

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. They include 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 2008-09 to 2012-13. Tax expenditures are estimated to increase gradually over the forward estimates, reflecting the impact of the Global Financial Crisis. Between 2008-09 and 2012-13, total estimated tax expenditures excluding thresholds are expected to increase by \$194 million. Land tax expenditures are expected to grow in line with the tax revenue profile. Estimates of payroll tax expenditures are anticipated to increase modestly, reflecting the slowdown in wage and employment growth forecasts in the coming years.

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

Description	(\$ million)				
	2008-09 Estimate	2009-10 Estimate	2010-11 Estimate	2011-12 Estimate	2012-13 Estimate
Land tax	1 749	1 723	1 681	1 640	1 767
Payroll tax	757	785	813	841	869
Gambling tax	77	77	80	83	87
Motor vehicle taxes	79	82	85	88	92
Other stamp duties ^(a)	181	195	220	216	218
Congestion levy	33	33	34	35	36
Total estimated tax expenditures	2 876	2 896	2 912	2 903	3 069

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 2008-09 to 2012-13 (including tax free thresholds). The total value of tax assistance provided by the Government is estimated at \$4.9 billion in 2009-10, increasing to \$5.1 billion by 2012-13.

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

Description	(\$ million)				
	2008-09 Estimate	2009-10 Estimate	2010-11 Estimate	2011-12 Estimate	2012-13 Estimate
Land tax exemptions					
Crown Property (right of Victoria)	163	161	157	153	165
Principal place of residence	783	771	752	734	791
Land held in trust for public or municipal purposes or vested in any municipality	111	109	107	104	112
Land used by a charitable institution	31	31	30	29	31
Commonwealth land	173	170	166	162	175
Land used for primary production	270	266	259	253	273
Land vested in a public statutory authority	143	141	138	134	145
Land used for the City Link network	20	20	19	19	20
Land used for EastLink	10	10	10	10	10
Assessment on a single holding basis for land owned by a municipality	4	4	4	3	4
Partial exemption for non-profit organisations solely for social, sporting, cultural, literary purposes; or horse, pony or harness racing	6	6	6	5	6
Assessment on a single holding basis for land owned by a charity	4	4	3	3	4
Retirement villages	8	8	8	8	8
Non-profit organisation providing outdoor cultural or sporting recreation (excluding horse, pony or harness racing)	15	15	15	14	15
Associations of ex-servicemen	..	..	..	..	..
Caravan parks	3	3	3	3	3
Residential care facilities	4	4	4	4	5
Low cost accommodation	..	..	..	..	..
Aggregated site value below tax free threshold	66	65	63	62	67
Total land tax expenditures	1 815	1 788	1 744	1 701	1 834
Payroll tax exemptions					
Wages paid by public hospitals	218	226	233	241	249
Wages paid by a public benevolent institution/charity	217	225	232	241	249
Wages paid by a non-profit, non-public school	121	125	129	134	138
Commonwealth departments/agencies (not transport and communication)	40	41	43	44	45
Wages paid by non-profit hospitals	44	46	47	49	51
Municipal councils (not wages for trading activities)	93	96	100	103	107

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

Description	(\$ million)				
	2008-09 Estimate	2009-10 Estimate	2010-11 Estimate	2011-12 Estimate	2012-13 Estimate
Fringe benefits excluded from <i>Fringe Benefits Tax Assessment Act 1986</i> (Cwlth)	18	20	20	21	22
Religious institutions	4	4	4	4	4
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	1
Wages paid to employees participating in voluntary emergency service work	..	..	..	..	..
Employers' payroll below \$550 000	1 941	1 933	1 944	1 975	2 003
Total payroll tax expenditures	2 698	2 718	2 757	2 815	2 872
Congestion levy tax exemptions					
Residential	2	2	2	2	2
Commercial and private	11	11	12	12	12
Short stay car parks	19	20	21	21	22
Total congestion levy tax exemptions	33	33	34	35	36
Gambling tax exemptions					
Clubs pay lower tax rate on net cash balance (electronic gaming machines)	77	77	80	83	87
Total gambling tax expenditures	77	77	80	83	87
Motor vehicle tax expenditures					
Motor vehicle registration fee for eligible beneficiaries	64	67	69	72	75
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	2
Total motor vehicle tax expenditures	79	82	85	88	92
Other stamp duties exemptions ^(a)					
Stamp duty for corporate reconstruction	66	71	86	86	86
Conveyance duty concession for first home buyers with families	..	..	..	..	..
Conveyance duty concession for pensioners and concession cardholders	45	48	52	51	52
Stamp duty for principal place of residence	70	75	81	79	80
Total other stamp duties expenditures	181	195	220	216	218
Total estimated tax expenditures	4 883	4 894	4 920	4 939	5 139

Source: Department of Treasury and Finance

Notes:

(a) Principally stamp duty on land transfer.

Table 5.3 provides the ratio of tax expenditure to revenue by the main categories of tax in 2008-09. The ratio of tax expenditures (excluding thresholds) to tax revenue in 2008-09 is estimated at 23 per cent, compared with 18 per cent in 2007-08. This increase is driven by an increase in the ratio for land transfer duty and an increase in the relative importance of land tax, which has a high ratio of tax expenditures.

