

THE PARLIAMENT OF THE COMMONWEALTH
OF AUSTRALIA

TAXATION EXPENDITURES

REPORT FROM THE
HOUSE OF REPRESENTATIVES
STANDING COMMITTEE ON EXPENDITURE

August 1982

Members of the Committee

<i>Chairman:</i>	Mr S. A. Lusher, M.P.
<i>Deputy Chairman:</i>	Mr L. B. McLeay, M.P.
<i>Members:</i>	Mr R. A. Braithwaite, M.P. Mr J. J. Brown, M.P. Mr R. J. Brown, M.P. Mr D. M. Connolly, M.P. ¹ Dr H. R. Edwards, M.P. Mr J. M. Hyde, M.P. Mr R. M. McLean, M.P. Mr P. F. Morris, M.P. Mr J. G. Mountford, M.P. Mr J. R. Porter, M.P.
<i>Secretary to the Committee:</i>	Mr M. E. Aldons
<i>General Adviser:</i>	Dr D. W. Stammer

Members of the Sub-Committee

<i>Chairman:</i>	Mr S. A. Lusher, M.P.
<i>Members:</i>	Mr R. A. Braithwaite, M.P. Mr J. J. Brown, M.P. Mr R. J. Brown, M.P. Dr H. R. Edwards, M.P. Mr P. F. Morris, M.P. Mr J. R. Porter, M.P.
<i>Secretary:</i>	Mr A. R. Scott

1. Chairman of the Joint Committee of Public Accounts, who, in accordance with Clause (2) of the Resolution of Appointment, is a member of the Expenditure Committee.

THE HISTORY OF THE

REIGN OF
HENRY THE SEVENTH
OF ENGLAND
BY
JAMES HALLAM
ESQ.
OF LINCOLN'S INN
IN TWO VOLUMES
LONDON
PRINTED BY J. JOHNSON, ST. PAULS CHURCH-YARD
1807

THE HISTORY OF THE
REIGN OF
HENRY THE SEVENTH
OF ENGLAND

BY
JAMES HALLAM
ESQ.
OF LINCOLN'S INN

IN TWO VOLUMES

LONDON
PRINTED BY J. JOHNSON, ST. PAULS CHURCH-YARD
1807

THE HISTORY OF THE

REIGN OF

THE HISTORY OF THE
REIGN OF
HENRY THE SEVENTH
OF ENGLAND

Contents

<i>Chapter</i>	<i>Paragraph</i>	<i>Page</i>
RECOMMENDATIONS		vii
I. INTRODUCTION	1	1
Overview	1	1
Report Objectives and Structure	7	2
II. THE CONCEPT OF TAXATION EXPENDITURES	17	4
Definition	17	4
Evolution of the Concept	18	4
Operational Problems	22	5
Evaluation of Taxation Expenditures	25	5
III. AUSTRALIAN TAXATION EXPENDITURES	36	8
Historical Development in Australia	36	8
Information from our Inquiry	43	9
IV. TOWARDS A COMPREHENSIVE LIST	49	12
Commitment from the Government	49	12
The Requirements for a Comprehensive List	51	12
Presentation to Parliament	66	15
Parliamentary Review	70	15
APPENDICES		
1. Conduct of Inquiry		18
2. Taxation Concessions—Information Provided in Budget Speeches and Statements		19
3. Australian Taxation Expenditure Estimates		25
4. Agenda for Further Work		34
BIBLIOGRAPHY		36
END NOTES		39

Recommendations

The recommendations in this Report are based on the evidence which extends to and includes the 1981-82 financial year. The Report does not include an examination of any developments in the provision of information on taxation expenditures in the 1982-83 Budget Papers.

The Committee recommends that:

1. The Government gives the Parliament an undertaking to provide comprehensive information on taxation expenditures within three years from the tabling of this Report.
(Paragraph 50)
2. All taxation expenditure items together with their objectives be listed in the Budget Papers.
(Paragraph 51)
3. The Treasurer consult with other Ministers to ensure that the listing covers taxation expenditures in areas outside the Treasurer's principal responsibility.
(Paragraph 52)
4. In addition to the listing of all taxation expenditures and their objectives, the information in the Budget Papers contain the estimated cost to revenue of the major taxation expenditures for the Budget year that is current and the two preceding years.
(Paragraph 65)
5. Individual taxation expenditure items be classified in functional groupings similar to the classification of direct outlays.
(Paragraph 67)
6. The functional classification of taxation expenditures be cross-classified according to the departments responsible for the direct spending equivalents.
(Paragraph 68)
7. Taxation expenditure information be presented as a separate Budget Statement in the Budget Papers.
(Paragraph 69)
8. Where the proposed financial impact statement to be included in a Minister's second reading speech to a Bill relates to taxation expenditures, the Government incorporate an explanation as to why the taxation system is preferred to direct outlays for giving assistance.
(Paragraph 71)

Chapter I: Introduction

Overview

1. Taxation expenditures and Budget outlays are different sides of the same public sector expenditure coin. Both represent calls on the Budget.¹ While the Committee accepts the many *caveats* placed on the aggregation of separate taxation expenditures and their comparison with direct outlays, aggregation is perhaps the only indicator of total size. When the 65% of items for which cost information is available are aggregated, the **indicative costs** of taxation expenditures can be put at **over 6 billion dollars**; or more than 15% of Budget outlays in 1981-82.* Yet, unlike direct expenditures there is a dearth of information on these indirect taxation expenditures. There is a dearth of information on their scope and annual cost to the Budget. There is a dearth of updated information on the purposes of taxation expenditures.

2. The thrust and major theme of this Report then is to seek and obtain remedies to the deficiencies in the information provided to the Parliament on taxation expenditures.

3. While there are deficiencies, the Committee readily acknowledges that in recent years there have been progressive developments in the provision of additional information. The Parliament has received more information on taxation expenditures in 1980-81 and 1981-82 than in the previous five year period. The additional information is largely in respect of assistance given to individuals through the taxation system. But there has also been an upgrading of the importance of the information (it is now in Appendix II of Budget Statement No. 4), a definition of such expenditures, and more descriptive material, including detailed descriptions of taxation measures introduced in each Budget from 1976-77 onwards.

4. We thus recognise the efforts of the Treasury and Treasurers. The Treasury on its own initiative and that of the Treasurer, has started to expand this area in the Budget Papers. This Report should give that work a stimulus and some guidance by identifying in specific terms the requirements for comprehensive information that would satisfy the needs of the Parliament.

5. Comprehensive information will better enable the Parliament to call the Executive to account for such expenditures by, for example, permitting a more informed debate on these special concessions which are granted to individuals and organisations. Comprehensive information should also permit the evaluation of these special concessions by the Parliament, the public and the Government itself. What should not be lost sight of is the gains to the Government from comprehensive information. Many organisations that made submissions to the Committee were unanimous in their call for increased information —as a means of budgetary control of taxation expenditures. Moreover, the current budgetary processes are deficient in that as Treasury acknowledged 'there is not the same kind of formalised process for an overall review in this area as there is on the outlay side'.² Comprehensive information is a necessary prerequisite for remedying this deficiency.

6. What the Committee seeks and indeed expects from the Government is the **acceptance of a commitment**: a commitment to produce within a reasonable period of time, say three years from the tabling of this Report, comprehensive, up-to-date and timely information on the aims and costs of the major taxation expenditures; a commitment that could be met more readily by the upgrading of the status of taxation expenditures in the Budget Papers. Anything less would be less than satisfactory. Anything less

* For an explanation on the problems of totalling taxation expenditures see paragraphs 46 to 48.

would leave the Parliament, and the Government as well, with inadequate information in this important area of public sector activity.

Report Objectives and Structure

7. The Committee's pre-inquiry analysis demonstrated that insufficient information existed on Australian taxation expenditures. In this context, the following terms of reference for the inquiry were established and indicated to the organisations who made submissions. The Committee sought information on:

- (a) the concept of taxation expenditures in the Australian budget context;
- (b) the major categories of taxation expenditures, their scope and estimated cost to revenue;
- (c) appropriate methods of reporting taxation expenditures to the Parliament;
- (d) appropriate machinery to be established for review and evaluation of taxation expenditures by the Parliament in the budget context.

8. The Report objectives are as follows:

- to establish the need for the Parliament to receive comprehensive information on taxation expenditures, where the term comprehensive refers to the scope, cost and timeliness of the information; and
- to recommend appropriate measures that need to be taken to enable the provision of this comprehensive information.

9. The remainder of this Report is structured as follows: In Chapter II the Committee discusses the concept of taxation expenditures and the operational problems associated with the concept. *Further, we give the reader a brief description of the concept before examining, again briefly, the uses to which comprehensive information can be put.* We use the Treasury definition of taxation expenditures. We note that there are problems in putting the concept into operation because in a conceptual sense taxation expenditures are defined as a departure from the 'normal' tax structure. Thus, there is an arbitrary element in defining what is a taxation expenditure. Treasury, like the Canadian Government, believes that the taxation expenditure list should be comprehensive rather than restrictive. The Committee endorses this point of view.

10. A decade of research has shown that initially there were strong misgivings that taxation expenditures were inequitable. This view has been balanced to some extent by the argument that in certain circumstances taxation expenditures may be preferred to direct outlays, partly because it is claimed that the former may sometimes be less costly to government.

11. The Committee inquiry has concentrated on examination of the need for comprehensive information. Yet, we do not seek information for its own sake. The section on evaluation considers taxation expenditures as an option to direct spending. Other aspects of evaluation—the need, size and effectiveness of taxation expenditures in achieving objectives—are referred to very briefly to give the reader an indication of the uses to which comprehensive information can be put.

12. With this background the Report proceeds in Chapter III to discuss the information made available to the Parliament. We trace the historical development of information and draw the conclusion that what has been provided in the Budget Papers in 1980-81 and 1981-82 is much more than what was provided in the previous five years. Be that as it may, the information collected in the course of this inquiry shows that there is a dearth of information given to the Parliament in this important area of public sector expenditure.

13. The gaps in the information have led the Committee in the final chapter to make recommendations for the provision to the Parliament of comprehensive information. Such information should cover:

- a listing of all taxation expenditures;
- the identification of objectives; and
- the estimation of the revenue forgone for the major taxation expenditures.

14. The Committee recognises that implementation of its recommendations will take time. Therefore, it seeks from the Government acceptance of a commitment to produce within three years from the tabling of our Report, the comprehensive information that is sought. Recommendations that cover the provision and presentation of comprehensive information are made in Chapter IV.

15. In the course of our inquiry a number of issues have emerged, most of which have been brought to the attention of the Committee in the submissions it received from various government organisations. The Committee has decided to group these issues together in Appendix 4 entitled *Agenda for Further Work* to encourage further research work in this important area.

16. It should be noted that the inquiry and hence the evidence on which the Report is based does not cover any developments in the provision of information contained in the 1982-83 Budget Papers. The report was drafted before these papers were tabled in the House.

