# APPENDIX A – TAX EXPENDITURE STATEMENT

## OVERVIEW

Governments employ a range of policy tools to achieve social and economic objectives. These include the use of direct budgetary outlays, regulatory mechanisms and taxation. This Tax Expenditure Statement (TES) details revenue foregone as a result of Government decisions relating to the provision of tax concessions. The TES is designed to improve transparency in the use of tax expenditures and increase public understanding of the fiscal process.

Tax expenditures are reductions in tax revenue that result from the use of the taxation system as a policy tool to deliver Government policy objectives. Tax expenditures are provided through a range of concessions, including:

- tax exemptions
- the application of reduced tax rates to certain groups or sectors of the community
- tax rebates
- tax deductions
- provisions which defer payment of a tax liability to a future period.

Labelling an exemption or concession as a tax expenditure does not necessarily imply any judgement as to its appropriateness. It merely makes the amount of the exemption or concession explicit and thereby facilitates its scrutiny as part of the annual Budget process.

### Methodology

#### *Revenue foregone approach*

The method used almost exclusively by governments to quantify the value of their tax expenditures is the revenue foregone approach. This method estimates the revenue foregone through use of the concession by applying the benchmark rate of taxation to the volume of activities or assets affected by the concession. One of the deficiencies of the revenue foregone approach is that the effect on taxpayer behaviour resulting from the removal of the particular tax expenditure is not factored into the estimate. Consequently, the aggregation of costings for individual tax expenditure items presented in the TES will not necessarily provide an accurate estimate of the total level of assistance provided through tax expenditures.

Measuring tax expenditures requires the identification of:

- a benchmark tax base
- concessionally taxed components of the benchmark tax base such as a specific activity or class of taxpayer
- a benchmark tax rate to apply to the concessionally taxed components of the tax base.

### *Defining the tax benchmark*

The most important step in the preparation of a TES is the establishment of a benchmark for each tax included in the statement. The benchmark provides a basis against which each tax concession can be evaluated. The aim of the benchmark is to determine which concessions are tax expenditures as opposed to structural elements of the tax. The key features of a tax benchmark are:

- the tax rate structure
- any specific accounting conventions applicable to the tax
- the deductibility of compulsory payments
- any provisions to facilitate administration
- provisions relating to any fiscal obligations.

By definition, tax expenditures are those tax concessions not included as part of the tax benchmark.

Identification of benchmark revenue bases and rates requires a degree of judgement and is not definitive. Furthermore, data limitations mean that the tax expenditures are approximations and are not exhaustive. This statement does not include estimates of revenue foregone from exemptions or concessions provided to Government agencies. Very small exemptions or concessions are also excluded.

## THE TAX EXPENDITURE STATEMENT

This year's statement includes estimates of tax expenditures in 2007-08 and 2008-09 for payroll tax, land tax, duties, the community ambulance cover and gambling taxes. A summary of the major tax expenditures valued on the basis of revenue foregone is presented in Table A.1. Not all expenditures can be quantified at this time. Accordingly, the total value of tax expenditures should be considered as indicative only.

**Table A.1**
**Tax expenditure summary[1]**

| | 2007-08[2] $ million | 2008-09 $ million |
|---|---|---|
| **Payroll Tax** | | |
| Exemption threshold[3] | 999 | 1,086 |
| Deduction scheme[4] | 212 | 265 |
| ***Section 14 exemptions*** | | |
| Local Government | 95 | 99 |
| Education | 153 | 160 |
| Hospitals | 235 | 244 |
| **Total Payroll Tax** | **1,694** | **1,854** |
| **Land Tax** | | |
| Liability thresholds[5] | 344 | 368 |
| Graduated land tax scale | 131 | 172 |
| Primary production deduction | 55 | 72 |
| Section 13 exemptions not included elsewhere[6] | 55 | 66 |
| Land developers' concession | 15 | 18 |
| Capping of values | 18 | 30 |
| **Total Land Tax** | **618** | **726** |
| **Duties** | | |
| ***Transfer duty on residential property*** | | |
| Home concession | 371 | 305 |
| First home concession | 163 | 239 |
| First home vacant land concession | 4 | 4 |
| ***Insurance duty*** | | |
| Non-life insurance | 119 | 133 |
| Workcover | 23 | 24 |
| Health insurance | 163 | 173 |
| **Total Duties** | **843** | **878** |
| **Community Ambulance Cover** | | |
| Concession to pensioners and seniors[7] | **44** | **46** |
| **Taxes on Gambling** | | |
| Gaming machine taxes | 114 | 121 |
| Casino taxes | 10 | 8 |
| **Total Gambling Tax** | **124** | **129** |

