

## CHAPTER 7: REVENUE FOREGONE / TAX EXPENDITURES, CONCESSIONS AND SUBSIDIES

### Key findings of the Committee:

- 7.1 Tax expenditures or tax concessions can take the form of tax free thresholds, exempting or applying a lower rate and deductions or rebate of a tax for a certain class of taxpayer, activity or asset. Tax expenditures for payroll tax and land tax are the largest categories of measurable tax expenditures, estimated at \$2.7 billion (or 55.5 per cent of total estimated tax expenditures) and \$1.8 billion (or 36.5 per cent of total estimated tax expenditures) respectively in 2009-10.
- 7.2 In relation to 2009-10, the ratio of estimated tax expenditure (excluding thresholds) to estimated tax revenue stood at 0.22 (estimated aggregate tax expenditure of \$2.9 billion compared to total estimated taxation revenue for the General Government Sector of \$13.3 billion). In contrast, there was one category of tax expenditures, namely land tax exemptions, where the value of measurable tax expenditures exceeded the estimated revenue to be raised which, as was the case in the prior year, resulted in a ratio of 1.41 for this taxation item (i.e. land tax expenditure of \$1.7 billion compared to revenue of \$1.2 billion).
- 7.3 The Government announced various tax relief measures for families affected by the February 2009 bushfires. These measures, which were not quantified in the 2009-10 Budget Papers, included the waiving of the following fees:
- the first \$21,970 of stamp duty on new homes to replace homes lost in the bushfires;
  - the first \$1,050 of stamp duty on vehicles lost in the bushfires; and
  - search and registration fees and charges for title and plan searches, amending land titles, the replacement of certificates of title and the registration of new mortgages.
- 7.4 The budget for 2009-10, which contains concessions amounting to \$1.262 billion (\$1.192 billion, 2008-09), directly assists around 725,000 households in areas that extend cross a wide cross section of utilities and services (e.g. gas, electricity, water, schools, kindergartens, public and private transport, ambulances, dental and other health services).
- 7.5 The budget provides two new initiatives to assist households with increased costs, namely:
- funding of around \$42 million over four years to assist households with water price increases expected on 1 July 2009; and
  - additional funding of \$2.3 million in 2009-10 directed at the *Water Wise Program*.

- 7.6** The health sector continues to be the largest provider of concessions to the Victorian community, with an estimated value of \$558 million to be granted in 2009-10 (44 per cent of the value of all concessions), compared to \$529 million in 2008-09 (44 per cent of all concessions).
- 7.7** Of the major concession categories, the increase in the estimated value of concessions connected with energy, municipal rates and water and sewerage charges to be granted between 2007-08 and 2009-10 of \$51.0 million (or 19 per cent) displayed the greatest movement.
- 7.8** On 6 May 2009, the Government announced a revised package of initiatives for first home buyers, effective from 1 July 2009. These changes, which increased bonus payments with regard to newly constructed homes in metropolitan and regional Victoria from \$5,000 to \$11,000, were aimed at building more homes and sustaining jobs. For established homes, the bonus was reduced from \$3,000 to \$2,000. The Committee also noted that the value of property threshold for being eligible for a First Home Bonus was increased from \$500,000 to \$600,000 for contracts entered into between 1 July 2009 and 30 June 2010. Significant support for first home buyers is also provided by the Commonwealth.
- 7.9** According to the Housing Industry Association, the boost to the first home owner's package for new homes would secure an estimated 3,600 extra jobs over the next three years, generate around \$1.3 billion of additional housing activity and result in 4,300 more homes being built. The Government indicated it would invest \$125 million to boost the scheme for an additional year.

## **7.1 Introduction**

This inquiry continues the past practice of the Committee analysing the budget with regard to the granting of tax concessions and the provision of concessions and subsidies. This area complements the topic covering state revenue by providing a contrasting perspective of the budget that relates to revenue foregone to the state.

The key policy documents that underpin concessions and hardship programs in Victoria are *Growing Victoria Together* and *A Fairer Victoria*. Table 7.1 sets out how concessions and hardship programs provided by the state government are linked to these policies.

