

CHAPTER 7: TAX EXPENDITURE AND CONCESSIONS STATEMENT

- ◆ Tax expenditures in 2001-02 total \$2,688 million (compared with \$3,914 million in 2000-01) and concessions total \$650 million (\$626 million in 2000-01).
- ◆ The major policy changes contributing to the large decrease in tax expenditures in 2001-02 are:
 - abolition from 1 July 2001 of stamp duty on the transfer of shares and securities quoted on exchanges, reducing tax expenditures associated with Marketable Securities Duty by \$365 million in 2001-02 compared with 2000-01;
 - abolition from 1 July 2001 of Financial Institutions Duty, reducing tax expenditures associated with that duty by \$52 million in 2001-02 compared with 2000-01; and
 - abolition of Debits Tax from 1 January 2002, conditional on the Commonwealth Government guaranteeing that New South Wales will not be disadvantaged under national tax reform arrangements in acting early to abolish the tax, reducing tax expenditures associated with that tax by \$8 million in 2001-02 compared with 2000-01.
- ◆ Tax expenditures associated with contracts and conveyances duty are estimated to fall by \$641 million in 2001-02 compared with 2000-01, largely due to the occurrence of a number of large and irregular tax expenditures in 2000-01.

7.1 INTRODUCTION

Tax expenditures and concessional charges represent an important mechanism through which a government's fiscal decisions affect the community. They have the same budgetary and welfare effects as a direct outlay. A tax expenditure refers to the cost of granting certain activities or assets favourable tax treatment. A concession involves the sale by the government of goods and services to certain users at a price that is lower than generally available to the rest of the community.

Direct outlays are examined and subject to public scrutiny through the annual budget process whereas tax expenditures and concessional charges typically are not subject to regular review, even where explicitly funded by the Budget. This makes the control of total government expenditure (including tax expenditures and concessional charges) more difficult on an ongoing basis. Unless reviewed regularly, it is likely that tax expenditures and concessional charges may outlive their original justification, resulting in some loss of overall community wellbeing.

To better inform policy choices and public understanding of the Budget, this chapter provides a summary of tax expenditures and concessional charges. Appendix B presents a comprehensive listing and costing of each tax expenditure and concession.

Both tax expenditures and concessions have been valued on the basis of public sector revenue forgone. A full discussion of the conceptual issues in the measurement of tax expenditures is given in the 1998-99 Budget Papers.

Tax expenditures may take the form of:

- ◆ an exemption of certain classes of goods or taxpayers from a tax;
- ◆ the imposition of a lower rate of tax, the provision of a rebate or deduction; or
- ◆ deferral of the time for payment of a tax liability.

Concessions on user charges may take the form of:

- ◆ an exemption of certain users from a charge for government goods and services; or
- ◆ the imposition on certain users of a charge lower than that generally applied to the rest of the community for government goods and services.

Some government agencies providing goods or services for free or at concessional prices to some sections of the community receive compensation from the Consolidated Fund for the revenue forgone. These payments are known as Social Program Policy Payments (SPPPs). While the cost of these concessions appears in the Budget, the revenue cost of these concessions to the agencies is included in this section since they remain a whole-of-government cost.

In some cases, government provides subsidies to the private sector for concessions provided by the private sector to certain purchasers of goods and services. Examples are payments to private sector transport operators for providing free transport for eligible students to and from school and subsidies for eligible people renting in the private housing market.

Those subsidies to the private sector are not included in the estimates of concessions. Subsidies provided to the private sector are direct outlays, rather than costs to public sector revenue. As direct outlays, subsidies provided to the private sector are included in the expenditure side of the Budget.

7.2 OVERVIEW OF TAX EXPENDITURES AND CONCESSIONS

TAX EXPENDITURES

The estimates of tax expenditures in this statement are for the years 1999-2000, 2000-01 and 2001-02 except for the estimates for land tax, which are for the 2000, 2001 and 2002 land tax years.

As a result of cuts to NSW taxes announced in this Budget, some tax expenditures will decline in 2001-02 compared with 2000-01.

- ◆ Abolition of Debits Tax from 1 January 2002, conditional on Commonwealth guarantees that New South Wales will not be disadvantaged under the new Commonwealth-State tax arrangements by early abolition of the tax, will reduce tax expenditures associated with that tax by \$8 million in 2001-02.
- ◆ Increasing, from 1 July 2001, the duty free exemption threshold for lease duty from \$3,000 to \$20,000 will reduce tax expenditures associated with that duty by \$6 million, since a significant proportion of leases will be removed from the tax base.

From 1 July 2000 as part of wider Commonwealth-State tax reform, the Commonwealth introduced the Goods and Services Tax (GST). As a consequence:

- ◆ the accommodation levy ceased from 1 July 2000 and therefore tax expenditures associated with the levy also ceased;
- ◆ stamp duty on the transfer of those shares and securities quoted on exchanges will cease from 1 July 2001, and therefore tax expenditures associated with the Marketable Securities Duty will decline; and

- ◆ Financial Institutions Duty will cease from 1 July 2001, and therefore tax expenditures associated with that duty also will cease (though a small amount will be recorded in 2001-02, since lagged payments of FID will be recorded in 2001-02).

Table 7.1 provides a summary of major (i.e. \$1 million or greater) tax expenditures for each type of tax.

