Appendix B: Tax Expenditure Statement

Context

Governments employ a range of policy tools to achieve social and economic objectives. These include the use of direct budgetary outlays, regulatory mechanisms and taxation.

This Tax Expenditure Statement (TES) details revenue foregone as a result of government decisions relating to the provision of tax exemptions or concessions. The TES is designed to improve transparency in the use of tax expenditures and increase public understanding of the fiscal process.

Tax expenditures are reductions in tax revenue that result from the use of the taxation system as a policy tool to deliver government policy objectives. Tax expenditures are provided through a range of measures, including:

- tax exemptions, rebates or deductions
- the application of reduced tax rates to certain groups or sectors of the community
- provisions, which defer payment of a tax liability to a future period.

Labelling an exemption or concession as a tax expenditure does not necessarily imply any judgement as to its appropriateness. It merely makes the amount of the exemption or concession explicit and thereby facilitates its scrutiny as part of the annual budget process.

COVID-19 and implications for tax expenditure

The impact of the coronavirus (COVID-19) pandemic on Queensland businesses has been significant and the Queensland Government moved quickly to introduce substantial tax relief measures to support Queensland businesses, particularly small to medium businesses. These initiatives were primarily aimed at supporting the cashflow and viability of Queensland businesses, landlords, tenants, and the state’s pubs and clubs.

The key relief measures fell under three categories:

- Direct refunds, holidays, rebates or waivers of tax liabilities – refunds and holidays related to payroll tax; and a 25% discount and waiver of foreign surcharge on land tax.
- Deferrals of tax liabilities – various deferrals of payroll tax, land tax, gaming machine tax and lotteries tax.
- Exemptions – JobKeeper payments were exempted from payroll tax.

The impact of these measures has resulted in a significant increase in foregone revenue. While the impact on tax expenditures in 2019-20 is discussed below, some measures will continue to substantially impact revenue in 2020-21. This additional expenditure will be reflected in the 2021-22 Tax Expenditure Statement.

Methodology

Revenue foregone approach

The method used almost exclusively by governments to quantify the value of their tax expenditures is the revenue foregone approach. This method estimates the revenue foregone through use of the concession by applying the benchmark rate of taxation to the volume of activities or assets affected by the concession.

One of the deficiencies of the revenue foregone approach is that effects on taxpayer behaviour resulting from tax expenditures are not factored into the estimate. Consequently, the aggregation of costings for individual tax expenditure items presented in the TES will not necessarily provide an accurate estimate of the total level of assistance provided through tax expenditures.

Additionally, while total COVID-19 relief is included in the TES, some relief was treated as a grant expense, for example in relation to rebates of already-paid tax liabilities. In these cases, the associated tax expenditure did not reduce revenues.

Measuring tax expenditures requires the identification of:

- a benchmark tax base
- concessionally taxed components of the benchmark tax base such as a specific activity or class of taxpayer
- a benchmark tax rate to apply to the concessionally taxed components of the tax base.

Defining the tax benchmark

The most important step in the preparation of a TES is the establishment of a benchmark for each tax included in the statement. The benchmark provides a basis against which each tax concession can be evaluated. The aim of the benchmark is to determine which concessions are tax expenditures as opposed to structural elements of the tax. The key features of a tax benchmark are:

- the tax rate structure
- any specific accounting conventions applicable to the tax
- the deductibility of compulsory payments
- any provisions to facilitate administration
- provisions relating to any fiscal obligations.

By definition, tax expenditures are those tax concessions not included as part of the tax benchmark.

Identification of benchmark revenue bases and rates requires a degree of judgement and is not definitive. Furthermore, data limitations mean that the tax expenditures are approximations and are not exhaustive. This statement does not include estimates of revenue foregone from exemptions or concessions provided to government agencies. Very small exemptions or concessions are also excluded.

The Tax Expenditure Statement

This year's statement includes estimates of tax expenditures in 2018-19 and 2019-20 for payroll tax, land tax, duties, the waste disposal levy and gambling taxes. A summary of the major tax expenditures valued on the basis of revenue foregone is presented in Table B.1. Not all expenditures can be quantified at this time. Accordingly, the total value of tax expenditures should be considered as indicative only.

Table B.1 Tax expenditure summary[1]

	2018-19[2] $ million	2019-20 $ million
Payroll tax		
Exemption threshold	1,381	1,526
Deduction scheme	374	462
Regional discount	n/a	88
COVID-19 relief[3,4]	n/a	227
Section 14 exemptions	811	880
Total payroll tax	**2,592**	**3,183**
Land tax		
Liability thresholds	765	798
Graduated land tax scale	1,234	1,425
Primary production deduction	110	128
Part 6 Divisions 2 and 3 exemptions not included elsewhere[5]	177	195
Land developers' concession	13	18
COVID-19 relief[3,4,6]	n/a	176
Total Land tax	**2,300**	**2,740**
Duties		
Transfer duty on residential property		
Home concession	376	389
First home concession	199	216
First home vacant land	22	22
Insurance duty		
WorkCover	68	72
Health insurance	453	466
Total duties	**1,119**	**1,158**
Queensland waste levy		
Exempt waste – general	n/a	127
Approved exemptions		72
Approved discounts	n/a	13
Total waste levy	**n/a**	**212**
Taxes on gambling		
Gaming machine taxes	115	85
Casino taxes	8	7
Total gambling tax	**123**	**92**
Total	**6,134**	**7,385**

