2

Background on tax expenditures

Introduction

History

2.1 The concept of tax expenditures was initially proposed by Mr Stanley Surrey of the United States Treasury Department in 1967. He wished to make the point that tax concessions provided to particular groups, industries, or classes of taxpayers, was similar to giving them a government grant or other payment.[1]

2.2 Surrey's initial goal was to limit the number of tax expenditures. The idea was that, once the tax expenditures had been brought to the attention of Congress, it would either remove them or replace them with a spending program. The ultimate aim was to improve the equity, efficiency and simplicity of the tax system. However, this did not eventuate. Tax expenditures have become more numerous in the United States, although tax expenditure reports are seen as an important tool in tax analysis and tax policy.[2]

Advantages and disadvantages of tax expenditures

2.3 Tax expenditures can achieve policy goals. These include:

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1 ANAO, *Preparation of the Tax Expenditures Statement*, 2008, Audit Report No. 32 2007-08, p. 9.

2 Edward D. Kleinbard, *Rethinking Tax Expenditures*, 2008, Address to the Chicago-Kent College of Law Federal Tax Institute, pp. 1-5, accessed from https://www.jct.gov/publications.html on 26 June 2015.

- encouraging the private sector to move into a field where the government is a major service provider
- reducing government supervision of such spending[3]
- promoting desired economic behaviour, such as encouraging saving through superannuation
- improving equity, such as the GST exemption on unprepared food.[4]

2.4 The criticisms made against tax expenditures are that they can:

- be restricted in their operation by the design of the tax system
- be ineffective if there are conflicting tax provisions or government programs
- reduce economic efficiency through economic distortions
- reduce equity where they depend on the taxpayer's marginal tax rate and this rate varies across taxpayers
- erode the revenue base if they are large
- increase tax complexity and increase compliance and enforcement costs
- more easily evade monitoring and analysis, compared with spending that must be approved by the legislature or listed in an agency annual report.[5]

2.5 The effectiveness of tax expenditures was raised in the inquiry. Associate Professor Julie Smith stated that most research indicates that 'tax expenditures are generally not justifiably delivered through the tax system.' The Australian National Audit Office (ANAO) noted that past

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3 Zhicheng Li Swift, Hana Polackova Brixi, and Christian Valenduc, 'Tax Expenditures: General Concept, Measurement, and Overview of Country Practices,' p. 3, in World Bank, *Tax Expenditures – Shedding Light on Government Spending through the Tax System: Lessons from Developed and Transition Economies,* 2004; AFTS Review, *Report to the Treasurer, Part Two – Detailed Analysis,* 2009, pp. 725-28.

4 Robert Carling, *Right or Rort: Dissecting Australia's Tax Concessions,* 2015, Research Report 2, Centre for Independent Studies, p. 2.

5 Zhicheng Li Swift, Hana Polackova Brixi, and Christian Valenduc, 'Tax Expenditures: General Concept, Measurement, and Overview of Country Practices,' p. 5, in World Bank, *Tax Expenditures – Shedding Light on Government Spending through the Tax System: Lessons from Developed and Transition Economies,* 2004; AFTS Review, *Report to the Treasurer, Part Two – Detailed Analysis,* 2009, pp. 725-28.

reviews in Australia have recommended that up to half of tax expenditures be either abolished or modified.[6]

2.6 It would appear that tax expenditures have their place and can achieve useful policy goals, but that they also have risks which need to be managed. The publication of the Tax Expenditures Statement is an important first step in understanding and managing these risks.

Estimating methods

2.7 Estimating the size of a tax expenditure is difficult because it is an attempt to determine what might have happened if a tax law was not in place. There are few past examples to draw on.

2.8 The usual approach for estimating a tax expenditure, both in Australia and overseas, is the revenue forgone method.[7] It reflects existing use of the tax expenditure and assumes that taxpayer behaviour will not change if the measure is revoked, and the rest of the tax system will also not change. Therefore, if $10 billion were spent on a GST-exempt good or service in a year, the tax expenditure would be $1 billion. It is the simplest method.

