisation tax	682	660	660	670	690	710
Luxury car tax	298	320	320	340	360	380
Agricultural levies	584	607	619	614	605	424
Other taxes	1,775	1,752	1,700	1,770	1,851	1,943
Other taxation receipts	3,339	3,339	3,298	3,394	3,507	3,456
Taxation receipts	188,176	204,469	213,188	221,974	232,477	245,056
<i>Non-taxation</i>						
Sales of goods and services	4,373	5,189	5,008	5,137	5,297	5,427
Dividends	3,838	4,341	3,000	2,866	3,058	3,228
Interest received	1,400	2,275	3,498	3,316	3,787	4,379
Other non-taxation receipts	6,174	6,125	6,124	6,224	6,044	5,904
Non-taxation receipts	15,784	17,930	17,631	17,543	18,186	18,937
Total receipts	203,960	222,400	230,819	239,517	250,663	263,994

(a) See fringe benefits tax description in Appendix C.

APPENDIX E: CHANGES SINCE MYEFO

Table E1: Reconciliation of 2005-06 general government revenue (accrual basis)

	Estimates		Change on MYEFO	
	MYEFO \$m	Budget \$m	\$m	%
<i>Income taxation</i>				
Individuals and other withholding				
Gross income tax withholding	102,030	103,830	1,800	1.8
Gross other individuals	25,110	26,410	1,300	5.2
less: Refunds	15,000	15,350	350	2.3
Total individuals and other withholding taxation	112,140	114,890	2,750	2.5
Fringe benefits tax(a)	3,470	3,660	190	5.5
Superannuation funds				
Contributions and earnings	5,280	5,390	110	2.1
Superannuation surcharge	1,410	1,030	-380	-27.0
Total superannuation funds	6,690	6,420	-270	-4.0
Company tax	48,740	50,480	1,740	3.6
Petroleum resources rent tax	2,130	1,970	-160	-7.5
Income taxation revenue	173,170	177,420	4,250	2.5
<i>Excise and customs</i>				
Excise duty				
Petrol	7,210	7,280	70	1.0
Diesel	6,260	6,240	-20	-0.3
Other fuel products	170	220	50	29.4
Crude oil	480	330	-150	-31.3
Beer	1,690	1,730	40	2.4
Potable spirits	790	810	20	2.5
Tobacco	5,300	5,290	-10	-0.2
Total excise duty	21,900	21,900	0	0.0
Customs duty				
Textiles, clothing and footwear	790	830	40	5.1
Passenger motor vehicles	1,350	1,258	-92	-6.8
Excise-like goods	1,700	1,810	110	6.5
Other imports	1,522	1,603	81	5.3
less: Refunds and drawbacks	300	330	30	10.0
Total customs duty	5,062	5,171	109	2.2
Excise and customs revenue	26,962	27,071	109	0.4
<i>Other taxation</i>				
Wine equalisation tax	660	660	0	0.0
Luxury car tax	310	320	10	3.2
Agricultural levies	599	607	8	1.4
Other taxes	2,077	2,007	-70	-3.4
Other taxation revenue	3,646	3,594	-52	-1.4
Taxation revenue	203,777	208,085	4,308	2.1
<i>Non-taxation</i>				
Sales of goods and services	4,900	4,898	-2	0.0
Dividends	4,318	4,321	4	0.1
Interest received	2,319	2,386	67	2.9
Other non-taxation revenue	3,307	3,173	-134	-4.1
Non-taxation revenue	14,845	14,779	-66	-0.4
Total revenue	218,622	222,864	4,242	1.9

(a) See fringe benefits tax description in Appendix C.

Statement 5: Revenue

Table E2: Reconciliation of 2006-07 general government revenue (accrual basis)

	Estimates		Change on MYEFO	
	MYEFO \$m	Budget \$m	\$m	%
<i>Income taxation</i>				
Individuals and other withholding				
Gross income tax withholding	107,720	104,010	-3,710	-3.4
Gross other individuals	25,850	28,480	2,630	10.2
less: Refunds	15,960	16,790	830	5.2
Total individuals and other withholding taxation	117,610	115,700	-1,910	-1.6
Fringe benefits tax(a)	3,540	3,720	180	5.1
Superannuation funds				
Contributions and earnings	5,620	5,890	270	4.8
Superannuation surcharge	410	680	270	65.9
Total superannuation funds	6,030	6,570	540	9.0
Company tax	52,210	56,860	4,650	8.9
Petroleum resources rent tax	2,270	2,490	220	9.7
Income taxation revenue	181,660	185,340	3,680	2.0
<i>Excise and customs</i>				
Excise duty				
Petrol	7,280	7,310	30	0.4
Diesel	6,500	6,420	-80	-1.2
Other fuel products	150	450	300	200.0
Crude oil	440	470	30	6.8
Beer	1,710	1,760	50	2.9
Potable spirits	850	890	40	4.7
Tobacco	5,390	5,320	-70	-1.3
Total excise duty	22,320	22,620	300	1.3
Customs duty				
Textiles, clothing and footwear	840	870	30	3.6
Passenger motor vehicles	1,252	1,300	48	3.8
Excise-like goods	1,710	2,160	450	26.3
Other imports	1,658	1,608	-50	-3.0
less: Refunds and drawbacks	300	300	0	0.0
Total customs duty	5,160	5,638	478	9.3
Excise and customs revenue	27,480	28,258	778	2.8
<i>Indirect taxation</i>				
Wine equalisation tax	730	660	-70	-9.6
Luxury car tax	340	320	-20	-5.9
Agricultural levies	608	619	11	1.8
Other taxes	2,088	1,960	-128	-6.1
Other taxation revenue	3,766	3,559	-207	-5.5
Taxation revenue	212,906	217,157	4,251	2.0
<i>Non-taxation</i>				
Sales of goods and services	4,855	4,846	-9	-0.2
Dividends	2,464	2,701	237	9.6
Interest received	3,858	3,717	-141	-3.7
Other non-taxation revenue	3,350	3,241	-109	-3.2
Non-taxation revenue	14,527	14,505	-22	-0.1
Total revenue	227,434	231,662	4,228	1.9