Chapter II: The Concept of Taxation Expenditures

Definition

17. Governments provide assistance, encouragement or relief to industry and individuals through various special provisions in the tax system. These indirect expenditures generally take the form of 'special' exemptions, deductions, rebates, credits, exclusions, preferential rates or deferrals. The choice as to which form is used, for example deductions or rebates, sometimes has important economic or social consequences. Because governments forgo tax revenue, they are making an indirect expenditure through the tax system. The Treasury has commented in Appendix II to the 1981-82 Budget Statement No. 4 that:

'Individuals and businesses derive financial benefits from taxation concessions of various kinds. In the year(s) when they have effect, the concessions reduce, or delay, collections of taxation revenue, and are as much a call on the Budget as are direct outlays. They are comparable in other ways also with direct outlays and are often referred to as 'taxation expenditures'.³

Evolution of the Concept

18. The phrase 'tax expenditures' was first used in late 1967 by Stanley S. Surrey when he was Assistant Secretary for Tax Policy in the Treasury Department of the United States. The first 'Tax Expenditure Budget' was provided in the Annual Report of the Secretary of the Treasury in 1968. The U.S. Congressional Budget Act of 1974 requires the listing of taxation expenditures in the Federal Budget. The Office of Management and Budget produces a number of Special Analyses of the U.S. Budget. Special Analysis G for the fiscal year 1982 is a thirty page document devoted entirely to taxation expenditures and includes a table of taxation expenditure estimates by function.⁴

19. The Federal Government of West Germany, like that of the United States, is under an obligation to list taxation expenditures but this does not form part of the federal budget presentations and is on a biennial basis.⁵ The International Fiscal Association in 1976 produced a report on tax incentives as an instrument for achievement of government goals.⁶ This included a general report and a number of national reports for countries such as the Netherlands, Israel and Australia. In 1979 the Government of Canada produced a Tax Expenditure Account.⁷ This document incorporates a conceptual analysis and account of tax preferences in the federal income and commodity tax systems and is nearly one hundred pages in length.

20. The Committee notes that in the United Kingdom the idea that an annual taxation expenditure list be produced initially received a less than enthusiastic reception at the U.K. Treasury. In 1977 the Treasury argued that a comprehensive list could only be justified if the list was of significantly greater value as an analytical tool for the appraisal of policy than the provision of particular estimates when specific areas of policy are being studied. Doubts were cast on the value of a comprehensive list.⁸ Despite this point of view, it is clear that over time Treasuries can be persuaded to change their minds. The U.K. Government's White Papers on Expenditure presented to the U.K. Parliament in January 1979 and March 1980 both provided detailed lists of 'direct tax allowances and reliefs'. Furthermore, the estimated costs for the current year were also documented.⁹

21. There have also been a number of private forays into this field. The most influential would appear to be Surrey's work *Pathways to Tax Reform* which is subtitled 'The Concept of Tax Expenditures'.¹⁰ The other major private research has been centred on the United Kingdom and Canadian tax structures.¹¹

Operational Problems

22. It is appropriate for the Committee to note that the taxation expenditure concept is not without its critics.¹² Difficulties exist as to which items should rightfully be included and estimation problems abound. Taxation expenditures are usually defined in relation to some benchmark or 'normal' tax structure and most attention is paid to individual and corporate income taxes. Tempering a taxation expenditure list away from theoretical definitions of income is necessary to make such a list a practical tool for analysis. This tempering will be arbitrary and will vary from country to country according to what might be considered the 'normal structure' of that country. The Department of Social Security has drawn the Committee's attention to the following comment by the Canadian Department of Finance:

'Since the benchmark tax structure is an abstraction there will always be room for legitimate disagreement about its nature and, thus, about whether certain tax provisions are properly characterised as tax expenditures'.¹³

23. The problem is to differentiate special concessions offered for non-tax purposes from revenue offsets which must reasonably be accepted in the course of defining the revenue base. Thus investment allowances qualify as tax expenditures but accounting depreciation does not. Treasury has also cautioned that the 'description of an item as a taxation expenditure does not necessarily indicate that the item is considered a departure from an equitable tax distribution'.¹⁴ In line with the view developed in Canada, Treasury considers that:

'the aim of identifying tax expenditures should be to include in the Budget-making process and documentation the cost of special tax provisions which can, in most cases, be considered as alternatives to direct expenditure programs rather than to attempt to define some ideal taxation system and show deviation from it'.¹⁵

24. The Canadian Government decided that their taxation expenditure list should be more comprehensive than restrictive. Adopting this approach means that users can select or reject specific items at their own discretion. This view is endorsed by the Expenditure Committee and also forms the basis of the Treasury listing in Attachment A of their submission to the Committee. Treasury has said that 'we have approached it on the basis that we have tried to include everything'.¹⁶

Evaluation Of Taxation Expenditures

25. A number of reasons have been advanced as to why taxation expenditures have become a regular feature of recent budgets.¹⁷ Firstly, they are undoubtedly popular with individuals and industry. Secondly, they are a convenient way of helping governments to stay within their expenditure limits because they are recorded as revenue losses rather than as expenditure increases. Thirdly, lack of visibility of taxation expenditures has also been given as a principal reason for their use.¹⁸ Another reason is that of stability, for taxation expenditures may be less likely to be changed, because of a lack of scrutiny at Budget time. For all these reasons, taxation expenditures are a politically attractive alternative to direct expenditures.

26. Most of the initial studies of taxation expenditures have emphasised their inequitable nature. It is probably true to say that the very *raison d'être* for focusing on the taxation expenditure concept was to expose and seek to remedy the perceived inequities inherent in the use of taxation system for financing government programs.

27. In 1976, the general reporters of the International Fiscal Association observed that there had been more studies of the equity than efficiency aspects of tax incentives.¹⁹ More recent analyses of certain taxation expenditures in terms of the criterion of efficiency rather than equity have pointed out that the indirect spending option may be

preferred in some cases. In particular, in two papers published by the Brookings Institution as part of a report on the economics of taxation, G. M. Brannon from Georgetown University and M. Feldstein from Harvard University have challenged the common presumption that direct government spending is to be preferred to taxation expenditures.²⁰ Feldstein argues that a tax subsidy for private charitable giving is generally less costly to government for the achievement of a desired purpose than a direct government expenditure. In other words, his contention is that if the taxation expenditure which results in charities receiving a certain income were withdrawn and replaced by a direct expenditure, the latter would have to be greater than the revenue gained from the withdrawal of the taxation expenditure if charities are to receive the equivalent income.²¹

28. The Department of Finance in its submission to this Committee has summarised the disadvantages and advantages of pursuing Government program objectives *via* taxation expenditures or *via* direct expenditures. Finance regards the disadvantages of taxation expenditures as follows: they are less visible; their open-ended nature makes control difficult; their level of benefit depends on the level of income, and assistance cannot be directed through the tax system to those whose incomes are below the tax threshold; some taxpayers are induced to change their behaviour and receive unintended benefit from public revenue; and a proliferation of taxation expenditures could overburden the assessment process.

29. On the other hand Finance has drawn the attention of the Committee to the following advantages of taxation expenditures: a taxation expenditure concession allows the individual or firm to determine how much the particular activity should be supported; where the magnitude of the taxation expenditure concession is partly related to income it may be more effective in encouraging the more successful; and some taxation expenditures are less costly to administer than equivalent direct expenditure measures.²²

30. There has been a discernible change in the attitude of researchers in the evaluation of taxation expenditures in the last decade. Some analysts, particularly in the early 1970s, believed that all taxation expenditures should be either eliminated or replaced by direct public spending.²³ Over time, this view has been somewhat modified to the point where some commentators have argued that taxation expenditures may be preferred to direct outlays in certain circumstances. This brief survey of the literature should caution the reader against drawing general conclusions about the desirability of taxation expenditures. Each current or proposed taxation expenditure must be examined on its merits.

31. The terms of reference of the inquiry and the Report objectives are both information orientated. The Committee has not undertaken an evaluation of any particular tax expenditure. It must be emphasised nevertheless that comprehensive information is not being sought for its own sake. Treasury referred to the resource allocation implications of taxation expenditures. Further, this information will assist the Government, the Parliament and the public to examine taxation expenditures to test:

- the need for particular taxation expenditures;
- their appropriate size;
- the effectiveness of a particular taxation expenditure in meeting its objectives; and
- the appropriateness of taxation expenditures as an alternative to direct outlays.

32. In respect of direct outlays Treasury said that the programs are being directed to those for whom the programs were intended by the government of the day. For taxation expenditures the Committee was told 'it is not possible to be sure, to be as confident that those programs are reaching only the people to whom they are directed', and while

the programs reach those people 'there are usually some grounds for thinking that there are some additional recipients of that program who are in fact claiming and who are not being picked up in the administrative processes, because that is the nature of those processes'.²⁴ These Treasury comments were made in the context of a discussion of the administrative costs of direct outlays and taxation expenditures and have a significant bearing on the need for evaluation.

33. It is relevant at this juncture to discuss briefly the suggestion by some commentators in this field that taxation expenditures should be eliminated and replaced by direct outlays. The Treasury point really refers to the unintended beneficiaries of taxation concessions. Another relevant point is that many concessions are open-ended and make it possible for some taxpayers to manipulate the tax system to their own sectional advantage, so that governments are unable to control the responses the concessions are intended to induce. It is thus difficult to evaluate the responses by reference to the purposes for which the concessions were introduced. A further point is the regressive nature of most taxation expenditures.

34. These three points can be connected to the loss of effectiveness of the tax system, that is the difference between actual and potential revenue collections, which is associated with widespread use of tax expenditures. There is a clear link between taxation expenditures and tax avoidance, which makes it difficult for governments, the Parliament, and the public generally to recognise the overall impact taxation expenditures have on the tax system. It is considerations such as these that have resulted in the call for the elimination of tax expenditures.

35. Any evaluation of taxation expenditures must involve an assessment of the benefits which flow from the taxation expenditure as well as the costs. There will almost certainly be a number of trade-offs involving the criteria of equity and efficiency because directing government assistance *via* the taxation expenditure route could be more efficient in particular cases than the direct spending alternative but also perhaps more inequitable. In these cases the ultimate result may well rest on the relative weights applied to these criteria by the decision-makers. The objectives of a particular spending decision may influence if not determine whether direct outlays or tax concessions are the better means of achieving those purposes.

Chapter III: Australian Taxation Expenditures

Historical Development in Australia

(a) Non Budget reporting

36. Items that have now come to be known as 'taxation expenditures' have been in the tax system for a long period of time in Australia. The Treasury noted that some tax concessions have been in existence 'for over 30 or 40 years'.²⁵ The use of taxation expenditures as a means of government assistance to taxpayers in Australia is certainly therefore not a recent development. This brief historical review is however, confined mainly to developments in the 1970's and 1980's.

37. There have been a number of reports in Australia which have touched on taxation expenditures to a greater or lesser extent. The Department of Social Security drew the attention of the Committee to the report of the task force, *Review of the Continuing Expenditure Policies of the Previous Government (June 1973)*²⁶ and Treasury said this report (the Coombs Report) was in large part one on taxation expenditures.²⁷ The Coombs Report contained detailed information on tax concessions. Over 40 tax concessions were identified.²⁸ For each of the concessions there was information on the nature of the expenditure, cost, date of introduction, nature of the commitment, purpose of the concession and comment as well. All the concessions were costed and for 16 items estimates were given for four years up to 1975-76. For the year 1972-73 the total cost of the concessions, as calculated by the Committee, was over one billion dollars.

38. Brief mention must also be made of other reports in Australia which have been published in the period 1975 to 1981. One of these reports was specifically devoted to taxation expenditures. This paper was prepared by R. L. Bowra from the University of Sydney and was one of a number of national reports presented to the 1976 Congress of the International Fiscal Association in Jerusalem.²⁹ The details of his paper were drawn mainly from the Coombs Report and Budget Speeches which followed that Report.

39. The *Taxation Review Committee Report* (the Asprey Report) in 1975 did not consider taxation expenditures in detail but questioned whether tax concessions which are concealed subsidies should not be given overtly.³⁰ Two other Australian reports known as the Mathews Report of 1975³¹ and the Campbell Report of 1981³² were concerned, in part, with the 'benchmark' tax structure and 'concessions' which deviate from it.