2.9 A more sophisticated approach is to estimate taxpayers' reaction to the removal of a tax expenditure and this is what the revenue gain method seeks to do. The method also seeks to include second order effects such as interactions with other parts of the tax and transfer system. However, the method does not consider the interactions with other tax exceptions —it assumes all other tax exceptions are unchanged. It also requires better data than the revenue forgone method.[8]

2.10 Generally, the revenue gain method produces a smaller tax expenditure than revenue forgone. This is due to the good or service becoming more expensive and taxpayers purchasing less of it. For example, in the 2014 Statement, the two estimates for the exemption from interest withholding tax on certain securities are $1.3 billion and $1.9 billion respectively. Where behaviour is not expected to change much, the estimates can be

6 Associate Professor Julie Smith, *Committee Hansard,* 19 August 2015, Canberra, p. 4; Mr Andrew Morris, ANAO, *Committee Hansard,* 9 September 2015, Canberra, p. 6.

7 Zhicheng Li Swift, Hana Polackova Brixi, and Christian Valenduc, 'Tax Expenditures: General Concept, Measurement, and Overview of Country Practices,' p. 12, in World Bank, *Tax Expenditures – Shedding Light on Government Spending through the Tax System: Lessons from Developed and Transition Economies,* 2004.

8 ANAO, *Preparation of the Tax Expenditures Statement,* 2008, Audit Report No. 32 2007-08, pp. 54-55.

close. The two estimates for the GST exemption for food are $6.3 billion and $6.4 billion.[9]

2.11 Revenue gain estimates can be complex.[10] The Grattan Institute gave the Committee an overview of the process for superannuation. If the tax on contributions were abolished, the factors to take into account would include:

- super guarantee contributions would continue, since they are a legal obligation
- Treasury assumes that most of the voluntary concessional contributions and non-voluntary concessional contributions would no longer be made
- Treasury assumes that these funds would be diverted to other investments without the generous concessions of superannuation
- This would increase taxpayers' income and be taxed at the highest marginal rate, resulting in an estimate close to the revenue forgone estimate.[11]

2.12 Despite their complexity, the advantage of revenue gain estimates is that they are easier to interpret. They represent the best estimate of the cost of a particular concession on the Budget because they are an estimate of what government would gain if the concession were removed.

2.13 The third method is outlay equivalent, where revenue forgone estimates are used to generate an estimate of what it would cost to generate the same effect if the tax expenditure were a spending program. Often, direct expenditures are taxable, but tax expenditures are not. Therefore, a tax expenditure will have a larger effect than direct spending of the same size.[12] It would be expected that outlay equivalent method would often give larger estimates than the other two methods.

2.14 In 1986, the Economic Planning and Advisory Council stated that the outlay equivalent method has the potential to improve the comparability

9 Treasury, *Tax Expenditures Statement 2014,* 2015, p. 7.

10 OECD, *Tax Expenditures in OECD Countries,* 2010, pp. 151-52.

11 Mr Brendan Coates, Grattan Institute, *Committee Hansard,* 12 August 2015, Canberra, p. 6.

12 Colin Brown, 'Tax Expenditures in Australia,' pp. 55, 59, in World Bank, *Tax Expenditures – Shedding Light on Government Spending through the Tax System: Lessons from Developed and Transition Economies,* 2004.

of tax expenditures and spending programs. It could also allow for the better integration of tax expenditures in the Budget process.[13]

2.15 In 2010, the OECD reported that Sweden provides outlay equivalent estimates. The United States used to report outlay equivalent estimates.[14]

2.16 Although some individual tax expenditures may be simple to estimate, the large number of them can mean that preparing a comprehensive report each year is labour intensive.[15] The 2014 Statement lists 297 tax expenditures.

Tax expenditures in Australia

Legal requirements

2.17 The *Charter of Budget Honesty Act 1998* requires the Government to publish detailed information on tax expenditures. Division 2 of the Act requires the Treasurer to publish and table a mid-year economic and fiscal outlook report, which must 'contain a detailed statement of tax expenditures, presenting disaggregated information on tax expenditures.'[16] The report is titled the Mid-year Economic and Fiscal Outlook (MYEFO).

2.18 Treasury does not meet this obligation. The Statement is presented as a separate document, rather than being included in MYEFO. However, it is published within the time-frame required for MYEFO. Treasury explained that MYEFO and the Statement are both resource intensive, and it would be difficult to produce the two together:

> … I think the publication of a very detailed tax expenditure statement at the time of the MYEFO is unlikely to be practical, in our view, particularly as some policy decisions may not be taken until late in the process of preparing that statement. We have little time to actually prepare any estimates on the basis of those decisions. That has not been done by any government to date, and

13 Referenced from ANAO, *Preparation of the Tax Expenditures Statement,* 2008, Audit Report No. 32 2007-08, p. 63.

14 OECD, *Tax Expenditures in OECD Countries,* 2010, p. 151.

15 Zhicheng Li Swift, Hana Polackova Brixi, and Christian Valenduc, 'Tax Expenditures: General Concept, Measurement, and Overview of Country Practices,' p. 12, in World Bank, *Tax Expenditures – Shedding Light on Government Spending through the Tax System: Lessons from Developed and Transition Economies,* 2004; Treasury, *Tax Expenditures Statement 2014,* 2015.