Notes:

1. Numbers may not add due to rounding.
2. 2018-19 estimates may have been revised since the 2019-20 Budget.
3. Several COVID-19 relief measures resulted in support being provided across the 2019-20 and 2020-21 years. Therefore, additional expenditure incurred in 2020-21 will be reflected in the 2021-22 Budget.

4. Significant relief was provided after revenue had already been accrued and therefore the funding provided for these measures were treated as refunds via grant expenses. This expense, along with any interest cost of deferred payments, has not been included in this table.
5. Applicable, but not limited to; religious bodies, public benevolent institutions and other exempt charitable institutions.
6. Includes waiver of the 2019-20 foreign surcharge, some of which may have been eligible for ex-gratia relief.

Discussion of individual taxes

Payroll tax

The benchmark tax base for payroll tax is assumed to be all taxable wages, salaries and supplements (including employer superannuation contributions) paid in Queensland, as defined in the *Payroll Tax Act 1971*. The benchmark tax rate for payroll tax is assumed to be 4.75% in 2018-19 and 4.95% in 2019-20.

Payroll tax exemption threshold

Until 30 June 2019, employers who employ in Queensland with an annual Australian payroll of $1.1 million or less are exempt from payroll tax. From 1 July 2019, the exemption threshold was increased to $1.3 million in annual Australian wages. On the basis of May 2020 average weekly adult total earnings, the new threshold corresponded to businesses with payrolls equivalent to employing approximately 15 full-time equivalent employees. This exemption is designed to assist small and medium sized businesses.

Deduction scheme

Until 30 June 2019, employers who employed in Queensland with Australian payrolls between $1.1 million and $5.5 million benefited from a deduction of $1.1 million, which reduced by $1 for every $4 by which the annual payroll exceeded $1.1 million. From 1 July 2019, the deduction applies to payrolls between $1.3 million and $6.5 million with no deduction for employers or groups that have annual payroll in excess of $6.5 million.

From 1 July 2019, the tax rate which applied to employers with Australian taxable wages up to $6.5 million was 0.2 percentage points lower than the tax rate which applied to employers with Australian taxable wages above $6.5 million.

Regional discount

Employers who are based in regional Queensland and pay over 85% of taxable wages to regional areas may be entitled to a discount on the rate of payroll tax imposed on their taxable wages. The discounted payroll tax rates for regional businesses are 3.75% for employers who pay $6.5 million or less in Australian taxable wages, or 3.95% for employers who pay more than $6.5 million in Australian taxable wages.

Apprentice and trainee rebate

In addition to most apprentice and trainee wages being exempt from payroll tax, a payroll tax rebate is available that reduces total payroll tax liability. The rebate amount is calculated by multiplying 50% of the apprentice and trainee wages by the applicable payroll tax rate for each return period.

COVID-19 relief – payroll tax

In response to the COVID-19 pandemic, a number of payroll tax relief measures were implemented to assist Queensland businesses that resulted in foregone revenue or increased expenditure in 2019-20, including:

- Payroll tax refunds of two months' liabilities for small businesses and large businesses negatively impacted by COVID-19.
- A three-month payroll tax holiday for small businesses.
- A deferral of payroll tax liabilities for all businesses negatively affected by COVID-19.
- Exemption from payroll tax of the subsidised component of the Australian Government's JobKeeper payment.

Significant relief was provided after revenue had already been accrued and therefore the funding provided for these measures were treated as refunds via grant expenses. These amounts, along with any interest cost of deferrals which will be paid at a later time, have not been included in the TES.

Section 14 exemptions

A number of organisations are provided with exemptions from payroll tax under Section 14 of the *Payroll Tax Act 1971*. The activities for which estimates have been calculated are wages paid by public hospitals, non-tertiary private educational institutions and local governments (excluding commercial activities).

Land tax

The benchmark tax base is assumed to be all freehold land within Queensland, excluding residential land used as a principal place of residence and land owned by individuals with a value for that year below the threshold. The benchmark tax rate for land tax is assumed to be the top rate of land tax applicable in Queensland in each financial year.

Liability thresholds

Land tax is payable on the value of taxable land equal to or above a threshold which depends on the land's ownership. The threshold for companies, trusts and absentees is $350,000 and for resident individuals the threshold is $600,000.

Land owned by resident individuals as their principal place of residence is excluded from the estimate. The exemption from paying below a minimum amount is not included as a tax expenditure as it is regarded as the application of an administration threshold.

