Chapter 2

Government revenue loss from tax expenditures and concessions

2.1 In its first interim report, the committee noted that the National Commission of Audit (the commission) focused on cuts to government expenditure and did not examine raising revenue.[1] Given the substantial amount of revenue forgone through tax expenditures (amounting to around $115 billion in 2012-13),[2] and tax concessions, the committee has chosen to examine a number of tax concessions where changes could raise government revenue and improve policy outcomes, including:

- superannuation concessions;
- the interaction between concessionary treatment of capital gains and negative gearing of investment properties;
- the Fuel Tax Credits Scheme;
- private health insurance rebates; and
- elements of the Fringe Benefits Tax (FBT).

What are tax expenditures and concessions?

2.2 The Australian tax system has a range of concessions that can be used by individuals and businesses to reduce the amount of tax they pay. While these concessions benefit taxpayers and businesses, they represent a loss of potential income for the Commonwealth.

2.3 Some of these concessions are classed as tax expenditures,[3] while others are treated as spending programs in the budget or structural features of the tax system.

2.4 Treasury defines a tax expenditure as:

> …a provision of the tax law that provides a benefit to a specified activity or class of taxpayer that is concessional when compared to the 'standard' tax treatment that would apply….

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1 Senate Select Committee into the Abbott Government's Commission of Audit, *First Interim Report*, April 2014, pp 31-32.

2 Dr Anne Holmes and Hannah Gobbett, *Tax expenditures: costs to government that are not in the Budget* (2013), available at www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/pubs/BriefingBook44p/TaxExpenditures (accessed 16 April 2014). Note: The figure of $115 billion is the potential revenue loss from tax expenditures alone. Note: The term 'tax concessions' is used in this chapter to cover a number of features of the tax system, including tax expenditures, certain rebates and tax credits in the Budget, and negative gearing, which is a structural element of the tax system.

3 Note: Tax Expenditures are captured in the annual Tax Expenditures Statement published by the Treasury.

> Tax expenditures can be provided in many forms, including tax exemptions, tax deductions, tax offsets, concessional tax rates or deferrals of tax liability.[4]

2.5 Other tax concessions are treated as direct spending and included in the Commonwealth Budget, such as the Fuel Tax Credits Scheme and rebates for private health insurance. Negative gearing is regarded as a 'structural feature' of the Australian tax system, so out of scope for both the Tax Expenditures Statement (TES) and annual budget processes.[5]

2.6 The Parliamentary Library noted that:

> Tax expenditures are intended to achieve policy objectives of the Government. They are essentially the same as government spending programs.[6]

How much do tax expenditures and concessions cost the government?

2.7 The International Monetary Fund (IMF) recently found Australia has the highest level of tax expenditure in the world.[7] However, Treasury have urged caution about drawing conclusions from this working paper about the size of tax expenditures in Australia relative to other countries.[8]

2.8 In 2012-13 there were 363 tax expenditure measures estimated to total around $115 billion, or 7.5 per cent of GDP. To put this in context, total government spending in the same period was around 23.5 per cent of GDP.[9]

2.9 Some major components of tax expenditure are superannuation concessions ($31.8 billion)[10] and capital gains tax discount for individuals and trusts ($4.3 billion

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4 2012 *Tax Expenditures Statement*, January 2013, p. 13.

5 Dr Anne Holmes and Hannah Gobbett, *Tax expenditures: costs to government that are not in the Budget* (2013), available at www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/pubs/BriefingBook44p/TaxExpenditures (accessed 16 April 2014).

6 Dr Anne Holmes and Hannah Gobbett, *Tax expenditures: costs to government that are not in the Budget* (2013), available at www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/pubs/BriefingBook44p/TaxExpenditures (accessed 16 April 2014); See also ANAO, *Audit Report No.34 2012–13 Performance Audit: Preparation of the Tax Expenditures Statement* (May 2013), p. 12.

