

Chapter 9:
**TAX EXPENDITURE
STATEMENT**

9.1 Introduction

9.2 Tax Expenditures by Type of Tax

9.1 INTRODUCTION

The benefits and costs of Government fiscal policy are distributed among various groups in the community with direct government expenditure providing one visible mechanism through which this occurs. However less visible, but equally important, are the numerous tax concessions which redistribute the burden of funding the operations of Government.

A tax expenditure refers to the cost of granting certain activities or assets concessional tax treatment. Tax expenditures may take the form of concessions that

- exempt certain classes of goods or taxpayers from a tax;
- impose a lower rate of tax, provide rebates or deductions; or
- defer the time for payment of a tax liability.

While direct outlays are examined and subject to public scrutiny through the annual Budget process, it is often the case that less stringent review measures apply to tax expenditures. Provisions granting tax expenditures are included in the relevant tax legislation. They are subject to scrutiny when they are implemented, but are not subject to regular review subsequently. This makes the control of total government expenditure (including tax expenditures) on an ongoing basis more difficult. Unless they are regularly reviewed, tax expenditures are more likely to outlive their original justification.

One reason for tax expenditures receiving less attention than outlays is that there is often a lack of consolidated information in a convenient form on the costing of tax expenditures. The provision of such information through the production of an annual Tax Expenditure Statement (TES) is a step towards increased transparency of these concessions. This is the first annual TES to be published in New South Wales. It will contribute to a more complete picture of the State's fiscal policy and of resources devoted to particular functions.

There is no presumption that tax expenditures - in general or in particular - are inappropriate. Rather the purpose of an annual TES is to improve transparency and better inform policy choices and public understanding of the budget.

New South Wales Experience

An estimate of New South Wales tax expenditures for the period 1988-89 was provided in the 1989-90 Budget Papers. This was in response to the recommendation of the New South Wales Tax Task Force¹ that the Budget Papers include an annual costing of all tax concessions provided by way of exemptions or rate reductions.

The Tax Task Force identified two conceptual difficulties surrounding the measurement of tax expenditures.

¹ New South Wales Tax Task Force (1988) "Review of the State Tax System."

- Determining the benchmark tax base, in particular -
 - which activities or assets should be regarded as part of the tax base;
 - whether failure to levy a tax is a tax expenditure, or whether the activity or asset is not properly part of the tax base and should not therefore be included in calculating the tax expenditure; and
 - whether the decision not to tax is a deliberate policy decision or a pragmatic decision due to high compliance costs.
- The valuation of the identified tax expenditures, in particular, obtaining data on the number of individuals exempt from tax and the behavioural reaction of taxpayers to changes in the tax system.

Bearing in mind these difficulties, a transparent and comprehensive listing of tax expenditures for each tax in the tax system remains beneficial to resource use and planning.

Establishment of Benchmarks

The identification of tax expenditures first requires the establishment of a benchmark for each tax against which departures may be evaluated.

Benchmark Criteria

The OECD² reviewed member countries' approaches to measuring tax expenditures and found significant differences among them. There were, however, certain similar criteria in a number of countries. These included the following -

- the benchmark should represent the neutral taxation treatment of similarly placed activities or classes of taxpayers;
- to be considered a tax expenditure, the provision should be applicable to a limited range of taxpayers;
- the aim should be to identify as tax expenditures those special provisions which can, in most cases, be considered as alternatives to direct expenditure programs and be capable of being transformed into direct expenditure programs, rather than attempt to define some ideal taxation system and show deviations from it. Thus the benchmark should not depart excessively from the actual tax structure. For example, in the case of personal income tax, the benchmark used by the Commonwealth in its annual TES is the personal income tax rate scale, including the tax free threshold; thus the existence of the threshold is not classified as a tax expenditure; and
- if there is doubt about the status of a particular provision, the statement should err toward being more comprehensive rather than less.

² OECD 1984, Report by the Committee on Fiscal Affairs, "Tax Expenditures: A Review of the Issues and Country Practices".

In setting a benchmark for State taxes in Australia, account needs to be taken of the Constitutional limitation, which restricts the States' ability to levy taxes on the property of the Commonwealth. The Commonwealth has in some cases made allowances for the States to tax its business enterprises. For example, State taxes and local government charges are collected from Telstra and Australia Post. However, given the overriding limitation, the Commonwealth should be excluded from the State tax base and not included in tax expenditure calculations.

Valuation of Tax Expenditures

Following the determination of the benchmark and the identification of the associated tax expenditures for each tax, an attempt can then be made to ascertain the value of each expenditure. The following points should be noted with regard to measurement -

- In some cases the information is not available to calculate the value of concessions. Where this is the case there is still merit in terms of transparency in outlining the unquantified concessions in the statement of tax expenditure.
- If the tax concession did not apply to the transaction or asset there might well be a different level of activity or volume of taxable assets. This behavioural response complicates the accurate measurement of tax expenditures.
- Since some tax expenditures overlap, the elimination of one concession may not change a taxpayer's liability. As a result, the revenue forgone through a number of tax expenditures may be considerably less than the total obtained by the addition of each individual item.

There are three main approaches to valuing tax expenditures.

Revenue Forgone Approach

The revenue forgone approach is the simplest and involves applying the general rate of tax for the class of activity or asset concerned to the current volume of exempt activities or assets. However, in some cases this information will not be available. Even where it is available, such an approach may not measure accurately the revenue forgone because it does not take into account possible behavioural changes. Thus, estimates of tax expenditures under this approach will not accurately represent the concept of expenditure. They are only a broad indication of the resources that could be applied in other directions if the tax expenditure had not occurred.

