

## CHAPTER 5 – TAX EXPENDITURES AND CONCESSIONS

### TAX EXPENDITURES

Tax expenditures are tax concessions granted to certain taxpayers, activities or assets, which are a deviation from the normal taxation treatment. This includes tax free thresholds and can also take the form of exempting or applying a lower rate, deductions or rebate of a tax for a certain class of taxpayer, activity or asset (this excludes generally applying marginal tax rates).

Table 5.1 shows aggregate tax expenditure estimates by the main categories of tax for the period 2007-08 to 2011-12. Between 2007-08 and 2011-12, total estimated tax expenditures excluding thresholds are expected to increase by \$497 million. Land tax expenditures will broadly grow in line with the tax revenue profile, with a sharp increase in 2008-09 reflecting property revaluations. Estimates of payroll tax expenditures are anticipated to increase steadily, reflecting wage and employment growth forecasts in the coming years. Estimates of motor vehicle tax expenditures have been revised up from the 2007-08 Budget Update as part of the ongoing review into the calculation of tax expenditures.

**Table 5.1: Aggregate tax expenditures (excluding thresholds) by type of tax**

<i>Description</i>	<i>(\$ million)</i>				
	<i>2007-08 Estimate</i>	<i>2008-09 Estimate</i>	<i>2009-10 Estimate</i>	<i>2010-11 Estimate</i>	<i>2011-12 Estimate</i>
Land tax	1233	1484	1448	1521	1484
Payroll tax	740	758	789	819	851
Gambling tax	67	67	70	74	78
Motor vehicle taxes	75	79	82	85	88
Other stamp duties <sup>(a)</sup>	150	253	253	254	256
Congestion levy	41	43	44	45	46
<b>Total estimated tax expenditures</b>	<b>2 307</b>	<b>2 684</b>	<b>2 686</b>	<b>2 800</b>	<b>2 803</b>

*Source: Department of Treasury and Finance*

*Note:*

*(a) Principally stamp duty on land transfer.*

Table 5.2 lists the estimated individual tax expenditures that can be costed for the period 2007-08 to 2011-12 (including tax free thresholds). Including the estimated value of tax free thresholds for land and payroll tax, the total value of tax assistance provided by the government is estimated at \$4.6 billion in 2008-09. Tax initiatives reported in the 2008-09 Budget that have implications for tax expenditures include:

- an adjustment of approximately 10 per cent to stamp duty on land transfer thresholds;
- enabling first homebuyers to receive both the principal place of residence stamp duty concession and the *First Home Bonus* in 2008-09;
- introducing a stamp duty exemption for homes transferred into special disability trusts;
- increasing the pensioner and concession cardholder exemption thresholds for stamp duty;
- introducing a stamp duty exemption to provide relief to certain trusts consistent with Commonwealth arrangements and capital gains tax relief;
- introducing a land tax exemption for long term accommodation for young people with disabilities, from 2008-09;
- a reduction in the payroll tax rate to 4.95 per cent; and
- an expansion of the corporate reconstruction exemption to certain stapled real estate investment trust.

In addition, a 10 per cent increase in all land tax thresholds will increase the tax expenditure associated with the tax-free threshold. This measure removes approximately 19 000 landholders from the 2008-09 land tax base. However, the land tax threshold increases are expected to reduce tax expenditures on other land tax exemptions.