Table 7.1: Major Tax Expenditures by Type of Tax

Tax	1999-2000		2000-01		2001-02	
	\$m	% of tax revenue	\$m	% of tax revenue	\$m	% of tax revenue
Contracts and Conveyances Duty	278.8	11.6	1,323.2	63.8	682.5	31.7
General and Life Insurance Duty	403.5	105.5	414.8	98.1	395.7	89.7
Mortgage Duty	42.7	18.7	56.1	26.7	55.7	24.6
Marketable Securities Duty	353.6	72.9	373.2	73.2	7.9	15.2
Financial Institutions Duty	53.7	8.9	55.5	8.8	3.1	5.5
Lease Duty	5.2	10.5	5.5	8.3	...	...
Payroll Tax	613.1	16.3	645.7	16.2	659.5	16.0
Land Tax	367.5	40.9	372.5	40.5	377.2	39.1
Debits Tax	19.5	6.0	19.5	6.2	11.3	6.1
Taxes on Motor Vehicles	218.5	14.9	221.2	15.2	209.2	14.3
Accommodation Levy	1.2	1.7	...	...	...	...
Parking Space Levy	3.5	23.8	9.3	23.3	10.1	25.3
Gambling and Betting Taxes	384.1	24.5	417.9	34.4	275.4	22.2
Total	2,744.9	21.1	3,914.4	30.5	2,687.6	22.2

On the basis of revenue forgone, quantifiable tax expenditures are estimated to total \$3,914 million in 2000-01, representing 30.5 percent of total tax revenue. Tax expenditures are expected to decline to \$2,688 million, or 22.2 percent of tax revenue, in 2001-02. Apart from the abolition of taxes noted above, tax expenditures in 2001-02 will decline because the 2000-01 total was boosted significantly by a number of large and irregular tax expenditures associated with contracts and conveyancing duty.

Tax expenditures are spread across all tax bases. By value, tax expenditures are concentrated in contracts and conveyances duty, payroll tax and insurance duties, which account for close to or over one-half of total measurable expenditures in each of the years covered by this statement. The rising importance of contracts and conveyances duty tax expenditures, apart from the large, irregular tax expenditures in 2000-2001, reflects in part the higher tax expenditures associated with the First Home Plus scheme introduced in last year's Budget.

As a percentage of tax revenue collected under individual tax heads, tax expenditures in 2001-02 are expected to be largest for insurance duty, land tax and contracts and conveyances duty. The sharp decline of marketable securities duty tax expenditures between 2000-01 and 2001-02 – as a share of total tax expenditures (down from 9.5 percent to 0.3 percent) and as a share of marketable securities duty revenue (down from 73.2 percent to 15.2 percent) – reflects the abolition from 1 July 2001 of the duty on listed shares and securities.

Table 7.2: Tax Expenditures and Direct Expenses by Function

<i>Function</i>	<i>1999-2000</i>		<i>2000-01</i>		<i>2001-02</i>	
	<i>\$m</i>	<i>% of Expenses</i>	<i>\$m</i>	<i>% of Expenses</i>	<i>\$m</i>	<i>% of Expenses</i>
General Public Services	163.5	10.3	170.0	6.8	130.8	5.7
Public Order and Safety	1.3	0.0	1.4	0.0	1.4	0.0
Education	60.8	0.9	65.8	1.0	67.3	1.0
Health	306.0	4.7	325.5	4.7	329.0	4.6
Social Security and Welfare	201.2	10.6	222.1	8.1	201.0	8.9
Housing and Community Amenities	81.1	7.9	199.7	15.2	200.7	13.8
Recreation and Culture	388.3	39.5	422.4	35.8	280.1	34.6
Fuel and Energy	...	...	...	...	...	...
Agriculture, Forestry, Fishing and Hunting	247.8	30.3	246.9	49.9	247.6	42.5
Mining, Manufacturing and Construction	...	...	...	...	...	...
Transport and Communication	11.6	0.4	11.7	0.4	11.7	0.4
Other Economic Affairs	1,240.0	91.1	2,197.3	111.1	1,168.6	71.5
Other Purposes	43.3	2.2	51.6	2.4	49.4	2.8
Total	2,744.9	9.6	3,914.4	12.2	2,687.6	8.8

Table 7.2 provides a functional classification of tax expenditures and compares this with direct expenses.

On the basis of revenue forgone, the largest categories of tax expenditures are Other Economic Affairs (as it constitutes assistance to industry generally rather than to a particular type of economic activity), Health, and Recreation and Culture. The distribution of tax expenditures by function is broadly similar over the three years covered by this statement. The large jump in Other Economic Affairs in 2000-01 reflects the large, irregular contracts and conveyances duty tax expenditures noted earlier.

CONCESSIONS

Table 7.3 classifies the major concessions provided by the NSW Government by function. The total value of major concessions in 2000-01 was \$626 million, representing 2 percent of expenses. Concessions are expected to amount to approximately the same proportion of expenses in 2001-02.

Table 7.3: Concessions and Expenses by Function

<i>Function</i>	<i>1999-2000</i>		<i>2000-01</i>		<i>2001-02</i>	
	<i>\$m</i>	<i>% of Expenses</i>	<i>\$m</i>	<i>% of Expenses</i>	<i>\$m</i>	<i>% of Expenses</i>
General Public Services	...	...	...	...	...	...
Public Order and Safety	...	...	...	...	...	...
Education	76.1	1.2	82.9	1.3	84.3	1.3
Health	72.5	1.1	73.6	1.1	75.4	1.1
Social Security and Welfare	247.5	13.0	251.7	9.2	257.0	11.4
Housing and Community Amenities	151.2	14.8	153.1	11.7	153.4	10.5
Recreation and Culture	...	...	...	...	...	...
Fuel and Energy	61.5	37.0	63.1	81.3	76.2	118.9
Agriculture, Forestry, Fishing and Hunting	1.1	0.0	1.8	0.0	3.8	0.0
Mining, Manufacturing and Construction	...	...	...	...	...	...
Transport and Communication	...	...	...	...	...	...
Other Economic Affairs	...	...	...	...	...	...
Other Purposes	...	...	...	...	...	...
Total	609.9	2.1	626.2	2.0	650.1	2.1