16 Clause 16(1)(b) of the *Charter of Budget Honesty Act 1998.*

> I think fundamentally it reflects the fact that MYEFO and tax expenditure statements are both highly resource intensive to produce. Producing them simultaneously would be quite difficult for us. Nevertheless, we do produce the TES by the end of January each year and shortly after MYEFO. That is based on decisions taken up to the last MYEFO statement.[17]

2.19 Statements have been published every year since the Act commenced. The exception was 1998-99, due to the implementation of major tax reforms and the introduction of accrual budgeting.[18]

2.20 Another obligation under the Act is that MYEFO, and hence the statement on tax expenditures, must be based on external reporting standards. This implies that they would be independently set. Further, different groups could take the same raw data and develop similar tax expenditure estimates. However, no such standard currently exists.[19]

2.21 Finally, the Act requires the Treasurer to table a budget economic and fiscal outlook report. The report must contain 'an overview of the estimated tax expenditures for the budget year and the following 3 financial years.'[20] The 2015 Budget reproduced four years of information from the 2014 Statement in relation to the 25 largest measured tax expenditures and the two largest negative tax expenditures. The information was not updated for the effects of Budget decisions.[21]

2.22 Previous Budgets have included more information. Up to 2012, they included aggregate information of tax expenditures.[22] On the one hand, this is technically incorrect because of the interactions between tax expenditures. On the other hand, aggregate data gives an indication of their size. Previous Budgets have occasionally discussed tax expenditures in relation to new measures.[23] The practice of excluding Budget decisions

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17 Mr Steve French, Treasury, *Committee Hansard,* 9 September 2015, Canberra, p. 2.

18 ANAO, *Preparation of the Tax Expenditures Statement,* 2008, Audit Report No. 32 2007-08, p. 41.

19 ANAO, *Preparation of the Tax Expenditures Statement,* 2008, Audit Report No. 32 2007-08, p. 13; ABS, *Submission 1,* p. 1; Clause 16(3)(a) of the *Charter of Budget Honesty Act 1998.*

20 Clause 12(1)(d) of the *Charter of Budget Honesty Act 1998.*

21 The Hon. J.B. Hockey MP, Treasurer, and Senator the Hon. Mathias Cormann, Minister for Finance, *Budget Strategy and Outlook: Budget Paper No. 1 2015-16,* 2015, pp. 4-20, 4-21.

22 For example, The Hon. Wayne Swan MP, Deputy Prime Minister and Treasurer, and Senator the Hon. Penny Wong, Minister for Finance and Deregulation, *Budget Strategy and Outlook: Budget Paper No. 1 2012-13,* 2012, p. 5-49.

23 For example, the Hon. Wayne Swan MP, Deputy Prime Minister and Treasurer, and Senator the Hon. Penny Wong, Minister for Finance and Deregulation, *Budget Strategy and Outlook: Budget Paper No. 1 2012-13,* 2012, p. 5-15.

from the tax expenditure information in the Budget Papers appears to be long standing.[24]

The Statement

2.23 The Statement reflects Government policy up to and including the matching MYEFO. The Statement's intention is to inform debate and facilitate parliamentary scrutiny:

> The TES is intended to facilitate scrutiny of tax expenditures by Parliament and parliamentary committees, the media and general public. Transparent reporting of tax expenditures also helps inform debate on the efficiency and equity of the tax system.[25]

2.24 In evidence, the ANAO argued that Treasury needed to make further improvements to the Statement to meet these objectives.[26]

2.25 The Statement explains the revenue forgone and revenue gain methods and lists a number of cautions in relation to the tax expenditure estimates:

- judgment is required in determining the benchmark; it may be contentious and may change over time
- revenue gain estimates are problematic because:
  - ⇒ abolishing the tax expenditure in question may be implausible
  - ⇒ there may not be useful information on how taxpayers would react if the tax expenditure were abolished
  - ⇒ judgments are required about what the likely policy settings would be if a tax expenditure were abolished
- tax expenditures are not comparable over time because benchmarks change, new ones are identified, and data or modelling methods change
- direct expenditure estimates and tax expenditure estimates are often not directly comparable due to tax effects or because they measure different things
- tax expenditures cannot be added together because removing one item can change how others are used.[27]

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24 For example, The Hon. Peter Costello MP, Treasurer, and Senator the Hon. Nick Minchin, Minister for Finance and Administration, *Budget Strategy and Outlook: Budget Paper No. 1 2005-06,* 2005, p. 5-33.