40. Reference should also be made to the annual reports of the Commissioner of Taxation which are submitted to the Parliament in accordance with legislative requirements. The annual report is presented to Parliament around September/October and in the main relates to the previous financial year. The reports contain statistics that indicate the scope of the operations of the Australian Taxation Office. More detailed statistics are provided in separate volumes entitled 'Taxation Statistics', which are produced as supplements to the annual reports. These supplements are presented to Parliament approximately twelve months after the associated principal report. In general, the Commissioner's reports do not provide information on taxation expenditures in terms of estimates of revenue forgone.

(b) Exposure in Budget Speeches and Statements

41. An account of the information on taxation concessions provided in the Budget Speeches and Statements (1967-68 to 1981-82) is at Appendix 2. The Appendix traces the development of the information provided to Parliament on assistance to industry through the taxation system (1968-69 to 1981-82) noting several features of this development such as the movement away from totalling estimates of revenue foregone. The Appendix also shows that information provided on assistance to individuals has had a

more chequered history and describes the upgrading of the status of the information provided by its inclusion as a separate appendix in Statement No. 4. The Appendix should give the reader an appreciation of developments in the information presented to the Parliament on taxation concessions, now called taxation expenditures.

42. The Committee is of the opinion that the Parliament has received more information on taxation expenditures in 1980-81 and 1981-82 than in the previous five year period. The additional information is largely in respect of assistance given to individuals through the taxation system. But there has also been an upgrading of the importance of the information provided and more descriptive material, including detailed descriptions from 1976-77 of the taxation measures introduced in each Budget. Rather than concentrate on past comparisons, it is more fruitful to compare the information collected in the course of the Committee inquiry with that provided in the 1980-81 and 1981-82 Budget Statements. It is to this matter that we now turn.

Information from our Inquiry

43. In seeking submissions the Committee specifically requested information that would contribute to:

- (a) a detailed listing and grouping by functional category of taxation expenditures;
- (b) the particular government objectives which each taxation expenditure is intended to serve; and
- (c) the estimated cost of each taxation expenditure for the years 1979-80, 1980-81 and 1981-82.

44. The submission from the Treasury (in particular Attachment A) largely fulfilled requirement (a) above. Attachment A of the Treasury submission itemises 113 taxation expenditures, and was prepared in conjunction with the Australian Taxation Office. This Attachment forms the basis of Appendix 3 to our Report which deals mainly with the sales and income tax concessions and provides a detailed listing of taxation expenditure items by functional category. The Committee has also added to the Treasury list the provisions within the customs and excise tariffs which provide for preferential treatment and as such may be considered taxation expenditures. This information has been extracted from the submission of the former Department of Business and Consumer Affairs.

45. The Committee's request for the estimated costs of taxation expenditures for the years 1979-80 to 1981-82 (inclusive) has not, in general, been fulfilled. To complete our information requirements, for the 119 tax expenditure items listed, 357 individual cost estimates are required. Yet for this three year period our sum total is only 85 cost estimates, or 24 per cent.³³ For some items we have no estimate of costs at all, while for most others the estimate is provided for only one year. The year for which these individual estimates are provided varies over the time period. In general, except for the submission by the Department of Social Security no estimates have been supplied to the Committee for the 1981-82 year. In other words, at any point in time, estimates for that particular year are generally not provided.

46. Treasury sees great difficulties in attempts to aggregate all taxation expenditures.³⁴ The submission stated that estimates of individual taxation expenditures are made by comparing estimates under the present law with that expected if the relevant provision alone were deleted and **all other features of the taxation system remained the same** (emphasis added). In most cases the estimate is made by reference to the taxpayer's marginal rate. Treasury concludes: 'As a consequence it is not possible to aggregate and produce a total for taxation expenditure from individual items'.³⁵ The

Treasury point is illustrated with an example which shows that the total increase to revenue from abolishing the concessional rebate to individuals is **less than** the cost to revenue of the major items that are included in the rebate.

47. Treasury also referred to the 'response effect' of taxation expenditures and said that it could be expected that elimination of any tax expenditure provision would cause taxpayers to rearrange their affairs in order to minimise the impact of the change, just as the introduction of a concession could spur them to make use of it.³⁶ The Department of Trade and Resources (Trade and Resources) gave the investment allowance as an example of smaller increases to revenue than that implied in estimates if the concession was removed. Many investments have probably been brought forward by taxpayers to qualify for the allowance.³⁷

48. Nevertheless the Committee believes that it is important for the Parliament to receive an indication of the functional distribution of taxation expenditures and their relative magnitudes. Table 1 does this. To produce Table 1 we have made a number of assumptions. In addition to the usual *caveats* detailed in Appendix 3 which apply to such a list, in preparing the table the Committee has taken the latest estimate available from Appendix 3 and assumed the revenue forgone in 1981-82 to be the same. Given that the figure covered 65% of the items, did not include the accelerated depreciation items and no upward adjustments for the effects of inflation were made on historical estimates, we believe the figure is a reasonable indicative estimate of total revenue forgone from all taxation expenditures.

Table 1: Estimated 1981–82 Taxation Expenditures Classified by Major Functional Headings

<i>Function</i>	<i>Indicative 1981–82 estimate (nearest \$10m)</i>
1. Defence	10
2. Education	50
3. Health	640
4. Social Security and Welfare	1 320
5. Housing	40
6. Urban and Regional Development (not elsewhere classified) and Environment	70
7. Culture and Recreation	*
8. Economic Services	
A. Transport and Communication	*
B. Water Supply, Electricity and Gas	10
C. Industry Assistance and Development ¹	1 750
9. General public Services	
A. Foreign Affairs, Overseas Aid and External Territories	600
B. General and Scientific Research	*
10. Not Allocated to Function	
A. Superannuation Related Items ²	1 720
B. Other	90

* denotes under \$10 million.

Notes:

1. The Committee recognises that there has been a movement away from totalling estimates of revenue forgone in respect of assistance provided to industry through the taxation system. The 1981–82 Budget Statements do not give totals. Nevertheless the total is given for reasons of presentation.
2. The magnitudes of the individual tax expenditure items related to superannuation and the problems associated with an attempt to aggregate these estimates have been considered by the Committee. (Evidence pp. 280–284) A figure of \$2 520 million can be derived from estimates provided by the Department of Social Security. The Treasury has expressed reservations about these figures. If the Treasury arguments are accepted then the total cost of these superannuation related concessions would be reduced by about \$800 million to \$1 720 million. Since most of the other figures in the Table are based on the Treasury evidence, the Committee has used the figure of \$1 720 million.

Source: Derived from Appendix 3.

Chapter IV: Towards a Comprehensive List

Commitment from the Government

49. In Australia taxation expenditures represent a significant call on the Budget. In previous chapters the Committee has discussed the concept, the need for evaluation and, more importantly, has examined the nature and extent of the taxation expenditure information provided to the Parliament. The conclusion drawn is that there is still a lack of adequate information on this important area of public sector activity. In saying this the Committee acknowledges that in recent years the development has been in the direction of providing more information. The Treasury on its own initiative and that of the Treasurer has started to expand this area of the Budget Papers.³⁸ Our inquiry should assist the Treasury and Treasurer to travel further down the road. We identify in specific terms the work that has to be done and the problems that need to be overcome, that is:

- the identification and listing of all taxation expenditures;
- the specification of the policy objectives associated with each of these items; and
- estimates of the costs in terms of revenue forgone for the major taxation expenditures.

50. Essential to our proposals in this regard is the necessity for a commitment from the Government to provide comprehensive information on taxation expenditures within a reasonable period of time. Therefore the Committee recommends that:

The Government gives the Parliament an undertaking to provide comprehensive information on taxation expenditures within three years from the tabling of this Report.

The Requirements for a Comprehensive List

(a) Items and objectives

51. There are three requirements that have to be met in order for the Parliament to receive comprehensive information on taxation expenditures. The first requirement entails listing all such items. It should be quite possible to produce immediately a list of taxation expenditures, using the format used in the Treasury submission. The Treasury view is that publication of lists of taxation expenditures enables greater understanding of what is being done through the tax side of the Budget and permits more informed debate including perhaps debate within government itself on the ways in which governments use fiscal resources.³⁹ The second requirement relates to the description of objectives. Although the Treasury submission contains descriptions there is the qualification that the nature or emphasis of that objective could have changed with time.⁴⁰ There could be, then, additional work required on the description of objectives. Treasury has said that it may be difficult to be precise.⁴¹ The Committee appreciates this and points out that there appears to be a similar problem in respect of program statements.⁴² But the defining of objectives is important in any review process as the Bureau of Agricultural Economics recognised. That organisation said that reviewing the objectives and the appropriateness of particular expenditures is important in minimising distortions and resource misallocation in the economy.⁴³ In view of the foregoing the Committee recommends that:

All taxation expenditure items together with their objectives be listed in the Budget Papers.

52. The Treasury submission was only concerned with the taxes for which the Treasurer has principal responsibility, namely, income tax, sales tax and the Australian

Capital Territory pay-roll tax and stamp duties. With regard to customs duties, Treasury has commented in evidence that customs duties as such are not generally levied for revenue raising purposes but for industry protective purposes with the exception of the 2 per cent revenue duty. Whether the various concessions inherent in the customs duty structure in fact constitute taxation expenditures is open to debate. In line with the view that a tax expenditure list should be comprehensive rather than restrictive, the Committee has incorporated customs and excise duties in the scope of such a list and recommends that:

The Treasurer consult with other Ministers to ensure that the listing covers taxation expenditures in areas outside the Treasurer's principal responsibility.

(b) Estimates of revenue foregone

53. The third requirement for comprehensive information is estimates of revenue foregone for the budget year and the two previous years. This is probably the most important requirement and yet it is here that there is the greatest deficiency. The Committee does not expect all taxation expenditures to be costed. In the United States cost information is given for items whose annual costs are expected to exceed five million dollars.⁴⁴ The Government should provide cost information for what are considered to be the major taxation expenditures, for example those with an estimated cost of more than one million dollars a year.

54. At the public hearing, the Committee identified three major reasons why the cost information could not be supplied as requested. These constraints are:

- a delay in information supplied by the Australian Bureau of Statistics;
- limitations on the type of tax forms used; and
- resource constraints within the Australian Taxation Office.

55. Statistics on income and sales taxes are at present jointly collected by the Australian Bureau of Statistics (ABS) and the Australian Taxation Office. There is a technical committee on taxation statistics comprising officers from both these organisations, which considers which statistics will be collected in any one year.⁴⁵ There are several uses to which these statistics are put. For instance, these statistics provide information for the national accounts and as such are used by the National Income Branch of the ABS. These statistics are also used for field audit and law enforcement purposes within the Taxation Office.

56. The costings provided to this Committee in many cases date back to 1978-79. At present the ABS is responsible for tabulating statistics in respect of companies. The Taxation Office stated in evidence:

'We still have not received tabulations from ABS for the 1979-80 income year . . . normally we would be looking at a 24 month delay after the close of the income year before the statistics become available. That has a significant bearing on the costings that we can do for these tax expenditure papers'.⁴⁶

57. The Committee has not sought the reasons for the delays in the provision of cost information. It is considered that ABS and the Taxation Office should make every effort to reduce these delays to a minimum. Elimination of delays should permit the provision of more timely information on the historical costs of major taxation expenditures.

58. The second reason why some estimates of revenue forgone could not be provided relates to the tax forms themselves. A significant proportion of items not costed involved items exempt from sales tax. On the return form all that is recorded is the total amount of exempt sales. There are also taxpayers who may not be required to lodge sales tax returns, at least on a consistent basis. The figures for non-taxable or exempt sales are therefore incomplete.