Table 5.3: Ratio of aggregate tax expenditures (excluding thresholds) to tax revenue in 2008-09

Description	(\$ million)		
	Tax expenditure	Tax revenue	Ratio
Land tax	1 749	1 237	1.41
Payroll tax	757	4 023	0.19
Gambling tax	77	1 625	0.05
Motor vehicle taxes	79	1 320	0.06
Other stamp duties ^(a)	181	2 903	0.06
Congestion levy	33	42	0.77
Other/miscellaneous	..	1 569	..
Total for items estimated	2 876	12 720	0.23

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 \$194 million between 2008-09 and 2012-13, driven by increases in tax expenditures for hospitals, charitable organisations, business, educational institutions, property owners and local government.

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

<i>Description</i>	<i>(\$ million)</i>				
	<i>2008-09 Estimate</i>	<i>2009-10 Estimate</i>	<i>2010-11 Estimate</i>	<i>2011-12 Estimate</i>	<i>2012-13 Estimate</i>
Business	149	157	173	174	178
Construction industry	2	2	2	2	2
Charitable organisations	252	259	266	273	284
Educational institutions	121	125	130	135	139
Gambling clubs	77	77	80	83	87
Commonwealth and state government	519	513	503	493	530
Local government	208	210	210	211	223
Hospitals	262	271	281	290	300
Pensioners/concession cardholders	119	125	131	132	136
Property owners	858	851	838	817	876
Primary producers	283	279	273	267	287
Religious institutions	4	4	4	4	4
Sporting, recreation and cultural organisations	21	21	20	20	21
Other	2	2	2	2	3
Total for items estimated	2 875	2 896	2 912	2 903	3 069

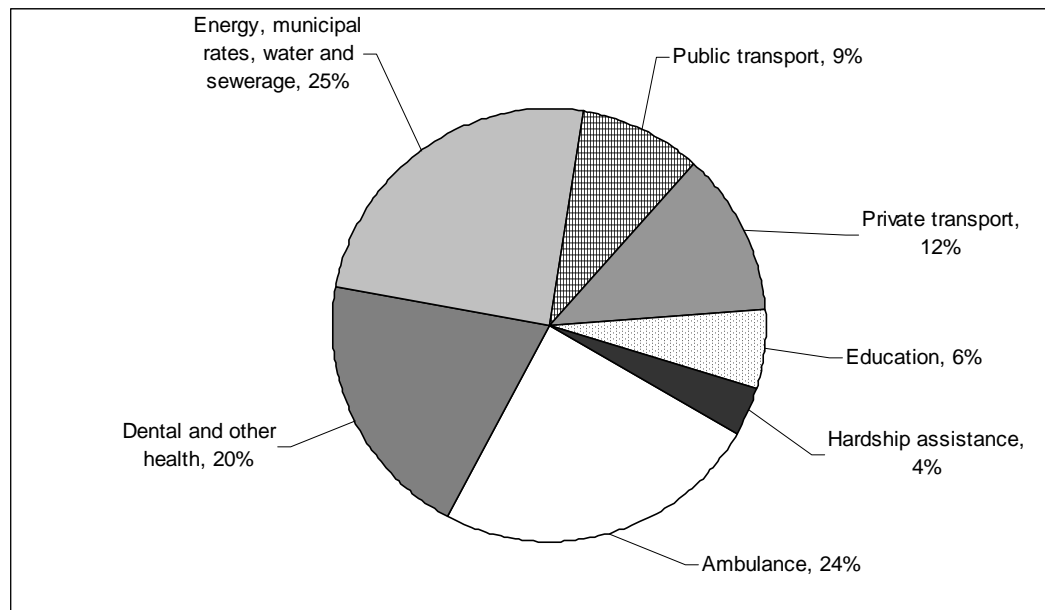
Source: Department of Treasury and Finance.

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 2008-09. The majority of concessions are concentrated in health, accounting for 44 per cent of total concessions. Energy, municipal rates, water and sewerage is the next largest category, accounting for 25 per cent of total concessions in 2008-09, while transport accounts for 21 per cent of total concessions. Education represents 6 per cent of total concessions and hardship assistance accounts for 4 per cent.

Chart 5.1: Estimated concessions by category 2008-09



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 2008-09 is \$1 192 million. Any change in the economic outlook will impact on the estimates of concessions.

Table 5.5: Concessions by category

Description	(\$ million)		
	2007-08 Estimate	2008-09 Estimate	2009-10 Estimate
Energy, municipal rates, water and sewerage	268	295	319
Education	70	71	76
Health	506	529	558
Hardship assistance	23	42	44
Transport	247	256	266
Total for items estimated	1 115	1 192	1 262

Source: Department of Treasury and Finance.

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. In 2009-10, the water and sewerage concession cap was increased to assist with the expected water price rise due 1 July 2009. Additional funding was provided to assist the most vulnerable members of the Victorian community to afford water, by providing water audits and retrofits through the Water Wise program.

As reported in the *2008-09 Budget Update*, amendments were made to the education category for concessions. The student transport (conveyance allowance) and the school start bonus have been removed from the table, as the education programs are not income tested and are available to all students, thus they do not meet the definition of concessions. Education concessions now only include the education maintenance allowance 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 dental services and optical concessions. Health also includes community health programs.

The hardship assistance programs category includes 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.

