Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Budget Estimates

1 June – 3 June 2010

Question: BET 231

Topic: Tax Expenditure

Hansard Page: Written

Senator SIEWERT asked:

1. Budget Paper 1, Table F1 (p5-48) outlines the total measured tax expenditures from 2006-07 to 2013-14. In 2009-10 the total projected tax expenditure is $101.79 billion. There are some significant tax expenditures in relation to capital gains and superannuation. How will the changes announced in the budget impact on the tax expenditures in these two areas in 2010-11 and 2011-12?

2. In Table F2 (p5-49) there are a number of expenditures related specifically to the charity sector, namely the FBT concession for public and not-for-profit hospitals and public benevolent institutions. Could you please explain how the respective figures of $830 million and $760 million were calculated? What are the assumptions used to determine these numbers?

Answer:

1. The measures announced in the 2010-11 Budget are expected to have a minimal impact on the capital gains tax expenditures in 2010-11 and 2011-12. The capital gains tax measures that would affect tax expenditures (for example, 'Capital gains tax – limited roll-over for fixed trusts – improving integrity', page 14) were unquantifiable and are expected to be insignificant in relation to the total size of capital gains tax expenditures.

   The 2010-11 Budget measures are not expected to impact superannuation tax expenditures significantly in 2010-11 or 2011-12. The significant changes to superannuation announced in the budget commence after 2011-12.

2. The tax expenditures presented in Table F2 on page 5-49 of Budget Paper No. 1, 2010-11, have been extracted from the *2009 Tax Expenditures Statement* (see http://www.treasury.gov.au/contentitem.asp?NavId=&ContentID=1719). The relevant items are *D6 Exemption for public and not-for-profit hospitals* (p 133) and *D11 Exemption for public benevolent institutions (excluding public and not-for-profit hospitals)* (p 135). The general approach to estimating tax expenditures is provided on page 16 of the *2009 Tax Expenditures Statement*.

   The approach used to estimate the tax expenditures for items D6 and D11 follow a similar methodology:

   1) Reportable fringe benefit data for employees of public and not-for profit hospitals (D6) and public benevolent institutions (PBIs, D11) was obtained from individual non-business payment summaries from 2005-06 to 2007-08.

2) Exempt benefits were determined for these employees up to the relevant exempt fringe benefits cap ($17,000 for public and not-for-profit hospitals and $30,000 for PBIs). Growth rates were applied to estimate the exempt benefits for the out years.

3) The value of the exempt benefits from Step 2 is the “grossed-up value” of the benefits, or the amount that would have to be paid to an individual before tax at the top marginal rate (including Medicare levy) to arrive at the value of the fringe benefit were it purchased after tax (the “taxable value” of the benefits). The taxable value of the exempt benefits was calculated by dividing the value of the exempt benefits from Step 2 by the Type-2 gross-up rate (1.8692) that applies where fringe benefits are not GST-creditable.

4) The extra cash salary which would be required if the employees were to purchase the same amount of fringe benefits out of their after-tax salary was determined, based on the marginal tax rate of the employees.

5) The difference between the taxable value from Step 3 and the extra cash salary from Step 4 is the cost of the concession for the benefits that are subject to the relevant exempt fringe benefits cap.

6) Excluded from the cap are the meal entertainment, entertainment facility leasing, and car parking benefits, which have an unlimited exemption. Estimates for meal entertainment have been derived from secondary unpublished sources. No data are available for estimating entertainment facility leasing and car parking benefits so they are not included in the tax expenditure estimates.

7) The overall cost of the concession is the sum of the costs from Step 5 and Step 6.

The methodology for both tax expenditure estimates assumes no behaviour change, consistent with the revenue foregone approach to estimating tax expenditures. Assumptions on the rate of growth in employees and reportable fringe benefits in the forward years have been made with reference to analysis of historical unpublished taxpayer data.