**Table 7.1 Linkage of concessions and hardship programs to key government policies**

Key government policy	Policy context	Linkage of programs to government policy
<i>Growing Victoria Together</i>	The policy includes goals relating to accessibility of health services, efficient use of natural resources and a fairer society that reduces disadvantage.	Programs contribute to these goals by providing concession cardholders with discounts on a broad range of services including housing, utility bills, public and private transport, education and primary health care.
The 2005 A <i>Fairer Victoria</i> policy together with a series of subsequent policy pronouncements that fall within the 2005 A <i>Fairer Victoria</i> framework	The Government's approach to addressing disadvantage is directed at: <ul style="list-style-type: none"> <li>• ensuring that universal services provide equal opportunity for all;</li> <li>• reducing barriers to opportunity;</li> <li>• strengthening assistance to disadvantaged groups;</li> <li>• providing targeted support to the highest risk areas; and</li> <li>• involving communities in decisions affecting their lives and making it easier to work with government.</li> </ul>	Programs fall within a wide range of strategies aimed at making services more affordable, reducing disadvantage and responding to the challenge of climate change.

Source: Department of Human Services, *State concessions and hardship programs 2007-08: Reducing barriers to opportunity and making services more affordable*, pp.2-3

The Committee appreciates that governments, in framing budget initiatives to increase accessibility of low income groups to services, reduce disadvantage and promote or discourage certain types of behaviour, may consider policy options that involve either the:

- incurrence of tax expenditures or the provision of concessions or subsidies;
- introduction of penalties in the form of taxes or fines; or
- implementation of a combination of the above approaches.

Such decisions, which may embrace both economic and social considerations, can be complex in nature. For this reason, the selection of options such as tax expenditures, which involve granting select groups in the community more favourable tax treatment than applies to taxpayers in general, should be transparent and disclosed.

The Committee notes the Auditor-General will be undertaking a limited scope performance audit in 2009-10 covering the management of concessions to pensioners and beneficiaries by the Department of Human Services.<sup>193</sup>

It should also be noted that not all 'subsidies' are explicitly detailed in the Budget Papers as they are sometimes included in running or program costs e.g. only around half the running costs of public transport are covered by fares paid by commuters.

<sup>193</sup> Victorian Auditor-General's Office, *Annual Plan 2009-10*, February 2009, pp.10-11

## 7.2 Past coverage by the Committee

In its October 2008 *Report on the 2008-09 Budget Estimates – Part Three*, the Committee made a number of recommendations that called for greater disclosure of estimated taxation exemptions, concessions and subsidies in the Budget Papers.

The Committee was pleased to see in the Government's response to the report that the Department of Treasury and Finance planned to investigate the feasibility of providing a finer breakdown of estimated tax expenditures as well as the anticipated number of benefiting households from concession programs and the value of subsidies (grants) that resemble such programs.<sup>194</sup> While acknowledging that the Budget Papers and departmental websites do include information relating to concessions, the Committee reiterates its view that there is also room for an expanded presentation of information dealing with concessions, preferably in a consolidated form.

The Committee notes the way in which major tax expenditures and concessions have been disclosed in the New South Wales Budget Papers. A *Tax Expenditure and Concessional Charges Statement*, which comprises 31 pages, is provided by way of an appendix to the Budget Papers in that state. This detailed statement includes the following information:<sup>195</sup>

- a description of what constitutes tax expenditures and concessions;
- a comprehensive listing and, where possible, costing of each major tax expenditure (categorised by major taxable activity) and concession (by function) for 2009-10 compared to the previous two years; and
- a description of each minor tax expenditure and concession (i.e. tax expenditures and concessions less than \$1 million) under major revenue items and functional categories for concessions.

To illustrate the comprehensive level of disclosure adopted in New South Wales for tax expenditures and concessions, the Committee noted that with regard to the taxable activity dealing with Transfer Duty, the NSW Budget Statement provides details relating to 12 major tax expenditures, three minor tax expenditures and 21 areas that are exempt from transfer duty.<sup>196</sup>

As the timing of the government response did not enable a more comprehensive format to be adopted for disclosure purposes, either in the May 2009-10 Budget Papers or other suitable publications, the Committee looks forward to examining an expanded form of the presentation of revenue foregone in future. The Committee views this as particularly relevant, given that tax expenditures that can be costed (including thresholds) are estimated to average around \$5 billion each year over the forward estimates to 2012-13, while the estimated value of concessions to be provided in 2009-10 was in the order of \$1.3 billion.