Revenue Gain Approach

The revenue gain approach attempts to estimate the increase in revenue that could be expected if a particular relief were to be abolished. Unlike the revenue forgone approach, this approach attempts to take into account any behavioural or second order effects associated with a tax change. Given that such effects are difficult if not impossible to forecast, this approach has limited application.

Outlay Equivalent Approach

A third approach is to calculate what direct expenditure outlay equivalent would be required if a tax expenditure were replaced by a direct expenditure. This approach is also difficult, as it is necessary to make assumptions about whether direct expenditure is taxable in the hands of the recipient, and about their marginal tax rate.

Overview of Tax Expenditures

Notwithstanding the possible errors in estimation under the revenue forgone approach, the simplicity of this method makes it the most practical for use in the following examination of tax expenditures in New South Wales. The estimates of tax expenditures in this publication are for 1996-97, except for the estimates for land tax, which are for the 1997 land tax year. These are the most recent periods for which sufficient information is available to compile reliable estimates

Table 9.1 provides a summary of major (ie \$1 million or greater) tax expenditures for each type of tax in 1996-97. The table does not provide a complete picture, because there are many tax expenditures for which insufficient information is available for estimation purposes. However, most of these inestimable tax expenditures are minor.

On the basis of revenue forgone, major tax expenditures totalled \$1,867 million in 1996-97, representing 15.2 per cent of total tax revenue in that year. Tax expenditures were spread across all tax bases, but the amounts were concentrated in insurance duties, payroll tax and land tax, which accounted for almost 60 per cent of total measurable expenditures. Tax expenditures as a percentage of revenue were largest for insurance duty, share transfer duty and land tax.

Table 9.1: Major Tax Expenditures by Type of Tax, 1996-97

Type of Tax	Tax Expenditures	
	Value	Proportion of Tax Revenue
	\$m	%
Contracts and conveyances duty	64	4.2
General and life insurance duty	376	138.1
Loan security duty	27	20.0
Share transfer duty	200	84.7
Financial institutions duty	52	10.1
Lease duty	4	11.2
Payroll tax	352	9.7
Land tax	324	50.6
Debits tax	18	5.6
Duties on motor vehicles	201	15.7
Gambling and betting taxes	8	0.7
Business franchise licences	241	13.3
TOTAL	1,867	15.2

Table 9.2 provides a classification of major tax expenditure by function and compares them with direct outlays. The functional classification involves determining, where possible, the primary functional purpose of each tax expenditure. Total quantifiable major tax expenditures in 1996-97 were equivalent to 9.3 per cent of general government outlays. Tax expenditures were primarily directed toward 'Other' Economic Affairs (such as financial services), Agriculture, Forestry and Fishing and Health.

Table 9.2: Major Tax Expenditures and Outlays by Function, 1996-97

	Tax Expenditure	Budget Outlays	Tax Expenditures/ Total Outlays
	\$m	\$m	%
General Public Services	137	1,906	7.2
Public Order and Safety	4	1,995	0.2
Education	48	5,176	0.9
Health	220	4,649	4.7
Social Security and Welfare	148	1,510	9.8
Housing and Community Amenities	126	394	32.0
Recreation and Culture	11	456	2.4
Fuel and Energy	...	72	...
Agriculture, Forestry and Fishing	331	333	99.4
Mining, Manufacturing and Construction	...	60	...
Transport and Communication	120	1,613	7.4
Other Economic Affairs	686	499	137.5
Other Purposes	36	1,448	2.5
TOTAL	1,867	20,113	9.3

The remainder of this Statement provides details of each tax expenditure classified by type of tax. For each tax, a distinction is drawn between major (defined as \$1 million or more) and minor (less than \$1 million) expenditures.

9.2 TAX EXPENDITURES BY TYPE OF TAX

CONTRACTS AND CONVEYANCES DUTY

The benchmark is defined as the conveyance of property (whether residential or commercial) where a real change in beneficial ownership occurs. The benchmark tax rate is defined against marginal rates of tax varying from 1.25 to 5.5 per cent.

Major Tax Expenditures

- **First Home Purchase Scheme (\$6 million)**

A 30 per cent discount for an up-front payment or the payment of duty in 5 annual instalments is given to first home buyers whose income and property value do not exceed certain limits.

- **Transfer of residential home between spouses (\$3 million)**

An exemption is granted where properties are conveyed between parties who are married and therefore require a joint holding of properties.

- **Transfer of matrimonial property consequent upon divorce (\$5 million)**

An exemption is granted for conveyances between parties under the Family Law Act 1975 (Cwlth) or partnership property under the De Facto Relationships Act 1984.

- **Exemption for conveyances of a principal place of residence from a corporation or a special trust to certain individuals or conveyance of any land owned as at 31 December 1986 by a special trust from the trust to certain persons (\$1 million)**

An exemption from contracts and conveyances duty was granted to allow land tax payers and trusts which held land in these forms as at 31 December 1986 to transfer the land to enable the beneficial owner to benefit from the principal place of residence exemption or from the general exemption.

- **Intergenerational rural land transfers (\$11 million)**

An exemption is granted for transfers of rural land used for primary production from one generation to another to facilitate young members of rural families to take over the family farm and allow the older generation to retire.

- **Property conveyed on behalf of institutions of a benevolent charitable nature or with the primary objective of promoting the interest of Aborigines (\$6 million)**

- **Corporate reconstructions (\$31 million)**

A exemption is given for corporate reconstructions provided certain qualifying criteria are satisfied, including proof of net benefits accruing to New South Wales, and that the reconstruction will not proceed unless the exemption is granted.