Notes:
1. Numbers may not add due to rounding.
2. 2007 08 estimates may have been revised since the 2008 09 Budget.
3. Exemption threshold of $1 million applies.
4. Deduction of $1 million, which reduces by $1 for every $4 above $1 million, is applicable to employers with an annual payroll between $1 million and $5 million from 1 July 2008.
5. Land tax is payable only on the value of taxable land above a threshold which depends on the ownership structure.
6. Applicable, but not limited, to religious bodies, public benevolent institutions and other exempt charitable institutions.
7. Estimates are based on the revenue foregone through the use of the levy exemption by pensioners and senior citizens.

## DISCUSSION OF INDIVIDUAL TAXES

### Payroll tax

The benchmark tax base for payroll tax is assumed to be all wages, salaries and supplements (including employer superannuation contributions) paid in Queensland, as defined in the *Pay-roll Tax Act 1971*. The benchmark tax rate for payroll tax is assumed to be the statutory rate applying in each financial year.

#### *Payroll tax exemption threshold*

Employers who employ in Queensland with an annual Australian payroll of $1 million or less are exempt from payroll tax. On the basis of average weekly earnings, this threshold corresponds to approximately 17 full-time equivalent employees. This exemption is designed to assist small and medium sized businesses.

#### *Deduction scheme*

Since 1 July 2008, employers who employ in Queensland with Australian payrolls between $1 million and $5 million benefit from a deduction of $1 million, which reduces by $1 for every $4 by which the annual payroll exceeds $1 million. There is no deduction for employers or groups with an annual payroll in excess of $5 million. In 2007-08, the deduction reduced by $1 for every $3 by which the annual payroll exceeded $1 million, with no deduction when annual payrolls exceeded $4 million.

#### *Section 14 exemptions*

A number of organisations are provided with exemptions from payroll tax under Section 14 of the *Pay-roll Tax Act 1971*. The activities for which estimates have been calculated are wages paid by public hospitals, non-tertiary private educational institutions and local governments (excluding commercial activities).

### Land tax

The benchmark tax base is assumed to be all freehold land within Queensland, excluding residential land used as a principal place of residence and land owned by individuals with a value for that year below the threshold. The benchmark tax rate for land tax is assumed to be the top rate of land tax applicable in Queensland in each financial year.

#### *Liability thresholds*

Land tax is payable on the value of taxable land above a threshold which depends on the land’s ownership. The threshold for companies, trusts and absentees is $350,000 and for resident individuals the threshold is $600,000.

Residential land owned by resident individuals as their principal place of residence is excluded from the estimate. The exemption from paying below a minimum amount ($1,200 in 2007-08 and $500 in 2008-09) is not included as a tax expenditure as it is regarded as the application of an administration threshold.

### *Graduated land tax scale*

In 2007-08 and 2008-09, a graduated (concessional) scale of land tax rates is applicable to land with a taxable value of less than $3 million for resident individuals and $2 million for companies, trustees and absentees.

### *Primary production deduction*

The taxable value of land owned by a resident individual, trustee or some absentees and companies does not include all or part of their land that is used for the business of agriculture, pasturage or dairy farming.

### *Section 13 exemptions (not elsewhere included)*

A number of land tax exemptions are granted under Section 13 of the *Land Tax Act 1915* to eligible organisations. These include, but are not limited to, public benevolent institutions, religious institutions and other exempt charitable institutions, retirement villages, trade unions and showgrounds.