59. The Taxation Office manually extracts a certain part of the information given on business returns. In many cases the information is attached to the completed return and it is thus a lengthy process to extract the relevant statistics.⁴⁷ There are thus delays in passing on this information to ABS. The concessions on depreciation were given as an example of where the information was available but would be very costly to extract.⁴⁸

60. The Taxation Office did not place a high priority on the need to change the tax forms in order to provide more timely information on estimates of revenue forgone.⁴⁹ There is a choice—a trade-off—between using the tax forms for gathering revenue and using them for statistical and information purposes.⁵⁰ On the other hand the Taxation Office said that in one case it was able to react fairly quickly to a measure being introduced and by incorporating a specific item in the tax form was able to obtain a factual cost.⁵¹

61. The Committee is not in a position to be definitive on the need to change the tax forms. It would appear however that this matter should be kept under review and the Taxation Office should give careful consideration to the need to change the tax form when new taxation expenditures are introduced. This should assist in the provision of estimates of revenue forgone for major taxation expenditures.

62. The third reason why more estimates of revenue forgone have not been provided is resource constraints—staff and computer facilities. It is noted that these constraints could be linked with the others referred to in paragraph 54. Budget Statement No. 4 has a tabulation on new taxation decisions and estimates of changes in receipts are given for the current Budget year and a full year. These estimates are subject to considerable research and are said to be the best and most professional estimates that can be made at the time. Estimates prepared on an *ad hoc* basis year by year which appear in the appendix on taxation expenditures in Statement No. 4 do not have, by comparison, the same accuracy and precision partly because of the same amount of resources have not been devoted to producing them.⁵²

63. The Committee questioned Treasury and the Taxation Office on why it was not possible to cost new taxation measures in years subsequent to when the measures were introduced. Treasury said there was a database problem which we have discussed in earlier paragraphs. Emphasis was also placed on resource constraints and the view advanced was that when resources are provided the requirements for more estimates of revenue forgone can be met.⁵³

64. The need for updated information on taxation expenditures was pursued by the Committee by reference to the revised costings of the concessions given to the film industry. It can be argued, or asserted, that public discussion brought this matter to light.⁵⁴ The Treasury reply spoke of the 'response effect' of taxation expenditures:

'it is true of most changes in the tax law, unless they are insignificant, that the change will produce a response—that is, a change in the behaviour of taxpayers under the new circumstances.'⁵⁵

65. The Committee appreciates that resource constraints could be an important factor that impedes the provision of more information on estimates of revenue forgone. The evidence on response effects is itself a strong argument for the provision of this information. So are the arguments of budget control and public scrutiny advanced later in this Report. One must also add that the inquiry has shown that the size of taxation expenditures is significantly greater than that indicated in the Budget Papers. In view of the foregoing the Committee recommends that:

In addition to the listing of all taxation expenditures with their objectives, the information in the Budget Papers contain the estimated cost to revenue of the major taxation expenditures for the budget year that is current and the two preceding years.

Presentation To Parliament

66. At present the information contained in Appendix II to Budget Statement No. 4 is classified according to whether the concessions afford assistance to individuals or industry. There would seem to be no difficulty therefore, in maintaining such a classification for a detailed listing of taxation expenditures.

67. Several organisations supported the functional classification of taxation expenditures. The Department of Social Security said that it was clearly recognised in 1973-74—the year in which the current functional classification of outlays was first introduced—that a similar case existed for the functional presentation of taxation expenditures.⁵⁶ The Department of Trade and Resources said a functional classification of taxation expenditures would present the information in a systematic and meaningful way and would facilitate policy evaluation and budgetary control.⁵⁷ The Social Welfare Policy Secretariat also supported the functional classification of taxation expenditures and said this would promote greater understanding and be a stimulus for scrutiny.⁵⁸ The Committee accepts the thrust of these views. We also note that a functional classification of such expenditures would enable more accurate measurement of government activity in particular areas of public sector spending. Therefore the Committee recommends that:

Individual taxation expenditure items be classified in functional groupings similar to the classification of direct outlays.

68. To further highlight the fact that taxation expenditures are alternatives to direct spending, the Committee would like to see a brief mention made of them in Budget Statement No. 3, which is devoted to estimates of outlays for the current year. Under each major functional heading attention should be drawn to the assistance through the tax system provided to each of these areas. A cross-reference to the relevant pages of the Budget Statement concerning taxation expenditures would also be most useful. The Committee further requests that the functional classification of taxation expenditures be cross-classified according to Ministerial and departmental responsibilities for the direct spending equivalents. One reason for this is that Parliament scrutinises expenditure through the Estimates Committees which have traditionally examined government expenditure on a departmental basis. The Committee therefore recommends that:

The functional classification of taxation expenditures be cross-classified according to the departments responsible for the direct spending equivalents.

69. At present information on taxation expenditures appears in two sections of the Budget Statements—the 'Taxation Measures' section of Statement No. 4 plus Appendix II. The Committee has recommended that the Government make a commitment to give Parliament more comprehensive information on taxation expenditures. This commitment would be assisted by upgrading the status of taxation expenditures in the Budget Papers. The Committee therefore recommends that:

Taxation expenditure information be presented as a separate Budget Statement in the Budget Papers.

Parliamentary Review

70. In an earlier chapter there was discussion on the uses to which comprehensive information on taxation expenditures could be put. This discussion did not cover the formal procedures of the Parliament for examining such expenditures. Since their establishment in 1979 the number of Estimates Committees of the House of Representatives has grown to six. Although the Sessional Orders used to establish Estimates Committees state that their purpose is to examine proposed departmental expenditures contained in the main Appropriation Bill, the debates have been wide ranging, issue orientated and

have covered activities in the special appropriations as well. Given this goodwill displayed by all the participants in the Estimates Committees process the Expenditure Committee does not see a special need for change in the Sessional Orders to enable Estimates Committees to examine taxation expenditures. Such examination is clearly possible within the framework of the current work of the Estimates Committees.

71. On 4 December 1981 notice was given in the Senate that all Bills and amendments to Bills brought into the Senate should be supported by financial impact statements. The Government response, made in the Senate on 18 May 1982, said that in future a Minister's second reading speech on a Bill will include, where practicable and appropriate, estimates that can readily and reliably be calculated in respect of any significant costs, revenue and savings to the Government arising directly from that legislation. The estimate will usually be the amounts expected for the remainder of the current financial year and when the legislation is fully operative.⁵⁹ The Committee is of the opinion that for new taxation measures which provide concessions to individuals or organisations the financial impact statement should in addition explain why the Government prefers to use the taxation system rather than direct outlays to give assistance. This information would be very useful given particularly the statement in Budget Statement No. 4 that it would be possible to replace most of the tax provisions mentioned with a direct expenditure program having an almost identical impact on both Budget and taxpayer.⁶⁰ The Committee recommends that:

Where the proposed financial impact statement to be included in a Minister's second reading speech to a Bill relates to taxation expenditures, the Government incorporates an explanation as to why the taxation system is preferred to direct outlays for giving assistance.

72. There is a compelling case for the Parliament to be provided with comprehensive information on taxation expenditures. The Committee also emphasises that governments too would benefit. Organisations that made submissions referred to the value of information for evaluation. Treasury said that measurement of taxation expenditures provides additional information on the quantity of community resources being channelled through governments; and that consequently in order to obtain a comprehensive picture of what a Budget does, as well as examining direct outlays it is also necessary to evaluate both new and continuing taxation expenditures.⁶¹ The Bureau of Agricultural Economics said something similar: that review is necessary to ensure efficient resource allocation.⁶² But review requires information and is difficult to accomplish if, as Social Security says, the existence of the major concessions is not even identified, let alone costed, in the Budget Papers.⁶³ And review when looked at in a broader way then becomes a part of budgetary control, a factor recognised by Trade and Resources and the Social Welfare Policy Secretariat.⁶⁴

73. Treasury said that in respect of budgetary processes, there is not the same formalised process on the taxation expenditure side as there is on the outlay side.⁶⁵ This of course links with the Social Security comment, that there should be equal scrutiny of governments' income redistribution policies irrespective of how they are effected—through the personal income tax system, the social security system, or both.⁶⁶

74. Attractive as comprehensive information on taxation expenditures would be for internal scrutiny within government, the Committee is more interested in public scrutiny. The Bureau of Agricultural Economics has said that in general taxation expenditures have been introduced and maintained without the degree of public scrutiny subjected to other forms of assistance.⁶⁷ Comprehensive information should permit such scrutiny and will better enable the Parliament to call the Executive to account for such expenditures by, for example, permitting a more informed debate. Thus accountability is the essence of this Report. The implications of not having comprehensive information

have been shown by Surrey and McDaniel. And it is with their words that we draw this Report to a close:

'[A] moments thought should indicate how serious are the consequences of asserting that taxation expenditures cannot be identified or, if identified, that their costs cannot be ascertained. At bottom, this would be an assertion that the fiscal experts of a country do not know what is contained in their income tax or how much particular programs cost the government [T]he assertion would be an admission that the country has lost control of both its tax policy and its budget policy.'⁶⁸

19 August 1982

STEPHEN LUSHER
Chairman

Appendix 1: Conduct of Inquiry

(a) Inquiry Schedule

1. The Taxation Expenditures inquiry was initiated by the new references sub-committee of the Expenditure Committee in September 1981. On 9 December 1981, the Committee formally resolved to inquire into taxation expenditures and wrote to a number of government organisations on 11 December 1981 requesting submissions. In accordance with normal practice, copies of these letters were sent to the relevant Ministers. The inquiry was conducted by a sub-committee which was formed on 4 February 1982.
2. The sub-committee obtained a number of excellent submissions from the government organisations, as a result of which the sub-committee questioned representatives of the Australian Taxation Office and the Treasury at a public hearing on 26 May 1982. A number of private organisations and associations were present at this public hearing and a number provided written submissions to the sub-committee. All organisations were provided with a copy of the transcript of evidence and were given an opportunity to respond to this evidence.
3. The final stage of the inquiry involved consideration of the evidence as well as preparation and presentation of this Report to the House.

(b) List of Witnesses

AUSTRALIAN TAXATION OFFICE

Mr Raymond Leslie Conwell,
Senior Assistant, Commissioner of Taxation,
Canberra,
Australian Capital Territory
Mr Charles John Warren,
Director,
Taxation Analysis and Publicity Section,
Canberra,
Australian Capital Territory

DEPARTMENT OF THE TREASURY

Mr John Hanks,
Acting Chief Officer,
Canberra,
Australian Capital Territory
Mr Samuel McBurney,
Assistant Secretary,
Taxation Policy Branch,
Canberra,
Australian Capital Territory
Mr John Owen Stone,
Secretary to the Treasury,
Canberra,
Australian Capital Territory.

Appendix 2: Taxation Concessions—Information Provided in Budget Speeches and Statements

1. Treasury has noted that some taxation concessions have been in existence for 30 or 40 years. While we do not wish to travel that far back into history, an account of the information provided in the Budget Speeches and Statements from 1967-68 to 1981-82 should give an appreciation of developments in the information provided to the Parliament on taxation concessions, now called taxation expenditures.

2. The 1967-68 Budget Speech referred to specific changes in certain taxation concessions and the introduction of new ones. The concessions were not costed individually. However, the estimated net cost to revenue of the concessions was given for 1967-68 and for a full year.

3. Two initiatives were taken in the 1968-69 Budget Statements and these have continued to the present day. First, for each revenue measure announced in the Budget Speech, or prior to that speech, estimates of the effect on revenue have been provided. For each item the estimated change in revenue (increase or decrease) was given for the then budget year and for a full year. This information has been and is still provided in the Budget Statement on Estimates of Receipts which has had since 1976-77 a special section, now called Taxation Measures.

