

Part IV: Revenue

Table 11 provides estimates of tax, non-tax and total revenue from 1999-2000 to 2002-03.¹ Relative to the 1999-2000 Budget, the MYEFO estimate of total revenue is slightly lower in 1999-2000 but higher in the following three years.

Table 11: Estimates of Commonwealth General Government Revenue^(a)

	1999-00		2000-01	
	Budget	MYEFO	Budget	MYEFO
Total tax (\$m)	146878	146031	138293	141483
Per cent of GDP	23.6	23.5	20.8	21.3
Non-tax (\$m)	15950	16428	12201	12416
Per cent of GDP	2.6	2.6	1.8	1.9
Total revenue (\$m)	162828	162459	150494	153899
Per cent of GDP	26.2	26.1	22.7	23.2
	2001-02		2002-03	
	Budget	MYEFO	Budget	MYEFO
Total tax (\$m)	141508	145198	149738	154374
Per cent of GDP	20.1	20.6	20.1	20.7
Non-tax (\$m)	12251	12917	13327	14206
Per cent of GDP	1.7	1.8	1.8	1.9
Total revenue (\$m)	153759	158115	163065	168580
Per cent of GDP	21.8	22.4	21.8	22.6

(a) All revenue data in this table are produced on a AAS31 basis. All estimates expressed as a proportion of GDP use current MYEFO GDP estimates. There has been a reclassification of revenue since Budget of around \$1 billion from tax to non-tax components. Estimates are net of the diesel fuel rebate scheme.

The changes to the 1999-2000 Budget estimates (shown in Table 12) incorporate: policy decisions taken since the Budget; a revised assessment of the economic outlook; and actual revenue outcomes up to mid-November 1999.

1 All references to 'revenue' in this Part refer to accrual revenue unless explicitly noted otherwise.

Table 12: Reconciliation of General Government Revenue Estimates^(a)

	1999-00 \$m	2000-01 \$m	2001-02 \$m	2002-03 \$m
Revenue at 1999-2000 Budget	162828	150494	153759	163065
Changes from 1999-2000 Budget to MYEFO				
Effect of policy decisions	-28	3051	1222	2388
Effect of economic parameter and other variations	-341	354	3134	3127
Total variations	-369	3405	4356	5515
Revenue at 1999-2000 MYEFO	162459	153899	158115	168580
<i>Memorandum items:</i>				
GFS revenue at 1999-2000 Budget	162728	150401	153666	162972
Total AAS31 revenue variations	-369	3405	4356	5515
<i>less</i> Variations in GFS/AAS31 classification differences	87	93	97	108
<i>equals</i> Total GFS revenue variations	-456	3312	4259	5407
GFS revenue at 1999-2000 MYEFO	162272	153713	157925	168379

(a) All data in this table are produced on a AAS31 basis unless otherwise specified.

Policy decisions subsequent to the 1999-2000 Budget are estimated to reduce revenue marginally in 1999-2000 but increase it significantly in the following years. All revenue policy decisions are listed in Table 13 (and detailed in Appendix A).

The main increase in revenue derives from changes to *A New Tax System*, following agreement with the Australian Democrats to secure legislation in the Senate. In particular, reductions in income tax cuts for income earners over \$50,000 and changes to the Diesel Fuel Rebate Scheme will together add around \$1½ billion to revenue from 2000-01, which partly offsets the expenditure increases from that package. (See Box 2, Part I.)

The other major package of tax reform measures is *The New Business Tax System*. Over the period as a whole, these measures are estimated to be broadly revenue-neutral, with gains to revenue in 2000-01 and 2002-03 slightly more than offsetting losses in the other two years. (See Box 2, Part I.)

The temporary Defence — East Timor levy, to partially offset the costs of Australia's involvement in East Timor, adds \$900 million to revenue in 2000-01. (See Box 1, Part I.)