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<sup>194</sup> Victorian Government, response to the Committee's *Report on the 2008-09 Budget Estimates*, tabled out of session on 15 April 2009 and on 5 May 2009 in the Legislative Assembly, pp.11-13

<sup>195</sup> NSW Government, Budget Paper No. 2, *Budget Statement 2009-10*, Appendix E: Tax Expenditure and Concessional Charges Statement, pp. E1-4

<sup>196</sup> NSW Government, Budget Paper No. 2, *Budget Statement 2009-10*, Appendix E: Tax Expenditure and Concessional Charges Statement, pp.2-5

**Recommendation 14:**

**The Department of Treasury and Finance advise the Committee of the results of its study into presenting a finer breakdown of tax expenditures and concessions in the Budget Papers.**

### **7.3 Tax expenditures**

Tax expenditures relate to tax concessions granted to certain taxpayers, activities or assets which amount to a deviation from the normal taxation treatment. Concessions of this nature can take the form of:<sup>197</sup>

- tax free thresholds;
- exempting or applying a lower rate; and
- deductions or rebate of a tax for a certain class of taxpayer, activity or asset (which generally excludes applying marginal tax rates).

A summary of estimated tax expenditures for 2009-10 for the main categories of tax that can be costed (including thresholds) compared to the estimates for the prior two years is shown in Table 7.2. Tax concessions expected to be granted over the forward estimates period have been averaged over the three year period.

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<sup>197</sup> Department of Treasury and Finance, Budget Paper No.4, *2009-10 Statement of Finances*, May 2009, p.223

**Table 7.2: Tax expenditures that can be costed (including thresholds)  
2007-08 to 2012-13**

Description	2008-09 Estimate	2009-10 Estimate	2009-10 Distribution	Average 2010-11 to 2012-13
	(\$ million)	(\$ million)	(%)	(\$ million)
<b>Land tax exemptions</b>				
Principal place of residence	783	771	15.7	759
Land used for primary production	270	266	5.4	262
Commonwealth land	173	170	3.5	168
Crown property (right of Victoria)	163	161	3.3	158
Land vested in a public statutory authority	143	141	2.9	139
Other	282	279	5.7	274
<i>Sub-total</i>	<i>1,815</i>	<i>1,788</i>	<i>36.5</i>	<i>1,760</i>
<b>Payroll tax exemptions</b>				
Wages paid by public hospitals	218	226	4.6	241
Wages paid by a public benevolent institution/charity	217	225	4.6	241
Wages paid by non-profit, non-public school	121	125	2.5	134
Employers' payroll below \$550,000	1,941	1,933	39.5	1,974
Other	202	210	4.3	225
<i>Sub-total</i>	<i>2,698</i>	<i>2,718</i>	<i>55.5</i>	<i>2,815</i>
<b>Congestion levy tax exemptions</b>	33	33	0.7	35
<b>Gambling tax exemptions</b>	77	77	1.6	83
<b>Motor vehicle tax expenditures</b>	79	82	1.7	88
<b>Other stamp duties exemptions <sup>(a)</sup></b>	181	195	4.0	218
<b>Total estimated tax expenditures</b>	<b>4,883</b>	<b>4,894</b>	<b>100.0</b>	<b>4,999</b>

Note: (a) Principally stamp duty on land transfer

Source: Table prepared by the Committee using information drawn from the Department of Treasury and Finance, Budget Paper No.4, 2009-10 Statement of Finances, pp.224-5

The Committee noted that the largest components of the estimated tax expenditures that can be costed (including thresholds) for 2009-10 of \$4.9 billion comprised revenue foregone that emanated from the granting of:

- land tax exemptions (\$1.8 billion or 36.5 per cent of total estimated tax expenditures) of which land tax exemptions associated with individuals' principal places of residence and land used for primary production comprised 58 per cent of total land tax expenditures; and
- payroll tax exemptions (\$2.7 billion or 55.5 per cent of total estimated tax expenditures) where employers' payroll below \$550,000 was the most dominant area where payroll tax expenditures were estimated to be incurred in 2009-10.

In addition, the Government expects to provide tax assistance (including thresholds) averaging \$5 billion annually over the forward estimates period to 2012-13, a slight increase when compared to the estimate of \$4.9 billion in 2009-10.