- **Property conveyed for relief of poverty or the promotion of education in New South Wales (n.a.)**
- **Reconveyance by way of discharge of mortgage (n.a.)**

An exemption from contracts and conveyances duty is granted to avoid duty when the holder of a mortgage over old system title real property returns the title deeds to the mortgagor (as this is technically a conveyance) so as to place a discharge of mortgage over this type of property in the same position as a discharge of mortgage over Torrens Title property.

- **Public purpose dedication of land (n.a.)**

Conveyances for land dedicated for public use is exempted from duty.

Minor Tax Expenditures (less than \$1 million)

- Stamp duty is reduced by 10 per cent in the case of conveyance of a private dwelling house where the value of the property is \$10,000 or less, and is intended to be the purchaser's principal place of residence. The term 'private dwelling house' is defined to include strata title lot. This exemption was not used in 1996-97.
- A person who has sold his or her property to a local government council because the home was built on flood-prone land and has then purchased another home may pay duty on the contract by instalments over a 5-year period. No such exemption was granted in 1996-97.

The following are exempt -

- Contracts for the purchase of land under an approved rental-purchase scheme. A rental-purchase scheme is defined to be a scheme under which the operator of the scheme purchases the property and leases it to a prospective purchaser while granting the latter an option to purchase the property within a specified period.
- Conveyances back to a former bankrupt by trustee of his or her estate
- Conveyances relating to the property of the 'notional estate' of a deceased person.

- Land resumed by operation of a Commonwealth Act where the Crown in right of the Commonwealth is the person upon whom liability of duty would otherwise be imposed. If land is subsequently transferred back to the person who was entitled to the land immediately before the resumption, the instrument of transfer is also exempted from duty provided that no compensation has been paid in respect of the resumption.
- Sales of holdings of discharged soldiers. No tax expenditure was incurred in 1996-97.
- Any instrument for sale or transfer of any ship or vessel, to the extent that it constitutes a hiring arrangement or a hire-purchase arrangement, which would be taxed under hiring arrangement duty.
- Conveyances where public hospitals are the liable party.
- Any agreement made by a council with the Roads and Traffic Authority of New South Wales.
- Instruments executed by or on behalf of a council or county council under the *Local Government Act 1993*.
- Conveyances executed for the purpose of amalgamation or dissolution of clubs or the formation of a new club under section 17A of the *Registered Clubs Act 1976*.
- Any instrument executed by or on behalf of the Board of Commissioners or the Commissioners in relation to the *Nauru Island Agreement Act 1919* (Cwlth).
- Instruments executed by or on behalf of agencies within the meaning of the Convention on the Privileges and Immunities of the Specialised Agencies approved by the General Assembly of the United Nations in 1947.
- Conveyances between associations of employees or employers registered under the *Industrial Relations Act 1988* (Cwlth) for the purpose of amalgamation.
- Conveyances where the New South Wales Aboriginal Land Council (ABL), Regional ABL, and Local ABL are the liable party.
- Conveyance of property between licensed insurers, and between the WorkCover Authority and licensed insurers, under the *Workers Compensation Acts* of 1926 and 1987 (NSW).
- Tenants of the Department of Housing are given an exemption from contracts and conveyances duty when buying their principal place of residence. This exemption was not used in 1996-97.
- Community Housing Program administered by the Department of Housing.

GENERAL INSURANCE

The benchmark is defined as all premiums for general insurance policies, except those for reinsurance (which is exempt because taxing reinsurance would amount to taxing the same risk twice). The benchmark tax rate is 11.5 per cent of premium paid.

Major Tax Expenditures

- **Concessional rate for motor vehicle, aviation, disability income, occupational indemnity and crop and livestock insurance (\$186 million)**

Under section 86(1) of the *Stamp Duties Act 1920*, a concessional rate of 5 per cent (from 1 January 1997) is applied to a number of categories of insurance including motor vehicle (excluding compulsory third party), aviation, disability income, occupational indemnity and crop and livestock insurance.

- **Exemption for third party motor vehicle personal injury insurance as per the Motor Vehicle Act 1988 (\$138 million).**

Third party motor vehicle personal injury insurance (the 'green slip') is exempt from stamp duty. The exemption for third party insurance was provided on the basis that third party insurance was compulsory.

- **Exemption for marine insurance covering hulls of commercial ships and the cargo carried by land, sea or by air (\$15 million).**

Minor Tax Expenditures (less than \$1 million)

The following are exempt -

- Non-profit charities, benevolent, philanthropic and patriotic organisations.
- Aboriginal land councils and non-commercial ventures of local councils.
- Insurance covering mortgages acquired for issuing mortgage backed securities.
- Separate policies covering loss by fire of labourer's tools.
- Redundancy insurance in respect of housing that does not exceed \$124,000.
- Insurance covering only property of the Crown in right of New South Wales.

LIFE INSURANCE

The benchmark is defined as all products (or part thereof) greater than \$100 offered by life insurance companies that provide for a payment in the event of death or injury from natural causes of the person insured or upon survival to a specified age. The benchmark tax rate is 10 cents per \$200 where the sum assured is between \$100 and \$2,000 and \$1 plus 20 cents per \$200 where the sum assured is greater than \$2,000.

Major Tax Expenditures

- **Superannuation (\$36 million)**

An exemption is granted to all superannuation other than that offered by life companies to an individual.

Minor Tax Expenditures (less than \$1 million)

There are no minor tax expenditures.

LOAN SECURITY DUTY

The benchmark is defined as all secured loans of greater than \$500 which are either executed in New South Wales or affecting property in New South Wales. The benchmark tax rate is \$5 for the first \$16,000 plus \$4 per \$1,000 or part thereof on excess.