25 Treasury, *Tax Expenditures Statement 2014,* 2015, p. 3.

26 Mr Mark Simpson, ANAO, *Committee Hansard,* 9 September 2015, Canberra, p. 3.

27 Treasury, *Tax Expenditures Statement 2014,* 2015, pp. 3-5.

2.26 The Statement then turns to large tax expenditures. It lists five unquantified expenditures, all of which are positive (in favour of taxpayers) except the last, which is negative (in favour of the Government). They are classed as large because they are all predicted to be over $1 billion in size. The Statement lists them as:

- income tax exemption for Commonwealth, State and Territory public authorities, and State and Territory entities (B3);
- exemption for foreign branch profits from income tax (B11);
- off-market share buy-backs (B28);
- philanthropy — income tax exemption for registered charities, public educational, scientific and community service entities (B56); and
- quarantining of capital losses (E27).

2.27 The letters and numbers represent the reference code used in the Statement for each tax expenditure. The letter refers to a different tax or benchmark: 'B' stands for business income, and 'E' refers to capital gains tax. The number refers to its position in the list for each benchmark.[28]

2.28 The Statement then lists large quantified tax expenditures, 25 of which are positive and two negative. The top 10 positive expenditures and two largest negative expenditures are reproduced on the next page.

28 The other letter codes are: 'A' for personal income; 'C' for retirement income; 'D' for fringe benefits tax; 'F' for commodity and other indirect taxes; 'G' for natural resources taxes; and 'H' for the GST.

Table 1.1 Largest measured tax expenditures for 2014-15

Tax expenditure		**Estimate $m**	
		Revenue forgone	*Revenue gain*
Large positive tax expenditures			
E6	Capital gains tax main residence exemption – discount component	25,500	n/a
E5	Capital gains tax main residence exemption	20,500	n/a
C3	Concessional taxation of employer superannuation contributions	16,300	15,550
C6	Concessional taxation of superannuation entity earnings	13,400	11,750
H28	GST – Food	6,400	6,300
E11	Capital gains tax discount for individuals and trusts	5,800	n/a
H16	GST – Education	3,950	3,550
H2	GST – Financial supplies – input taxed treatment	3,550	3,550
H19	GST – Health – medical and health services	3,550	3,500
C5	Concessional taxation of non-superannuation benefits	2,700	2,700
Large negative tax expenditures			
F24	Customs duty	-2,550	-2,550
F12	Higher rate of excise levied on cigarettes, ≤ 0.8 grams of tobacco	-1,840	n/a

Source *Treasury, Tax Expenditures Statement 2014, 2015, p. 7.*

2.29 Chapter 2 of the Statement lists each individual tax expenditure with explanatory information. Of the 297 tax expenditures in the 2014 Statement, 145 are unquantified.[29] The remainder have eight years of estimates using the revenue forgone method. An example is provided below.

Table 1.2 Example of a revenue forgone entry in the Tax Expenditures Statement

H16 Education

Education ($m)

2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
2,800	3,050	3,350	3,600	3,950	4,300	4,700	5,150

Tax expenditure type:	Exemption	*2013 TES Code:*	H17
Estimate reliability:	Medium		
Commencement date:	1 July 2000	*Expiry date:*	
Legislative reference:	Section 38-50 of the *A New Tax System (Goods and Services Tax) Act 1999*		

Certain education supplies are GST-free. These include education courses, directly related administrative services, curriculum-related goods, student accommodation for students attending a primary, secondary or special education course, excursions and field trips and supplies related to the recognition of prior learning.

Source *Treasury, Tax Expenditures Statement 2014, 2015, p. 115. 'H' in the title refers to the GST.*

29 CAANZ, *Submission 3*, p. 5.

2.30 Chapter 3 gives estimates using the revenue gain method for 10 tax expenditures. The corresponding revenue gain entry for the education estimate above is in table 1.3.