(a) See fringe benefits tax description in Appendix C.

Table E3: Reconciliation of 2005-06 general government receipts (cash basis)

	MYEFO	Budget	Change on MYEFO	
	\$m	\$m	\$m	%
<i>Income taxation</i>				
Individuals and other withholding taxes				
Gross income tax withholding	101,430	103,230	1,800	1.8
Gross other individuals	24,060	24,930	870	3.6
less: Refunds	15,000	15,350	350	2.3
Total individuals and other withholding taxation	110,490	112,810	2,320	2.1
Fringe benefits tax(a)	3,440	3,830	390	11.3
Superannuation funds				
Contributions and earnings	5,300	5,350	50	0.9
Superannuation surcharge	1,300	920	-380	-29.2
Total superannuation taxation	6,600	6,270	-330	-5.0
Company tax	48,210	49,800	1,590	3.3
Petroleum resource rent tax	2,130	1,970	-160	-7.5
Income taxation receipts	170,870	174,680	3,810	2.2
<i>Excise and customs</i>				
Excise duty				
Petrol	7,210	7,280	70	1.0
Diesel	6,260	6,240	-20	-0.3
Other fuel products	170	220	50	29.4
Crude oil	480	330	-150	-31.3
Beer	1,690	1,730	40	2.4
Potable spirits	790	810	20	2.5
Tobacco	5,300	5,290	-10	-0.2
Total excise duty receipts	21,900	21,900	0	0.0
Customs duty				
Textiles, clothing and footwear	790	830	40	5.1
Passenger motor vehicles	740	650	-90	-12.2
Excise-like goods	1,700	1,810	110	6.5
Other imports	1,519	1,590	71	4.7
less: Refunds and drawbacks	300	330	30	10.0
Total customs duty receipts	4,449	4,550	101	2.3
Excise and customs receipts	26,349	26,450	101	0.4
<i>Other taxation</i>				
Wine equalisation tax	660	660	0	0.0
Luxury car tax	310	320	10	3.2
Agricultural levies	599	607	8	1.4
Other taxes	1,756	1,752	-4	-0.2
Other taxation receipts	3,325	3,339	14	0.4
Taxation receipts	200,544	204,469	3,925	2.0
<i>Non-taxation</i>				
Sales of goods and services	5,144	5,189	45	0.9
Dividends	4,318	4,341	24	0.5
Interest received	2,170	2,275	104	4.8
Other non-taxation receipts	6,333	6,125	-208	-3.3
Non-taxation receipts	17,965	17,930	-35	-0.2
Total receipts	218,509	222,400	3,890	1.8

(a) See fringe benefits tax description in Appendix C.

Statement 5: Revenue

Table E4: Reconciliation of 2006-07 general government receipts (cash basis)

