

CHAPTER 6: TAX EXPENDITURE AND CONCESSIONS STATEMENT

- ◆ Tax expenditures in 2002-03 are estimated at \$2,738 million (compared with \$3,111 million in 2001-02) and concessions at \$712 million (\$706 million in 2001-02).
- ◆ Lower tax expenditures in 2002-03 result mainly from tax policy changes announced in the 2002-03 Budget.
- ◆ Reducing the general insurance stamp duty rate to 5 percent from 1 August 2002 reduces tax expenditures associated with general insurance stamp duty by \$263 million in 2002-03.
- ◆ Broadening the payroll tax base to include certain termination payments and the grossed-up value of fringe benefits reduces tax expenditures related to payroll tax by around \$105 million in 2002-03 compared with 2001-02.
- ◆ Exempting apprentices' wages from payroll tax increases tax expenditures related to payroll tax by \$9 million in 2002-03.
- ◆ The full-year impact of abolishing bank transactions taxes in 2001-02 – Financial Institutions Duty from 1 July 2001 and Debits Tax from 1 January 2002 – reduces tax expenditures by around \$15 million in 2002-03.

6.1 INTRODUCTION

Concessional tax treatment, termed 'tax expenditures', and concessional charges represent an important mechanism through which a government can implement policy. Tax expenditures involve granting certain taxpayers, activities or assets tax treatment more favourable than that generally applicable. Concessions involve the sale by the government of goods and services to certain users at a price that is lower than generally available to the wider community.

Tax expenditures are an alternative to direct outlays to achieve policy objectives. They have the same budgetary and welfare effects as direct outlays. To better inform public understanding of their impact on the budget, this chapter provides a summary of tax expenditures (see section 6.2) and concessional charges (see section 6.3). Appendix B presents a comprehensive listing and, where possible, 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:

- ◆ exemption of certain 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.

The Tax Expenditure and Concessions Statement includes the cost of revenue forgone to those government agencies that provide goods or services for free or at concessional prices. Concessions are included even where the agencies receive compensation from the Consolidated Fund for the revenue forgone, because such concessions reduce revenue to the government sector as a whole. (These payments are known as Social Program Policy Payments (SPPPs)).

The Tax Expenditure and Concessions Statement does not include government subsidies paid 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. Subsidies provided to the private sector are direct outlays, rather than costs to public sector revenue. As direct outlays, they are included in the expenditure side of the budget.

6.2 TAX EXPENDITURES

The estimates of tax expenditures in this statement are for the years 2000-01, 2001-02 and 2002-03 except for the estimates for land tax, which are for the 2001, 2002 and 2003 land tax years.

As a result of changes to NSW taxes to be implemented in 2002-03, some tax expenditures are estimated to decline in 2002-03 compared with 2001-02.

- ◆ Reducing the general insurance stamp duty rate to 5 percent from 1 August 2002 reduces tax expenditures associated with insurance stamp duty by \$263 million in 2002-03.
- ◆ Broadening the payroll tax base to include certain termination payments and the grossed-up value of fringe benefits will reduce tax expenditures related to payroll tax by around \$105 million in 2002-03 compared with 2001-02.
- ◆ Exempting apprentices' wages from payroll tax increases tax expenditures related to Payroll Tax by \$9 million in 2002-03.
- ◆ The full-year impact of abolishing bank transactions taxes in 2001-02 – financial institutions duty from 1 July 2001 and debits tax from 1 January 2002 – reduces tax expenditures by around \$15 million in 2002-03.

Table 6.1 provides a summary of major (i.e. \$1 million or greater) tax expenditures for each type of tax.

On the basis of revenue forgone, quantifiable tax expenditures (valued at more than \$1 million) are estimated at \$3,111 million in 2001-02, representing 23 percent of total tax revenue. Tax expenditures are expected to decline to \$2,738 million, or 21 percent of tax revenue, in 2002-03. The decline – concentrated in the general and life insurance and payroll tax categories – chiefly reflects changes to tax policy announced in the 2002-03 Budgets.

Tax expenditures are spread across all major tax bases. By value, estimated tax expenditures in 2002-03 are highest in contracts and conveyances duty, payroll tax and gambling and betting taxes, which account for around 60 percent of total measurable expenditures. Reduction of the benchmark rate of general insurance duty from 10 percent to 5 percent from 1 August 2002 reduces the relative importance of tax expenditures for insurance stamp duty. The gambling and betting tax expenditure relates to the lower taxation of gaming machines installed in registered clubs compared to those installed in hotels.

Tax expenditures for contracts and conveyances duty vary markedly from year to year mainly due to large and irregular tax expenditures associated with corporate reconstructions. The decline in 2002-03 also reflects an expected moderation in the tax expenditure associated with the First Home Plus scheme as the first home buyer market cools with rising interest rates and the cessation from 1 July 2002 of the Commonwealth's extra First Home Owners Scheme grants for new houses.

