

CHAPTER 5: TAX EXPENDITURES AND CONCESSIONS

- ◆ Tax expenditures in 2008-09 are estimated at \$4 billion.
- ◆ Concessions in 2008-09 are estimated at \$1.4 billion.
- ◆ By value, tax expenditures in 2008-09 are highest in payroll tax, purchaser transfer duty and general and life insurance. Together they represent about 60 per cent of total measurable tax expenditures.

5.1 INTRODUCTION

Direct government spending and budget allocations are subject to scrutiny through the annual budget process. Tax expenditures and concessional charges have the same budgetary and welfare effects as direct outlays. However, they are less visible than direct outlays because their cost is in revenue forgone rather than dollars spent.

This chapter estimates revenue forgone from tax expenditures and concessions.

Tax concessions are termed *tax expenditures* because they have a similar policy and fiscal impact as expenditures. Tax expenditures involve granting certain taxpayers, activities or assets more favourable tax treatment than applies to taxpayers in general. One example is the transfer duty exemption provided to eligible first home buyers.

Concessional charges involve the sale of goods and services to certain users at a lower charge or fee than applies to the wider community. One example is lower public transport fares for pensioners and senior citizens.

Appendix E provides a comprehensive listing and, where possible, costing of each major tax expenditure and concession reflecting all announced policies up to and including this Budget.

5.2 CONCEPTS AND METHODS

Tax expenditures can take the form of:

- ◆ exempting certain taxpayers from a tax
- ◆ applying a lower rate of tax, a rebate or deduction, to certain taxpayers or
- ◆ deferring the time for payment by certain taxpayers of a tax liability.

Concessions on user charges and fees can take the form of:

- ◆ exempting certain users from a charge generally applied to the community for government goods and services or exempting certain sections from a fee generally applied to the community or
- ◆ imposing on certain sections of the community a charge lower than that applied to the general community for government goods and services, or imposing fees lower than the general fee.

There is an element of judgement in deciding what constitutes a tax expenditure or concession and what constitutes a structural feature of the underlying taxation or service delivery system. For example, stamp duty on property transfers is charged at different marginal rates according to the value of the property involved. This could be construed as providing a concessional rate of taxation for lower valued properties. However, those lower marginal rates are not classified here as tax expenditures. Rather, the different rates are regarded as a design feature of the duty arrangements.

Similarly, the provision of a good or service at varying rates to certain members of the community depending on say, income, is not classed as providing a concession for those charged at the lower rate. Rather, the different rates are regarded as a design feature of the pricing arrangements. For instance, public transport is generally provided at different rates to adults and children. However, the children's rate is not classified here as a concession, but a design feature of the pricing arrangements. (However, where some children receive an exemption from the normal children's fare, that is regarded as a concession.)

There is also judgement involved in deciding what concessions funded by explicit budget payments are included in this Chapter and in Appendix E.

Concessions are included where the forgone agency revenue is supplemented from the Budget through social program policy payments. These concessions are included to make the cost of the concession to the total public sector apparent, regardless of whether an intra-government transfer offsets the cost of the concession for the agency concerned.

Caution should be exercised when using these estimates. In particular, inter-jurisdictional comparisons of tax expenditures and concessions can be rendered difficult by different judgements made in defining which elements of the tax and charging system constitute tax expenditures and concessions, and which elements represent structural features.

5.3 TAX EXPENDITURES

The estimates of tax expenditures in this chapter are for the years 2006-07, 2007-08 and 2008-09 except for the estimates for land tax, which are for the 2007, 2008 and 2009 land tax years (land tax years commence at midnight, 31 December).

Table 5.1 provides a summary of major (\$1 million or greater) tax expenditures for each type of tax.