	MYEFO	Budget	Change on MYEFO	
	\$m	\$m	\$m	%
<i>Income taxation</i>				
Individuals and other withholding taxes				
Gross income tax withholding	107,090	103,420	-3,670	-3.4
Gross other individuals	24,830	26,810	1,980	8.0
less: Refunds	15,960	16,790	830	5.2
Total individuals and other withholding taxation	115,960	113,440	-2,520	-2.2
Fringe benefits tax(a)	3,560	3,690	130	3.7
Superannuation funds				
Contributions and earnings	5,600	5,840	240	4.3
Superannuation surcharge	380	650	270	71.1
Total superannuation taxation	5,980	6,490	510	8.5
Company tax	51,300	56,130	4,830	9.4
Petroleum resource rent tax	2,270	2,490	220	9.7
Income taxation receipts	179,070	182,240	3,170	1.8
<i>Excise and customs</i>				
Excise duty				
Petrol	7,280	7,310	30	0.4
Diesel	6,500	6,420	-80	-1.2
Other fuel products	150	450	300	200.0
Crude oil	440	470	30	6.8
Beer	1,710	1,760	50	2.9
Potable spirits	850	890	40	4.7
Tobacco	5,390	5,320	-70	-1.3
Total excise duty receipts	22,320	22,620	300	1.3
Customs duty				
Textiles, clothing and footwear	840	870	30	3.6
Passenger motor vehicles	650	700	50	7.7
Excise-like goods	1,710	2,160	450	26.3
Other imports	1,656	1,600	-56	-3.4
less: Refunds and drawbacks	300	300	0	0.0
Total customs duty receipts	4,556	5,030	474	10.4
Excise and customs receipts	26,876	27,650	774	2.9
<i>Other taxation</i>				
Wine equalisation tax	730	660	-70	-9.6
Luxury car tax	340	320	-20	-5.9
Agricultural levies	608	619	11	1.8
Other taxes	1,733	1,700	-33	-1.9
Other taxation receipts	3,411	3,298	-112	-3.3
Taxation receipts	209,357	213,188	3,832	1.8
<i>Non-taxation</i>				
Sales of goods and services	5,032	5,008	-24	-0.5
Dividends	2,763	3,000	237	8.6
Interest received	3,522	3,498	-25	-0.7
Other non-taxation receipts	6,347	6,124	-222	-3.5
Non-taxation receipts	17,665	17,631	-34	-0.2
Total receipts	227,022	230,819	3,798	1.7

(a) See fringe benefits tax description in Appendix C.

APPENDIX F: TAXATION REVENUE RECOGNITION

There are different methods of accounting for taxation revenue. Each method of revenue recognition results in estimates and outcomes which may be significantly different to those produced using other methods.

Accrual accounting was introduced by the Australian Government for the 1999-2000 Budget. Prior to then, all estimates and outcomes were reported on a cash basis, but cash recognition still plays a role in budgeting and outcomes reporting – both accrual and cash taxation revenue estimates and outcomes are reported in the budget papers. Furthermore, there are also different methods for recognising accrual revenue.

This appendix provides an explanation of the different revenue recognition methods which apply to the various taxation revenue heads.

Revenue recognition methods

Cash revenue recognition

Under cash recognition, taxation revenue is accounted for at the time a taxation payment is received by the relevant authority. The receipt may be a different amount than the taxation liability and result in a subsequent amended (refund or debit) assessment. The payment may also be received in a different period from which the taxation liability relates.

Cash recognition remains a useful method under accrual accounting because of its use in the cash flow statement and to provide additional information about the structure of taxation revenues. Cash data is also available over a much longer period – accrual data is only available since 1999-2000 – and is therefore often used for time series analysis.

Accrual revenue recognition

The AAS and GFS standards for accrual accounting (refer to Appendix A in Statement 2 for an explanation of these reporting standards) require that taxation revenue be recognised in the reporting period in which the taxpayer earns the income that is subsequently subject to taxation – this is known as the Economic Transactions Method (ETM). However, the standards also permit government reporting using an alternative approach when there is an inability to reliably measure taxation revenues using the ETM approach.

ETM revenue is not a reliable measure for several significant revenue heads – individuals and other withholding taxation, company income taxation and superannuation taxation. As these revenue heads account for the majority of total revenue, accrual taxation revenue has always been recognised using the Tax Liability Method (TLM) rather than ETM.

Statement 5: Revenue

Under TLM, taxation revenue is accounted for at the time a taxpayer makes a self assessment or when an assessment of a taxation liability is raised by the relevant authority. This method retains some elements of cash revenue recognition – for example, revenue is recognised when cash payment occurs prior to an assessment being raised.

For the major income taxation revenue heads, the point of recognition under ETM and TLM can sometimes be in different periods – for example, a taxation return lodged in October 2005 for the 2004-05 income year, and which results in a new taxation liability or a refund, would be recognised in the 2004-05 income year under ETM and in 2005-06 for TLM. In this case, ETM requires that outcomes for 2004-05 include an estimation of liabilities likely to be identified in subsequent periods. TLM outcomes do not incorporate this estimation, as only identified taxation liabilities are reported. Consequently, aggregate TLM revenue outcomes are usually known with relative certainty, although there can be estimation issues involved in allocating aggregate revenue between different heads of revenue.

In addition, AAS and GFS treat prior period adjustments to ETM revenue outcomes differently. GFS requires that a time series of outcomes is maintained, such that prior year outcomes are continually adjusted as new information comes to light. In contrast, AAS requires that prior period adjustments are not back-cast, and instead are reflected in the current period results. This difference in treatment reflects the different purpose in each of the standards:

- GFS ETM data may be more accurate over the long term, and may therefore be better for economic analysis, but has the disadvantage of constantly being revised; whereas
- AAS ETM outcomes are finalised at the end of each financial year, and this greater level of certainty may be better for budgeting and reporting.