7 Justin Tyson, *Reforming Tax Expenditures in Italy: What, Why, and How?* IMF Working Paper January 2014, Figure 1.

8 Note: The Treasury have raised concerns that this evaluation is because of the more stringent benchmarking of the Australian tax system. See additional information, correspondence from Mr Rob Heferen, Executive Director, Revenue Group, Department of the Treasury, 28 April 2014.

9 Dr Anne Holmes and Hannah Gobbett, *Tax expenditures: costs to government that are not in the Budget* (2013), available at www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/pubs/BriefingBook44p/TaxExpenditures (accessed 16 April 2014).

10 Treasury, *A super charter: fewer changes, better outcomes* (May 2013) available at www.treasury.gov.au/Policy-Topics/SuperannuationAndRetirement/supercharter/Report (accessed 23 April 2014).

in 2012-13).[11] Professor John Hewson, Chair, Tax and Transfer Policy Institute, Australian National University, appearing in a private capacity, told the committee total Commonwealth tax expenditure is likely to increase to around $150 billion in 2016-17.[12]

2.10 The government also forgoes revenue from other tax concessions, including: the Fuel Tax Credits Scheme ($5.5 billion annually);[13] rebates for private health insurance ($4.7 billion annually);[14] and the negative gearing of property ($2.4 billion annually).[15]

2.11 Given how much the tax concessions cost the Commonwealth, Dr Richard Denniss, Executive Director, The Australia Institute, argued that reforming tax concessions would lift revenue without lifting the tax rate, while also improving policy outcomes. He said the Commonwealth should:

> …focus on achieving a simple and efficient tax system by removing the enormous and inequitable tax concessions and loopholes that currently exist in the system. This will allow the collection of tens of billions of dollars in additional revenue with no upward pressure on the rate of tax at all.[16]

The need for greater transparency and review of tax expenditures

2.12 The committee was told that tax expenditures lack transparency and should be more regularly reviewed to evaluate their cost and efficiency in delivering government policy. For example, the Parliamentary Library noted:

> A tax expenditure is the provision of a benefit by way of preferential treatment in the tax system. It has a similar effect on the budget to direct expenditure, but is subject to far less scrutiny. Transparency would be increased in many cases if tax expenditures were replaced with direct expenditure.[17]

2.13 The annual TES was introduced by the *Charter of Budget Honesty Act 1998*, to allow greater scrutiny of tax expenditures.[18] However, in 2009, the Henry Tax Review noted there was still not enough transparency and accountability in the system, despite the TES:

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11 *2013 Tax Expenditures Statement*, January 2014, p. 12.

12 Professor John Hewson, *Committee Hansard*, 15 April 2015, p. 48.

13 Mr James Sorahan, *Committee Hansard*, 15 April 2015, p. 3.

14 Australian Institute of Health and Welfare, *Health Expenditure 2011-12*, p. 37.

15 Mr Sam Crosby, *Committee Hansard*, 15 April 2015, p. 10.

16 *Committee Hansard*, 5 February 2014, p. 13.

17 Dr Anne Holmes and Hannah Gobbett, *Tax expenditures: costs to government that are not in the Budget* (2013), available at www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/pubs/BriefingBook44p/TaxExpenditures (accessed 16 April 2014).

18 *2013 Tax Expenditures Statement*, January 2014, p. 1.

> …despite their similarities, tax expenditures and spending programs are not created, maintained, reviewed or reported in the same way. This means that there is often less transparency and accountability in the use of tax expenditures.[19]

2.14 Professor John Hewson, suggested tax expenditures were such a significant part of Commonwealth budget that they should be examined alongside spending programs:

> The main point I wanted to make today is obviously to focus in on the need to look at tax expenditures pretty much as you look at normal government expenditure…You have to look at the lot. If you look at the numbers, assistance that is enshrined in the tax system is worth about $120 billion this year, on the budget estimates, rising to about $150 billion in 2016-17. That is approaching a third of aggregate government expenditure.[20]