Table 13: Revenue Measures since the 1999-2000 Budget^{(a)(b)}

	1999-00 \$m	2000-01 \$m	2001-02 \$m	2002-03 \$m
ATTORNEY-GENERAL'S				
Removal of nuisance tariffs	-8.0	-12.1	-12.9	-13.8
Reinstatement of some tariffs on non-medical and non-scientific equipment	0.7	0.8	0.9	0.9
Portfolio total	-7.3	-11.3	-12.0	-12.9
DEFENCE				
United Nations reimbursements for East Timor deployment	18.0	114.0	106.0	76.0
Portfolio total	18.0	114.0	106.0	76.0
ENVIRONMENT AND HERITAGE				
Sale of Halon to the United States for essential use	3.5	6.0	-	-
Portfolio total	3.5	6.0	0.0	0.0
IMMIGRATION AND MULTICULTURAL AFFAIRS				
Extension of regulation of the migration advice industry	0.5	1.7	1.8	1.3
Portfolio total	0.5	1.7	1.8	1.3
TREASURY				
Income Tax				
Defence - East Timor levy	-	900.0	-45.0	-
Reduced personal income tax cuts for income earners over \$50,000	-	1110.0	1234.0	1435.0
Deductibility of gifts	*	*	*	*
Immediate tax deductibility for GST-related expenditure	-	-175.0	75.0	75.0
Establishment of the Australian Rural Partnerships Foundation	-	-5.0	-5.0	-3.0
Tax Exemption on business re-establishment grants made from the Cyclones Elaine and Vance Trust Fund	-1.0	-	-	-
Fringe benefits reporting - exclusion of certain benefits provided to Australian Defence Force personnel	-	-10.0	-10.0	-10.0
Dairy industry adjustment package	-	-1.0	-1.0	-1.0
Double taxation agreements	*	*	*	*

Table 13: Revenue Measures since the 1999-2000 Budget^{(a)(b)} continued

	1999-00 \$m	2000-01 \$m	2001-02 \$m	2002-03 \$m
TREASURY (continued)				
<i>The New Business Tax System</i>				
Reduction in the company tax rate	-60.0	-1260.0	-3480.0	-3135.0
Implementing a unified entity tax system	*	*	*	*
Deferred implementation of unified entity tax system to trusts	-40.0	-140.0	-445.0	5.0
Early refunds of imputation credits	-	-	-190.0	-
Removing the intercorporate dividend rebate on unfranked distributions	-60.0	35.0	-70.0	-120.0
Introduction of a common start date for the commencement of tax reform measures applying to life insurers	-	-180.0	-	40.0
Transitional taxation of fees on life insurance policies	-	-110.0	-110.0	-110.0
Taxation of funeral bonds, scholarship plans and income bonds offered by Friendly Societies	*	*	*	*
Delayed commencement of life policyholder reform	-	-30.0	-30.0	-
Consolidation - losses of acquired companies	-	-	-190.0	-380.0
Consolidation - value shifting and loss duplication in groups	-	-	-	75.0
Rollover relief for entity restructuring	*	*	*	*
Removal of accelerated depreciation	30.0	1050.0	2260.0	2300.0
Removal of balancing charge offset	20.0	400.0	360.0	170.0
Pooling of low-value depreciable assets	-	30.0	410.0	40.0
Allow write-off for indefeasible rights of use	-11.0	-51.0	-37.0	-36.0
Effective life depreciation for the mining, quarrying and resources industries	-	-	-	15.0
Cash accounting for small business	-	-	-220.0	-320.0
Simplified depreciation arrangements for small business	-	-	-60.0	-220.0
Small business exemption from accelerated depreciation, balancing charge offset and low-value pooling measures	-	-219.0	-474.0	257.0
Reform of CGT for individuals	-	210.0	230.0	210.0
Reform of CGT for superannuation and related funds	-	-70.0	-50.0	-70.0
Reform of CGT for other entities	-	10.0	40.0	50.0
CGT rollover relief for scrip-for-scrip acquisitions	-	2.0	-19.0	-5.0
Allowance for CGT arbitrage activities (c)	-	-20.0	-50.0	-100.0
Improving incentives for venture capital investment	*	*	*	*

Table 13: Revenue Measures since the 1999-2000 Budget^{(a)(b)} continued

	1999-00 \$m	2000-01 \$m	2001-02 \$m	2002-03 \$m
TREASURY (continued)				
Providing a new small business 15-year CGT exemption and streamlining of the existing small business provisions	*	*	*	*
Addressing lease assignments	-	15.0	45.0	55.0
Interim value shifting and loss duplication measures	-	60.0	42.0	-
Repeal of excess deduction rules for mining operations	-	30.0	40.0	35.0
Prevent duplication of unrealised losses	-	65.0	90.0	85.0
Remove defects in the continuity of ownership test	-	35.0	35.0	35.0
Disposal of loss assets within majority-owned groups	-	60.0	50.0	15.0
Prevent inter-entity loss multiplication	-	15.0	20.0	25.0
Value shifting measures outside groups	-	-	-	140.0
Tightening the 13-month rule for advance expenditure	15.0	220.0	325.0	260.0
Tightening the 13-month rule for advance expenditure under tax shelters	-	70.0	100.0	90.0
Treatment of losses from non-commercial activities	-	50.0	310.0	240.0
Alienation of personal services income	-	380.0	480.0	495.0
Amending dividend streaming and franking credit trading rules	*	*	*	*
Imputation credits for foreign dividend withholding tax	-	-	-	-340.0
Thin capitalisation provisions	-	-	50.0	480.0
Gains on the disposal of interposed non-resident entities	-	-	-	40.0
Foreign income account	*	*	*	*
Consistent treatment of resident entities deriving foreign source income	*	*	*	*
Simplifying and strengthening the rules for foreign trusts	*	*	*	*
Foreign expatriates and residents departing Australia	*	*	*	*
Extending the scope of involuntary disposals	*	*	*	*
Recognition of blackhole expenditures	-	-	-30.0	-65.0
High level reform to tax design and other measures	-	-	-57.0	-45.0
Growth dividend (c)	-	50.0	100.0	200.0