Implementation of accrual revenue recognition

For the years 1999-2000 to 2005-06, all accrual taxation revenue has been recognised on a TLM basis. Commencing with the 2006-07 Budget, ETM revenue recognition has been adopted for all revenue heads where the measurement issues are not material. This generally occurs where the economic activity, the identification of the liability and the receipt of the payment all occur with little or no lag – and consequently, the ETM and TLM (and cash) recognition methods produce consistent results.

TLM revenue recognition will continue to be used if ETM measurement issues may be material. At present, this is limited to individuals and other withholding taxation, company income taxation and superannuation taxation, but this will be reviewed periodically. ETM estimates and outcomes are inherently more volatile for these revenue heads, mainly because they incorporate the estimation of significant levels of liabilities likely to be recognised in future periods. This additional level of estimation

would increase the likelihood of differences between the revenue estimates and outcomes, with consequential impacts on the budget balances. This greater level of uncertainty would make the implementation of fiscal policy more problematic than if these revenue heads continue to be recognised using TLM.

Differences between the accrual and cash taxation revenue estimates

Table F1: Estimates of taxation revenue on an accrual and cash basis

	2005-06	2006-07	2007-08	2008-09	2009-10
	\$b	\$b	\$b	\$b	\$b
Tax revenue (accrual)	208.1	217.2	226.1	236.7	249.5
Tax receipts (cash)	204.5	213.2	222.0	232.5	245.1
Difference (accrual less cash)	3.6	4.0	4.1	4.3	4.4
<i>Memorandum items:</i>					
Deferred company tax payments	-0.4	0.0	0.0	0.0	0.0
ACIS(a)	0.6	0.6	0.6	0.6	0.6
Other	3.4	3.4	3.5	3.7	3.8
Total	3.6	4.0	4.1	4.3	4.4

(a) Automotive Competitiveness and Investment Scheme.

Automotive Competitiveness and Investment Scheme

The Automotive Competitiveness and Investment Scheme (ACIS) operates by providing customs duty credits to exporters of Australian automotive products. The credits can be offset against future customs duty on specific imports.

Under accrual accounting, an expense is recognised when the ACIS credits are issued. The later redemption of the credits results in an increase in the difference between the accrual and cash estimates for customs duty revenue, because the customs duty accrual revenue is recognised at the point of credit redemption but no cash is received. ACIS credits account for \$600 million of the difference between the accrual and cash estimates in 2006-07.

Deferred company tax payments

The PAYG arrangements for companies and superannuation funds (introduced as part of *The New Tax System*) better align tax payments with the period in which income is earned. In the absence of transitional arrangements, this would have created an overlap of tax payments, because payments of tax obligations for 1999-2000 (under the previous payment arrangements) and PAYG instalments for 2000-01 (under the new payment arrangements) both occurred during 2000-01. For a medium-sized company, for example, there would have been six payments due, instead of the usual four.

The Government implemented transitional arrangements to assist these taxpayers move to the new PAYG system, by allowing them to spread some of their tax payments in interest free instalments for up to five years. While the full amount of the tax obligations was included in accrual revenue for 2000-01 (the year in which the

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liabilities were recognised), the cash estimates will continue to be affected for the five year period.

While the impact of these deferred payments has been to increase the cash taxation receipts estimates by around \$355 million in 2005-06, it has no impact of the accrual estimate in that year.

Other

This category consists of other timing differences between the recognition of accrual and cash revenue and instances where revenue has been recognised but payment is no longer expected to be received. For example:

- *receivables* arise where taxation liabilities are recognised in one period, but the taxpayer is not expected to pay the liability until a later period;
- *remissions* occur where taxation liabilities are recognised, but circumstances are taken into account and the Commissioner of Taxation reduces the amount of various penalties and interest required to be paid;
- a taxation liability may be *written-off* where the previously recognised revenue is no longer expected to be received; and
- a *credit amendment* may be issued where a taxation assessment is amended (for example, where a court decision leads to a change in the interpretation of the taxation laws).

To the extent that revenue includes taxation assessments for which payment may not be received, expenses are recognised (that is, in respect of *remissions* and *write-offs* of bad and doubtful debts). The higher revenue is offset by these expenses, leaving the fiscal balance unaffected.

APPENDIX G: TAX EXPENDITURES

This appendix contains an overview of the cost of tax expenditures provided to taxpayers through the tax system.

Tax expenditures provide a benefit to a specified activity or class of taxpayer. They can be delivered as a tax exemption, tax deduction, tax offset, reduced tax rate or deferral of a tax liability. The Government can use tax expenditures to allocate resources to different activities or taxpayers in much the same way that it can use direct expenditure programmes. For this reason, and noting their direct impact on the fiscal balance, these concessions are generally called tax expenditures.

The data reported in this appendix is consistent with tax expenditure data reported in the *2005 Tax Expenditures Statement* published in December 2005. Several considerations need to be taken into account when analysing tax expenditure data (see section 2.1 of the *2005 Tax Expenditures Statement* for a detailed description).

Table G1 contains estimates of total tax expenditures for the period 2002-03 to 2009-10.