4. The second initiative was that the 1968-69 Budget Statements contained information on Assistance Given to Industry Through the Taxation System. This information was presented as a special Budget Statement in 1968-69 (Statement No. 7) and then became part of a wider statement called Commonwealth Assistance to Industry (Statement No. 9) in the years 1969-70 to 1972-73. Several important changes in presentation were made in the 1973-74 Budget Speech and Statements. One result was that the information on assistance to industry through the taxation system was given in Statement No. 4—Estimates of Outlays in the section on Economic Services which had a sub-section on Industry Assistance. It was in this sub-section that information on taxation concessions was located, and continued to be located from and including 1973-74 to 1979-80. The location was transferred to a special appendix, Taxation Expenditures, in the 1980-81 Budget Papers. This location appears to be the permanent home for information on such expenditures.

5. Perhaps as the reason for the provision of information, the 1968-69 Budget Statement said that 'assistance provided by way of tax concessions results in a reduction of Commonwealth revenues, and is as much a call on the Budget as direct payments which add to Commonwealth expenditures'. The tax concessions covered exemptions from sales tax and deductions from taxable income. Most of the relevant concessions in the income tax field were grouped in three broad categories, the descriptive content of which has barely changed over the years. These categories are:

A—those allowing the deductions of amounts that are not authorised under the general provisions of the law;

B—those allowing certain taxpayers to alter the timing of tax allowances; and

C—those exempting certain classes of income.

6. There are several features of the information provided on assistance to industry through the taxation system in the period 1968-69 to 1981-82 that are worth noting. First, the assistance is recognised as being as much a call on the Budget as equivalent direct outlays and have been referred to as 'taxation concessions', 'disguised expenditures' and, from 1980-81, as 'taxation expenditures'. Second, over the period more descriptive information has been provided. This may well reflect the increasing use of taxation expenditures. In 1974-75 and for several years thereafter there were references to the

withdrawal or modification of taxation concessions, and a listing and description of the main concessions. For example in 1981-82 the descriptions covered Category A items—the present investment allowance, the trading stock valuation adjustment, special deduction for certain classes of capital expenditure not subject to depreciation, the Income Equalisation Deposits scheme and the provisions for the averaging of the income of primary producers. The 1981-82 information also contained descriptions of Category B and C items. Further, from and including 1973-74, the Budget Statements have mentioned that a miscellany of provisions have not been included in the table on estimates of revenue foregone because of lack of data on revenue foregone or questions about the extent to which these provisions may be regarded properly as wholly 'Industry Assistance'. In the 1981-82 Budget Statements these provisions included deduction of the cost of converting stationary oil—or LPG-fired plant to alternative energy sources, immediate deductibility of capital expenditure on water conservation and soil conservation by primary producers, measures related to the eradication of brucellosis and tuberculosis in cattle, the petroleum shareholder rebate and certain sales tax exemptions. In addition, from 1976-77 there have been detailed descriptions in the Statement on Estimates of Receipts of the taxation measures introduced in each Budget.

7. The third feature worth noting is the movement away from totalling estimates of revenue forgone. Estimates were provided for the main taxation concessions for the year that immediately preceded the financial year in which the Budget was presented—e.g. estimated revenue forgone in 1975-76 was in the 1976-77 Budget Statements. These estimates were provided for items in each of the categories A, B and C. In the period 1969-70 to 1977-78 the relevant tables had sub-totals and totals of revenue forgone. The practice of giving the total of categories A and B, and where relevant C, was discontinued from 1978-79 to 1980-81 but in these years the total was given in the text. In the 1981-82 Budget Statements there were no sub-totals for Categories A, B, C, thus no total of the three categories and no total was given in the text. And there has been no explanation as to why the practice of adding up estimates of revenue forgone has been discontinued.

8. The final point worth noting relates to the provision of estimates of revenue forgone for items not included in the tables. In the years 1970-71 to 1972-73 such estimates were provided for drought bonds, special estate duty reliefs for primary producers and the cost of averaging provisions applied to the incomes of primary producers. Such information was not provided from 1973-74 though, as mentioned earlier, the Budget Statements contained more descriptive material. From 1973-74 to 1980-81 there was a discussion of the implications to revenue of the averaging provisions. In the 1981-82 Budget Statements it was said that in those years when the application of the averaging provisions would result in a primary producer paying less tax than would be the case under the normal income tax rate scale the income tax law allows a special averaging rebate to be subtracted from ordinary tax equal to the difference in tax payable under the two systems. The cost to revenue of this rebate in 1980-81 was \$215m.

9. While information on assistance given to industry through the taxation system has been provided in the Budget documents for the 14 year period 1968-69 to 1981-82, information on assistance given to individuals has had a chequered history. Information on taxation measures introduced in each Budget has covered both individuals and enterprises. But other information has been provided in the Budget documents for some years but not for others.

10. No information was provided on taxation concessions to individuals until 1972-73. In that year Statement No. 10—Commonwealth Assistance for Social Welfare and Repatriation contained a section called Commonwealth Assistance Through the Taxation System. Estimated revenue forgone for the income year 1970-71 covered

maintenance of dependants, medical, hospital, etc. expenses, contributions to health funds, superannuation etc. contributions by individual taxpayers and the age allowance. Similar information was provided in the 1973-74 and 1974-75 Budget Statements although the location of the information had changed because of changes in presentation of information. In addition the cost of income tax concessions for education, in terms of revenue forgone was also shown in these two budget years. The information given was for the income years 1971-72 and 1972-73. Thus information on taxation concessions provided to individuals covered the income years 1970-71 to 1972-73.

11. In the 5 year period 1975-76 to 1979-80 the Budget Statements did not contain information on assistance given to individuals through the taxation system. We have not sought explanations for this. Perhaps an explanation is to be found in the reduced information available to the Taxation Office. The 1975-76 Budget Speech said every individual taxpayer would receive a minimum concessional rebate on items which attracted deductions. Many of the then existing concessional deductions were to be converted to rebates. Taxpayers whose rebatable expenditures were below a certain level did not have to itemise their expenses in their tax returns in order to receive the minimum concession. While the personal income tax system has changed considerably since 1975-76 the minimum concessional rebate has been continued. Presumably the reduced information provided on the tax returns impeded the costing of assistance given to individuals through the taxation system. This factor does not explain the absence of information for the income years 1973-74 and 1974-75.

12. Information on assistance given to individuals through the taxation system appeared again in the Budget Statements of 1980-81 and 1981-82. In 1980-81 concessional income tax rebates or deductions that provide assistance to particular groups or individuals were listed, described and costed as estimates of revenue foregone for the income years 1975-76 to 1978-79. Additional information was provided in 1981-82. The maximum rebates were shown for the period 1975-76 to 1981-82 and there were also references to relevant changes introduced in 1980-81 and 1981-82 referred to in the Taxation Measures section of Statement No. 4 in the 1980-81 and 1981-82 Budget Statements, e.g. superannuation deductions (1980-81), deductions for home insulation expenditure (1981-82) and rebates for health insurances (1981-82).

13. In the 1980-81 Budget Statements the status of the information provided on taxation concessions was upgraded. The term 'taxation expenditures' was used for the first time and the information on such expenditures was placed in an appendix—Appendix II to Statement No. 4—Estimates of Receipts, 1980-81. The appendix was entitled Taxation Expenditure. The practice, of treating taxation expenditures separately was continued in 1981-82. It should also be mentioned that the appendixes contained a definition of tax expenditures and a recognition that such concessions could be regarded as an alternative to direct outlays. In 1981-82 it was said that it would be possible to replace most of the tax provisions mentioned (in the Appendix) with a direct expenditure program having an almost identical impact on both Budget and taxpayer.

14. The preceding paragraphs have described developments in the information provided in the Budget Speeches and Statements on assistance given to industry and individuals through the taxation system in the period 1967-68 to 1981-82. It can be said generally that more information, both in terms of description and costs, has been provided in 1980-81 and 1981-82 compared with the 5 year period to 1979-80. The additional material is largely in respect of assistance given to individuals through the taxation system. But there has also been an upgrading of the information given and more descriptive material, including detailed descriptions from 1976-77 of taxation measures introduced in each Budget.

15. Tables 1 and 2 (attached) provided estimates of revenue forgone for the income years 1970-71 to 1972-73 (Table 1) and 1977-78 to 1979-80 (Table 2).

**Table 1: Assistance to Individuals and Industry through the Taxation System
(Estimates of Revenue Foregone for Income Years 1970-71 to 1972-73)**

<i>Description</i>	<i>1970-71</i>	<i>1971-72</i>	<i>1972-73</i>
	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>
Assistance to Individuals			
Education	N.A.	103	130
Health			
Medical, Hospital, etc.	130	135	145
Health fund contributions	66	85	100
Total	199¹	220	245
Social Security and Welfare			
Maintenance of Dependants, Housekeepers	330	340	430
Superannuation contributions, life assurance premiums, etc., by individual taxpayers	250	300	365
Age Allowance	12	13	9
Total	592¹	653	804
Industry Assistance			
<i>Category A—</i>			
Investment Allowance—Manufacturing	45.0	45.0	45.0
—Primary production	6.0	7.0	8.0
Export Market Development Rebate	17.0	19.0	25.0
Capital expenditure of certain mining enterprises, etc. ²	54.0	68.0	70.0
Other Category A ³	49.0	59.0	56.0
Total Category A	171.0	198.0	204.0
<i>Category B—</i>			
Special depreciation allowable to 'primary producers', Special deductions for plant used in mining or exploration or transport of minerals, special depreciation for plant used for scientific research ^{4,5}	90.0	67.0	63.0
Total Category B	90.0	67.0	63.0
<i>Category C—</i>			
Exemption of certain mining profits	17.5	17.0	22.0
Total of Categories A, B and C	278.5	282.0	289.0

N.A.—not available.

Notes:

1. The separation of figures on Health and Social Security and Welfare and the separate totals have been undertaken for presentation purposes. Statement No. 10—Commonwealth Assistance for Social Welfare and Repatriation, 1972–73 Budget Speech and Statements did not have this separation. The individual items were costed and totalled at \$788m.
2. The description has been summarised.
3. These items appear separately in the Budget Statements of 1971–72 to 1973–74.
4. The description has been summarised.
5. Cost information for the income year 1970–71 is as presented. For the other two years the figure is the result of adding two separate figures in Category B.

Sources: Budget Speeches and Statements, 1971–72 to 1974–75.

**Table 2: Assistance to Individuals and Industry through the Taxation System
(Estimates of Revenue Foregone for Income Years 1977-78 to 1979-80)**

<i>Description</i>	<i>1977-78</i>	<i>1978-79</i>	<i>1979-80</i>
	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>
Assistance to individuals			
Dependant etc. Rebates ¹	653	676	651
Zone Rebates	32	33	35
Other Concessional Rebates	53	67	77
Deductions ²	52	32	29
Total	790	808	792
Industry assistance			
Category A—			
Investment Allowance	325	368	499
Trading Stock Valuation Adjustment ³	316	236	334
Capital expenditures on certain mining enterprises, etc. ⁴	62	76	64
Other Category A ⁵	7	6	24
Total Category A	710	686	*
Category B—			
Double depreciation of certain plant ⁶	110	80	20
Category C—			
Exemption of income from gold mining	N.A.	N.A.	40
Total of Categories A, B and C⁷	820	770	*

N.A.—Not available.

Notes:

1. Total for 3 rebates shown separately in 1981-82 Budget Statements.
 2. Total for 3 deductions shown separately in 1981-82 Budget Statements.
 3. Adjustment terminated with effect from the 1979-80 income year.
 4. The description has been summarised.
 5. These items appear separately in the Budget Statements.
 6. The description has been summarised.
 7. The totals were provided in the text and not in the tables.
- *. Totals not provided in tables or text.

Sources: 1979-80 to 1981-82 Budget Statements.