Table 13: Revenue Measures since the 1999-2000 Budget^{(a)(b)} continued

	1999-00 \$m	2000-01 \$m	2001-02 \$m	2002-03 \$m
TREASURY (continued)				
Indirect tax				
Incentive to switch to lower sulphur diesels	-	-	-	18.0
Change of Diesel Fuel Rebate Scheme (DFRS) arrangements for rail excise and off-road diesel	-	333.1	322.0	317.0
Supporting renewable remote power generation	-	66.0	66.0	66.0
Application of excise on alcoholic cooking essences	4.4	5.1	5.3	5.5
Sales tax concession for taxis for the disabled	*	*	*	*
Fringe Benefits Tax (FBT)				
Extension of FBT exemption for remote area housing to all employers	-	-15.0	-15.0	-15.0
Adoption of dual gross-up formula for FBT	-	-35.0	-35.0	-35.0
Non-tax revenue				
Additional payments from the States and Territories for GST administration	60.0	60.0	60.0	60.0
Portfolio total	-42.6	2940.2	1126.3	2323.5
Total impact of revenue measures	-27.9	3050.6	1222.1	2387.9

* The nature of this measure is such that a reliable estimate cannot be provided.

(a) Revenue is on a AAS31 basis.

(b) Minus sign before an estimate indicates a reduction in revenue; no sign before an estimate indicates a gain to revenue.

(c) The *allowance for CGT arbitrage activities* and *growth dividend* are not strictly policy decisions, but have been included in the summary table in order to show the overall fiscal impact of business taxation reform.

As noted, policy decisions since Budget will have little impact on the revenue outlook for 1999-2000. Further, as is evident in Table 12, there is also very little variation in aggregate revenue expected in 1999-2000 from changes in economic parameters and other variations, consistent with the unchanged outlook for nominal GDP growth since Budget. However, this small variation in aggregate revenue relative to Budget comprises some more significant changes to individual revenue categories, as detailed in Table 14.

Table 14: General Government Revenue Estimates^(a)

	1999-00 \$m		1999-00 %	
	Budget Estimate	MYEFO Estimate	Change on Budget	Change on Budget
Taxation revenue				
Income tax				
Individuals -				
Gross PAYE	72970	72657	-313	-0.4
Gross other individuals(b)	12400	12333	-67	-0.5
Gross PPS(c)	2710	2866	156	5.8
Medicare levy	4330	4360	30	0.7
Refunds	11330	10712	-618	-5.5
Total Individuals	81080	81504	424	0.5
Companies(b)	22940	21740	-1200	-5.2
Superannuation funds(b)(d)	3900	3995	95	2.4
Withholding tax	1310	1320	10	0.8
Petroleum resource rent tax	720	800	80	11.1
Total income tax	109950	109359	-591	-0.5
Indirect tax				
Sales tax(e)	15659	15238	-421	-2.7
Excise duty -				
Petroleum products and crude oil(e)(f)	9745	9685	-60	-0.6
Other(e)	2931	3043	112	3.8
Customs duty(e)(g)	3644	3653	9	0.2
Total indirect tax	31979	31618	-361	-1.1
Fringe benefits tax(h)	3286	3330	44	1.3
Other taxes	1663	1724	60	3.6
Total tax revenue(h)	146878	146031	-847	-0.6
Non-tax revenue	15950	16428	478	3.0
Total revenue(h)	162828	162459	-369	-0.2

(a) All data in this table are produced on a AAS31 basis.

(b) Includes tax on realised capital gains.

(c) PPS denotes Prescribed Payments System which includes Reportable Payments System payments by individuals (around \$2 million in 1999-2000).

(d) Includes superannuation contributions surcharge.

(e) Excludes revenues raised on an agency basis for the States and Territories (for example, Revenue Replacement Payments).