**Table 5.2: Tax expenditures that can be costed (including thresholds)**

<i>Description</i>	<i>(\$ million)</i>				
	<i>2007-08 Estimate</i>	<i>2008-09 Estimate</i>	<i>2009-10 Estimate</i>	<i>2010-11 Estimate</i>	<i>2011-12 Estimate</i>
<b>Land tax exemptions</b>					
Crown Property (right of Victoria)	133	160	156	164	160
Principal place of residence	489	589	574	604	589
Land held in trust for public or municipal purposes or vested in any municipality	85	102	100	105	102
Land used by a charitable institution	24	29	28	29	29
Commonwealth land	126	152	148	155	152
Land used for primary production	195	235	229	241	235
Land vested in a public statutory authority	124	149	145	153	149
Land used for the City Link network	14	17	17	18	17
Land used for EastLink	10	10	10	10	10
Assessment on a single holding basis for land owned by a municipality	3	3	3	4	3
Partial exemption for non-profit organisations solely for social, sporting, cultural, literary purposes; or horse, pony or harness racing	5	6	5	6	6
Assessment on a single holding basis for land owned by a charity	2	3	3	3	3
Retirement villages	6	8	7	8	8
Non-profit organisations providing outdoor cultural or sporting recreation (excluding horse, pony or harness racing)	12	15	14	15	15
Associations of ex-servicemen	..	..	..	..	..
Caravan parks	2	3	3	3	3
Residential care facilities	3	4	4	4	4
Low-cost accommodation	..	..	..	..	..
Capping of land tax	..	..	..	..	..
Land tax trust provisions <sup>(a)</sup>	..	..	..	..	..
Aggregated site value below tax free threshold	55	67	65	68	67
<b>Total land tax expenditures</b>	<b>1289</b>	<b>1551</b>	<b>1513</b>	<b>1590</b>	<b>1551</b>
<b>Payroll tax exemptions</b>					
Wages paid by public hospitals	220	226	234	242	251
Wages paid by a public benevolent institution/charity	207	211	219	228	237
Wages paid by a non-profit, non-public school	112	115	119	124	129
Commonwealth departments/agencies (not transport and communication)	38	39	41	42	44
Wages paid by non-profit hospitals	44	45	47	48	50
Municipal councils (not wages for trading activities)	93	95	98	102	106
Fringe benefits excluded from Fringe Benefits Tax Assessment Act 1986	20	21	24	25	26
Religious institutions	3	3	3	4	4

**Table 5.2: Tax expenditures that can be costed (including thresholds) (continued)**

<i>Description</i>	<i>(\$ million)</i>				
	<i>2007-08 Estimate</i>	<i>2008-09 Estimate</i>	<i>2009-10 Estimate</i>	<i>2010-11 Estimate</i>	<i>2011-12 Estimate</i>
Construction industry leave entitlements paid by CoINVEST	2	2	2	2	2
Paid maternity leave	1	1	1	1	1
Government school councils	..	..	..	1	1
Wages paid to employees participating in voluntary emergency service work	..	..	..	..	..
Employers' payroll below \$550 000	1 873	1 877	1 884	1 885	1 879
<b>Total payroll tax expenditures</b>	<b>2 613</b>	<b>2 635</b>	<b>2 673</b>	<b>2 704</b>	<b>2 730</b>
<b>Congestion levy tax exemptions</b>					
Residential	3	3	3	3	3
Commercial and private	9	10	10	10	11
Short stay car parks	29	30	31	32	33
<b>Total congestion levy tax exemptions</b>	<b>41</b>	<b>43</b>	<b>44</b>	<b>45</b>	<b>46</b>
<b>Gambling tax exemptions</b>					
Clubs pay lower tax rate on net cash balance (electronic gaming machines)	67	67	70	74	78
<b>Total gambling tax expenditures</b>	<b>67</b>	<b>67</b>	<b>70</b>	<b>74</b>	<b>78</b>
<b>Motor vehicle tax expenditures</b>					
Motor vehicle registration fee for eligible beneficiaries	61	64	67	70	72
Registration fee for primary production vehicle (4.5 tonnes or less)	13	13	13	14	14
Exemption for non-commercial vehicle owned by incapacitated war service pensioner	1	1	1	1	1
Motor vehicle duty concession for incapacitated and disabled persons	..	..	..	..	..
Motor registration discount for hybrid cars	..	..	..	..	1
<b>Total motor vehicle tax expenditures</b>	<b>75</b>	<b>79</b>	<b>82</b>	<b>85</b>	<b>88</b>
<b>Other stamp duties exemptions <sup>(b)</sup></b>					
Stamp duty for corporate reconstruction	57	95	95	95	95
Conveyance duty concession for first home buyers with families	..	..	..	..	..
Conveyance duty concession for pensioners and concession cardholders	54	56	56	58	59
Stamp duty for principal place of residence	39	102	102	102	102
<b>Total other stamp duties expenditures</b>	<b>150</b>	<b>253</b>	<b>253</b>	<b>254</b>	<b>256</b>
<b>Total estimated tax expenditures</b>	<b>4 235</b>	<b>4 628</b>	<b>4 635</b>	<b>4 753</b>	<b>4 749</b>