Appendix 3: Australian Taxation Expenditure Estimates

This appendix is derived from three sources. The primary source is Attachment A of the Treasury submission to the Committee. (Evidence, pp. 43-68) These items relate mainly to items in the sales and income tax systems. In addition, items which relate to the customs and excise tariffs have been incorporated from information provided by the former Business and Consumer Affairs Department. (Evidence, pp. 74-110) Finally, the 1981-82 estimates for certain items in the Social Security and Welfare classification have been provided by the Department of Social Security. (Evidence, pp. 189-192).

It should be realised that, as with the construction of taxation expenditure lists overseas, certain assumptions are made which should be borne in mind:

- (a) Each taxation expenditure is costed separately and therefore the aggregation of individual estimates to show the combined costs of more than one item can introduce errors. Further comments on this problem are offered in the Treasury submission (Evidence, p. 41) and also in 'Special Analysis G—Tax Expenditures', *Special Analyses, Budget of the United States Government, Fiscal Year 1982*, Executive Office of the President, Office of Management And Budget, U.S., Government Printing Office, Washington, D.C. pp. 211-212.
- (b) The costings generally assume that taxpayers' behaviour would be unaffected by the withdrawal of the relief. This assumption is sometimes unrealistic in that it does not allow for response effects which means that the revenue actually gained if an item is withdrawn may not be as much as the estimate of revenue foregone that is provided. This assumption is mentioned by Treasury. (Evidence, p. 42).
- (c) The assumption is made that there is no effect on the overall level of economic activity as a result of the elimination of a given tax expenditure. (Evidence, p. 42)

Tax Expenditure Estimates by Function

Description	Fiscal year			
	78-79	79-80	80-81	81-82
	\$m	\$m	\$m	\$m
1. DEFENCE				
Exemption of part-time pay and allowances for members of the Reserve Defence Forces	—	—	11	—
Deduction for gifts to the Commonwealth or a state when made for defence purposes	—	—	—	—
Exemption of re-engagement bonus payable to service personnel	—	—	1	—
Exemption from pay-roll tax of wages paid to a member of the Reserve Defence Forces who is engaged in Defence Reserve activities while on leave from employment	—	—	*	—
Goods purchased by non-profit body for donation to or for use of members of the Defence Forces	—	—	—	—

<i>Description</i>	<i>Fiscal year</i>			
	78-79	79-80	80-81	81-82
	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>
2. EDUCATION				
Exemption of income from certain educational scholarships	—	—	—	—
Rebates for self education expenses and education expenses of dependants up to \$250 per person ¹	—	50	—	—
Deductions for gifts to prescribed institutions of advanced education for certified purposes	—	—	—	—
Exemption from pay-roll tax of salaries paid by certain non-government schools	—	—	*	—
Goods for use by universities and schools	—	—	—	—
3. HEALTH				
Rebates for contributions to a registered hospital and/or medical insurance scheme for basic cover	—	—	—	470
Rebates for health related expenses ¹	—	46	—	—
Exemption from pay-roll tax of salaries paid by certain hospitals	—	—	*	—
Goods for use and not for sale by infant welfare clinics	—	—	—	—
Goods for use by public and non-profit hospitals	—	—	—	—
Surgical instruments and appliances of a kind used in private hospitals other than non-profit private hospitals, or by medical practitioners	—	—	25	—
Gases for use in hospitals or by medical practitioners or dentists	—	—	—	—
Aids and appliances for the blind and deaf and surgical appliances of the self-help kind such as wheelchairs and artificial limbs	—	—	—	—
Excise concession for spirit used in hospitals	—	—	97	—
4. SOCIAL SECURITY AND WELFARE				
Exemption of certain pensions and benefits for ex-service personnel and their dependants	—	—	150	—
Exemption of income of certain charitable institutions	—	—	—	—
Exemption of family allowances	—	—	—	125
Exemption of compensation for Nazi persecution	—	—	—	—
Exemption of disability pensions	—	—	—	10
Exemption of fixed sum workers compensation awards	—	—	—	—

<i>Description</i>	<i>Fiscal year</i>			
	78-79	79-80	80-81	81-82
	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>
Deductibility of gifts of \$2 or more to specified funds, authorities and institutions ³	—	30	—	—
Rebates for adoption expenses ¹	—	*	—	—
Rebate for funeral expenses of dependants ¹	—	—	*	—
Rebate for housekeeper caring for dependants ²	—	8	—	—
Rebate for sole parent ²	—	32	—	40
Rebate for dependent spouse ²	—	607	—	900
Rebate for parent and parent-in-law ²	—	4	—	—
Rebate for invalid relative ²	—	*	—	—
Concessional treatment of some subsidised employee housing	—	—	—	—
Concessional rate of tax for abnormal receipts by authors, artists and inventors	—	—	*	—
Motor vehicles for use by leg disabled persons in travelling to and from gainful employment and motor vehicles for use by ex-servicemen who have lost a leg or both arms or are in receipt of a special pension	—	—	3	—
Trade Union Subscriptions	—	—	50	—
5. HOUSING				
Deduction for the cost of insulating a first home	—	—	—	6
Rebate for rates and land tax in respect of a sole or principal place of residence ¹	—	32	—	—
6. URBAN AND REGIONAL DEVELOPMENT AND THE ENVIRONMENT				
Zone allowance rebates	—	35	—	70
7. CULTURE AND RECREATION				
Deductions for gifts to a National Trust, public museum or art gallery and other specified bodies	—	1	—	—
Exemption from income tax of a number of bodies including charities and sporting bodies and churches	—	—	—	—
Goods purchased to promote sport among the students of universities or schools	—	—	—	—
Equipment and articles for use in Church services and religious devotion	—	—	—	—
Articles for use in a museum or art gallery controlled by a public authority	—	—	—	—

Description	Fiscal year			
	78-79	79-80	80-81	81-82
	\$m	\$m	\$m	\$m
8. ECONOMIC SERVICES				
A. Transport and Communication—				
Deduction for capital costs of telephone lines to primary producers	—	—	*	—
Deduction for capital expenditure by primary producers on timber access roads	—	—	—	—
B. Water Supply, Electricity and Gas—				
Deduction provided to primary producers for the costs of conserving or conveying water ⁴	—	3	—	—
Deduction for capital expenditure in connecting or upgrading mains electricity	—	—	—	5
C. Industry Assistance and Development—				
Allowing primary producers to adopt artificially low values for natural increase in livestock	—	—	—	—
Income tax averaging for primary producers	—	180	215	—
Deductions to primary producers under the Income Equalisation Deposits scheme	—	—	29	—
20% depreciation allowance for storage improvements for grain, hay and fodder available to primary producers	—	6	—	—
Deductions for clearing and draining of land, eradication of pests (etc.) by primary producers	3	—	—	—
Deduction provided to primary producers for cost of fences for specific disease control	—	—	4	—
Provision for 5 year spreading of assessment in (a) insurance recoveries for the loss of timber or livestock and (b) income from forced disposal of livestock	—	—	—	—
Deferment of assessment on income from double wool clip	—	—	—	—
Deduction provided to primary producers for expenditure on soil conservation	—	—	—	2
Depreciation deduction for structural improvements by primary producers	—	—	—	—
Deduction for the cost of timber mill buildings	—	—	—	—
Deduction for reduced value of land due to timber depletion	—	—	—	—

<i>Description</i>	<i>Fiscal year</i>			
	78-79	79-80	80-81	81-82
	\$m	\$m	\$m	\$m
Unlimited carryforward of primary production losses	—	—	—	—
20% prime cost depreciation allowance provided for most new plant and machinery for primary production ⁵	—	—	—	20
Film Industry Concessions: Deduction of 150 per cent of capital invested in a qualifying Australian film and exemption of net receipts up to 50% of the taxpayer's capital investment in the film	—	—	24	—
Deduction for the cost of purchasing the copyright of an Australian film	—	—	*	—
Deduction for capital expenditure in the development or purchase of an Australian patent, design, copyright or licence	—	—	—	—
Deductions for expenditure on exploration by general and petroleum miners	—	—	—	—
Deductions for capital expenditure incurred in developing a general mining operation ⁶	—	43	59	—
Deduction for capital expenditure incurred in developing a petroleum field ⁶	—	18	25	—
Deduction for purchase of mining or prospecting rights by general and petroleum miners	—	—	—	—
Deductions for certain transportation expenses associated with minerals and petroleum mining ⁶	—	3	1	—
Exemption from tax of income from gold mining	—	40	75	—
Exemption of income from sale, transfer or assignment of rights to mine gold or prescribed metals	—	—	—	—
Rebate for capital subscribed to companies engaged in petroleum exploration and development ⁷	—	—	28	—
Investment allowance	—	499	411	—
Accelerated depreciation allowances by means of loading on normal depreciation rates ⁸	—	—	—	—
Conversion allowance for the cost of replacing oil-fired plant with non-oil-fired plant and an immediate deduction for the cost of converting oil-fired/LPG plant to non-oil-fired plant	—	15	—	—

Description	Fiscal year			
	78-79	79-80	80-81	81-82
	\$m	\$m	\$m	\$m
Immediate deduction for capital cost of storage facilities for petroleum based fuels	—	—	—	12
Deductions for capital expenditure on traveller accommodation	—	—	—	1
Exemption of amounts paid to employers who take on young people under the CRAFT scheme	—	—	—	15
Deductions for capital expenditure on scientific research, employee housing, butter and cheese etc factories	—	—	—	—
Deduction for conversion of plant for use in connection with the metric system	—	—	—	—
Deductions to co-operative companies for amounts distributed to members as bonuses, interest or dividends	—	—	—	—
Friendly society dispensaries—exemption from tax of 90% of the amounts received from the Commonwealth and from proceeds of the sale of medicines	—	—	—	—
Friendly society dispensaries—exemption from tax of certain other income	—	—	—	—
Exemption of personal income from approved overseas projects	—	—	*	—
Trading stock valuation adjustment (now abolished)	—	334	64	—
Exemption from tax of interest received by credit unions	—	8	—	—
Tractors for use in agricultural industry or timber getting industry	—	—	75	—
Machinery, implements and apparatus for use in agricultural industry, including:				
• Agricultural equipment and materials (for use in agricultural industry)	—	—	—	—
• Dairying machinery and equipment	—	—	—	—
• Equipment for use in fruit growing industry	—	—	—	—
• Equipment and materials for use in dried fruit industry	—	—	—	—
• Equipment and materials for the handling or treatment of fruit	—	—	—	—
• Poultry farmers' equipment	—	—	—	—

Description	Fiscal year			
	78-79	79-80	80-81	81-82
	\$m	\$m	\$m	\$m
• Bee keepers' equipment	—	—	—	—
• Pumping and other machinery implements and apparatus for use in agricultural industry	—	—	—	—
• Cranes and winches for use in the timber getting industry	—	—	70	—
Machinery for use in mining industry	—	—	95	—
Ethylene gas for use in vegetable growing industry	—	—	—	—
Brattice cloth and tacks for use in mining industry	—	—	—	—
Equipment and materials in fishing industry	—	—	—	—
Printed matter and award ribbons used by societies established for the advancement of agriculture	—	—	—	—
Certain motor vehicles for use in the prescribed area for the transport of livestock	—	—	—	—
Lubricants for industrial purposes for machinery implements or apparatus other than road vehicles	—	—	—	—
Articles for use in the destruction of pests for business or industrial purposes	—	—	—	—
Piano rolls and antiques	—	1	—	—
Domestic heaters and solar equipment	—	3	—	—
Equipment used in conversion of internal combustion engines to LPG or natural gas	—	1	—	—
Excise concession for diesel fuel for off-road use	—	—	290	—
Excise concession for spirit used to fortify Australian wine	—	—	176	—
Excise concession for spirit used in industrial and scientific use	—	—	88	—
9. GENERAL PUBLIC SERVICES				
C. Foreign Affairs, Overseas Aid and External Territories—				
Exemption from payroll tax of the salaries of representatives in Australia of foreign governments	—	—	*	—
Exemption from tax of official income earned in Australia by foreign government representatives and other visitors	—	—	—	—