Table 1.3 Example of a revenue gain entry in the Tax Expenditures Statement

H16: GST – Education								
Estimates	*Revenue forgone estimate ($m)*				*Revenue gain estimate ($m)*			
	2014-15	2015-16	2016-17	2017-18	2014-15	2015-16	2016-17	2017-18
	3,950	4,300	4,700	5,150	3,550	3,850	4,250	4,600
Reason for difference	Removing the GST exemption for education would be expected to decrease demand for education services. This is primarily due to an expected fall in demand for private education and 'discretionary courses'.							

Source *Treasury, Tax Expenditures Statement 2014, 2015, p. 124.*

2.31 Appendix A in the Statement comprises technical notes explaining the reliability of the estimates, the calculation of the various benchmarks, and modelling techniques. Appendix B lists tax expenditures that have been abolished or changed since the previous Statement.

2.32 Up until 2012, the Statement included aggregate information of tax expenditures.[30] As noted above, this has the disadvantage of being technically incorrect because tax expenditures interact with each other. However, aggregate data gives a rough indication of the overall scale of tax expenditures.

Past reviews

2.33 In its 2008 report, the ANAO noted that there had been six public sector reviews of tax expenditures between 1970 and 2000. The reviews' recommendations were rarely implemented and, therefore, they tended to make similar findings and recommendations. The ANAO summarised the reviews' findings as:

- poorly defined aims [for tax expenditures];
- inadequate methods, information and data with which to estimate the cost and evaluate the effectiveness and efficiency of tax expenditures;
- insufficient budgetary scrutiny and consideration, both within government and by Parliament; and

30 Treasury, *Tax Expenditures Statement 2012,* 2013, pp. 4-5.

- lack of regular and systematic review.[31]

2.34 The ANAO stated that the only report to have some recommendations implemented was that by the House of Representatives Standing Committee on Expenditure in 1982.[32] The inquiry found that the information Parliament was receiving on tax expenditures was improving, but it was still inadequate. The Committee recommended improvements to reporting, including:

- a comprehensive list of tax expenditures, including costs and objectives
- tax expenditures be cross-classified with the departments responsible for direct spending equivalents
- ministers' second reading speeches that relate to a tax expenditure should include an explanation why it is preferred over direct spending.[33]

2.35 The report was partially implemented. The listing of tax expenditures that it recommended is now the current Tax Expenditures Statement.[34]

The 2008 ANAO audit

2.36 The ANAO noted that the *Charter of Budget Honesty Act 1998* was designed to establish an integrated fiscal framework. One element of this would be for MYEFO to include a detailed statement on tax expenditures based on external reporting standards. However, as a matter of practicality, Treasury had not been able to include the Statement in MYEFO.

2.37 Treasury advised the ANAO during the audit that the best way of controlling tax expenditures was at policy development, where they should be considered in the same way as spending proposals. However, the ANAO noted that past practice had been inconsistent. It also stated that:

- the benchmarks used to calculate tax expenditures are based on judgments and can be arbitrary or vary over time
- there were no reporting standards for tax expenditures

31 ANAO, *Preparation of the Tax Expenditures Statement,* 2008, Audit Report No. 32 2007-08, pp. 33-34.

32 ANAO, *Preparation of the Tax Expenditures Statement,* 2008, Audit Report No. 32 2007-08, p. 34.

33 House of Representatives Standing Committee on Expenditure, *Taxation Expenditures,* 1982, pp. vii, 12.

34 ANAO, *Preparation of the Tax Expenditures Statement,* 2008, Audit Report No. 32 2007-08, p. 34; Julie Smith, *Tax Expenditures: the $30 Billion Twilight Zone of Government Spending,* 2003, Department of the Parliamentary Library Research Paper No. 8 2002-03, p. 7.

- there was a substantial number of unidentified tax expenditures
- over 40 per cent of identified tax expenditures were not quantified, and of those that were, two thirds were not based on reliable estimates.[35]

2.38 The ANAO stated that a program of ongoing reviews would be beneficial. It made six recommendations (comprising 11 sub-recommendations) to address these issues.[36] The recommendations and the extent of their implementation are provided in Appendix D.

The Parliament's follow-up inquiry

2.39 One of the statutory functions of the Joint Committee of Public Accounts and Audit (JCPAA) is to examine ANAO reports.[37] The JCPAA conducts this work through regular hearings with the Auditor-General and agencies subject to audit. That Committee held a hearing with the ANAO and Treasury in 2008 and tabled its report the next year.

2.40 The Committee made recommendations around reporting that supplemented those of the ANAO. The recommendations and their implementation are also given in Appendix D.[38]

The Australia's Future Tax System (AFTS) Review

2.41 This inquiry was a broad review of the tax system. It mainly covered tax policy, but it also examined tax administration. Treasury completed the report in December 2009 and it was released the next year.