Table 6.1: Major Tax Expenditures by Type of Tax

| Tax | 2000-01 | | 2001-02 | | 2002-03 | |
|--|--------------|------------------|--------------|------------------|--------------|------------------|
| | \$m | % of tax revenue | \$m | % of tax revenue | \$m | % of tax revenue |
| Contracts and Conveyances Duty | 757 | 33.4 | 729 | 23.9 | 655 | 24.1 |
| General and Life Insurance Duty | 572 | 136.5 | 592 | 123.3 | 334 | 86.8 |
| Mortgage Duty | 48 | 23.3 | 61 | 20.7 | 73 | 26.3 |
| Marketable Securities Duty ^(a) | 373 | 69.9 | 8 | 19.8 | ... | ... |
| Financial Institutions Duty ^(b) | 56 | 8.7 | 5 | 7.7 | ... | ... |
| Lease Duty | 6 | 10.7 | ... | ... | ... | ... |
| Payroll Tax | 625 | 15.7 | 645 | 16.0 | 566 | 13.3 |
| Land Tax | 372 | 40.1 | 402 | 40.3 | 416 | 39.7 |
| Debits Tax ^(c) | 20 | 6.1 | 11 | 6.0 | ... | ... |
| Taxes on Motor Vehicles | 225 | 15.5 | 230 | 15.0 | 241 | 15.1 |
| Parking Space Levy | 8 | 17.5 | 7 | 17.5 | 7 | 17.3 |
| Gambling and Betting Taxes | 441 | 36.4 | 421 | 34.6 | 446 | 35.1 |
| Total | 3,502 | 26.2 | 3,111 | 23.2 | 2,738 | 21.3 |

(a) Stamp duty on the transfer of listed marketable securities was abolished from 1 July 2001.

(b) Financial institutions duty was abolished from 1 July 2001.

(c) Debits tax was abolished from 1 January 2002.

As a percentage of tax revenue collected under individual tax heads, tax expenditures in 2002-03 are expected to be largest for insurance duty (despite reduction of the benchmark tax rate), land tax and gambling and betting taxes.

Table 6.2: Tax Expenditures by Function

| <i>Function</i> | <i>2000-01</i> | | <i>2001-02</i> | | <i>2002-03</i> | |
|--|----------------|----------------------|----------------|----------------------|----------------|----------------------|
| | <i>\$m</i> | <i>% of Expenses</i> | <i>\$m</i> | <i>% of Expenses</i> | <i>\$m</i> | <i>% of Expenses</i> |
| Public Order and Safety | 1 | 0.0 | 1 | 0.0 | 2 | 0.1 |
| Education | 65 | 0.9 | 68 | 0.9 | 71 | 0.9 |
| Health | 311 | 4.3 | 318 | 4.2 | 329 | 4.0 |
| Social Security and Welfare | 216 | 10.2 | 219 | 9.1 | 221 | 9.0 |
| Housing and Associated Amenities | 193 | 17.6 | 231 | 16.9 | 217 | 21.4 |
| Environmental Protection | ... | ... | ... | ... | ... | ... |
| Recreation and Culture | 445 | 43.0 | 425 | 59.7 | 451 | 81.4 |
| Agriculture, Forestry, Fishing and Hunting | 245 | 50.2 | 262 | 49.4 | 268 | 49.0 |
| Transport | 11 | 0.3 | 12 | 0.4 | 8 | 0.3 |
| Other Economic Activities | 1,801 | 99.8 | 1,399 | 59.6 | 1,003 | 48.8 |
| Other Purposes | 215 | 8.0 | 177 | 6.7 | 168 | 5.9 |
| Total | 3,502 | 11.5 | 3,111 | 9.8 | 2,738 | 8.5 |

Table 6.2 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 Activities (which constitutes assistance to industry generally rather than to a particular type of economic activity), Recreation and Culture (reflecting the gambling and betting tax expenditure) and Health (mainly reflecting payroll tax exemptions for hospitals and nursing homes).

The distribution of tax expenditures by function is broadly similar over the three years covered by this statement, with the exception of a decline in Other Economic Activities. That decline reflects reduced tax expenditures related to general insurance and payroll tax, as well as the abolition of stamp duty on the transfer of listed marketable securities.

6.3 CONCESSIONS

Table 6.3 classifies the major concessions provided by the NSW Government by function. The total value of major concessions in 2001-02 is estimated at \$686 million, representing 2.2 percent of expenses. Concessions are expected to amount to the same proportion of expenses in 2002-03.

Table 6.3: Concessions by Function

| <i>Function</i> | <i>2000-01</i> | | <i>2001-02</i> | | <i>2002-03</i> | |
|--|----------------|----------------------|----------------|----------------------|----------------|----------------------|
| | <i>\$m</i> | <i>% of Expenses</i> | <i>\$m</i> | <i>% of Expenses</i> | <i>\$m</i> | <i>% of Expenses</i> |
| Public Order and Safety | ... | ... | ... | ... | ... | ... |
| Education | 85 | 1.2 | 88 | 1.2 | 92 | 1.2 |
| Health | 72 | 1.0 | 81 | 1.1 | 82 | 1.0 |
| Social Security and Welfare | 251 | 11.8 | 278 | 11.5 | 289 | 11.8 |
| Housing and Associated Amenities | 215 | 19.7 | 255 | 18.6 | 245 | 24.2 |
| Environmental Protection | ... | ... | ... | ... | ... | ... |
| Recreation and Culture | ... | ... | ... | ... | ... | ... |
| Agriculture, Forestry, Fishing and Hunting | 2 | 0.0 | 4 | 0.0 | 4 | 0.0 |
| Transport | ... | ... | ... | ... | ... | ... |
| Other Economic Activities | ... | ... | ... | ... | ... | ... |
| Other Purposes | ... | ... | ... | ... | ... | ... |
| Total | 625 | 2.0 | 706 | 2.2 | 712 | 2.2 |