Major Tax Expenditures

- **Refinanced loans where the borrower and the security for the loan remain the same (\$20 million)**

A loan security that secures the amount of the balance outstanding under an earlier loan security granted for the same borrower over the same or substantially the same property is exempt. Additional amount above the previously secured amount are liable for loan security duty.

- **First home purchase mortgage covered by First Home Purchase Scheme (\$6 million)**

Mortgages given to assist the financing of a purchase under a contract, which is eligible under the First Home Purchase Scheme, are exempt from duty.

- **Additional advances up to \$10,000 in any 12 month period (\$1 million)**

This is a concession given for small loans not exceeding the prescribed amount provided that the additional loan is not made within 12 months after the initial loan. As any secured loan above \$500 is in principle, taxable, this is considered a tax expenditure.

Declaration of trust over corporate debt securities and mortgages (n.a.)

Transfers of corporate debt security or a declaration of trust made on or after 1 January 1995 over property identified in the declaration as corporate debt security are exempt from duty.

- **Mortgage-backed securities (n.a.)**

An exemption is given for financial institutions using pooled mortgages from their lending assets as security for borrowing funds.

- **Loan-backed securities (n.a.)**

Securities issues backed by cash flow from loans (secured and unsecured) are exempted from loan security duty.

- **Fund raisings by finance companies through debenture issues (n.a.)**

A concession is given to companies whose sole or principal business is to provide finance to the public. Debentures issued, trust deeds and mortgages executed by “financial corporations” as defined in the legislation are not liable to loan security duty. However, the trust deed is stamped under the Declaration of Trust head of duty with \$200.

Minor Tax Expenditures (less than \$1 million)

The following are exempt -

- Mortgages created solely for the purpose of providing security in accordance with a condition imposed on the grant of bail in criminal proceedings.
- Regulated contracts defined within the meaning of the *Credit Act 1984*, where the amount financed is \$20,000 or less.
- Primary producers who refinance their borrowings, or revise their security arrangements, to allow eligibility for subsidies from the Rural Assistance Authority. This concession is limited to refinancing (ie. it exclude loans from redraw facilities) and is limited to the same or substantially the same land (ie it excludes any changes in boundaries of improvement made to the land).
- Mortgage given by Federal or State/Territory governments or public statutory body.
- Loan given by councils or county councils under *Local Government Act 1993*.
- Any loan security made or given to the WorkCover Authority.
- Instruments executed by or on behalf of a council or county council under the *Local Government Act 1993*.

- Board of Commissioners or the Commissioners in relation to the agreement approved by the *Nauru Island Agreement Act 1919* (Cwlth). No exemption was granted in 1996-97.
- Loan security given for the relief of poverty and promotion of education.
- Loan security given to institutions of charitable or benevolent nature, or for the promotion of the interest of Aborigines.
- New South Wales Aboriginal Land Council (ABL), Regional ABL and Local ABL.
- Offshore banking units (as defined in the *Income Tax Assessment Act 1936* (Cwlth)) where a loan is executed for offshore parties.
- Tenants of Department of Housing or from the Community Tenancy Scheme who, in mortgaging the real property, obtain not less than 25 per cent of the beneficial ownership of land and who intend to use the land as their principal place of residence.
- Debentures granted by a non-profit organisation in conjunction with a lease, the purpose of which is to provide accommodation to an aged or disabled person.
- Bonds to Her Majesty, or any person or authority on her behalf.
- Public hospitals.
- Mortgage of liens under the *Liens on Crops and Wool and Stock Mortgages Act 1898*, or a special lien under the *Cooperation Community Settlement and Credit Act 1923*.
- Agencies within the meaning of the Convention on the Privileges and Immunities of the Specialised Agencies approved by the General Assembly of the United Nations in 1947.
- Instrument executed for the purpose of creating, issuing or marketing mortgage-backed securities.
- The amalgamation, dissolution of clubs or the formation of a new club.

SHARE TRANSFER DUTY

The benchmark is defined as the turnover (sale price x quantity traded) of shares traded on the Sydney operations of the Australian Stock Exchange (listed) or of shares of a company registered in New South Wales, with the exception of Government securities, mortgage and loan-backed securities, lending of shares, American Depository Shares (ADS) and American Depository Receipts (relating to ADS), and the transfer of corporate debt securities. The benchmark tax rate is 15 cents per \$100 or part thereof for both buyer and seller for on-market transactions and 30 cents per \$100 or part thereof for off-market transactions in listed companies and 60 cents per \$100 or part thereof otherwise, with the purchaser paying all of the duty.

Major Tax Expenditures

- **Principal Trading (\$200 million)**

A concessional rate of duty of 0.25 cents per \$100 or part thereof applies to traders trading on their own behalf.

Minor Tax Expenditures (less than \$1 million)

- Exemption for share buy-backs by New South Wales companies.
- Exemption for mining companies whose operations relate solely to New South Wales.

MOTOR VEHICLE REGISTRATION DUTY

The benchmark is defined as first registration and the transfer of subsequent registration certificates to a final user. The benchmark tax rate is 3 per cent of the value of the vehicle.

Major Tax Expenditures

- **Local Councils (\$10-15 million)**

An exemption is granted for the registration in the name of a local council provided the vehicle is not used for any trading undertaking.

- **Transfer of ownership after divorce or a breakdown of a defacto relationship (\$1 million)**

An exemption is granted for the transfer of registration into the name of one of the parties to a divorce or separation in a de facto relationship.

- **Transfer of ownership of a deceased registered owner (\$3 million)**

An exemption is granted for the transfer of registration to the legal personal representative of a deceased registered owner or the person beneficially entitled to the vehicle in his estate.

- **Secondhand/demonstrator motor vehicle (\$2 million)**

An exemption is granted for the registration of a motor vehicle to a licensed motor dealer or wholesaler under the *Motor Dealers Act 1974* (NSW).