2.42 Two of the report's recommendations mirrored those of the ANAO. They covered better integrating tax expenditures in the Budget process and developing reporting standards for tax expenditures. It also recommended legislative change in relation to MYEFO and that the Council of Australian Governments (COAG) should encourage the States and Territories to standardise their reporting on tax expenditures. These recommendations are also listed in Appendix D.

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35 ANAO, *Preparation of the Tax Expenditures Statement,* 2008, Audit Report No. 32 2007-08, pp. 12-14.

36 ANAO, *Preparation of the Tax Expenditures Statement,* 2008, Audit Report No. 32 2007-08, pp. 21-23.

37 Section 8(1)(c) of the *Public Accounts and Audit Committee Act 1951.*

38 JCPAA, *Report 414: Review of Auditor-General's Reports tabled between August 2007 and August 2008,* 2009, pp. 43-57.

2.43 The inquiry discussed benchmarks for measuring tax expenditures, but did not make recommendations on this.[39]

The 2013 ANAO audit

2.44 This follow-up audit noted that progress in implementing the ANAO and JCPAA recommendations had been 'slow' with only four of the 11 sub-recommendations being fully implemented. One recommendation, to systematically review tax expenditures, had been implemented then discontinued. The ANAO's view was that the recommendations were still relevant.[40]

2.45 Treasury advised the ANAO that, in the face of reduced resources, it had focussed on Government priorities such as the AFTS Review.[41]

2.46 The ANAO made a recommendation to improve the robustness of the reliability ratings of estimates in the Statement. It also made a number of suggestions that Treasury could implement that would either improve the Statement, or improve how Treasury managed tax expenditures. They were not formal recommendations, but are listed here for information. The ANAO stated that Treasury could:

- quantify tax expenditures for new policy proposals in the Budget Papers
- with other jurisdictions, develop external standards for reporting tax expenditures
- include additional factors to consider when reviewing tax expenditures, in particular:
  - ⇒ the interaction of the tax expenditure with other State and Commonwealth government programs
  - ⇒ its distributive impact
  - ⇒ compliance costs for the taxpayer and ATO
  - ⇒ alternative mechanisms for delivering the benefit
- identify tax expenditures in other portfolios itself

39 AFTS Review, *Report to the Treasurer, Part Two, Detailed analysis,* 2009, pp. 724-33.

40 ANAO, *Preparation of the Tax Expenditures Statement,* 2013, Audit Report No. 34 2012-13, pp. 16-18.

41 ANAO, *Preparation of the Tax Expenditures Statement,* 2013, Audit Report No. 34 2012-13, p. 16.

- with the Australian Taxation Office (ATO), first identify the data problems with the estimates and then use this to guide information requests
- give reasons in the Statement where it does not publish a revenue gain estimate for each of the largest tax expenditures
- implement a documented system to improve the reliability of the estimates, including timeframes and targets.[42]

Committee comment

2.47 In following up previous recommendations during the inquiry, the Committee noted the statement by Treasury that it no longer supported either the ANAO's recommendations from its 2008 audit, or the JCPAA's follow up inquiry in 2009. In particular, Treasury stated:

> With the benefit of further consideration, Treasury now considers that the recommendations contained in these reports are no longer relevant or appropriate.[43]

2.48 The Committee accepts that an agency may decide not to implement an ANAO or parliamentary committee recommendation that it has previously accepted if circumstances have changed so as to allow a reasonable explanation. The Committee also appreciates the circumstances under which Treasury operates and its resource constraints.

2.49 However, the Committee is concerned that Treasury has now rejected these recommendations without explanation. The Committee's opinion is that an obligation lies with Treasury to communicate and explain this change. It should not have to be discovered by a follow-up inquiry.

2.50 The ANAO and JCPAA are important institutions that safeguard public finances and protect the interests of the Parliament. Further, as this inquiry showed, there are alternative ways in which the recommendations could have be implemented or progressed. Finally, it would have been a courtesy to the ANAO and JCPAA to advise them of this change, given that Treasury had formally accepted the recommendations.

2.51 The Committee will raise this issue with the JCPAA.

42 ANAO, *Preparation of the Tax Expenditures Statement,* 2013, Audit Report No. 34 2012-13, pp. 45, 51, 55, 64, 66, 72, 76.

43 Treasury, *Submission 7,* p. 1.