The Committee also observed that in relation to 2009-10, the ratio of estimated tax expenditure (excluding thresholds) to estimated tax revenue stood at 0.22 (estimated aggregate tax expenditure of \$2.9 billion compared to total estimated taxation revenue for the General Government Sector of \$13.3 billion). In contrast, there was one category of tax, namely land tax exemptions, where the value of measurable tax expenditures exceeded the estimated revenue to be raised which, as was the case in the prior year, resulted in a ratio of 1.41 for this taxation item (i.e. land tax expenditure of \$1.7 billion compared to revenue of \$1.2 billion).<sup>198</sup>

The Committee welcomed the Government's announcement of various tax relief measures for families affected by the February 2009 bushfires. These measures included the waiving of the following fees:<sup>199</sup>

- the first \$21,970 of stamp duty on new homes to replace homes lost in the bushfires;
- the first \$1,050 of stamp duty on vehicles lost in the bushfires; and
- search and registration fees and charges for title and plan searches, amending land titles, the replacement of certificates of title and the registration of new mortgages.

As referred to in Chapter 2 of this report which comments on key aspects of the 2009-10 budget, the Committee noted that the Treasurer did not identify at the time of the announcement, the estimated cost to revenue of the relief decisions, nor do the 2009-10 Budget Papers disclose such information.

## 7.4 Concessions including subsidies contained in the budget

The objective of concessions is to enable key services to become more affordable for low income households in Victoria.<sup>200</sup> The Government assists directly around 725,000 households through the provision of more than \$1 billion worth of concessions, rebates and allowances across gas, electricity, water, schools, kindergartens, public and private transport, ambulances, dental and other health services.<sup>201</sup>

Concessions amount to a direct budget outlay or a reduction in government charges that have the effect of reducing the price of a good or service for particular groups. Characteristics of the consumer, for example the possession of a Commonwealth pension card or a healthcare card, can serve to be the basis for such an entitlement. Accessing and/or purchasing important amenities such as energy, health and transportation at a cheaper rate or zero cost can be made available to particular groups in the community through the granting of concessions.<sup>202</sup> A small number of concessions can take the form of a direct payment (or subsidy) such as the Education Maintenance Allowance, which provides a direct payment to parents to assist with the cost of their children's schooling.<sup>203</sup>

<sup>198</sup> Department of Treasury and Finance, Budget Paper No.4, *2009-10 Statement of Finances*, May 2009, pp.195, 223

<sup>199</sup> Mr J Lenders MLC, Treasurer, *Stamp duty relief for bushfire affected families*, media release, 19 February 2009

<sup>200</sup> Department of Human Services, *State concessions: Your entitlements*, February 2009, p.iii

<sup>201</sup> Ms L Neville, MP, Minister for Community Services, 2009-10 Budget Estimates hearing, transcript of evidence, 19 May 2009, p.18

<sup>202</sup> Department of Treasury and Finance, Budget Paper No.4, *2009-10 Statement of Finances*, May 2009, p.227

<sup>203</sup> Department of Human Services, *State concessions and hardship programs 2007-08: Reducing barriers to opportunity and making services more affordable*, August 2009, p.6

At the Budget Estimates hearing with the Minister for Community Services, the Committee was interested in gaining an understanding of the additional funding to be provided in the budget for concessions. The Minister explained that families are under additional pressure due to the flow-on effects of the global financial crisis and additional costs attributable to the drought and climate change, which have contributed to the continued rise in the cost of basic utilities. To ensure that essential services remain affordable for low income households, the Budget provides two new initiatives whereby:<sup>204</sup>

- funding of around \$42 million over four years will be provided to assist low income households with water price increases expected on 1 July 2009 (the concession provides a 50 per cent discount on water and sewerage bills up to the maximum cap which will be increased by 14.2 per cent in 2009-10); and
- additional funding of \$2.3 million in 2009-10 has been directed at the *Water Wise Program*, which assists low income households (around 4,000 additional households) reduce their water usage through the provision of a free water audit, enabling the retro fitting of efficient water regulation aids and appliances (up to about \$500 per household).

