

Appendix D: Tax Expenditures

This appendix contains an overview of Australian Government tax expenditures. Section 12 of the *Charter of Budget Honesty Act 1998* requires the publication of an overview of estimated tax expenditures.

The Tax Expenditures and Insights Statement (TEIS) provides an estimate of the revenue forgone from tax expenditures, along with distributional analysis on large tax expenditures and commonly utilised features of the tax system.

Tax benchmarks represent a standard tax treatment that applies to similar taxpayers or types of activities. Policy approaches can apply a tax treatment different from a standard approach, which can give rise to positive or negative tax expenditures. The choice of benchmark unavoidably involves some judgment.

Consistent with most OECD countries, estimates of tax expenditures reflect the extent to which they are used, similar to Budget estimates of outlays on demand-driven expenditure programs. This is known as the ‘revenue forgone’ approach which, in practice, involves estimating the difference in revenue between the actual and benchmark tax treatments but, importantly, assuming taxpayer behaviour is the same in each circumstance. Revenue forgone estimates therefore do not indicate the revenue gain to the Budget if a specific tax expenditure was abolished through policy change, as there may be significant changes in taxpayer behaviour.

Care needs to be taken when comparing tax expenditures with direct expenditures as they may measure different things. In addition, estimates from different editions of previously released Statements are generally not directly comparable, because of changes or modifications to – for example – benchmarks, individual tax expenditures, data used or modelling methodology.

Table D.1 lists the largest measured tax expenditures for 2024–25 and several personal deduction categories. It is based on economic parameters as at the publication of MYEFO. The items in the deductions category are not tax expenditures so they do not result in forgone revenue against the benchmark. However, the difference between tax paid with the deduction and tax that would have been paid if the deduction was not claimed has been included in Table D.1 for comparison purposes. The TEIS is not a statement of policy intent.

Table D.1: Estimates of large measured tax expenditures and deductions

Tax type affected	Code	Title	Revenue forgone 2024-25 (\$m)*	Average growth 2020-21 to 2023-24 (%)	Average projected growth over FEs (%)
Positive tax expenditures and deductions					
Super	C2	Concessional taxation of employer superannuation contributions	29,150	14.2	4.1
CGT	E8	Main residence exemption – discount component	27,000	18.6	8.0
Deductions		Rental deductions	26,500	14.4	6.1
CGT	E7	Main residence exemption	24,500	18.0	7.7
CGT	E15	Discount for individuals and trusts	22,730	27.0	-3.4
Super	C4	Concessional taxation of superannuation earnings	22,200	6.2	13.0
Income	A26	Exemption for National Disability Insurance Scheme amounts	11,420	29.7	8.8
Deductions		Work-related expenses	11,300	10.6	3.7
GST	H25	Food	9,500	6.1	3.6
GST	H17	Health – medical and health services	5,400	5.0	6.5
GST	H14	Education	4,550	6.6	5.4
Income	A27	Exemption of Child Care Assistance payments	4,100	20.8	4.9
Income	B63	Lower tax rate for small companies	3,500	11.1	2.6
GST	H2	Financial supplies – input taxed treatment	3,500	3.7	4.5
FBT	D15	Exemption for public benevolent institutions (excluding hospitals)	2,950	11.5	3.1
Income	B11	Exemption from interest withholding tax on certain securities	2,930	11.5	0.3
Income	A20	Medicare levy exemption for residents with taxable income below the low-income thresholds	2,750	1.9	0.5
Income	A24	Concessional taxation of non-superannuation termination benefits	2,700	-5.5	N/A
Super	C6	Deductibility of life and total and permanent disability insurance premiums provided inside of superannuation	2,340	4.6	4.0
GST	H5	Child care services	2,330	11.2	5.0
Income	B1	Local government bodies income tax exemption	2,060	5.9	1.3
Super	C1	Concessional taxation of capital gains for superannuation funds	2,000	-15.5	11.0
Super	C3	Concessional taxation of personal superannuation contributions	1,800	20.0	3.1
Income	A39	Exemption of Family Tax Benefit payments	1,780	1.6	0.7

* For deductions, 'Revenue forgone' refers to the reduction in tax in relation to the specified income year due to the utilisation of deductions.

Table D.1: Estimates of large measured tax expenditures and deductions (continued)

Tax type affected	Code	Title	Revenue forgone 2024-25 (\$m)*	Average growth 2020-21 to 2023-24 (%)	Average projected growth over FEs (%)
FBT	D11	Exemption for public and not-for-profit hospitals and public ambulance services	1,750	7.2	2.0
Income	A38	Exemption of certain income support benefits, pensions or allowances	1,700	2.6	-0.6
Other	F6	Concessional rate of excise levied on aviation gasoline and aviation turbine fuel	1,700	27.9	6.0
Deductions		Cost of managing tax affairs and other deductions	1,600	7.2	4.4
Income	A18	Exemption of the Private Health Insurance Rebate	1,600	0.0	2.3
GST	H18	Health – residential care, community care and other care services	1,600	4.1	6.6
Income	A57	Philanthropy – deduction for gifts to deductible gift recipients	1,515	35.6	-21.6
Income	B83	Capital works expenditure deduction	1,430	3.4	3.6
Income	A40	Exemptions of certain veterans' pensions, allowances or benefits, compensation, and particular World War II-related payments for persecution	1,380	20.2	-0.9
GST	H6	Water, sewerage and drainage	1,320	5.2	3.5
CGT	E32	Small business 50 per cent reduction	1,310	16.4	-4.2
Income	B12	Exemption of inbound non-portfolio distributions from income tax	1,120	5.1	-0.7
Income	B5	Reduced withholding tax under international tax treaties	1,080	15.4	8.6
Income	A32	Seniors and pensioners tax offset	1,050	25.7	-5.4
FBT	D21	Application of statutory formula to value car benefits	1,050	28.0	-2.0
Super	C12	Exemption for small business assets held for more than 15 years	1,020	33.1	-6.2
Negative tax expenditures and deductions					
Income	B82	Accelerated depreciation for business entities	-3,900	168	N/A
Income	B88	Simplified depreciation rules	-3,700	9.8	N/A
Other	F21	Customs duty	-2,130	5.4	-13.1
Other	F5	Luxury car tax	-1,170	11.0	2.0
Income	A21	Medicare levy surcharge	-1,100	24.8	4.5

* For deductions, 'Revenue forgone' refers to the reduction in tax in relation to the specified income year due to the utilisation of deductions.