

CHAPTER 7: TAX EXPENDITURE AND CONCESSIONS STATEMENT

- ◆ Tax expenditures in 2000-01 total \$2,598 million (compared with \$2,540 million in 1999-2000) and concessions total \$995 million (\$961 million in 1999-2000).
- ◆ The major policy changes contributing to the increase in tax expenditures are:
 - Abolition of the NSW First Home Purchase Scheme and its replacement with a new State Government assistance package, First Home Plus, at a net cost of \$52 million;
 - increased exemptions associated with the extended parking space levy, at a cost of \$9.5 million; and offsetting these; and
 - removal of the tax expenditure associated with the accommodation levy, which is to be abolished from 1 July 2000.

7.1 INTRODUCTION

Direct outlays are examined and subject to public scrutiny through the annual budget process. An equally stringent approach needs to apply to tax expenditures and concessional charges. A tax expenditure refers to the cost of granting certain activities or assets favourable tax treatment, and has the equivalent budgetary and welfare effects of an outlay. Concessions on user charges are also equivalent to outlays.

Tax expenditures or concessional charges are often included in the relevant legislation. However, it is often the case that these provisions 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.

This chapter provides a summary of tax expenditures and concessional charges. A comprehensive listing and costing of each tax expenditure and concession is shown in Appendix E.

The purpose of the information in this chapter and Appendix E is to improve transparency and better inform policy choices and public understanding of the Budget.

Both tax expenditures and concessions have been valued on the basis of revenue foregone. 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.

A concession involves the sale by the Government of goods and services at a price that is lower than generally available to the rest of the community. Some 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 foregone. These payments are known as Social Program Policy Payments (SPPPs). Concessions funded by the payment of SPPPs to the agency providing the good or service are included in the estimates of concessions.

7.2 OVERVIEW OF TAX EXPENDITURES AND CONCESSIONS

TAX EXPENDITURES

The estimates of tax expenditures in this statement are for the years 1998-99, 1999-2000 and 2000-01 except for the estimates for land tax, which are for the 1999, 2000 and 2001 land tax years.

From 1 July 2000, the national goods and services tax will commence. As a consequence, the accommodation levy will cease from 1 July 2000 and therefore tax expenditures associated with the levy will also cease.

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

<i>Tax</i>	<i>1998-99</i>		<i>1999-2000</i>		<i>2000-01</i>	
	<i>\$m</i>	<i>% of tax revenue</i>	<i>\$m</i>	<i>% of tax revenue</i>	<i>\$m</i>	<i>% of tax revenue</i>
Contracts and Conveyances Duty	190.0	9.9	214.5	9.5	273.0	15.6
General and Life Insurance Duty	367.7	108.1	403.7	106.2	374.0	97.4
Mortgage Duty	45.3	25.6	45.3	20.6	49.7	24.7
Marketable Securities Duty	289.5	73.3	355.7	73.3	315.2	74.2
Financial Institutions Duty	55.1	9.9	57.2	9.6	59.7	9.4
Lease Duty	4.8	13.0	5.1	11.3	5.2	11.1
Payroll Tax	492.8	13.7	496.7	13.3	520.2	13.3
Land Tax	378.0	39.9	342.7	38.5	338.5	36.8
Debits Tax	18.5	5.7	19.5	6.0	19.5	5.9
Taxes on Motor Vehicles	185.7	12.4	210.5	14.6	212.4	15.0
Accommodation Levy	6.0	10.5	1.2	1.7	...	...
Parking Space Levy	3.4	22.7	3.5	20.6	13.0	31.0
Gambling and Betting Taxes	360.0	25.4	384.1	24.3	417.9	34.5
Total	2,396.8	19.7	2,539.7	19.6	2,598.3	21.1

On the basis of revenue forgone, quantifiable tax expenditures are estimated to total \$2,540 million in 1999-2000, representing 19.6 percent of total tax revenue. Tax expenditures are expected to increase slightly as a same proportion of tax revenue in 2000-01, to a total of \$2,598 million.

Tax expenditures are spread across all tax bases, but the amounts are concentrated in insurance duties, payroll tax and land tax, which accounted for about 54 percent of total measurable expenditures in each of the years covered by this statement. Over the three years tax expenditures as a percentage of revenue are largest for insurance duty, marketable securities duty and land tax.

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

Table 7.2: Tax Expenditures and Direct Expenses by Function

<i>Function</i>	<i>1998-99</i>		<i>1999-2000</i>		<i>2000-01</i>	
	<i>\$m</i>	<i>% of Expenses</i>	<i>\$m</i>	<i>% of Expense</i>	<i>\$m</i>	<i>% of Expenses</i>
General Public Services	171.9	8.4	173.1	9.1	178.1	8.4
Public Order and Safety	1.3	0.1	1.3	0.0	1.3	0.0
Education	52.0	0.8	53.1	0.8	56.7	0.9
Health	317.8	4.9	315.4	4.8	329.2	4.9
Social Security and Welfare	164.4	9.0	187.8	9.8	190.7	9.3
Housing and Community Amenities	82.8	8.7	78.5	7.6	120.6	9.2
Recreation and Culture	364.4	46.5	388.4	47.2	422.3	38.5
Fuel and Energy	...	...	...	...	...	...
Agriculture, Forestry, Fishing and Hunting	274.1	31.3	248.8	29.3	244.7	46.7
Mining, Manufacturing and Construction	...	...	...	...	...	...
Transport and Communication	14.6	0.6	16.0	0.7	14.9	0.6
Other Economic Affairs	909.1	67.4	1,030.4	76.8	979.9	66.3
Other Purposes	44.4	1.9	46.9	2.7	59.9	2.9
Total	2,396.8	8.5	2,539.7	9.2	2,598.3	8.9

Tax expenditures are primarily directed toward 'Other' Economic Affairs (as they may constitute assistance to industry generally rather than to a particular type of economic activity), Agriculture, Forestry and Fishing, Recreation and Culture and Health. The distribution of tax expenditures by function is broadly similar over the three years covered by this statement.

CONCESSIONS

Table 7.3 classifies the major concessions provided by the NSW Government by function. The total value of major concessions in 1999-2000 was \$947 million, representing 3.4 percent of expenses. Concessions are expected to amount to approximately the same proportion of expenses in 2000-01.

Table 7.3: Concessions and Expenses by Function

<i>Function</i>	<i>1998-99</i>		<i>1999-2000</i>		<i>2000-01</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	376.6	6.0	411.1	6.5	424.8	6.6
Health	45.3	0.7	46.2	0.7	47.9	0.7
Social Security and Welfare	278.3	15.2	291.8	15.2	303.9	14.8
Housing and Community Amenities	135.7	14.3	149.9	14.6	155.4	11.9
Recreation and Culture	...	...	...	...	...	...
Fuel and Energy	58.6	40.1	61.5	66.1	63.0	142.9
Agriculture, Forestry, Fishing and Hunting	...	...	...	...	...	...
Mining, Manufacturing and Construction	...	...	...	...	...	...
Transport and Communication	...	...	...	...	...	...
Other Economic Affairs	...	...	...	...	...	...
Other Purposes	...	...	...	...	...	...
Total	894.5	3.2	960.5	3.5	995.0	3.4