### *Land developers' concession*

From 1 July 1998, land developers have been charged land tax on 60% of the unimproved value of (undeveloped) land subdivided in the previous financial year and which remains unsold at 30 June of that year. This concession is outlined in Section 3CA of the *Land Tax Act 1915*.

## Transfer duty concession on residential property

The benchmark tax base is assumed to be all sales of residential property within Queensland. The benchmark tax scale is assumed to be the scale that actually applied in each financial year.

### *Home concession*

A concessional rate of duty applies to purchases of a principal place of residence. In 2007-08, a concessional rate of 1% was applied on dutiable values up to $320,000. From 1 July 2008, the 1% concessional rate has been applied on dutiable values up to $350,000, rather than the normal schedule of rates between 1.5% and 3.5%. For properties valued over $350,000, the scheduled rates of transfer duty apply on the excess.

### *First home concession*

Where a purchaser has not previously owned a residence in Queensland or elsewhere, the purchaser of a home receives a more generous concession on duty. This concession comprises a rebate in addition to the home concession on properties (this concession may not be applicable if the purchase price is less than the full market value of the property). The size of the rebate depends on the value of the property. Since 1 September 2008, a full concession has been provided to purchases of a first principal place of residence valued up to $500,000 ($320,000 in 2007-08, $350,000 from 1 July to 31 August 2008).

### *First home vacant land concession*

Since 1 January 2007, a first home concession has been available for the purchase of certain vacant land up to the value of $300,000, with a full concession available on certain vacant land up to the value ot $150,000.

## Insurance duty

The benchmark tax base is assumed to be all premiums for general insurance policies (except for life insurance). The benchmark tax scale is assumed to be the scale that actually applied in each financial year.

The rate of duty applicable to most types of general insurance is 7.5%. Concessional rates apply to some other general insurance types (5% for motor vehicle insurance other than compulsory third party (CTP), workers' compensation and professional indemnity insurance and 10c on a premium for CTP insurance). Data limitations mean that these insurance types are categorised into non-life insurance cover and WorkCover. An exemption from duty is also provided for private health insurance.

## Duty on mortgages – home concessions and first home concessions

The benchmark tax base is assumed to be all mortgages and loans taken out in Queensland. The benchmark tax scale is assumed to be the scale that actually applied in each financial year.

A concession from duty is allowed where a home mortgage secures an advance attributable to the purchase or construction of the borrower's home.

The data required to estimate the revenue foregone is not available. Mortgage duty was abolished from 1 July 2008.

## Community Ambulance Cover

### *Concession to pensioners and seniors*

Pensioners and senior card holders are exempt from paying the Community Ambulance Cover charge levied quarterly on electricity accounts.

## Gambling taxes

### *Gaming machine tax concessions for licensed clubs*

The benchmark tax base is assumed to be all gaming machines operated by licensed clubs and hotels in Queensland. The benchmark tax rate is assumed to be the highest marginal tax rate (as is applied to hotels) that actually applied in each financial year.

A concessional graduated tax rate scale applies to gaming machines operated by licensed clubs. The tax rate is calculated on the gaming machine monthly metered win and the top tax rate is only applied to the portion of gaming machine revenue where the monthly metered win exceeds $1.4 million for any licensed club.

### *Casino tax concessions*

The benchmark tax base is assumed to be all casinos operating in Queensland. The benchmark tax rate is assumed to be the highest tax rate that is actually applied in each financial year.

A tax rate of 20% of gross revenue applies for standard transactions in the Brisbane and Gold Coast casinos. A concessional tax rate of 10% applies for gross revenue from standard transactions in the Cairns and Townsville casinos. From 1 July 2009, the tax rate applicable to gaming machines in casinos will increase to 30% of gross revenue in Brisbane and Gold Coast casinos and 20% in the Cairns and Townsville casinos.

In addition concessional rates also apply for revenue from high rollers in all casinos. High roller revenue is taxed at 10% in the Brisbane and Gold Coast casinos and, prior to 2009-10, 8% for the Cairns and Townsville Casinos. From 1 July 2009, high roller revenue at Cairns and Townsville casinos will be taxed at 10%. A GST credit is provided to casinos that approximates a reduction in the above tax rates of 9.09%.