2.15 This was also mentioned by the Business Council of Australia in their submission to the commission:

> All of the [tax] concessions should be treated in the same way as direct budget expenditures for the purposes of program evaluation and the merits of each concession should be periodically re-established.[21]

2.16 Professor John Quiggin, School of Economics, University of Queensland, appearing in a private capacity, proposed the TES be incorporated into *Budget Paper No. 2* to ensure greater integration between tax and program expenditure:

> …because the tax expenditures are obscure both in their operation and also in their presentation in the budget accounts they tend to be viewed less critically…[a] more integrated treatment of the tax expenditure [that] is promoted much higher up in the budget papers would be a helpful guide to the actual impact of the budget, rather than the accounting measures we currently use.[22]

Tax concessions and settings in need of review

2.17 The committee examined particular tax concessions in need of review because they are not achieving their policy goals and represent significant revenue losses to government. These are discussed in turn below.

Concessions for superannuation contributions

2.18 The government currently offers a concessional rate of tax to encourage individuals to make voluntary contributions to their superannuation savings. These

19 *Australia's Future Tax System*, Part 1, p. 72.

20 *Committee Hansard*, 15 April 2014, p. 48.

21 Business Council of Australia, *Submission to the National Commission of Audit, Attachment 1, Report by Macroeconomics*, December 2013, p. 13.

22 *Committee Hansard*, 15 April 2014, p. 47.

contributions are taxed at 15 per cent, which is less than the marginal tax rate most contributors pay on their income.[23]

2.19 Superannuation concessions were designed to supplement retirement incomes of individuals and reduce the number of Australians solely reliant on age pensions.[24]

2.20 These concessions cost government $31.8 billion in 2012-13, and will increase to around $45 billion in 2015-16.[25]

2.21 Witnesses told the committee that government tax expenditure on superannuation concessions is costly for government, inequitable and does not achieve good policy outcomes.

2.22 Mr Matt Cowgill, Economic Policy Officer, Australian Council of Trade Unions, advised the committee superannuation concessions are a large and growing area of expenditure predominantly benefitting high income earners:

> We note [Treasury analysis] shows that the very highest-income earners receive more government support for their retirement in the form of superannuation tax concessions than low-income earners do in the form of the aged pension. We say that is inequitable, it is unsustainable and it has put a large and growing hole in the Commonwealth budget.[26]

2.23 Professor Hewson also referred to the disproportionate assistance given to high-income groups who make voluntary superannuation contributions:

> Treasury estimates, for example, that, from the combined support of superannuation tax concessions and the age pension, most people—that is a number around 80 per cent—receive around $270,000 of support over their lifetime. In contrast, the top one per cent of male income earners receives around $520,000 of support over their lifetime because of the significant superannuation tax concessions to higher-income earners.…There is a significant inequity in that system, particularly against the background of the focus on pension spending as a traditional government expenditure item.[27]

2.24 Dr Cassandra Goldie, CEO of the Australian Council of Social Service, noted these concessions were often used as tax minimisation strategies in the present rather than reducing reliance on the pension system in the future:

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23 Treasury, *A super charter: fewer changes, better outcomes* (May 2013) available at www.treasury.gov.au/Policy-Topics/SuperannuationAndRetirement/supercharter/Report (accessed 23 April 2014).

24 Treasury, *A super charter: fewer changes, better outcomes* (May 2013) available at www.treasury.gov.au/Policy-Topics/SuperannuationAndRetirement/supercharter/Report (accessed 23 April 2014).

25 Treasury, *A super charter: fewer changes, better outcomes* (May 2013) available at www.treasury.gov.au/Policy-Topics/SuperannuationAndRetirement/supercharter/Report (accessed 23 April 2014); 2012 TES, p. 4.

26 *Committee Hansard*, 5 February 2014, p. 9.

27 *Committee Hansard*, 15 April 2014, p. 49.