(f) Estimates for Petroleum Products Excise are net of the diesel fuel rebate scheme (around \$1.6 billion in 1999-2000).

(g) Customs duty collections include customs duty imposed on imported petroleum products, tobacco, beer and spirits, which is akin to excise duty on these items (around \$900 million in 1999-2000).

(h) Excludes Fringe benefits tax collected from Commonwealth Government agencies (around \$300 million in 1999-2000).

Table 14 shows that, for 1999-2000, net downward revisions to both income tax and indirect tax are largely offset by upward revisions to fringe benefits tax, other taxes and non-tax revenue.

Downward revisions have been made to the following revenue items:

- Individuals income tax (both PAYE and other), reflecting a reduction in the estimated provision for outstanding revenue considered unlikely to be collected, but with little variation in the outlook for household income growth;
- Companies tax, reflecting: the base effect of a lower than expected outcome for 1998-99; slower than expected growth in taxable income in the 1998-99 income year; downward variations of payments by some large taxpayers (which reflect the individual circumstances of those companies rather than general macroeconomic conditions); and greater than expected deductibility of Y2K expenditure (although this revenue loss is likely to be largely recouped in later years);
- Sales tax, largely as a result of recent court decisions and a reassessment of spending on certain components of the sales tax base (particularly in the latter half of 1999-2000); and
- Petroleum excise, largely due to lower than expected collections to date.

Upward revisions to revenue result from the following movements:

- Gross Prescribed Payments System, largely due to stronger dwelling sector activity and the strength of collections in the early part of the financial year;
- Individuals Refunds, reflecting substantially lower than expected outcomes in the year to date, a period when the greater part of refunds are normally processed;
- Petroleum Resource Rent tax, largely due to recent strength in oil prices;
- Other excise, largely due to higher tobacco excise collections;
- Other taxes, partly due to slightly higher than anticipated revenue from some agricultural production taxes; and
- Non-tax revenue, primarily due to larger dividends from Telstra and the Reserve Bank of Australia (RBA) and increased interest revenue from investments and swaps as a result of an increase in market interest rates and an upward revision to the swaps program.

Preliminary forecasts for 2000-01 indicate that, in addition to a substantial impact from policy decisions, the aggregate effect of economic parameter and other variations is small, but positive. Once allowance is made for higher prices resulting from changes to indirect taxation, the preliminary forecast for nominal GDP growth in 2000-01 is very similar to Budget projections. Of itself, the economic outlook would thus suggest little need for change to the budget-time estimates.

However, there are some other variations which will have important, though largely offsetting, impacts. Tending to boost revenue in 2000-01 (and in subsequent years) is the reclassification since Budget of a portion of the diesel fuel offset to excise as a grant

(increasing expenses by an equivalent amount). However, company taxable income growth is likely to remain lower than broader measures of corporate performance and overall macroeconomic indicators would suggest, and a continuing high level of deductible expenditure on information technology upgrades (associated with Y2K and the GST) is expected.

Forward projections for revenue in 2001-02 and 2002-03 are higher than presented at Budget due to a combination of the waning of these constraining influences, the ongoing substantial impact of the diesel fuel offset and policy decisions since the Budget. Some further detail on the major categories of revenue is shown in Table 15.

Revenue estimates are highly dependent on general economic conditions and the effects of tax policy measures. In particular, taxpayers may respond to new measures in ways which were not fully anticipated at the time the relevant revenue estimates were prepared. Appendix B provides information on the sensitivity of the revenue estimates to changes in economic parameters while Appendix C contains a description of the sources of risks to taxation revenue.

Table 15: Forward Estimates of General Government Revenue^(a)