The Committee noted that consistent with past disclosures, the Budget Papers, which classified major concessions by category (such as a public transport category and an energy, municipal rates, water and sewerage category), showed the percentage of total concessions attributable to each category and the estimated value for each category.<sup>205</sup>

Table 7.3 discloses a breakdown of concessions estimated to be incurred by category in terms of value and proportion of total concessions. The Committee's analysis of estimated concessions showed that:

- the health sector is the largest provider of concessions to the Victorian community, with an estimated value of \$558 million to be granted in 2009-10 (44 per cent of the value of all concessions);
- of the major concession categories, the increase in the estimated value of concessions connected with energy, municipal rates and water and sewerage charges to be granted between 2007-08 and 2009-10 of \$51.0 million (or 19 per cent) displayed the greatest movement;
- a steep increase in the provision of hardship assistance was planned to occur in 2008-09 (82.6 per cent) due to the 2009 Victorian bushfires and is expected to remain at this level in 2009-10; and
- the distribution of concessions among the various categories as a proportion of the total concessions has remained similar for the past three years.

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<sup>204</sup> Ms L Neville, MP, Minister for Community Services, 2009-10 Budget Estimates hearing, transcript of evidence, 19 May 2009, p.18 and Department of Treasury and Finance, Budget Paper No. 3, *2009-10 Service Delivery*, May 2009, pp.314-316

<sup>205</sup> Department of Treasury and Finance, Budget Paper No.4, *2009-10 Statement of Finances*, May 2009, p.228

**Table 7.3: Concessions by category  
2007-08 to 2009-10**

Category	2007-08 Estimate	2008-09 Estimate	2009-10 Estimate	2009-10 Distribution
	(\$ million)	(\$ million)	(\$ million)	(%)
Energy, municipal rates, water and sewerage	268	295	319	25.2
Education	70	71	76	6.0
Health	506	529	558	44.2
Hardship assistance	23	42	44	3.5
Transport	247	256	266	21.1
<b>Total of items estimated</b>	<b>1,115</b>	<b>1,192</b>	<b>1,262</b>	<b>100.0</b>

Source: Department of Treasury and Finance, *Budget Paper No.4, 2009-10 Statement of Finances*, p.228

From an information dissemination and accountability viewpoint, the Committee noted that the Department of Human Services, the department responsible for monitoring and reporting on concessions, has issued two key publications namely:

- a document released in February 2009 that explains the various types of concessions available and information regarding how to apply for such concessions;<sup>206</sup> and
- a comprehensive annual report issued in August 2009 that details the concessions and hardship programs provided during 2007-08, an analysis of the volume of concessions delivered and expenditure incurred/revenue foregone and an outline of other community service obligation arrangements.<sup>207</sup>

In recognising that a wide range of organisations are involved in administering and delivering the concession program for the State, the Committee believes that measures should be implemented by the Department of Human Services to bring forward the completion date for issuing the annual report on concessions and hardship programs. In terms of facilitating effective policy and budget formulation in future, an earlier completion of the annual report would enable analysis of information relating to the number of concessions delivered and expenditure/revenue foregone to occur in a timely manner.

**Recommendation 15: The Department of Human Services accelerate the completion date for its annual report on concessions and hardship programs which should occur as soon as possible in the following year.**

<sup>206</sup> Department of Human Services, *State concessions: Your entitlements*, February 2009, p.iii

<sup>207</sup> Department of Human Services, *State concessions and hardship programs 2007-08: Reducing barriers to opportunity and making services more affordable*, August 2009

## 7.5 First home buyer initiatives

The Committee noted that to support economic growth, the Commonwealth Government's \$10.4 billion *Economic Security Strategy*, announced in October 2008, included \$1.5 billion to help first home buyers purchase a home through the *First Home Owners Boost*.<sup>208</sup> Commonwealth *New Home Grant* funding to Victoria was estimated to be in the order of \$202.6 million in 2008-09 and \$103.3 million in 2009-10.<sup>209</sup> This initiative provides one-off financial assistance to eligible first home buyers of \$7,000 for an established home and \$14,000 for a new home or a newly constructed home. This funding was initially only available for eligible home purchases until 30 June 2009 and, as such, most payments were expected to occur in 2008-09.<sup>210</sup> However, as a part of the Commonwealth Government's budget for 2009-10, the *First Home Owners Boost* was extended until 31 December 2009, with changes to apply to the payment from 1 October 2009 (see tables 7.6 and 7.7) which halved the entitlements under this initiative.<sup>211</sup>