> When you look at the mix of where tax expenditures are benefiting different groups through superannuation you see that 50 per cent of the tax expenditure is benefiting people in the top 20 per cent….[This] is not delivering on the core outcome, because we have tax expenditure going towards benefiting people who are probably going to be able to secure their own retirement future, whether they use a superannuation investment vehicle or some other form of investment strategy.[28]

2.25 Dr Denniss argued the government needs to focus on the balance between the costs of the pension and superannuation concessions to see where current policy is failing:

> If you believe that superannuation tax concessions take pressure off the age pension, the Commission of Audit should recommend that there be a cap on the combined cost of the two. If one is taking pressure off the other, then the sum of them should not grow. The sum of them is going through the roof because the tax concessions for superannuation are going disproportionately to people who are not even eligible for the age pension.[29]

Concessions for capital gains tax and negative gearing

2.26 Capital gains tax concessions and the negative gearing of property are often combined by investors to minimise their tax bill.[30]

2.27 The government offers a capital gains exemption of 50 per cent of any capital gain made by a resident individual or trust, where the asset being sold has been owned for at least 12 months.[31] This was introduced in 1999 to stimulate capital investment made by individuals and trusts – both from Australia and overseas.[32] It is most frequently used in property investment, although it was originally designed to stimulate entrepreneurial activity, particularly in web-based businesses.[33]

2.28 Negative gearing is a strategy by which investors can reduce their taxable income by deducting losses incurred on particular investments from their main

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28 *Committee Hansard*, 18 February 2014, p. 55.

29 *Committee Hansard*, 5 February 2014, p. 14.

30 Note: the capital gains concession is classified as tax expenditure and itemised in the TES, whereas negative gearing is regarded as a structural element of the tax system and potential revenue losses to government are not regularly reported. Dr Anne Holmes and Hannah Gobbett, *Tax expenditures: costs to government that are not in the Budget* (2013), available at www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/pubs/BriefingBook44p/TaxExpenditures, (accessed 16 April 2014).

31 *2013 Tax Expenditures Statement*, January 2014, p. 140.

32 Mr David Hetherington, *Committee Hansard*, 15 April 2014, p. 26; Mr Sam Crosby, *Committee Hansard*, 15 April 2014, p. 10. Note: foreign individuals and trusts have not been able to claim this concession from 2012. 2013, TES, p. 140.

33 Professor John Quiggin, *Committee Hansard*, 15 April 2014, p. 41. Note: it can also be used for shares and bonds.

income.[34] Negative gearing was introduced with the aim of increasing the availability of rental properties.

2.29 Taken together, capital gains tax concessions and negative gearing cost the government around $6.7 billion in lost revenues each year. The 2013 TES states the concessional treatment for capital gains tax cost $4.3 billion in 2013-14, rising to $7.6 billion in 2016-17.[35] Negative gearing of property costs government around $2.4 billion a year.[36]

2.30 Mr Sam Crosby, Executive Director of the McKell Institute explained to the committee that these two features of the tax system are used in combination by investors to minimise their tax liabilities:

> Negative gearing is really two things when people talk about it. The first is that it allows investors to deduct their losses made on rental properties from their other income and thereby lowering their overall tax burden. What is commonly looked at also incorporates their capital gains tax….That reduced the rate of capital gains to about 50 per cent. When you are looking at what the biggest impact on the budget is from negative gearing, we are not just talking about negative gearing. We are talking about capital gains.[37]

2.31 Dr John Daley, CEO of the Grattan Institute, appearing in a private capacity, saw good opportunities to improve government policy and revenue in these areas:

> The tax treatment of assets, including negative gearing and the capital gains discount, are pretty good places to start for tax reform. These tax exemptions primarily benefit older, richer Australians, and they significantly reduce housing affordability for younger generations.[38]

2.32 Supporters of negative gearing argue that it encourages investment in rental housing and acts to keep rents low, as well as stimulating the building and construction industry. However, the committee heard evidence that the intersection between negative gearing and concessional taxation of capital gains results in a significant loss for government revenues and acts as a significant distortion on the housing market.