- **Non-profit charitable, benevolent, philanthropic or patriotic organisations (\$5-15 million)**

An exemption is granted to all vehicles registered by non-profit charitable, benevolent, philanthropic or patriotic organisations.

- **Vehicles specially constructed for ambulance or mine rescue work (\$1-5 million)**

Any vehicle specifically constructed for the work of conveying sick or injured persons or which is used solely or principally as an ambulance or specifically constructed to carry out mine rescue work.

Minor Tax Expenditures (less than \$1 million)

The following are exempt -

- Conveyances weighing less than 254 kg used for transporting invalids.
- Rural lands protection boards.
- Aboriginal Land Councils within the meaning of the *Aboriginal Land Rights Act 1983* (NSW).

FINANCIAL INSTITUTIONS DUTY

The benchmark is defined as all receipts to financial institutions except for receipts to internal and working accounts, clearing and settlement accounts. The benchmark tax rate is 0.06 per cent.

Major Tax Expenditures

- **Non business activities of government departments (\$25-50 million)**

These bodies are exempt from FID under Section 98A(1)(m) of the *Stamp Duties Act (1920)*. This section allows an exemption for Departments of Commonwealth, State and Territory and Local Governments other than those departments whose sole or principal function is to carry on an activity in the nature of a business.

- **Direct crediting of social security and veteran affairs pensions (\$9 million)**

The direct crediting of pensions from the Department of Social Security and the Department of Veteran Affairs are exempt from FID, being "prescribed receipts" under Regulation 9A(1) of the Stamp Duties (Financial Institutions Duty) Regulation.

- **Charitable, educational and religious bodies (\$3 million)**

These bodies are exempt from FID under Section 98A(1)(z) of the Stamp Duties Act.

- **Public and non-profit hospitals (\$3 million)**

These bodies are exempt from FID under Section 98A(1)(z) of the Stamp Duties Act.

- **Offshore Banking Units (n.a.)**

An exemption is provided in relation to offshore banking activity within the meaning of section 121D of the Income Tax Assessment Act 1936 (Cwlth).

Minor Tax Expenditures (less than \$1 million)

The following are exempt -

- Centralised data processing operations of companies.
- Receipts from the sale of goods other than under a credit contract, hiring arrangement or lease.
- Initial receipt by a trustee company of the assets of a deceased person.
- Newly licensed foreign exchange dealers.
- The initial issue of mortgage backed securities.
- Association of New South Wales Credit Unions Ltd, Association of Central Credit Unions Ltd and Co-operative Federation of NSW Ltd.
- Duty paid under corresponding Act from another State.
- Aboriginal land councils.
- Building society transfer of engagements and amalgamation.
- Bill rollovers (reimbursement by a customer).
- Home loan repayments by veterans.
- Accounts of banks with other banks.
- Transfers of receipts of workers compensation insurers.
- Transfers between exempt accounts.
- Deposits of trust money with the Australian Stock Exchange Ltd by members.
- Flemington Markets Commercial Services Co-operative Ltd (farm produce) and Newcastle Markets.
- Scrip Lending.
- Account of Combined Financial Processing Pty Ltd.
- Australian Olympic Committee Incorporated and the New South Wales Olympic Council Incorporated in relation to the Sydney 2000 Games from 1 January 1996.

- Sydney Organising Committee for the Olympic Games and the Sydney Paralympic Organising Committee Ltd.
- Amalgamation of credit unions, with effect from 20 November 1996.
- Private charitable trusts from 29 March 1996.
- Certain government trading enterprises and government businesses.

HIRING ARRANGEMENTS DUTY

The benchmark is defined as all short-term consumer hiring and other non-finance rentals greater than \$6,000 per month and equipment financing arrangements, including hire purchase arrangements, entered into after 1 October 1996. The benchmark tax rate is 0.75 per cent.

Major Tax Expenditures

There are no major tax expenditures.

Minor Tax Expenditures (less than \$1 million)

The following are exempt -

- Prosthetic items.
- Wet hires (where equipment is hired with an operator).
- Gas, water and electricity meters.
- On-site caravans.

LEASE DUTY

The benchmark is defined as any lease of property valued at greater than \$3,000 in New South Wales. The benchmark tax rate is 35 cents per \$100 of total rent.

Major Tax Expenditures

- **Exemption for residential leases (\$4 million)**

A residential lease under which a person has a right to occupy any premise as a place of residence for a term not exceeding five years is exempt.

Minor Tax Expenditures (less than \$1 million)

The following are exempt -

- Leases on a movable dwelling site (essentially referring to sites in caravan parks and relocatable home parks).
- Leases of accommodation for aged and disabled persons.
- Leases executed by a public hospital.
- Leases executed by an Aboriginal Land Council.
- Leases of premises to the Home Care Service of New South Wales.

PAYROLL TAX

The tax benchmark is defined as aggregate annual gross remuneration paid by a single or group taxpayer in excess of a threshold of \$600,000. The benchmark tax rate is 6.85 per cent.

Major Tax Expenditures

- **Public Hospitals and Area Health Services (\$204 million)**

An exemption is granted for remuneration paid by a public hospital or an area health service to a person while engaged in work of a kind ordinarily performed in connection with the conduct of these organisations.

- **Schools and Colleges (\$43 million)**

An exemption is granted for remuneration paid by a school or college (other than a technical school or a technical college) that is not for profit and which provides education at or below, but not above, the secondary level of education to a person while engaged in work of a kind ordinarily performed in connection with the conduct of these organisations.