Table 5.1: Major tax expenditures by type of tax

Tax	2006-07		2007-08		2008-09	
	<i>Tax Exp. as % of tax revenue</i>		<i>Tax Exp. as % of tax revenue</i>		<i>Tax Exp. as % of tax revenue</i>	
	<i>Tax Exp. \$m</i>	<i>revenue collected</i>	<i>Tax Exp. \$m</i>	<i>revenue collected</i>	<i>Tax Exp. \$m</i>	<i>revenue collected</i>
Purchaser Transfer Duty	757	18.2	859	21.0	798	21.0
General and Life Insurance Duty	659	110.1	649	106.7	680	107.4
Mortgage Duty	375	105.6	293	105.8	164	140.2
Marketable Securities Duty	90	83.1	109	147.3	57	142.5
Payroll Tax	819	14.5	879	14.3	915	14.3
Land Tax	536	26.3	524	26.6	547	27.6
Taxes on Motor Vehicles	293	14.9	310	14.7	337	15.0
Parking Space Levy	22	43.9	23	45.1	24	45.3
Gambling and Betting Taxes	489	29.6	463	30.0	518	32.3
Total	4,040	22.8	4,109	22.2	4,040	21.8

Quantifiable tax expenditures (valued at more than \$1 million) are estimated at \$4.1 billion in 2007-08, representing 22 per cent of total tax revenue. Tax expenditures are estimated to decrease by \$69 million, to \$4 billion in 2008-09 due to the abolition of marketable securities duty and the abolition of mortgage duty on non-owner occupied residential property, both from 1 July 2008.

It is worth noting that several taxes show the value of measurable tax expenditures exceeding revenue raised. This is due to the large number of exemptions provided for those particular taxes and the considerable cost they represent.

Tax expenditures for payroll tax are the largest category of measurable tax expenditures, estimated at around 23 per cent of total tax expenditures in 2008-09. The value of tax expenditures for payroll tax is expected to increase in 2008-09 by \$36 million because of taxation policy changes included in this budget.

The gambling and betting tax expenditures relate to the lower taxation of gaming machines in registered clubs compared to those in hotels.

Table 5.2 provides a functional classification of tax expenditures.

Table 5.2: Tax expenditures by function

<i>Function</i>	<i>2006-07</i> \$m	<i>2007-08</i> \$m	<i>2008-09</i> \$m
General Public Services	202	220	226
Defence	...	...	...
Public Order and Safety	5	5	5
Education	116	126	132
Health	467	495	513
Social Security and Welfare	440	469	502
Housing and Community Amenities	543	517	499
Recreation and Culture	496	470	526
Fuel and Energy	...	...	...
Agriculture, Forestry, Fishing and Hunting	379	370	386
Mining, Manufacturing and Construction	...	...	...
Transport and Communications	36	38	39
Other Economic Affairs	1,351	1,385	1,204
Other Purposes	5	14	8
Total	4,040	4,109	4,040

In terms of revenue forgone, the largest categories of tax expenditures are Other Economic Affairs (which includes assistance to industry generally rather than a particular type of economic activity), Recreation and Culture (which includes the club gaming expenditures for registered clubs) and Health (which includes expenditures for public hospitals and area health services).

Tax expenditures in the Other Economic Affairs function are estimated to decrease in 2008-09. This is mostly driven by a reduction in the tax expenditure for refinanced loans due to the abolition of mortgage duty on non-owner occupied residential property.

5.4 CONCESSIONS

Table 5.3 classifies the major concessions provided by the NSW Government by function. The total value of major concessions is estimated at \$1.4 billion in 2008-09, an increase of \$82 million from 2007-08.

Table 5.3: Concessions by function

<i>Function</i>	<i>2006-07</i> <i>\$m</i>	<i>2007-08</i> <i>\$m</i>	<i>2008-09</i> <i>\$m</i>
General Public Services	...	...	...
Defence	...	...	...
Public Order and Safety	...	...	...
Education	495	512	534
Health	118	136	156
Social Security and Welfare	395	408	433
Housing and Community Amenities	272	290	305
Recreation and Culture	7	8	8
Fuel and Energy	...	...	...
Agriculture, Forestry, Fishing and Hunting	4	4	4
Mining, Manufacturing and Construction	...	...	...
Transport and Communications	...	...	...
Other Economic Activities	...	...	...
Other Purposes	...	...	...
Total	1,292	1,357	1,440

Most concessions are concentrated in the Education and Social Security and Welfare functions. They mainly comprise concessional charges to pensioner concession card holders for transport, water and energy, and the School Student Transport Scheme.