*Source: Department of Treasury and Finance*

*Notes:*

(a) *No reliable estimate currently available.*

(b) *Principally stamp duty on land transfer.*

Table 5.3 provides the ratio of tax expenditure to revenue by the main categories of tax in 2007-08. The ratio of tax expenditures (excluding thresholds) to tax revenue in 2007-08 is estimated at 18 per cent, compared with 22 per cent in 2006-07. This decrease is driven by a downward revision to estimates of land tax expenditures due to improved State Revenue Office estimation methodologies and data collection.

**Table 5.3: Estimated aggregate tax expenditures (excluding thresholds) and tax revenue in 2007-08**

<i>Description</i>	<i>Tax expenditure</i>	<i>Tax revenue</i>	<i>Ratio</i>
Land tax	1 233	871	1.42
Payroll tax	740	3 824	0.19
Gambling tax	67	1 586	0.04
Motor vehicle taxes	75	1 347	0.06
Other stamp duties <sup>(a)</sup>	150	3 986	0.04
Congestion levy	41	38	1.10
Other/miscellaneous	..	1 345	..
<b>Total for items estimated</b>	<b>2 307</b>	<b>12 997</b>	<b>0.18</b>

*Source: Department of Treasury and Finance*

*Note:*

(a) Principally stamp duty on land transfer.

Table 5.4 provides a grouping of estimated tax expenditures to particular persons or entities based on the legal incidence of state taxes. Total aggregate expenditures are set to increase by \$497 million between 2007-08 and 2011-12, driven by increases in tax expenditures for property owners, primary producers, businesses, charitable organisations, local government, hospitals and Commonwealth and state government entities.

**Table 5.4: Aggregate tax expenditures (excluding thresholds) classified by persons or entities affected**

<i>Description</i>	<i>(\$ million)</i>				
	<i>2007-08 Estimate</i>	<i>2008-09 Estimate</i>	<i>2009-10 Estimate</i>	<i>2010-11 Estimate</i>	<i>2011-12 Estimate</i>
Business	144	188	192	195	197
Construction industry	2	2	2	2	2
Charitable organisations	233	243	250	260	269
Educational institutions	113	115	120	125	130
Gambling clubs	67	67	70	74	78
Commonwealth and state government	420	500	490	515	504
Local government	181	201	202	210	211
Hospitals	264	270	280	290	301
Pensioners/concession cardholders	123	130	132	136	140
Property owners	531	695	680	710	695
Primary producers	207	248	242	254	249
Religious institutions	3	3	3	4	4
Sporting, recreation and cultural organisations	17	20	20	21	20
Other	2	2	2	2	2
<b>Total for items estimated</b>	<b>2 307</b>	<b>2 684</b>	<b>2 686</b>	<b>2 800</b>	<b>2 803</b>