- **Religious Institutions (\$5 million)**

An exemption is granted for remuneration paid by a religious institution to a person while engaged in work of a kind ordinarily performed in the conduct of these institution.

- **Charitable Institutions (\$20 million)**

An exemption is granted for remuneration paid by a charitable, benevolent, philanthropic or patriotic institution (other than an instrumentality of the State) to a person while engaged in work of a charitable, benevolent, philanthropic or patriotic nature.

- **Local Councils (\$62 million)**

An exemption is granted for remuneration paid by a council or county council, except in connection with a number of trading undertakings including the operation of an abattoir or a public food market, parking station, cemetery, crematorium, hostel; the operation of a coal mine, the supply and distribution of coal; the operation of a transport service and the supply of building materials.

- **Private hospitals (\$10 million) and nursing homes (n.a.)**

An exemption is granted for a hospital which is carried on by a society or association otherwise than for the purpose of profit or gain to the individual members of the society or association to a person in respect of time when the person is engaged in work of a kind ordinarily performed in connection with the conduct of hospitals.

- **Certain Termination Payments (\$5-10 million)**

Termination payments made in relation to leave accrued prior to 1 January 1990 are exempt from payroll tax.

Minor Tax Expenditures (less than \$1 million)

The following are exempt -

- Wages paid to an employee who is on leave from employment by reason of service in the Defence Forces.
- Wages paid to persons employed under the Community Development Employment Program administered by the Aboriginal and Torres Strait Islander Commission.
- Wages paid by the Australian-American Educational Foundation.
- Wages paid to members of the official staff by a consular or other non-diplomatic representative of another country or by a Trade Commissioner representing in Australia any other part of Her Majesty's dominions.
- Wages paid by the Governor of the State.

LAND TAX

The benchmark tax base for land tax is defined as the unimproved capital value of all land owned (as defined in the *Land Tax Management Act 1956* (NSW)) at 31 December by a person or organisation other than the Commonwealth or New South Wales Governments which (i) for owner occupied residences, occupies 2,100 square metres or more (ii) for non-concessional companies and special trusts, the total aggregate land values, and (iii) for any other land owners, the aggregate land owned has an unimproved capital value of \$160,000 or more. The benchmark tax rate is 1.65 per cent.

Major Tax Expenditures

- **Boarding Houses for Low-Income Persons (\$15 million)**

An exemption is granted for land used by boarding houses which meet approved guidelines, principally that the rent charged is less than the amount prescribed by the Office of State Revenue.

- **Low Cost Accommodation within 5 km of GPO (\$8 million)**

An exemption is granted for land used and occupied primarily for low cost accommodation which met approved guidelines. These guidelines include: the requirement that the land be within a five kilometre radius of the Sydney GPO, specified maximum weekly tariffs and a requirement that the owner undertake to pass on the benefit of the land tax exemption to tenants (for example by lowering tariffs or carrying out improvements).

- **Land used for Primary Production (\$200 million)**

An exemption is granted for land used for primary production. Hobby farms do not meet the requirement for land used for primary production and therefore do not fall within this exemption.

- **State-owned Corporations and Government Trading Enterprises (\$26 million)**

State-owned corporations are granted an exemption before the date of incorporation. Government Trading Enterprises were granted an exemption from land tax, however, most are now paying land tax or at least an amount equivalent to the land tax they would have to pay.

- **Fire brigade, ambulance, and mines rescue stations (\$1 million)**

An exemption is granted for land used solely as a site for a fire brigade, ambulance or mines rescue station.

- **Racing Clubs (\$3 million)**

An exemption is granted for land owned by or held in trust for any club for promoting or controlling horse-racing, trotting-racing or greyhound-racing which is used primarily for the purposes of the meetings of the above.

- **Employer and Employee Organisations (\$1 million)**

An exemption is granted for land owned by or held in trust for employer and employee organisations for that part that it is not used for a commercial activity open to members of the public.

- **Cooperatives (\$4 million)**

An exemption is granted for land owned by a co-operative whose objectives are listed under the Co-operatives Act 1992 (NSW) and whose objectives are listed in section 7 of that Act.

- **Public cemeteries and crematoriums (\$5 million)**

An exemption is granted for any land used as a public cemetery or crematorium.

- **Retirement villages (\$56 million)**

An exemption is given for land owned and used by retirement villages.

- **Child Care Centres (\$3-4 million)**

An exemption is granted for land used as a residential child care centre licensed under the Children (Care and Protection) Act 1987 (NSW) or a school registered under the Education Reform Act 1900 (NSW).

- **Agricultural Showgrounds (n.a.)**

An exemption is granted for land used and occupied for the purpose of holding agricultural shows, or shows of a like nature and owned by or held in trust for, a society which is established for the purpose of holding such shows, not for the pecuniary profit of its members and primarily uses its funds for the holding of such shows.

- **Friendly Societies (n.a.)**

An exemption is granted for any society registered under the Friendly Societies Act 1989 (NSW).

- **Religious societies (n.a.)**

An exemption is provided for land owned by or in a trust for a religious society if the society is carried on solely for religious, charitable or educational purposes.

- **Non-profit societies, clubs and associations (n.a.)**

An exemption is provided where a building (or part thereof) is occupied by a society, club or association not carried on for pecuniary profit.

- **Charitable and educational institutions (n.a.)**

An exemption is provided for land owned by or in a trust for charitable or educational institution if institution is carried on solely for charitable or educational purposes and not for pecuniary profit.

- **Public gardens, recreation grounds and reserves (n.a.)**

An exemption is provided for land used as a public garden, public recreation ground or public reserve.

- **Sporting clubs (n.a.)**

An exemption is provided for land owned by or in a trust for any club or body of persons where the land is used primarily for the purpose of a game or sport and not used for pecuniary profit of the members of that club or body.