The *First Home Owners Boost* complements funding provided by the state through the *First Home Owner Grant* scheme, which consists of a one-off payment of \$7,000, and the *First Home Bonus* initiative. The Committee noted that at the time the 2009-10 Budget was released on 5 May 2009, the Government earmarked that the extension of the *First Home Bonus* initiative was 'to be determined'.<sup>212</sup> On 6 May 2009, the Government announced a new package of initiatives, effective from 1 July 2009, that were connected with the *First Home Bonus* (see tables 7.5, 7.6 and 7.7). These changes, which essentially increased bonus payments with regard to newly constructed homes in metropolitan and regional Victoria, were aimed at creating more homes and jobs. According to the Housing Industry Association, the boost to the first home owner's package for new homes would secure an estimated 3,600 extra jobs over the next three years, generate around \$1.3 billion of additional housing activity and result in 4,300 more homes being built. The Government indicated that it would invest \$125 million in order to boost the scheme for an additional year.<sup>213</sup>

The different amounts that first home buyers in Victoria may be eligible for receiving payment, that take into account the changes at both the Commonwealth with regard to the *New First Home Owner Boost* and at the State level, are set out in tables 7.4 to 7.7.

<sup>208</sup> Department of Treasury and Finance, Budget Paper No. 2, *2009-10 Strategy and Outlook*, May 2009, p.25

<sup>209</sup> Department of Treasury and Finance, Budget Paper No.4, *2009-10 Statement of Finances*, May 2009, p.211  
<sup>210</sup> *ibid.*, p.220

<sup>211</sup> Australian Government, *First Home Owners Boost* (website), accessed 3 September 2009, <http://www.fahcsia.gov.au/sa/housing/payments/Pages/FirstHomeOwnersBoost>

<sup>212</sup> Department of Treasury and Finance, Budget Paper No. 3, *2009-10 Service Delivery*, May 2009, p.366

<sup>213</sup> Hon. J Brumby, Premier, *Victorian First Home Bonus increased for new homes*, media release, 6 May 2009





In terms of the Victorian economic projections contained in the 2009-10 Budget, the Government forecasts dwelling investment to post solid growth, driven by low interest rates, the *First Home Owner Boost* and pent-up demand.<sup>214</sup> As indicated in the May 2009 budget, there were early signals of a rebound in the number of housing finance commitments and in first home buyer demand. In this regard, the Committee noted that:

- dwelling finance obtained by first home buyers expressed as a percentage of total dwelling finance (excluding re-financing) rose to a record level of almost 40 per cent in January 2009;<sup>215</sup>
- the number of dwellings financed for first home buyers in Victoria in February 2009 was 20.3 per cent higher than in October 2008;<sup>216</sup>
- dwelling approvals showed an increase, up 13.8 per cent over the three months to February 2009;<sup>217</sup> and
- Victoria accounted for more than 30 per cent of national dwelling approvals in recent months.<sup>218</sup>

The Committee believes that in 2010-11, the Government should conduct a socio-economic impact assessment to assess the full extent of the stimulatory and distributive effect of the first home buyer initiatives on economic growth in both Metropolitan Victoria and Regional Victoria, particularly with regard to growth in new homes or newly constructed homes and the impact on employment. Input from such an analysis could then be used in framing appropriate policy with regard to the continuation of subsidies to promote housing affordability among first home buyers and boost employment in this state.

**Recommendation 16:**

**The Department of Treasury and Finance conduct research to assess the socio-economic impacts that the first home bonus incentives have had in terms of their stimulative and distributive effects on the economy, particularly with regard to the securing existing jobs or creating new jobs and areas of growth.**

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<sup>214</sup> Department of Treasury and Finance, Budget Paper No. 2, *2009-10 Strategy and Outlook*, May 2009, p.20

<sup>215</sup> *ibid.*, p.27

<sup>216</sup> Department of Treasury and Finance, Budget Paper No.4, *2009-10 Statement of Finances*, May 2009, p.199

<sup>217</sup> Department of Treasury and Finance, Budget Paper No. 2, *2009-10 Strategy and Outlook*, May 2009, p.27

<sup>218</sup> *ibid.*