
The Parliament of the Commonwealth of Australia

The Tax Expenditures Statement

House of Representatives
Standing Committee on Tax and Revenue

November 2015
Canberra

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Chair's foreword

Tax expenditures calculate the effects of tax concessions provided to particular groups of taxpayers. Often, a tax concession has a particular policy goal, such as encouraging a valuable activity or improving equity.

In the late 1960s, the observation was made that tax expenditures are similar to government spending and deserve comparable scrutiny. Following a report by the House of Representatives Standing Committee on Expenditure in 1982, Australia's first comprehensive Tax Expenditures Statement (the Statement) was published in 1986.

Publishing a regular listing of tax expenditures is now a legal requirement under the *Charter of Budget Honesty Act 1998*.

The Tax Expenditures Statement has been reviewed several times in the past decade by the Australian National Audit Office (2008 and 2013), the Joint Committee of Public Accounts and Audit (2009), and as part of the Australia's Future Tax System Review (2009).

The Committee conducted a thorough review of the Tax Expenditures Statement, building on the work of these previous inquiries. We found that the Statement achieved its stated goal of facilitating scrutiny of tax expenditures and informing debate on the tax system. However, there were areas in which efficiencies could be found, and the Statement improved.

For example, we supported Treasury's suggestion that it devote fewer resources to estimating smaller, more technical expenditures, and shift these resources to other parts of the Statement. There is also scope to conduct related work, such as prioritised reviews of tax expenditures, calculating a meaningful aggregate of tax expenditures, and calculating the longer term costs and benefits of superannuation.

Further, we found that producing the Statement can be labour-intensive, and that there are significant costs to enhancing it. While Treasury draws on highly skilled staff to compile the Statement, greater consultation with stakeholders may have benefits. These may include: improving the data; establishing benchmarks; and determining which expenditures should receive longer-term estimates, or should be calculated using the more sophisticated revenue gain method.


The Committee has also made several recommendations that would improve the explanation of data and methods used in the preparation of the Statement, as well as increasing the visibility of its limitations.

The Statement is held in high regard around the world. It is an integral part of budget transparency, and it informs the national debate on taxation. While it can be improved in places, I commend Treasury on producing a document of high quality and technical complexity.

I would like to thank my fellow Committee Members for their assistance in the inquiry and the support of the Secretariat. I would also like to thank the parliamentary agencies of the Australian National Audit Office and the Parliamentary Budget Office. Their expertise and access to data mean that parliamentary committees are now well-equipped to undertake technical inquiries of this nature.

Finally, I extend my thanks to the agencies, organisations and individuals that contributed to the inquiry through submissions or evidence at public hearings.

Bert van Manen MP
Chair



Membership of the Committee

Chair Mr Bert van Manen MP

Deputy Chair Dr Jim Chalmers MP (until 22/10/15)

Hon Bernie Ripoll MP (from 22/10/15)

Members Mr John Alexander MP (until 12/10/15)

Ms Clare O'Neil MP

Hon Bronwyn Bishop MP (from 9/11/15)

Mr Michael Sukkar MP

Ms Terri Butler MP

Mr Angus Taylor MP (until 20/10/15)

Mr Ian Goodenough MP (until 19/10/15)

Mr Tim Watts MP

Mr Andrew Hastie MP (from 19/10/15)

Mr Matt Williams MP

Mr Steve Irons MP (from 19/10/15)

Committee Secretariat


Secretary Mr David Brunoro (from 29/10/15)

Ms Susan Cardell (to 28/10/15)

Inquiry Secretary Mr David Monk

Research Officer Mr Shane Armstrong

Administrative Officer Ms Tamara Palmer



Terms of reference

The Committee will inquire into the Tax Expenditures Statement, including the recommendations made by:

- the Australian National Audit Office in its reports of May 2008 and May 2013
- the Joint Committee of Public Accounts and Audit in its report of June 2009
- the Australia's Future Tax System Review of December 2009 (recs 137-139).

The Committee will not examine the policy arguments around individual tax expenditures.



List of abbreviations

ABS	Australian Bureau of Statistics
AFTS	Australia's Future Tax System
ANAO	Australian National Audit Office
ATO	Australian Taxation Office
CAANZ	Chartered Accountants Australia and New Zealand
CIS	Centre for Independent Studies
DPL	Department of the Parliamentary Library
DSICA	Distilled Spirits Industry Council of Australia
FSC	Financial Services Council
GST	Goods and Services Tax
JCPAA	Joint Committee of Public Accounts and Audit
MYEFO	Mid-Year Economic and Fiscal Outlook
OECD	Organisation for Economic Cooperation and Development
PBO	Parliamentary Budget Office
SMSF	Self-managed superannuation fund
TES	Tax Expenditures Statement



List of recommendations

3 Issues raised during the inquiry

Recommendation 1

That Treasury devote fewer resources to estimating smaller, technical tax expenditures. This could involve reviewing them less frequently and reporting them as a range.

Recommendation 2

That the Government give Treasury an ongoing mandate to conduct prioritised reviews of tax expenditures and publish the results – building upon Recommendation 1 from the ANAO's 2008 audit report.

Recommendation 3

That Treasury develop a method of aggregating tax expenditures to support its obligation under section 12 of the *Charter of Budget Honesty Act 1998* to give an overview of tax expenditures in the Budget Papers. The overview can be tailored to the needs of the Budget Papers, rather than exactly reflecting the Statement. Consultation may assist on this.

Recommendation 4

That Treasury model the long run interactions between superannuation and the age pension, develop present value estimates of the future costs and benefits of superannuation and its tax concessions, and publish the results. The Tax Expenditures Statement should reference or briefly summarise this research in the context of the superannuation estimates.

This should occur at least once every five years and also following significant changes in policy.

Recommendation 5

That Treasury include in the Statement information on revenue collected through superannuation taxation, which could constitute a reference in the table of large tax expenditures and further information later in the document.

Recommendation 6

That Treasury retain the comprehensive income tax benchmark for savings in the Tax Expenditures Statement.

Recommendation 7

That Treasury:

- incorporate the capital gains tax exemption for the main residence into the benchmark
- develop a transparent process and criteria to assist consideration of benchmarks which reflect the practical possibility of a tax concession being abolished
- consult with stakeholders on the benchmarks used in the Tax Expenditures Statement.

Recommendation 8

That Treasury consider ways of increasing the visibility or warnings in the Statement to better draw the attention of readers to the Statement's limitations.

Recommendation 9

That Treasury include in the Statement an informative explanation of data and methods for large estimates and when estimates are substantially revised, either in terms of size or reliability.

Recommendation 10

That Treasury and the Australian Taxation Office consult with stakeholders on possible data sources and apply a prioritised approach to data improvements.

Recommendation 11

That Treasury produce longer term estimates for tax expenditures where they are expected to differ significantly from the forward estimates presented in the Statement. Deciding which tax expenditures should receive this treatment could be subject to materiality considerations and consultation.

Recommendation 12

That Treasury gradually expand the number of revenue gain estimates that it calculates for the Tax Expenditures Statement, with a focus on larger tax expenditures and those relevant to public debate. Stakeholder consultation may assist in this process.

Recommendation 13

That Treasury include selected memorandum items in the Tax Expenditures Statement. The decision on which items to include could be based on their size, relevance to public debate, and stakeholder consultation.

