

TAX EXPENDITURES

This attachment provides information on Australian Government tax expenditures, as required by the *Charter of Budget Honesty Act 1998 (CBHA)*.

Tax expenditure estimates should be interpreted with caution as they do not indicate the revenue gain to the Budget if tax expenditures were to be abolished by a change of policy. In addition, the characterisation of a provision of the tax law as a tax expenditure does not indicate a view on how an activity or class of taxpayer ought to be taxed.

A tax expenditure arises where the actual tax treatment of an activity or class of taxpayer differs from the benchmark tax treatment. The choice of benchmark unavoidably involves judgment and may therefore be contentious in some cases.

Consistent with most OECD countries, estimates of the size of tax expenditures reflect the existing utilisation of a tax expenditure, similar to Budget estimates of outlays on demand driven expenditure programmes.

- This is known as the 'revenue forgone' approach which, in practice, involves estimating the difference in revenue between the existing and benchmark tax treatments but importantly assuming taxpayer behaviour is the same in each circumstance.

Revenue forgone estimates therefore do not indicate the revenue gain to the Australian Government budget if specific tax expenditures were abolished, as there may be significant changes in taxpayer behaviour were tax expenditures to be removed.

Care needs to be taken when comparing tax expenditures with direct expenditures as they may measure different things. In addition, estimates from different editions of the Tax Expenditures Statement (TES) may not be comparable because of changes or modifications, for example, to benchmarks, tax expenditures, data used or modelling methodology.

The information in Table 3.23 is derived from the 2016 TES and, consistent with longstanding practice, does not include the impact of decisions taken since the 2016-17 MYEFO. Further information on tax expenditures is available in the 2016 TES. Updated tax expenditure estimates will be published in the 2017 TES, to be released in January 2018. This will also include estimates for any new or modified tax expenditures since the 2016 TES.

Table 3.23: Large measured tax expenditures for 2017-18 to 2020-21

Tax expenditure	Estimate \$m			
	2017-18	2018-19	2019-20	2020-21
Large positive tax expenditures				
E6 Capital gains tax main residence exemption — discount component	34,500	34,500	36,000	36,000
E5 Capital gains tax main residence exemption	28,500	29,000	30,000	30,000
C4 Concessional taxation of superannuation entity earnings	17,700	20,650	24,050	26,500
C2 Concessional taxation of employer superannuation contributions	16,200	17,800	18,800	20,000
E13 Capital gains tax discount for individuals and trusts	11,080	11,310	12,090	13,060
H28 GST — Food	7,200	7,500	7,800	8,100
H16 GST — Education	4,850	5,250	5,700	6,200
H19 GST — Health — medical and health services	4,300	4,600	4,900	5,250
H2 GST — Financial supplies — input taxed treatment	3,700	3,900	4,200	4,450
A24 Concessional taxation of non-superannuation termination benefits	2,500	2,400	2,300	2,150
B12 Exemption from interest withholding tax on certain securities	2,310	2,310	2,310	2,310
A40 Exemption of Family Tax Benefit payments	2,100	2,110	2,070	2,090
A19 Medicare levy exemption for residents with taxable income below the low-income thresholds	2,090	2,160	2,230	2,300
B2 Local government bodies income tax exemption	2,130	2,410	2,730	3,080
A17 Exemption of the Private Health Insurance Rebate	1,580	1,650	1,750	1,770
A27 Exemption of Child Care Assistance payments	1,745	2,420	2,460	2,485
D14 Exemption for public benevolent institutions (excluding hospitals)	1,600	1,700	1,800	1,900
D10 Exemption for public and not-for-profit hospitals and public ambulance services	1,550	1,650	1,750	1,850
H5 GST — Child care services	1,560	1,840	2,030	2,240
A54 Philanthropy — deduction for gifts to deductible gift recipients	1,350	1,410	1,460	1,510
F7 Concessional rate of excise levied on aviation gasoline and aviation turbine fuel	1,330	1,400	1,510	1,560
B73 Capital works expenditure deduction	1,240	1,320	1,410	1,495
H20 GST — Health — residential care, community care and other care services	1,230	1,320	1,410	1,510
B50 Lower company tax rate	1,300	1,600	1,800	2,200
Large negative tax expenditures				
F11 Higher rate of excise levied on cigarettes not exceeding 0.8 grams of tobacco	-2,420	-2,645	-2,925	-3,210
F23 Customs duty	-1,060	-1,170	-1,340	-1,500