2.33 Mr Andrew Mihno, Executive Director, International and Capital Markets Division, Property Council of Australia, suggested negative gearing and concessions for capital gains were positive measures that boosted supply of rental properties and acted as a brake on rising rent prices.[39]

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34 ATO, 'Negative Gearing' at www.ato.gov.au/Individuals/Income-and-deductions/In-detail/Investments,-including-rental-properties/ (accessed 23 April 2014).

35 *2013 Tax Expenditures Statement*, January 2014, p. 140.

36 Mr Sam Crosby, *Committee Hansard*, 15 April 2014, p. 10.

37 *Committee Hansard*, 15 April 2014, p. 10.

38 *Committee Hansard*, 5 February 2014, p. 2.

39 *Committee Hansard*, 15 April 2014, p. 30.

2.34 However, Mr David Hetherington of Per Capita, thought negative gearing had 'singularly failed to stimulate new housing stock', and had exacerbated problems with housing supply and affordability. He told the committee:

> It is now the case that, on a low-skilled or semiskilled income in any of our major cities, the notion that you can save over a working life for a deposit for a home in the inner or middle suburbs is no longer realistic. I would argue that housing affordability remains a chronic public policy challenge and that the existing settings on negative gearing have not significantly contributed to addressing that challenge.[40]

2.35 Mr Crosby supported this, saying negative gearing had not eased supply pressures by stimulating new build housing, as '95 per cent of investors are buying established dwellings'. He suggested the way forward might involve a cap, over the longer term, either on the number of properties or the value of the properties.[41]

2.36 Professor Quiggin emphasised the treatment of capital gains is the main issue:

> The problem is that in the case of housing everybody engaged understands that the idea is that you accumulate these losses during the period you own the property, you recoup them all and more when you sell the property, getting a capital gain which can be taken at a time of your own choosing to ensure that you have a low marginal tax rate, and it is then further downgraded by 50 per cent. So that is really the big problem in housing.[42]

2.37 However, witnesses urged caution in reforming tax concessions related to the housing market, given the rates of home ownership in Australia are so high and not limited to high income groups. For example, Mr Mihno told the committee most negatively geared property was owned by investors with reasonably modest incomes:

> You might find it interesting to note that about 72 per cent of all negatively geared properties are actually owned by middle Australia—that is, people earning $80,000 or less. It costs government, on the estimates that we have, an average of $33 to $40 per week per investor, which is not particularly high.[43]

The Fuel Tax Credits Scheme

2.38 The Fuel Tax Credits Scheme (the Scheme) was introduced in 2006 for fuel used in off-road heavy vehicles and other business uses.[44] It was expanded in 2008 to

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40 *Committee Hansard*, 15 April 2014, p. 25.

41 *Committee Hansard*, 15 April 2014, p. 10. For other suggestions see also Mr Hetherington, *Committee Hansard*, 15 April 2014, p. 25.

42 *Committee Hansard*, 15 April 2014, p. 43.

43 *Committee Hansard*, 15 April 2014, p. 30.

44 Parliamentary Library, *Bills Digest no. 117 2005–06: Fuel Tax Bill 2006*, p. 1.

include fuel for power plants and machinery and again in 2012 to include the carbon price. [45]

2.39 The Scheme was designed to lower business costs for primary producers, particularly in agriculture and mining, and to reduce transport costs for regional and rural Australia. The Fuel Tax Credits Scheme cost the government $5.5 billion in 2012-13 and this is projected to rise to around $6.4 billion in 2016-17.[46]

2.40 The Minerals Council of Australia stated the mining sector received $2.3 billion in fuel tax credits for 2011-12.[47] However, it was argued that this is not a subsidy for the mining industry:

> This is a road user charge designed for the use of diesel used on roads. We do not use the diesel on roads, and nor do many of the other sectors that take advantage of this scheme.[48]