Description	Fiscal year			
	78-79	79-80	80-81	81-82
	\$m	\$m	\$m	\$m
The exemption from sales tax of motor vehicles for use by members of the Defence Forces of various countries serving in Australia	—	—	*	—
Commercial, By-Law (item 19) to Customs Tariff which provides for 'concessional' entry of goods where there is no suitably equivalent or reasonably available goods of local manufacture	—	—	600	—
D. General and Scientific Research—				
Deduction for expenditure on scientific research	—	1	1	—
10. NOT ALLOCATED TO FUNCTION				
A rebate of interest on certain Government or semi-Government securities issued before 1 November 1968	—	—	—	10
Rebate for superannuation contributions and life insurance ¹	—	69	—	65
Deduction for superannuation contributions by unsupported employees or the self employed	—	—	100	120
Deduction for employer contribution to superannuation funds	430	—	—	640
Concessional treatment of investment income earned by approved superannuation funds	—	—	—	960
Exemption from tax of 95% of lump sum benefit received upon retirement from or termination of employment	—	370	—	475
Exemption from life assurance companies of investment income from superannuation business provided the 30/20 rule is observed	180	—	—	—
Deduction for life assurance companies of 1% of the value of future calculated liabilities	34	—	—	—
Availability to life offices of a rebate in respect of intercorporate dividends	43	—	—	—
Exemptions to 2% Revenue Duty which include:				
• Goods of New Zealand, Papua New Guinea or developing Country origin	—	—	—	—
• Goods covered by rates bound under trade agreements	—	—	—	—
• Crude and enriched petroleum oil	—	—	—	—
• Certain goods entered under Schedule 2 (Concessions) of the Customs Tariff	—	—	—	—

Description	Fiscal year			
	78-79	79-80	80-81	81-82
	\$m	\$m	\$m	\$m
• 'Florence Agreement' goods (e.g. books) and associated material inputs	—	—	—	—
• Passenger concessions	—	—	—	—
• Ships and similar vessels temporarily imported and certain goods used in connection with oil exploration	—	—	78	—

* denotes under one million dollars.

Notes:

1. These items are subject to inclusion in the \$1590 Concessional Expenditure rebate block, and indicate the gain to income tax revenue that would result from withdrawal of each of the classes of expenditure separately.
2. Rebates for spouse and housekeeper increased from \$597 in 1979-80 to \$800 in 1980-81 and to \$830 in 1981-82 and sole parent and other dependents rebates increased by the same proportion.
3. This estimate excludes the cost in respect of donations by businesses.
4. This estimate relates to expenditure incurred in the period 14 April to 30 June 1980.
5. The full year cost of this item at the time of its introduction in 1979-80 was estimated to be \$6 million and this estimate has therefore been used for the 1981-82 year.
6. Treasury has stated that there is an additional cost to revenue through deductions allowed under the provisions of Divisions 10, 10AA and 10AAA for expenditure on plant depreciable under the ordinary provisions of the Act.
7. This estimate is the revenue deferred in 1980-81.
8. It has not been possible to adequately summarise the costs to revenue of accelerated depreciation allowances. One reason for this is that the size of the revenue effects can differ markedly from year to year. This problem is examined in Attachment B of the Treasury submission (Evidence, pp. 69-73), where the annual cost of this allowance is shown in an example to vary from approximately \$50 million to \$350 million.

Appendix 4: Agenda for Further Work

Outlay Equivalents of Tax Expenditures

1. Tax expenditures are typically measured in terms of revenue forgone in any particular year. Such estimates require adjustments to enable direct comparisons to be made on a dollar to dollar basis with direct outlays. Three adjustments are generally required. These are:

- (a) the timing of the subsidy is spread evenly over the year;
- (b) items involving deferral of tax liability are treated as government lending transactions; and
- (c) the subsidies provided through the tax system are converted to pretax dollars where appropriate.

Each of these points is briefly reviewed below.

2. The year-to-year estimates of tax expenditures depend on the collection time pattern of corporate and individual tax liabilities. To facilitate comparisons with direct spending, the timing of the tax subsidy is spread evenly over the year.

3. The adjustment involving deferral of tax liability requires that the benefits of these deferrals or interest free loans be measured in the same way that the government treats these types of lending transactions. The general budget treatment of a subsidized loan is to record as an outlay both the amount of new loans made less previous loans repaid and the interest payments on the stock of loans outstanding. For tax expenditures, the equivalent treatment is to measure the net increase in the amount of taxes deferred and the implicit interest subsidy on the stock of tax deferrals outstanding.

4. The final adjustment overcomes the fact that tax expenditures are normally measured in 'after-tax' rather than 'pre-tax' dollars. The tax expenditure measures the actual tax saving to the taxpayer. To generate the same after tax income and hence incentive effect under a direct spending program (which is usually taxable) requires a larger direct spending program. Thus tax concessions may have to be 'grossed up' to be consistent with direct expenditure programs.

5. Some attempt has been made in the United States to convert tax expenditure estimates to outlay equivalents for two program areas of their budget—housing and energy. These estimates were made on an experimental basis only. No such analysis has yet been attempted in Australia, but it is to be expected that outlay equivalents of tax expenditures would be significantly higher than the dollar estimates of the tax concessions themselves. This is because of the necessity to convert the tax free subsidy to a pre-tax equivalent budget outlay, as mentioned previously.

International Comparisons

6. To date, the development of the tax expenditure concept in each country has proceeded from a national perspective. Such a perspective means that the generally accepted structure of the benchmark taxes varies across countries particularly since the fiscal legislation is more a result of historical growth than a deliberately designed system of normative taxes.

7. In these circumstances, it is very difficult to make meaningful comparisons of the extent to which tax expenditures are employed as tools of government policy in various countries. Uniformity of definition is essential if data for comparative analysis are to be assembled. This has not as yet been achieved. The Organisation for Economic Cooperation and Development (OECD) has not been able to produce international comparisons because of the failure of member countries to reach agreement on these issues.

8. Where two countries have a similar proportion of government outlays to gross national product and country A uses tax expenditures more extensively than country B, then the level of government intervention in the economy is likely to be greater in country A.

9. A number of academics have just commenced work on an international tax expenditure study. The purpose of their study is to commence the analytic and data collection processes necessary to develop the international aspects of the tax expenditure concept. The objectives of the study are to develop tax expenditure lists for selected countries under uniform criteria and to analyse the ways in which the tax expenditure concept may be employed in bilateral or multilateral international economic relations.

10. The taxes to be examined in each country will include personal and corporate income taxes, value added tax (including national retail or manufacturers' sales taxes) and wealth taxes. The seven OECD countries to be examined are Canada, France, the Netherlands, Sweden, the United Kingdom, the United States and West Germany.

11. In summary, the concept of tax expenditures as developed in the United States has been adopted by other important Western countries. There is by no means a universally accepted 'benchmark' tax structure (the departures from which constitute tax expenditures). At present there is also no systematic treatment of tax expenditures in terms of the method of reporting them to Parliament. Each country has approached tax expenditures according to its own perceived information needs and tax structure. The Committee believes that Australia should follow this course in developing the machinery necessary to identify cost and report tax expenditures to Parliament.

Bibliography

- Aaron, Henry J. and Boskin, Michael J. (eds), *The Economics of Taxation* (Studies of Government Finance), The Brookings Institution, Washington, D.C., 1980.
- Australia, Parliament, *Australian Financial System—Final Report of the Committee of Inquiry* (J. K. Campbell, Chairman), Parl. Paper No. 208, 1981.
- Australia, Parliament, *Budget Statements 1981-82*, Parl. Paper 140, Canberra, 1981.
- Australia, Parliament, *Fifty-Eighth Report Of The Commissioner of Taxation 1978-79*, Parl. Paper 163, Canberra 1979.
- Australia, Parliament, *Fifty-Ninth Report Of The Commission Of Taxation 1979-80*, Parl. Paper 131, Canberra, 1980.
- Australia, Parliament, Fitzgerald, T.M., Mineral Industry—Contributions to Australian Welfare, April 1974, Parl. Paper 73 of 1974.
- Australia, Parliament, *Inflation and Taxation, Report Of Committee Of Inquiry Into Inflation And Taxation May 1975* (R. L. Mathews, Chairman) Parl. Paper 78, Canberra, 1975.
- Australia, Parliament, *Parliament And Public Expenditure*, House of Representatives Standing Committee on Expenditure Report, February 1979, Parl. Paper 66, Canberra, 1979.
- Australia, Parliament, *Review Of The Continuing Expenditure Policies of the Previous Government, June 1973* (H. C. Coombs, Chairman) Parl. Paper 143, Canberra, 1973.
- Australia, Parliament, *Sixtieth Report Of The Commissioner Of Taxation 1980-81*, Parl. Paper 100, Canberra 1981.
- Australia, Parliament, *Taxation Review Committee Full Report 31 January 1975* (K. W. Asprey, Chairman) Parl. Paper 136, Canberra, 1975.
- Australia, Parliament, *Taxation Statistics 1979-80*, Supplement To The Fifty-Ninth Report To Parliament of the Commissioner of Taxation, Parl. Paper 99, Canberra 1981.
- Bittker, Boris I., 'Accounting for Federal 'Tax Subsidies' in the National Budget', *National Tax Journal*, June, 1969.
- Bittker, Boris I. 'The Tax Expenditure Budget—A Reply to Professors Surrey and Hellmuth', *National Tax Journal*, December 1969.
- Bowra, Ronald L. 'Australia' (National Report) in International Fiscal Association, *Studies in International Fiscal Law: Tax Incentives as an Instrument for Achievement of Government Goals*, Vol. 61a, Kluwer for the International Fiscal Association, The Netherlands, 1976 pp. 233-243.
- Brannon, Gerard M., 'Tax Expenditures and Income Distribution: A Theoretical Analysis of the Upside-Down Subsidy Argument' in Aaron, Henry J. and Boskin, Michael J. (eds), *The Economics of Taxation* (Studies of Government Finance), The Brookings Institution, Washington, D.C., 1980, pp. 87-98.
- Brennan, Geoffrey and Buchanan, James M., *The Power To Tax-Analytical foundations of a fiscal constitution*, Cambridge University Press, Cambridge, New York, 1980.
- Budget of the United States Government, Fiscal Year 1983*, U.S. Government Printing Office, Washington, D.C.
- Bureau of Industry Economics, *Submission to the IAC Inquiry into Certain Budgetary Assistance to Industry*, BIE, Canberra, January 1982.