	1999-00			2000-01			2001-02			2002-03		
	Budget	MYEFO	Change on 1998-99	Budget	MYEFO	Change on 1999-00	Budget	MYEFO	Change on 2000-01	Budget	MYEFO	Change on 2001-02
	\$b	\$b	%	\$b	\$b	%	\$b	\$b	%	\$b	\$b	%
Individuals tax	81.1	81.5	n/a	71.4	74.2	-8.9	77.9	81.4	9.6	82.4	86.9	6.8
<i>Per cent of GDP</i>	<i>13.0</i>	<i>13.1</i>		<i>10.7</i>	<i>11.2</i>		<i>11.1</i>	<i>11.6</i>		<i>11.0</i>	<i>11.6</i>	
Other income tax	28.9	27.9	n/a	39.7	37.8	35.7	36.4	33.8	-10.5	38.7	36.0	6.5
<i>Per cent of GDP</i>	<i>4.6</i>	<i>4.5</i>		<i>6.0</i>	<i>5.7</i>		<i>5.2</i>	<i>4.8</i>		<i>5.2</i>	<i>4.8</i>	
Total income tax	110.0	109.4	n/a	111.1	112.0	2.4	114.2	115.2	2.9	121.2	122.9	6.7
<i>Per cent of GDP</i>	<i>17.7</i>	<i>17.6</i>		<i>16.7</i>	<i>16.9</i>		<i>16.2</i>	<i>16.4</i>		<i>16.2</i>	<i>16.5</i>	
Total indirect tax	32.0	31.6	n/a	22.1	24.2	-23.5	22.0	24.4	0.8	23.1	25.7	5.3
<i>Per cent of GDP</i>	<i>5.1</i>	<i>5.1</i>		<i>3.3</i>	<i>3.6</i>		<i>3.1</i>	<i>3.5</i>		<i>3.1</i>	<i>3.4</i>	
Total tax(a)	146.9	146.0	n/a	138.3	141.5	-3.1	141.5	145.2	2.6	149.7	154.4	6.3
<i>Per cent of GDP</i>	<i>23.6</i>	<i>23.5</i>		<i>20.8</i>	<i>21.3</i>		<i>20.1</i>	<i>20.6</i>		<i>20.1</i>	<i>20.7</i>	
Non-tax revenue	16.0	16.4	n/a	12.2	12.4	-24.4	12.3	12.9	4.0	13.3	14.2	10.0
<i>Per cent of GDP</i>	<i>2.6</i>	<i>2.6</i>		<i>1.8</i>	<i>1.9</i>		<i>1.7</i>	<i>1.8</i>		<i>1.8</i>	<i>1.9</i>	
Total revenue	162.8	162.5	n/a	150.5	153.9	-5.3	153.8	158.1	2.7	163.1	168.6	6.6
<i>Per cent of GDP</i>	<i>26.2</i>	<i>26.1</i>		<i>22.7</i>	<i>23.2</i>		<i>21.8</i>	<i>22.4</i>		<i>21.8</i>	<i>22.6</i>	

(a) All data in this table are produced on a AAS31 basis. All estimates expressed as a proportion of GDP use current MYEFO GDP estimates. There has been a reclassification of revenue since Budget of around \$1 billion from tax to non-tax components. Total tax also includes Fringe benefits tax and Other taxes. Estimates are net of the diesel fuel rebate scheme.

TAX EXPENDITURES

Table 16 shows estimates for the period 1995-96 to 2002-03 of aggregate tax expenditures that have been identified and costed in the *Tax Expenditures Statement 1997-98* (TES), which was published in July 1999.

The report *A New Tax System* outlined significant reforms to both expenses and revenues — some of which will impact on the costings of tax expenditures. Attachment A of the TES sets out the impacts on the benchmarks that have been incorporated and those that are yet to be incorporated. *The New Business Tax System* has also introduced significant reforms which will impact on benchmarks against which a tax expenditure is costed. A reassessment of the appropriate benchmarks resulting from reform in the two packages will be undertaken prior to the publication of the next TES.

Table 16: Aggregate Tax Expenditures 1995-96 to 2002-03

Year	Superannuation \$m	Other Tax Expenditures(a) \$m	Total \$m	Tax Expenditures as a Proportion of GDP (%)
1995-96	8315	9517	17832	3.5
1996-97	9160	10129	19289	3.6
1997-98	9110	10371	19481	3.4
1998-99 (est)	9440	11737	21177	3.6
1999-2000 (est)	9900	12474	22374	3.6
2000-01 (proj)	8745	10925	19670	3.0
2001-02 (proj)	8855	10139	18994	2.7
2002-03 (proj)	9265	10502	19767	2.7

(a) These aggregates do not include measures allowing delayed payments of tax.

In analysing the data presented in Table 16, there are a number of considerations that must be kept in mind.

- These figures will understate the total cost to revenue of tax expenditures. The TES does not provide a comprehensive listing of all tax expenditures, and some of those that are identified have not been costed due to a lack of data.
- Tax expenditures in the form of delayed tax payments (such as depreciation allowances, which merely defer tax revenue collections to a later date), have been excluded from the estimates of aggregate tax expenditures.
- Changes over time in methodology and available data used for calculating the cost of particular expenditures mean that there can be quite large revisions to tax expenditure estimates. Therefore, particular tax expenditure estimates may not be strictly comparable from year to year.
- Forward projections for the outyears can be subject to considerable uncertainty. Caution should be exercised when trying to draw strong conclusions on longer-term trends.