2.41 Mr Hetherington considered it odd that fuel tax credits were so costly for government and yet not subject to much public or parliamentary debate – especially in light of recent cuts to industry assistance programs:

> …I think it is striking that we have a public debate that views some subsidies as hugely damaging—so we can look at the automotive industry and say, 'Gee, it is terrible that we are propping up employment there with use of public funds,'—but the scale of fossil fuel subsidies is significant. It is very large in comparison to the subsidies in these other parts of the economy but generates very little attention or challenge in the public debate.[49]

2.42 Professor Hewson commented that all government industry assistance measures, including the Fuel Tax Credits Scheme, should be comprehensively reviewed together as part of a 'mature debate' on government expenditure:

> You do need to have a review in this process somewhere to say, 'This is how much the mining sector gets overall, this is how much the agricultural sector gets and this is how much other aspects of industry get like superannuation' and then have a mature review about that.[50]

Private health insurance rebates

2.43 The government provides a contribution to the costs of taking out private health insurance premiums of up to 30 per cent. This applies to policies covering

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45 ATO, *Fuel Tax Credits for Business* (October 2013) available at www.ato.gov.au/uploadedFiles/Content/ITX/downloads/BUS18875n14584.pdf (accessed 23 April 2014).

46 *Commonwealth Budget 2013-14*, Budget Paper 1, Statement 6, Table 3.1.

47 Mr James Sorahan, *Committee Hansard*, 15 April 2015, p. 3.

48 Mr Brendan Pearson, *Committee Hansard*, 15 April 2015, p. 4.

49 *Committee Hansard*, 15 April 2015, pp 26-27.

50 *Committee Hansard*, 15 April 2015, p. 55.

private hospital treatment, as well as policies covering ancillary health needs, such as dental care and physiotherapy.

2.44 Rebates are claimed as part of an individual's yearly tax return or paid directly to health insurers.[51] From 1 July 2012, rebates were means tested by individual or family income.[52]

2.45 In 2011-12, private health insurance rebates cost the government $5.5 billion, including $800 million for rebates on Medical Expenses. This is estimated to rise to $5.9 billion in 2016-17.[53] This has risen faster than any other component of government health spending, from $1.4 billion in 1999-2000[54] and is the second largest tax expenditure after superannuation.[55]

2.46 The original policy was designed to make private health insurance more affordable and accessible and to take pressure off the public system.[56] However, the committee was told private health insurance rebates for hospital and ancillary cover are not achieving intended policy outcomes.

2.47 Professor Jim Butler, Australian Centre for Economic Research on Health, appearing in a private capacity, told the committee there was some evidence the introduction of hospital cover had eased some pressure on the public system if measured in terms of public hospital queues and waiting lists:

> There was certainly an increase in private hospital admissions following the introduction of the private health insurance rebate….it is a complicated area to look at, but I think there is probably some prima facie evidence that it did reduce pressure in the sense that it probably resulted in a number of patients being cleared from the queue for public hospital treatment.[57]

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51 Australian Institute of Health and Welfare, *Health Expenditure 2011-12*, p. 47.

52 ATO, 'How the private health insurance rebate works' available at www.ato.gov.au/Individuals/Medicare-levy/In-detail/Medicare-levy-surcharge/ (accessed 23 April 2014).

53 *Commonwealth Budget 2013-14,* Budget Paper 1, Statement 6, Table 3.1.

54 Michael Roff ,'Should the private health insurance rebate be means tested?' *Sydney Morning Herald*, 11 February 2014.

55 Professor James Butler, *Committee Hansard*, 15 April 2014, p. 17.

56 Department of Health, 'Private health insurance rebate frequently asked questions' available at www.health.gov.au/internet/main/publishing.nsf/Content/fairer-faq (accessed 24 April 2014).

57 *Committee Hansard*, 15 April 2014, p. 17.