- **Land owned and used by a local council (n.a.)**

Minor Tax Expenditures (less than \$1 million)

The following are exempt -

- Nursing Homes.
- Marketing and pastures protection boards.
- Aboriginal Land Councils.
- Concessions for land subject to heritage orders.
- New rental residential accommodation - 5 year land tax holiday.
- Bush fire victims.
- Community land development.
- Concession for unoccupied flood-labile land.
- Land used for maintaining endangered animals.
- Land owned by RSL (NSW Branch), Anzac House.

DEBITS TAX

The benchmark is defined as all accounts with cheque drawing facilities. The benchmark rate of tax varies from 30 cents to \$4.00 per debit.

Major Tax Expenditures

- **Non-business activities of government departments (\$10-20 million)**

The non-business activities of New South Wales Government departments are exempt from Debits Tax.

- **Public benevolent and religious bodies (\$1-3 million)**

The debits from cheque linked accounts of public benevolent and religious bodies as defined under the Act are granted an exemption from Debits Tax.

- **Schools, colleges and non-profit making universities (\$1-2 million)**

The debits from the cheque linked accounts of schools, colleges and non-profit universities as defined under the Act are granted an exemption from Debits Tax.

Minor Tax Expenditures (less than \$1 million)

The following are exempt -

- Public and private hospitals as defined under the Act.
- Named government trading enterprises and government businesses.
- Foreign governments.
- Governor and Governor-General.
- Debits for the payment of income tax on natural resources for non-residents (section 221 YHZC(1A) of the *Income Tax Act (1936)* (Cwlth)).
- Debits of Sydney Organising Committees for the Olympic Games and the Sydney Paralympic Organising Committee Ltd.
- Offshore banking units within the meaning of section 121D of the *Income Tax Assessment Act 1936* (Cwlth).

VEHICLE WEIGHT TAX

The benchmark is defined as all vehicles intended for on-road use with the exception of Commonwealth Government vehicles which for constitution reasons can not form part of the tax base. The benchmark tax rate is as defined in the *Motor Vehicles Taxation Act 1988* (NSW) for private and business vehicles.

Major Tax Expenditures

- **Selected Social Security Recipients (\$80 million)**

An exemption is granted in respect to any motor vehicle owned by holders of pensioner concession card, Department of Veteran Affairs (DVA) Gold Card endorsed TPI and DVA Gold Card endorsed War Widows. The vehicle must be used by those pensioners substantially for social, domestic or pleasure purposes.

- **Primary Producers (\$12 million)**

For motor vehicles not greater than 4.5 tonnes of gross vehicle mass, primary producers pay -

- private rates rather than business rates for cars and station wagons; and
- 55 per cent of business rates for trucks, tractors and trailers.
- Various registration concessions are available for 'light' primary producers vehicles over 4.5 tonnes GVM within specific weight ranges.

- **Local Government (\$10 million)**

An exemption is granted to any motor vehicle or plough, bulldozer, mechanical scoop or shovel, road grader, road roller or similar machinery that is owned by a local council within the meaning of the Local Government Act 1993 and which is used for the purposes of road construction, road maintenance, road repair, removal of garbage or night soil, bush fire fighting, civil defence work or to any roller, lawn mower or similar machinery used solely or principally for the rolling or maintenance of tennis courts, cricket pitches, lawns or pathways.

- **Non-profit charitable, benevolent, philanthropic or patriotic organisations (\$5-15 million)**

An exemption is granted to all vehicles registered by non-profit charitable, benevolent, philanthropic or patriotic organisations.

- **Bush fire or civil defence work (\$1-5 million)**

Any motor vehicle (other than Government owned) that is used for or in connection with civil defence work or in connection with fire fighting work is exempt from weight tax.

- **Private Ambulances (\$1-5 million)**

Any motor vehicle that was specially constructed for the work of conveying sick or injured persons or which is used solely or principally as an ambulance is exempt from weight tax.

Minor Tax Expenditures (less than \$1 million)

- Mobile plant defined as implements such as road grader or plant on truck chassis eg cherry pickers is taxed the equivalent of heavy vehicle weight tax instead of NRTC charges.
- An exemption is granted for the motor vehicles registered by foreign consuls.
- A concessional rate of 55 per cent of business rates (or 30 per cent if outside the Sydney metropolitan area, Newcastle or Wollongong districts) is applied to any motor vehicle which is used solely or principally as a tow truck.
- A concessional rate of 55 per cent of private rates is applied to all vehicles used solely or principally by a government school or a registered non-government school for driver education.
- A concessional rate of tax of 55 per cent of private rates is applied to any motor vehicle that is registered in behalf on a Police-Citizens Youth Club and which is used solely for the purposes of such a club.
- A concessional rate of tax is applied to any motor vehicle, which weighs not more than 250 kilograms unladen and is specially constructed to be used and is used as a conveyance for an invalid.

- An exemption or partial exemption is granted for all vehicles, which comprise a crane, concrete mixer, welding plant, air compressor or similar machinery or apparatus.
- A concessional rate of tax is applied to any motor vehicle that is owned by a rural land protection board and is used solely for the carrying out of the functions of the board.
- Any motor vehicle on which a Trader's plate is being used in accordance with the *Traffic Act 1909* (NSW) or the regulations under that act is exempt from tax.
- An exemption is applied to any motor vehicle that was specially constructed to carry out mine rescue work other than for NSW Government vehicles.

DRIVERS' LICENCES

The benchmark is considered to be the licensing of all persons to drive a vehicle in New South Wales on public roads. The benchmark tax rate is \$33 for a one year licence, \$80 for a three year licence and \$108 for a five year licence.