Graduated land tax scale

A graduated (concessional) scale of land tax rates is applicable to land holdings with a taxable value of less than $10 million for resident individuals and companies, trustees and absentees. In 2019-20, the benchmark rates used for estimating the tax expenditures were 2.25% for individuals, 2.5% for absentees and 2.75% for companies and trustees.

Primary production deduction

The taxable value of land owned by a resident individual, trustee or some absentees and companies does not include all or part of their land that is used for the business of agriculture, pasturage or dairy farming.

Part 6 Divisions 2 and 3 exemptions (not elsewhere included)

A number of land tax exemptions are granted in Part 6 Divisions 2 and 3 of the *Land Tax Act 2010* to eligible organisations. These include, but are not limited to, public benevolent institutions, religious institutions and other exempt charitable institutions, retirement villages, trade unions and showgrounds.

Land developers' concession

Land tax payable by land developers is calculated on the basis that the unimproved value of undeveloped land subdivided in the previous financial year and which remains unsold at 30 June of that year is 60% of the Valuer-General's value. This concession is outlined in Section 30 of the *Land Tax Act 2010*.

COVID-19 relief – land tax

In response to the COVID-19 pandemic, a number of relief measures were implemented to assist landowners and tenants that resulted in foregone revenue or increased expenditure in 2019-20, including:

- a 25% rebate on the 2019-20 land tax liability for eligible land owners that provide commensurate rent relief to COVID-19 impacted tenants, or that are unable to secure tenants due to COVID-19.
- The waiver of the 2% foreign land tax surcharge in 2019-20.

Significant relief was provided after revenue had already been accrued and therefore the funding provided for these measures were treated as refunds via grant expenses. These amounts have not been included in the TES.

Duties

Home concession

A concessional rate of duty applies to purchases of a principal place of residence.
A 1% concessional rate applies on dutiable values up to $350,000, rather than the normal schedule of rates between 1.5% and 3.5%. For properties valued over $350,000, the scheduled rates of transfer duty apply on the excess.

First home concession

Where a purchaser has not previously owned a residence in Queensland or elsewhere, the purchaser of a home receives a more generous concession on duty. This concession comprises a rebate in addition to the home concession on properties (this concession may not be applicable if the purchase price is less than the full market value of the property). The size of the rebate depends on the value of the property. A full concession is provided to purchases of a first principal place of residence valued up to $500,000.

First home vacant land concession

A first home concession is available for the purchase of certain vacant land up to the value of $400,000, with a full concession available on certain vacant land up to the value of $250,000.

Insurance duty

The benchmark tax base is assumed to be all premiums for general insurance policies (not for life insurance). The benchmark tax scale is assumed to be the scale that actually applied in each financial year.

Queensland waste levy

The Queensland waste levy commenced on 1 July 2019 at $75 per tonne (higher for regulated wastes). The levy is payable on waste disposed to landfill, except waste generated and disposed in the non-levy zone.

General levy exemptions exist for other wastes, such as those from declared disasters and severe local weather events. Levy exemptions of up to 100% are available on application for different wastes, such as waste from charitable recycling organisations and community clean-up events. Levy discounts of 50% are available on application for residue wastes from particular recycling activities. Seventy per cent of proceeds from the waste levy will be used for waste programs, environmental priorities and community purposes.

Gambling taxes

Gaming machine tax concessions for licensed clubs

The benchmark tax base is assumed to be all gaming machines operated by licensed clubs and hotels in Queensland. The benchmark tax rate is assumed to be the highest marginal tax rate (as is applied to hotels) that actually applied in each financial year.

A progressive tax rate scale applies to gaming machines operated by licensed clubs. The tax rate is calculated monthly on the gaming machine taxable metered win and the top tax rate is only applied to the portion of gaming machine revenue where the monthly metered win exceeds $1.4 million for any licensed club.

Casino tax concessions

The benchmark tax base is assumed to be all casinos operating in Queensland. The benchmark tax rate is assumed to be the highest tax rate that is actually applied in each financial year.

A tax rate of 20% of gross revenue applies for standard transactions in the Brisbane and Gold Coast casinos. A concessional tax rate of 10% applies for gross revenue from standard transactions in the Cairns and Townsville casinos. The tax rate applicable to gaming machines in casinos is 30% of gross revenue in the Brisbane and Gold Coast casinos and 20% in the Cairns and Townsville casinos.

In addition, concessional rates of 10% also apply for revenue from high rollers table game play in all casinos. A goods and services tax (GST) credit is provided to casinos that approximates a reduction in the above tax rates of 9.09%

COVID-19 relief – gambling taxes

In response to the COVID-19 pandemic, gaming machine taxes from March 2020 were deferred. They were originally to be paid in three instalments in February 2021, April 2021 and June 2021, but the 2020-21 Budget has extended all payments until June 2021. Lotteries' taxes from 1 July 2020 to 31 December 2020 were deferred until 30 March 2021. These deferrals have not reduced revenue so they have not been included in the table above.