Table G1: Aggregate tax expenditures

Year	Superannuation \$m	Other tax expenditures \$m	Net value of tax expenditures \$m	Tax expenditures
				as a proportion of GDP %
2002-03 (est)	10,395	19,268	29,663	3.8
2003-04 (est)	14,000	19,854	33,854	4.0
2004-05 (est)	14,405	22,454	36,859	4.1
2005-06 (proj)	15,890	23,117	39,007	4.1
2006-07 (proj)	16,585	24,340	40,925	4.1
2007-08 (proj)	18,005	25,008	43,013	4.1
2008-09 (proj)	19,285	26,119	45,404	4.1
2009-10 (prelim)	20,621	26,980	47,601	4.1

Table G1 shows that measured tax expenditures as a proportion of GDP are projected to be steady at around 4.1 per cent between 2004-05 and 2009-10.

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Table G2 is a list of the major tax expenditures in 2005-06.

Table G2: Major tax expenditures 2005-06

	\$m
Large positive tax expenditures	
Concessional taxation of funded superannuation	15,520
Capital gains tax discount for individuals and trusts	4,390
Exemption of Family Tax Benefit Parts A and B, including expense equivalent	2,470
Senior Australians' Tax Offset	1,840
Tax offset for recipients of certain social security benefits, pensions or allowances	1,330
Application of statutory formula to value car benefits	1,140
Exemption of certain income support benefits, pensions or allowances	900
Exemption of 30 per cent private health insurance refund, including expense equivalent	890
Deduction for gifts to approved donees	800
Concessional rate of excise levied on aviation gasoline and aviation turbine fuel	780
Tax offset for low income earners	660
Exemption from excise for 'alternative fuels'	630
Large negative expenditures	
Higher rate of excise levied on cigarettes with less than 0.8 grams of tobacco	-1,355
Accelerated depreciation allowances for plant and equipment	-890

APPENDIX H: RECEIPTS HISTORY AND FORECASTS

Table H1: Australian Government receipts (cash basis)^{(a) (b)}

	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06(est)	2006-07(est)
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<i>Income taxation</i>												
Individuals and other withholding												
Income tax withholding	59,970	64,521	69,366	75,170	81,055	75,009	78,983	84,134	89,638	97,304	103,230	103,420
Other individuals	10,078	11,820	12,119	13,103	13,370	13,226	16,290	17,436	19,935	22,554	24,930	26,810
less: Refunds	8,285	8,808	9,525	10,325	10,946	10,989	10,637	11,651	12,325	13,734	15,350	16,790
Total individuals and other withholding	61,763	67,533	71,959	77,948	83,478	77,246	84,636	89,919	97,247	106,123	112,810	113,440
Fringe benefits tax	3,031	3,163	3,168	3,289	3,656	3,492	3,632	3,459	3,590	3,703	3,830	3,690
Superannuation funds												
Contributions and earnings	1,634	2,595	2,746	3,630	3,243	4,110	3,550	3,865	4,502	5,014	5,350	5,840
Superannuation surcharge			347	286	577	690	824	975	1,050	1,233	920	650
Total superannuation funds	1,634	2,595	3,093	3,916	3,820	4,800	4,373	4,840	5,551	6,248	6,270	6,490
Company tax	18,252	19,173	19,406	20,734	24,453	31,582	27,230	32,752	36,101	40,404	49,800	56,130
Petroleum resource rent tax	791	1,308	907	419	1,184	2,379	1,361	1,712	1,168	1,459	1,970	2,490
Income taxation receipts	85,470	93,773	98,534	106,306	116,592	119,498	121,233	132,681	143,657	157,937	174,680	182,240
<i>Excise and customs</i>												
Excise duty												
Petroleum and other fuel products	10,224	10,543	10,895	10,974	11,189	11,919	12,386	12,866	13,231	13,608	13,740	14,180
Crude oil	13	9	16	31	219	526	393	417	309	668	330	470
Other excise	2,612	2,739	2,663	2,614	2,670	6,572	6,837	7,450	7,539	7,612	7,830	7,970
Total excise duty	12,849	13,291	13,574	13,619	14,078	19,017	19,616	20,733	21,079	21,888	21,900	22,620
Customs duty	3,124	3,289	3,637	3,634	3,771	4,584	4,625	4,982	5,038	5,012	4,550	5,030
Excise and customs receipts	15,973	16,580	17,211	17,253	17,849	23,601	24,241	25,715	26,117	26,901	26,450	27,650
<i>Other taxation</i>												
Wine equalisation tax						524	640	669	704	682	660	660
Luxury car tax						171	220	261	335	298	320	320
Agricultural levies					551	451	550	586	603	584	607	619
Other taxes	14,943	15,462	16,475	17,545	15,986	2,096	1,020	1,104	1,192	1,775	1,752	1,700
Indirect taxation receipts	14,943	15,462	16,475	17,545	16,537	3,242	2,431	2,620	2,834	3,339	3,339	3,298
Taxation receipts	116,386	125,815	132,219	141,104	151,313	146,698	148,343	161,418	173,023	188,176	204,469	213,188