2.48 However, Dr Stephen Duckett, Health Program Director, Grattan Institute, appearing in a private capacity, argued this rebate had not changed public hospital patterns of use:

> Even though 43 or 47 per cent of the population has general insurance, the subsidy there does not have any impact on public hospital utilisation of any kind whatsoever. It simply improves the access for people with insurance.[58]

2.49 Dr Cassandra Goldie, CEO for the Australian Council of Social Service, told the committee that the rebate for ancillaries was inefficient and should be removed:

> The 30 per cent to 50 per cent private health insurance rebate for ancillaries cover, we believe, should go. The main justification for that rebate was to reduce public expenditure on hospitals. There is not a direct link between ancillary benefits and those expenditures.[59]

2.50 Dr Anne-marie Boxall, the Deeble Institute, also commented on the inadequate definition between Australia's public and private health systems, which would not be redressed by private health insurance rebates:

> The problem has always been that we have had two competing systems, but the private health insurance does not necessarily add function as a top-up, an optional extra. In some ways it duplicates what Medicare does and in other ways it is a top-up. So the structure of the system is problematic compared with most other countries. That is really the reason for why rebates and tax subsidies are needed—because, on its own, many people do not take private health insurance out. Just focusing only on tax subsidies as the remedy for our problems in health insurance is not going to solve the problem.[60]

2.51 Professor Butler thought that there is insufficient clarity between public and private systems and the services they provide, which leads to the duplication of expenditure, both for government and individuals:

> [The current system] is leading people to have duplicate or two health insurance policies, so you are pouring a lot of money into insurance products that might otherwise be more usefully devoted to service provision.[61]

Other measures

2.52 The committee also heard evidence regarding other tax expenditures that are both costly for government and not achieving policy goals.

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58 *Committee Hansard*, 18 February 2014, p. 33.

59 *Committee Hansard*, 18 February 2014, p. 53.

60 *Committee Hansard*, 18 February 2014, p. 9.

61 *Committee Hansard*, 18 February 2014, p. 19.

2.53 Professor Hewson argued there is also a need to review costly and inefficient FBT concessions, including:

- uncapped meal and entertainment concessions for not-for-profit entities, including doctors and other professions ($600 million in 2016-17);
- concessions for motor vehicles ($800 million a year), now redundant given the cessation of government automotive industry assistance; and
- a concession for employers giving out safety award benefits of up to $200 per employee (estimated somewhere between $1 million-$10 million a year).[62]

2.54 Professor Quiggin agreed FBT concessions for vehicles should be rescinded since government had removed other assistance for the automotive industry.[63]

2.55 The committee discussed other concessions benefitting the mining sector that should be reviewed, especially in light of recent cuts to assistance for other industries. These include: the exploration and prospecting deduction ($550 million in 2012-13),[64] and research and development concessions (around $370 million in 2010-11).[65]

Committee view

2.56 The committee notes that there is a history of calling for tax expenditures to be more transparent and regularly reviewed to ensure they achieve the stated policy outcomes. The committee agrees that given the current and projected amounts of revenue forgone by government, as well as questions raised about whether the stated policy outcomes are being achieved, tax expenditures should be more regularly reviewed to ensure they remain effective. To facilitate this greater scrutiny, the committee agrees with the suggestion to consider tax expenditures alongside direct spending measures in the Budget.

Recommendation 1

2.57 The committee recommends greater transparency and scrutiny be given to tax expenditure by including the *Tax Expenditure Statement* alongside direct expenditure measures in Budget Paper 2.

2.58 In the committee's view, there is also a need for a full-scale review of government tax expenditures and concessions as part of the government's forthcoming white paper on tax reform.

Recommendation 2

2.59 The committee recommends the government white paper on tax reform include a review of all government tax expenditures and concessions.

62 *Committee Hansard*, 18 February 2014, pp 49-50.

63 *Committee Hansard*, 18 February 2014, p. 41.

64 *2013 Tax Expenditures Statement*, January 2014, p. 86.

65 Productivity Commission, *Trade and assistance review 2011-12*, p. 140.