

TAX EXPENDITURES

Individuals and businesses derive financial benefits from various tax concessions. These concessions can be delivered in a variety of ways: by a tax exemption, tax deduction, tax rebate, reduced tax rate or by deferring a tax liability. Tax concessions can either reduce or delay the collection of tax revenue.

The benefits of most tax concessions could be delivered equally by direct expenditures. Hence tax concessions are an alternative to direct expenditure as a method of delivering government assistance or meeting government objectives. Accordingly, tax expenditures have an impact on the budget surplus or deficit, as do direct expenditures.

Table 19 provides aggregate tax expenditure estimates for the period from 2002-03 to 2009-10.

Table 19: Aggregate tax expenditures 2002-03 to 2009-10^(a)

| Year | Superannuation \$m | Other tax expenditures \$m | Total \$m | Tax expenditures as a proportion of GDP (%) |
|----------------|-----------------------|----------------------------------|--------------|---|
| 2002-03 (est) | 10,100 | 19,347 | 29,447 | 3.8 |
| 2003-04 (est) | 13,540 | 20,015 | 33,555 | 4.0 |
| 2004-05 (est) | 16,600 | 22,693 | 39,293 | 4.4 |
| 2005-06 (est) | 18,080 | 24,064 | 42,144 | 4.4 |
| 2006-07 (proj) | 17,255 | 24,064 | 41,319 | 4.0 |
| 2007-08 (proj) | 20,250 | 26,420 | 46,670 | 4.3 |
| 2008-09 (proj) | 22,230 | 27,692 | 49,922 | 4.4 |
| 2009-10 (proj) | 23,940 | 28,756 | 52,696 | 4.5 |

(a) Preliminary estimates only — final estimates will be published in the *2006 Tax Expenditure Statement*.

Measured tax expenditures as a proportion of GDP are projected to fall from 4.4 per cent in 2005-06 to 4.0 per cent in 2006-07 mainly as a result of the impact of personal income tax rate reductions on the tax expenditure estimates. The ratio is projected to increase to 4.5 per cent by 2009-10 mainly because of changes in superannuation tax arrangements included in the *Simplified Superannuation* reforms.

Further detail on tax expenditures will be provided in the *2006 Tax Expenditures Statement*.