Statement 5: Revenue

Table H1: Australian Government receipts (cash basis)^(a) (continued)

	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06(est)	2006-07(est)
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<i>Non-taxation</i>												
Interest received	1,403	1,126	1,139	682	995	1,140	918	982	1,056	1,400	2,275	3,498
Dividends and other	3,899	4,089	3,610	4,659	13,782	13,276	13,623	14,102	13,257	14,895	15,655	14,133
Non-taxation receipts	5,302	5,216	4,749	5,341	14,777	14,416	14,541	15,084	14,313	15,784	17,930	17,631
Total receipts	121,688	131,031	136,968	146,444	166,089	161,114	162,884	176,503	187,336	203,960	222,400	230,819

(a) Figures up to and including 1998-99 are based on the old Commonwealth Budget Sector cash accounting framework. Figures from 1999-2000 are on an Australian Government general government GFS basis.

(b) Taxation and non-taxation receipts in 2004-05 are different to those amounts reported in Table D2. This is because some levies that were previously classified under non-taxation receipts are now included in taxation receipts. The table also reflects the ABS's reclassification of the fringe benefits tax in GFS (see Appendix C).

Table H2: Major categories of receipts as a proportion of gross domestic product (cash basis)^(a)

	Taxation receipts												Non-taxation receipts					
	Income tax						Other taxation receipts						InterestDividends and other receipts			Total non-tax receipts		
	Gross ITW %	Gross other individuals %	Refunds %	Total individuals & withholding %	FBT %	Super Companies funds %	PRRT %	income tax %	Petrol & other products %	fuel excise duty %	Customs %	Total other tax receipts %	Total tax receipts %	Interest %	Dividends %	and other %	Total non-tax receipts %	Total receipts %
1976-77	10.5	2.7	1.4	11.8	-	-	3.0	-	14.8	1.2	1.4	1.2	6.1	20.9	1.7	0.2	1.9	22.8
1977-78	10.4	2.4	0.9	11.9	-	0.0	3.0	-	14.9	1.3	1.3	1.1	5.9	20.8	1.7	0.3	2.1	22.9
1978-79	9.9	2.1	0.9	11.1	-	0.0	2.6	-	13.7	1.8	1.5	1.2	6.5	20.1	1.6	0.3	2.0	22.1
1979-80	10.1	2.2	0.9	11.4	-	0.0	2.6	-	14.0	2.4	1.3	1.2	6.8	20.8	1.4	0.3	1.7	22.5
1980-81	10.3	2.3	0.8	11.8	-	0.0	3.1	-	14.9	2.7	1.2	1.2	6.9	21.8	1.4	0.3	1.7	23.5
1981-82	11.0	2.2	0.8	12.4	-	0.0	2.9	-	15.3	2.4	1.1	1.2	6.7	22.0	1.4	0.3	1.7	23.7
1982-83	11.3	2.2	1.1	12.5	-	0.0	2.6	-	15.1	2.6	1.1	1.1	7.1	22.2	1.5	0.5	2.0	24.1
1983-84	10.8	2.1	1.1	11.9	-	0.0	2.2	-	14.1	2.8	1.0	1.1	7.4	21.4	1.4	0.6	2.0	23.5
1984-85	11.2	2.3	0.9	12.8	-	0.0	2.4	-	15.2	2.8	0.9	1.3	7.7	22.9	1.4	0.7	2.1	25.0
1985-86	11.5	2.6	1.3	13.0	-	0.0	2.4	-	15.4	2.8	0.9	1.3	7.8	23.1	1.4	1.0	2.4	25.5
1986-87	11.7	3.1	1.3	13.8	0.2	0.0	2.4	-	16.4	2.6	0.9	1.2	7.5	23.8	1.3	1.1	2.4	26.2
1987-88	11.2	3.1	1.3	13.3	0.3	0.0	2.8	-	16.3	2.3	0.9	1.1	7.3	23.6	1.1	0.8	1.9	25.5
1988-89	11.6	2.8	1.4	13.3	0.3	0.0	2.8	-	16.4	1.9	0.6	1.0	6.7	23.1	1.0	0.3	1.4	24.5
1989-90	11.2	2.6	1.5	12.8	0.3	0.1	3.3	0.0	16.5	1.9	0.6	1.0	6.5	23.0	0.9	0.3	1.2	24.1
1990-91	11.0	2.8	1.7	12.5	0.3	0.3	3.5	0.1	16.6	2.0	0.6	0.8	6.2	22.8	0.8	0.4	1.2	24.0
1991-92	10.7	2.2	1.9	11.4	0.3	0.3	3.2	0.2	15.4	1.7	0.6	0.8	5.7	21.1	0.7	0.6	1.3	22.4
1992-93	10.5	1.9	1.8	11.0	0.3	0.3	3.0	0.3	15.0	1.7	0.5	0.8	5.4	20.4	0.6	0.7	1.3	21.7
1993-94	10.4	1.9	1.5	11.2	0.3	0.3	2.8	0.2	14.7	1.9	0.5	0.7	5.7	20.4	0.4	1.0	1.5	21.9
1994-95	10.7	1.9	1.6	11.4	0.6	0.4	3.2	0.2	15.8	1.9	0.5	0.7	6.0	21.7	0.4	0.6	1.0	22.7
1995-96	11.2	1.9	1.6	11.9	0.6	0.3	3.5	0.2	16.5	2.0	0.5	0.6	6.0	22.5	0.3	0.8	1.0	23.5
1996-97	11.4	2.2	1.6	12.4	0.6	0.5	3.5	0.2	17.2	1.9	0.5	0.6	5.9	23.1	0.2	0.7	1.0	24.0
1997-98	11.6	2.1	1.6	12.5	0.5	0.5	3.4	0.2	17.1	1.9	0.5	0.6	5.8	22.9	0.2	0.6	0.8	23.7