- Canada. Department of Finance. *Government of Canada tax expenditure account: a conceptual analysis and account of tax preferences in the federal income and commodity tax systems*. Ottawa, Department of Finance, 1979.
- Comeau, Robert L. 'Comparing direct spending and tax spending', *Canadian Taxation* 1:42-5, Winter 1979.
- Fallis, George. 'Determining who benefits from tax expenditures', *Canadian Taxation* 1:71, Summer 1979.
- Fallis, George. 'Mortgage interest and property tax deduction: going beyond the tax expenditures budget', *Canadian Taxation* 1:300-3, Fall 1979.
- Feldstein, Martin, 'A Contribution to the Theory of Tax Expenditures: The Case of Charitable Giving' in Aaron, Henry J. and Boskin, Michael J. (eds), *The Economics of Taxation* (Studies of Government Finance), The Brookings Institution, Washington, D.C., 1980, pp.99-122.
- Harman, F. J. and Johnson, J. A., 'An examination of government tax incentives for business investment in Canada' *Canadian Tax Journal* 26:691-704, November-December 1978.
- Havemann, Joel, *Congress And The Budget*, Indiana University Press, Bloomington and London, 1978.
- Industries Assistance Commission, *Certain Budgetary Assistance To Industry*, Discussion Paper, AGPS, Canberra 1981.
- Institute For Fiscal Studies, *The Structure and Reform of Direct Taxation*, Report of a Committee chaired by Professor J. E. Meade, George Allen and Unwin, London, 1978.
- International Fiscal Association, *Studies in International Fiscal Law: Tax Incentives as an Instrument for Achievement of Government Goals*, Vol. 61a, Kluwer for the International Fiscal Association, The Netherlands, 1976.
- Johnson, Jim A. and Scarth, William M., 'Tax expenditures for business investment: their effectiveness and their beneficiaries', *Canadian Taxation* 1:4-22, Fall 1979.
- Kesselman, Jonathan R., 'Non-business deductions and tax expenditures in Canada: aggregates and distributions' *Canadian Tax Journal* 25:160-79, March-April 1977.
- Lahey, Kathleen A., 'The small business credit: a tax expenditure analysis' *Canadian Taxation* 1:29-34, Summer 1979.
- Le Pan, Nick 'Tax expenditure analysis: some conceptual problems', *Canadian Taxation* 1:15-18, Summer 1979.
- McGillivray, Donald G. 'Tax expenditure analysis: the Canadian context', *Canadian Taxation* 1:23-5, Summer 1979.
- Meakes, Michele, 'The tax credit for political contributions', *Canadian Taxation* 1:51-7 Summer 1979.
- Metal Trades Industry Association of Australia, *A Study of Rural Assistance in Australia*, MTIA, April 1982.
- Organisation For Economic Co-operation And Development, *The Tax/Benefit Position Of Selected Income Groups In OECD Member Countries 1974-1978*, A Report by the Committee on Fiscal Affairs, OECD, Paris, 1980.
- Pettifer, J. A. (ed.) *House of Representatives Practice*, AGPS, Canberra, 1981.
- Political Economy, Department of, 'Tax Expenditures': A Twilight Zone of Public Expenditure', University of Toronto, 1969.
- Pomp, Richard, 'Mortgage interest and property tax deduction: a tax expenditure analysis', *Canadian Taxation* 1:23-9, Fall 1979.
- Pond, Chris, 'Tax Expenditures and Fiscal Welfare' in Sandford C., Pond C. and Walker R. (eds), *Taxation and Social Policy*, Heinemann Educational Books, London, 1980, pp. 47-63.

Smith, Roger S. *Tax Expenditures: An Examination of Tax Incentives and Tax Preferences in the Canadian Federal Income Tax System*, Canadian Tax Foundation, 1979 (Tax Paper No. 61).

Smith, Roger S., 'Tax expenditure analysis: definitional problems', *Canadian Taxation* 1:19-22, Summer 1979.

'Special Analysis G — Tax Expenditures' in *Special Analyses, Budget of the United States Government, Fiscal Year 1982*, Executive Office Of The President, Office Of Management And Budget, U.S. Government Printing Office, Washington, D.C., pp. 203-238.

Surrey, Stanley S. *Pathways to Tax Reform: The Concept of Tax Expenditures*, Harvard University Press, Cambridge, Massachusetts, 1973.

Surrey, Stanley S. 'Tax expenditure analysis: the concept and its uses', *Canadian Taxation* 1:3-14 Summer 1979.

Surrey, Stanley S. and Hellmuth, William F., 'The Tax Expenditure Budget — Response to Professor Bittker', *National Tax Journal*, December 1969.

Surrey, Stanley S. and McDaniel, Paul R., 'The Tax Expenditure Concept and the Legislative Process' in Aaron, Henry J. and Boskin, Michael J. (eds), *The Economics of Taxation* (Studies of Government Finance), The Brookings Institution, Washington, D.C., 1980, pp. 123-144.

Surrey, Stanley S. and McDaniel, Paul R., 'The Tax Expenditure Concept: Current Developments and Emerging Issues' *Boston College Law Review*, Volume XX, January 1979, Number 2.

Tamagno, Edward, 'Comparing Direct Spending and Tax Spending', *Canadian Taxation*, Winter, 1979.

Tamagno, Edward, 'The medical expenses deduction', *Canadian Taxation* 1:58-62, Summer 1979.

'Tax expenditure analysis: a reply by Professor Surrey and discussion', *Canadian Taxation* 1:26-8, Summer 1979.

Thirsk, Wayne R., 'Giving Credit Where Credit is Due: The Choice Between Credits and Reduction Under the Individual Income Tax in Canada', *Canadian Tax Journal*, Vol. 26, No. 6, November-December 1978.

United Kingdom. Parliament, *The Government's Expenditure Plans 1979-80 to 1982-83*, Cmnd 7439, HMSO, London, 1979.

United Kingdom. Parliament, *The Government's Expenditure Plans 1980-81 to 1983-84*, Cmnd 7841, HMSO, London, 1980.

United Kingdom. Treasury, 'The Interface of Public Expenditure and Taxation' in Expenditure Committee (General Sub-Committee) Minutes of Evidence, *Memoranda On The Control of Public Expenditure* Session 1977-78, 196 Memoranda, HMSO, London, 1978, pp. 4-9.

Willis, J. R. M. and Hardwick, P., *Tax Expenditures in the United Kingdom*, Heinemann Education Books, 1978.

ENDNOTES

1. This point has been made in the Budget Papers as early as 1968-69 (see paragraph 5 of Appendix 2), in the Treasury submission (evidence, p. 35) and in the oral evidence (p. 236).
2. Evidence, p. 316.
3. Budget Statements 1981-82, Appendix II to Statement No. 4, p. 242.
4. 'Special Analysis G—Tax Expenditures' in *Special Analyses, Budget of the United States Government, Fiscal Year 1982*, Executive Office of the President, Office of Management and Budget, U.S. Government Printing Office, Washington, D.C., p. 230.
5. Cited in Canada, *Government of Canada tax expenditure account: a conceptual analysis and account of tax preferences in the federal income and commodity tax systems*, Ottawa, Department of Finance, 1979, p. 2.
6. International Fiscal Association, *Studies in International Fiscal Law: Tax Incentives as an Instrument for Achievement of Government Goals*, Vol. 61a, Kluwer for the International Fiscal Association, The Netherlands, 1976.
7. Canada, Department of Finance, op. cit.
8. United Kingdom, Treasury, 'The Interface of Public Expenditure and Taxation' in Expenditure Committee (General Sub-Committee) Minutes of Evidence, *Memoranda On The Control of Public Expenditure*, Session 1977-78, 196 Memoranda, HMSO, London, 1978, pp. 5-6.
9. United Kingdom, Parliament, *The Government's Expenditure Plans 1979-80 to 1982-83*, Cmnd 7439, HMSO, London, 1979, pp. 24-25 and Cmnd 7481, pp. 184-185.
10. S. S. Surrey, *Pathways to Tax Reform: The Concept of Tax Expenditures*, Harvard University Press, Cambridge, Massachusetts, 1973.
11. J. R. M. Willis and P. Hardwick, *Tax Expenditures in the United Kingdom*, Heinemann Education Books, 1978 and Roger S. Smith, *Tax Expenditures*.
12. Professor Boris I. Bittker's concerns about the limitations of the tax expenditure concept are developed in two articles: 'Accounting for Federal "Tax Subsidies" in the National Budget', 22 *National Tax Journal*, June 1969, p. 244; and 'A Comprehensive Tax Base as a Goal of Income Tax Reform', 80 *Harvard Law Review*, March 1967, p. 925. These articles are cited in Roger S. Smith, *Tax Expenditures*, p. 2.
13. Canada, Department of Finance, op. cit., p. 4.
14. Evidence, p. 35.
15. Evidence, p. 38.
16. Evidence, p. 241.
17. D. G. McGillivray, 'Tax expenditure analysis: the Canadian context', *Canadian Taxation* 1:23-5, Summer 1979, p. 23-5, Summer 1979, p. 23.
18. International Fiscal Association, op. cit., p. 29.
19. Ibid., p. 35.
20. Gerard M. Brannon, 'Tax Expenditures and Income Distribution: A Theoretical Analysis of the Upside-Down Subsidy Argument' and Martin Feldstein, 'A Contribution to the Theory of Tax Expenditures: The Case of Charitable Giving' in Henry J. Aaron and Michael J. Boskin (eds), *The Economics of Taxation* (Studies of Government Finance), The Brookings Institution, Washington, D.C., 1980, pp. 87-122.
21. Feldstein, Ibid., p. 102.
22. Department of Finance submission, 8 June 1982, pp. 11-13.
23. Surrey, op. cit., p. 148.

24. Evidence, pp. 300, 301.
25. Evidence, p. 43.
26. Australia, Parliament, *Review of the Continuing Expenditure Policies of the Previous Government* (Dr. H. C. Coombs, Chairman), Parl. Paper 143, Canberra 1973.
27. Evidence, p. 253.
28. Coombs Report, op. cit. The items identified as taxation concessions are the following items in Part III of the report: 4, 82, 83, 84, 93 to 101, 103 to 106, 108 to 120, 123 to 127 and 132 to 140.
29. R. L. Bowra, in 'Australia' (National Report) in International Fiscal Association, op. cit., pp. 233-243.
30. Australia, Parliament, *Taxation Review Committee Full Report* (K. W. Asprey, Chairman), Parl. Paper 136, Canberra 1975, p. 11.
31. Australia, Parliament, *Inflation and Taxation* (Professor R. L. Mathews, Chairman), Parl. Paper 78, Canberra 1975.
32. Australia, Parliament, *Australian Financial System—Final Report* (J. K. Campbell, Chairman) Parl. Paper 208, Canberra 1981.
33. These figures are based on the information contained in Appendix 3. Estimates provided for the 1978-79 year have not been included in this calculation.
34. Evidence, pp. 251, 252.
35. Evidence, p. 41.
36. Evidence, p. 42.
37. Evidence, p. 31.
38. Evidence, p. 309.
39. Evidence, pp. 251-252.
40. Evidence, p. 37.
41. Evidence, pp. 314, 315.
42. 1982 correspondence between Chairman and the Minister for Finance on work being done on the development of program statements.
43. Evidence, p. 120.
44. Special Analysis, Budget of the United States Government, Fiscal Year 1982, op. cit. p. 230.
45. Evidence, p. 256.
46. Evidence, p. 259.
47. Evidence, pp. 257-259.
48. Evidence, p. 265.
49. Evidence, p. 268.
50. Evidence, p. 313.
51. Evidence, pp. 322, 323.
52. Evidence, p. 311.
53. Evidence, p. 275.
54. Evidence, p. 288.
55. Evidence, p. 290.
56. Evidence, p. 147.
57. Evidence, p. 12.
58. Evidence, pp. 203, 204.
59. Australia, Parliament, Senate, Hansard, 18 May 1982. pp. 2043, 2044.
60. Budget Statements 1981-82, op. cit., p. 242.
61. Evidence, p. 35.
62. Evidence, p. 120.
63. Evidence, p. 171.

64. Evidence, pp. 12, 203.
65. Evidence, pp. 315, 316.
66. Evidence, p. 146.
67. Evidence, p. 121.
68. S.S. Surrey and P.R. McDaniel, 'The Tax Expenditure Concept: Current Developments and Emerging Issues', *Boston College Law Review*, Vol. XX, January 1979, No. 2, p. 242.