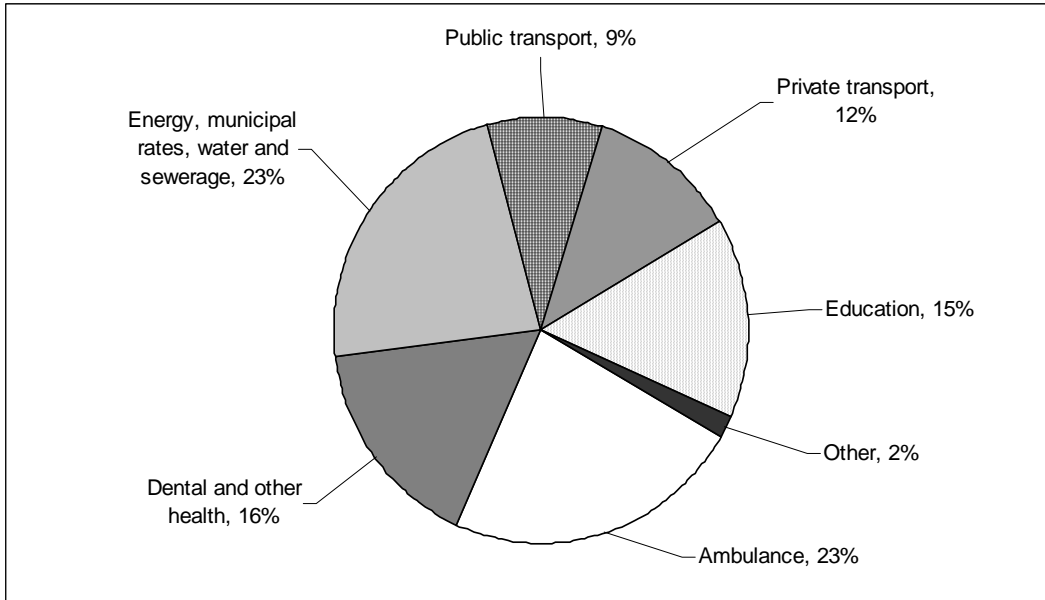
*Source: Department of Treasury and Finance*

## CONCESSIONS

Concessions are a direct budget outlay or reduction in government charges that have the effect of reducing the price of a good or service for particular groups. Certain characteristics of the consumer, such as possession of a Commonwealth pension card or a health care card, are the basis for entitlement. Concessions allow certain groups in the community to access and/or purchase important amenities like energy, health and transportation at a cheaper rate or zero cost.

Chart 5.1 shows the estimated distribution of concessions by category for 2007-08. The majority of concessions are concentrated in health, accounting for 39 per cent of total concessions. Energy, municipal rates, water and sewerage is the next largest category, accounting for 23 per cent of total concessions in 2007-08, while transport accounts for 21 per cent of total concessions. Education represents 15 per cent of total concessions and other concessions account for 2 per cent.

**Chart 5.1: Estimated concessions by category 2007-08**



Source: Department of Treasury and Finance

Table 5.5 classifies the major concessions provided by the Victorian Government by category. The estimated total value of major concessions in 2007-08 is \$1 225 million.

In 2008-09, a number of new initiatives affecting outlays for tax concessions will be introduced. These initiatives will increase the water and sewerage concession cap and modify other concessions programs to assist the most vulnerable members of the Victorian community to afford water, energy and other essential services. The concessions initiatives will cost \$27 million in 2008-09 and \$82 million over four years to 2011-12.

**Table 5.5: Concessions by category<sup>(a)</sup>**

Description	(\$ million)		
	2006-07 Estimate	2007-08 Estimate	2008-09 Estimate
Energy, municipal rates, water and sewerage	257	281	309
Education	179	188	200
Health	449	486	506
Hardship assistance	16	21	22
Transport	236	249	258
<b>Total for items estimated</b>	<b>1 137</b>	<b>1 225</b>	<b>1 294</b>

Source: Department of Treasury and Finance

Note:

(a) These figures include the cost of administration.

The energy, municipal rates, water and sewerage category consists of concessions for electricity and gas usage, municipal rates, water and sewerage charges and other small concessions related to energy usage. Education concessions include the education maintenance allowance, the student transport allowance, the school start bonus and concessions for pre-school.

Health is the largest category and includes free emergency ambulance transport for concession holders, as well as school, community and specialist dental services and optical concessions. Health also includes community health programs. The hardship assistance programs category includes the utility relief, capital grant schemes and trustee services. These schemes provide one-off assistance to concession holders for, among other things, the upgrade of essential appliances or to pay utility bills in the event of an unforeseen financial crisis. Trustee services include the provision of administration services for people unable to manage their own financial affairs.

Transport concessions consist of a discount on Transport Accident Commission premiums for pensioners and funding for the multi-purpose taxi program, as well as public transport concessions.