Table H2: Major categories of receipts as a proportion of gross domestic product (cash basis)^(a) (continued)

	Taxation receipts												Non-taxation receipts							
	Income tax						Other taxation receipts						Non-taxation receipts							
	Gross ITW %	Gross other individuals %	Refunds other individuals %	Total individuals & wholding %	FBT %	Super funds %	Companies %	PRRT %	Total income tax %	Petrol & other products %	Other fuel %	Excise duty %	Customs %	Total other tax %	Dividends and other %	Interest %	Total non-tax receipts %			
1998-99	11.9	2.2	1.7	12.8	0.5	0.6	3.4	0.1	17.5	1.8	0.4	1.8	0.4	0.4	5.7	23.2	0.1	0.8	0.9	24.1
1999-00	12.1	2.1	1.7	12.9	0.6	0.6	3.8	0.2	18.1	1.8	0.4	1.8	0.4	0.4	5.4	23.5	0.2	2.1	2.3	25.7
2000-01	10.9	1.9	1.6	11.2	0.5	0.7	4.6	0.3	17.3	1.8	1.0	1.8	1.0	1.0	3.9	21.3	0.2	1.9	2.1	23.4
2001-02	10.7	2.2	1.4	11.5	0.5	0.6	3.7	0.2	16.5	1.7	0.9	1.7	0.9	0.9	3.7	20.2	0.1	1.9	2.0	22.1
2002-03	10.7	2.2	1.5	11.5	0.4	0.6	4.2	0.2	16.9	1.7	1.0	1.7	1.0	1.0	3.7	20.6	0.1	1.8	1.9	22.5
2003-04	10.7	2.4	1.5	11.6	0.4	0.7	4.3	0.1	17.1	1.6	0.9	1.6	0.9	0.9	3.5	20.6	0.1	1.6	1.7	22.3
2004-05	10.9	2.5	1.5	11.9	0.4	0.7	4.5	0.2	17.7	1.6	0.9	1.6	0.9	0.9	3.4	21.1	0.2	1.6	1.8	22.8
2005-06 est	10.8	2.6	1.6	11.8	0.4	0.7	5.2	0.2	18.3	1.5	0.8	1.5	0.8	0.8	3.1	21.4	0.2	1.6	1.9	23.3
2006-07 est	10.3	2.7	1.7	11.2	0.4	0.6	5.6	0.2	18.1	1.5	0.8	1.5	0.8	0.8	3.1	21.1	0.3	1.4	1.7	22.9

(a) Figures up to and including 1998-99 are based on the old Commonwealth Budget Sector cash accounting framework. Figures from 1999-2000 are on an Australian Government general government GFS basis.

Table H3: Major categories of receipts as a proportion of total receipts (cash basis)^(a)