Major Tax Expenditures

- **Selected Social Security Recipients (\$9 million)**
An exemption is granted to any licence holder who also holds a pensioner concession card, Department of Veteran Affairs (DVA) TPI cards, DVA Gold War Widows Card and who can provide evidence that their income is below a certain level or can provide a DVA letter regarding their disability rate. The vehicle owned by the licence holder must be used by those pensioners substantially for social or domestic purposes.

Minor Tax Expenditures (less than \$1 million)

There are no minor tax expenditures.

VEHICLE TRANSFER FEES

The benchmark is considered to be all transfers of previously registered vehicles. The benchmark tax rate is \$20 per vehicle.

Major Tax Expenditures

There are no major tax expenditures under this head of duty.

Minor Tax Expenditures (less than \$1 million)

The following are exempt -

- Consignees.
- Beneficiaries under wills.
- Executors and administrators of deceased estates.
- Vehicles awarded in court decisions.
- Representatives of unincorporated organisations.
- Intra-company transfers.
- Dealers transferring the vehicle from one yard to another.
- Adding/removing a trading name.

MOTOR VEHICLE REGISTRATION FEES

The benchmark is defined to be all vehicles intended for on-road use. The benchmark tax rate is \$40 for most motor vehicles, \$135 for lorries with mass of 5 tonnes or more and \$192 for articulated trucks.

Major Tax Expenditures

- **Selected Social Security Recipients (\$21 million)**

Holders of pensioner concession cards, Department of Veteran Affairs (DVA) TPI Card, DVA Gold War Widows Card (based on income or based on disability pension rate) are exempt from the fee.

Minor Tax Expenditures (less than \$1 million)

- **Exemption for Mobile Disability Conveyance.**

GAMBLING AND BETTING TAXES

The benchmark is defined to be any type of bet or wager placed on or received by these forms of gambling based on the player loss regime.

Totalisator Racing Gambling

For racing totalisator gambling, the benchmark tax rate is that which applies to TAB gambling. Following privatisation of the TAB, all totalisator gambling in New South Wales will be taxed at the same rate.

Major Tax Expenditures

- **Reduced tax rate for racecourses (\$8 million)**

A lower tax rate applies for race courses than for off-course TAB betting. For example for win and place bets the tax rate was 6.75 per cent for the TAB and 5.25 per cent for race clubs.

- **Minor Tax Expenditures (less than \$1 million)**

A full rebate of tax is provided to race clubs where turnover is less than \$10,000 with the rebate reducing in increments of \$500 for turnover above this level cutting out at \$35,000.

BUSINESS FRANCHISE LICENCES

On 5 August 1997 the New South Wales tobacco franchise fee was declared to be an 'excise' by the High Court and therefore invalid under Section 90 of the Constitution. In response, and at the unanimous request of the States and Territories, the Commonwealth imposed replacement taxes for petroleum, tobacco and alcohol franchise fees, with revenue collected returned to the States and Territories. Since then, States and Territories have paid any concessions previously imbedded in their franchise fee legislation as subsidies, which are budget appropriations rather than tax expenditures. The following description of franchise fee concessions reflects the situation in 1996-97, before the High Court decision.

Liquor Franchise Fees

The benchmark is defined as the value of all alcohol sold to consumers in New South Wales. The benchmark tax rate is 13 per cent.

Major Tax Expenditures

- **Low strength alcohol (\$28 million)**

Purchases of low strength alcohol are exempted. The exemption of low alcohol product was introduced in the 1993-94 Budget for health, safety and community reasons. Previously, low alcohol beer was liable to a franchise fee but at a concessional rate of 7 per cent.

- **Vignerons sales (\$3 million)**

Vignerons are only liable for a nominal annual fee on sales of their wine on the premises up to prescribed quantities (45 litres).

Tobacco Franchise Fees

The benchmark is defined as wholesale sales of tobacco in New South Wales for the purpose of retail sale in the State. However, a zoning scheme applied in areas near Queensland, which imposed a lower rate of 75 per cent. The tobacco licence fee applied in those areas was imposed at the same rate as in Queensland. The Queensland border rate scheme is considered a part of the tax design and is therefore not a tax expenditure since the revenue foregone would essentially be lost if the scheme did not operate due to cross border purchasing. The benchmark tax rate is 100 per cent.

Major and Minor Tax Expenditures

There are no tax expenditures for tobacco franchise fees.

Petroleum Franchise Fees

The benchmark tax base is defined to be the value of all petroleum products, except for aviation fuel. The benchmark tax rate is 7.88 cents per litre for motor spirit and 7.93 cents for diesel fuel.

Major Tax Expenditures

- **Off-road use of diesel fuel (\$105 million)**

The franchise fee was not levied on diesel fuel used for 'off road' purposes. To obtain this concession purchasers had to obtain a certificate indicating their diesel purchases were for 'off road' use.

- **Liquid petroleum gas (LPG) (\$105 million)**

Sales of liquefied petroleum gas were not subject to the fuel franchise fee. Given such gas is used as a substitute for petrol the exemption from the tax is regarded as a tax expenditure rather than a design feature.

Minor Tax Expenditures (less than \$1 million)

- Charities receive a \$50 rebate each year for each car registered in their name in respect of fuel purchases.

THIRD PARTY LEVY

The benchmark is defined to be all vehicles intended for on road use (excluding trailers). The benchmark rate is \$43 for all vehicles.

Major Tax Expenditure

- **Selected Social Security Recipients (\$23 million)**

Holders of pensioner concession cards, Department of Veteran Affairs (DVA) TPI Cards, DVA Gold War Widows Cards (based on income or based on disability pension rate) are exempt from the fee.