	Taxation receipts											Other taxation receipts					Non-taxation receipts			
	Income tax					PRRT						Petrol & other fuel products					Total tax receipts			
	Gross ITW %	Refunds other individuals %	Total individuals & w/holding %	FBT Super funds %	Companies %	PRRT %	Total income tax %	Petrol & other products %	Other fuel %	Excise %	Customs duty %	Total other tax receipts %	Intrest %	Dividends and other %	Total non-tax receipts %					
1976-77	46.0	11.7	6.0	51.8	-	-	64.9	5.2	6.3	5.4	24.5	91.8	7.4	0.8	8.2					
1977-78	45.3	10.5	4.0	51.9	-	0.0	65.0	5.7	5.9	4.8	23.8	91.0	7.6	1.4	9.0					
1978-79	44.8	9.3	4.0	50.0	-	0.0	61.8	8.3	6.6	5.3	27.0	91.1	7.4	1.5	8.9					
1979-80	45.1	9.6	3.8	50.9	-	0.0	62.4	10.7	6.0	5.2	28.1	92.4	6.4	1.2	7.6					
1980-81	43.7	9.7	3.3	50.1	-	0.0	63.4	11.4	5.1	5.1	27.6	92.8	6.1	1.1	7.2					
1981-82	46.4	9.2	3.5	52.2	-	0.0	64.6	10.1	4.5	5.0	26.6	92.8	5.9	1.3	7.2					
1982-83	46.9	9.1	4.4	51.7	-	0.1	62.5	10.8	4.5	4.5	27.6	91.9	6.1	2.1	8.1					
1983-84	45.9	9.1	4.9	50.7	-	0.0	60.0	11.7	4.3	4.7	29.2	91.4	6.0	2.6	8.6					
1984-85	44.7	9.4	3.6	51.2	-	0.0	60.8	11.4	3.7	5.0	28.7	91.8	5.5	2.7	8.2					
1985-86	45.0	10.3	5.2	51.0	-	0.0	60.4	10.9	3.6	5.0	28.3	90.8	5.3	3.9	9.2					
1986-87	44.6	11.8	5.0	52.6	0.7	0.0	62.5	9.9	3.5	4.4	26.4	90.9	4.9	4.2	9.1					
1987-88	44.0	12.0	5.1	52.2	1.1	0.0	64.0	9.2	3.4	4.5	26.3	92.5	4.4	3.0	7.5					
1988-89	47.3	11.3	5.8	54.4	1.1	0.0	67.1	7.9	2.5	4.2	25.3	94.5	4.2	1.3	5.5					
1989-90	46.4	10.8	6.1	53.1	1.2	0.4	68.2	8.0	2.3	4.1	25.0	95.2	3.6	1.2	4.8					
1990-91	45.8	11.6	6.9	52.2	1.3	1.1	69.3	8.2	2.4	3.4	23.5	95.0	3.4	1.6	5.0					
1991-92	47.8	9.8	8.3	50.9	1.4	1.2	68.9	7.7	2.5	3.5	23.4	94.1	3.2	2.7	5.9					
1992-93	48.5	8.8	8.2	50.8	1.4	1.6	69.0	7.7	2.5	3.5	23.4	94.1	2.6	3.3	5.9					
1993-94	47.6	8.6	7.1	51.1	1.4	1.2	67.3	8.5	2.2	3.2	24.3	93.3	2.0	4.6	6.7					
1994-95	46.9	8.6	7.2	50.3	2.5	1.7	69.4	8.5	2.3	3.1	24.5	95.7	1.6	2.7	4.3					
1995-96	47.5	8.3	6.8	50.8	2.5	1.3	70.2	8.4	2.1	2.6	23.8	95.6	1.2	3.2	4.4					
1996-97	47.5	9.0	6.7	51.5	2.4	2.0	71.6	8.1	2.1	2.5	22.8	96.0	0.9	3.1	4.0					
1997-98	48.8	8.8	7.0	52.5	2.3	2.3	71.9	8.0	1.9	2.7	22.8	96.5	0.8	2.6	3.5					

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Table H3: Major categories of receipts as a proportion of total receipts (cash basis)^(a) (continued)

	Taxation receipts										Non-taxation receipts						
	Income tax					Other taxation receipts					Interest	Dividends and other	Total non-tax receipts				
	Gross ITW %	Gross other individuals %	Refunds %	Total individuals & w/holding %	FBT %	Super funds %	Companies %	PRRT %	Total income tax %	Petrol & other products %				Other fuel excise %	Other excise %	Customs duty %	Total other tax receipts %
1998-99	49.4	8.9	7.1	53.2	2.2	2.7	14.2	0.3	72.6	7.5	1.8	2.5	23.8	96.4	0.5	3.2	3.6
1999-00	46.9	8.0	6.6	50.3	2.2	2.3	14.7	0.7	70.2	6.9	1.6	2.3	20.9	91.1	0.6	8.3	8.9
2000-01	46.6	8.2	6.8	47.9	2.2	3.0	19.6	1.5	74.2	7.7	4.1	2.8	16.9	91.1	0.7	8.2	8.9
2001-02	48.5	10.0	6.5	52.0	2.2	2.7	16.7	0.8	74.4	7.8	4.2	2.8	16.6	91.1	0.6	8.4	8.9
2002-03	47.7	9.9	6.6	50.9	2.0	2.7	18.6	1.0	75.2	7.5	4.2	2.8	16.3	91.5	0.6	8.0	8.5
2003-04	47.8	10.6	6.6	51.9	1.9	3.0	19.3	0.6	76.7	7.2	4.0	2.7	15.7	92.4	0.6	7.1	7.6
2004-05	47.7	11.1	6.7	52.0	1.8	3.1	19.8	0.7	77.4	7.0	3.7	2.5	14.8	92.3	0.7	7.1	7.7
2005-06 est	46.4	11.2	6.9	50.7	1.7	2.8	22.4	0.9	78.5	6.3	3.5	2.0	13.4	91.9	1.0	7.0	8.1
2006-07 est	44.8	11.6	7.3	49.1	1.6	2.8	24.3	1.1	79.0	6.3	3.5	2.2	13.4	92.4	1.5	6.1	7.6

(a) Figures up to and including 1998-99 are based on the old Commonwealth Budget Sector cash accounting framework. Figures from 1999-2000 are on an Australian Government general government GFS basis.