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 forgone as a result of Queensland 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 COVID-19 pandemic on Queensland businesses was 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 3 categories:

- direct refunds, holidays, rebates or waivers of tax liabilities – refunds, holidays and waivers of payroll tax liabilities; and a 25 per cent rebate 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 – eligible JobKeeper payments were exempted from payroll tax.

The impact of these measures resulted in a significant increase in forgone revenue, most notably in 2019–20 and 2020–21, although some measures continued to impact in 2021–22.

Methodology

Revenue forgone approach

The method used almost exclusively by governments to quantify the value of their tax expenditures is the revenue forgone approach. This method estimates the revenue forgone 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 forgone 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 what features of a tax constitute a tax expenditure, as well as the relevant 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 forgone 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 2021–22 and 2022–23 for payroll tax, the mental health levy, land tax, duties, the waste disposal levy and gambling taxes. A summary of the major tax expenditures valued on the basis of revenue forgone 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.18 Tax expenditure summary[1]

	2021–22[2] $ million	2022–23 $ million
Payroll tax		
Exemption threshold	1,060	1,093
Graduated tax scale	28	31
Deduction scheme	497	545
Regional discount	97	108
COVID-19 relief[3]	4	
Section 14 exemptions	858	884
Local government	178	184
Education	222	229
Hospitals (excluding public hospitals)	67	69
Charities	391	403
Apprentice and trainee exemption	86	106
Apprentice and trainee rebate	37	45
General practitioner payroll tax amnesty[4]	100	100
Total payroll tax	**2,767**	**2,912**
Mental health levy[5]		
Graduated scale		86
Total mental health levy		**86**
Land tax		
Liability threshold[6]	846	891
Graduated land tax scale	1,543	1,840
Principal place of residence exemption	343	410
Primary production exemption	175	197
Part 6 Divisions 2 and 3 exemptions not included elsewhere[7]	161	169
Land developers' concession	7	6
COVID-19 relief[3]	1	
Total land tax	**3,076**	**3,513**
Duties		
Transfer duty		
Home concession[8]	608	500
First home concession[8]	250	181
First home vacant land[8]	24	14
AFAD exemption/ex gratia	10	12

Insurance duty		
WorkCover	79	93
Health insurance	523	549
Compulsory third party (CTP)[9]	87	89
Total duties	**1,581**	**1,438**
Queensland waste levy		
Exempt waste – general	97	92
Approved exemptions	94	94
Approved discounts	8	10
Total waste levy	**199**	**196**
Taxes on gambling		
Gaming machine taxes	125	135
Casino taxes	11	11
Total gambling tax	**136**	**146**
Total	**7,759**	**8,291**

Notes:

1. Numbers may not add due to rounding.
2. 2021–22 estimates may have been revised since the 2022–23 Queensland Budget.
3. A ‘cashflow benefit’ was provided through deferrals related to COVID-19 support initiatives, with some of this benefit flowing through to 2021–22. In relation to the deferrals, the estimated expense reflects the implied foregone interest on the deferred payments.
4. Estimates reflect the amnesty period covering the five years prior to 30 June 2025 (i.e. including 2021–22 and 2022–23).
5. 2022–23 estimates reflect implementation from 1 January 2023 (i.e. half a financial year).
6. Land tax is payable only on the value of taxable land above a threshold, depending on ownership structure.
7. Applicable, but not limited to; religious bodies, public benevolent institutions, and other exempt charitable institutions.
8. The reduction in estimated tax expenditures in 2022–23 reflects the reduced level of housing market activity, including by eligible first home buyers, in 2022–23 relative to the elevated levels observed in 2021–22.
9. CTP duty is levied at a rate of 10 cents per policy.

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*.

Payroll tax exemption threshold

From 1 July 2019, employers who employ in Queensland with an annual Australian payroll of $1.3 million or less are exempt from payroll tax. On the basis of November 2022 average weekly adult total earnings, the threshold corresponded to businesses with payrolls equivalent to employing approximately 14 full-time equivalent employees. This exemption is designed to assist small and medium sized businesses.

Graduated payroll tax scale

Queensland employers with Australian payrolls between $1.3 million and $6.5 million are liable for payroll tax at a rate of 4.75 per cent, and those with payrolls above $6.5 million are liable at a rate of 4.95 per cent. The benchmark tax rate for payroll tax is assumed to be 4.95 per cent.

Deduction scheme

Until 1 January 2023, Queensland employers with Australian payrolls between $1.3 million and $6.5 million benefit from a deduction of $1.3 million, which reduces by $1 for every $4 by which the annual payroll exceeds $1.3 million, with no deduction for employers or groups that have annual payroll in excess of $6.5 million.

From 1 January 2023, the deduction applies to payrolls between $1.3 million and $10.4 million, reducing by $1 in every $7 by which the annual payroll exceeds $1.3 million. No deduction is available for employers or groups that have annual payroll in excess of $10.4 million.

Regional discount

Employers who are based in regional Queensland and pay over 85 per cent 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 per cent for employers who pay $6.5 million or less in Australian taxable wages, or 3.95 per cent for employers who pay more than $6.5 million in Australian taxable wages.

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, most notably in 2019–20 and 2020–21, with a small impact in 2021–22. The specific support measures that impacted revenues in 2021–22 are the implied foregone interest on:

- the deferral of payroll tax liabilities from the 2020 calendar year over four payments ending in January 2022
- a six-month deferral of July or August 2021 payroll tax payments for tourism and hospitality businesses.

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 charities for employees working in hospitals, non-tertiary private educational institutions and for other qualifying exempt purposes, and for local governments (excluding commercial activities).

Apprentice and trainee exemptions

Most apprentice and trainee wages are exempt from payroll tax. To be eligible the employee must sign a training contract with their employer to undertake an apprenticeship or traineeship declared under the *Further Education and Training Act 2014*.

Apprentice and trainee rebate

In addition to being exempt wages for payroll tax, a rebate can be claimed that reduces the overall payroll tax liability of an employer. The rebate is calculated by multiplying 50 per cent of the apprentice and trainee wages by the applicable payroll tax rate for each return period.

General practitioner payroll tax amnesty

An amnesty is being provided to qualifying medical practices, otherwise liable to pay payroll tax on payments made to contracted general practitioners (GPs), up to 30 June 2025 and for the previous 5 years (i.e. 2018-25). The amnesty recognises a potential lack of awareness of the payroll tax treatment of contractors among GPs and the need to support these practices to come into compliance with the least disruption possible.

Mental health levy

The benchmark tax base for the mental health levy is assumed to be taxable wages, salaries and supplements (including employer superannuation contributions) paid in Queensland, as defined in the *Payroll Tax Act 1971* that are paid by employers or groups of employers with Australian taxable wages of at least $10 million (on an annual basis).

A number of organisations are provided with exemptions from the mental health levy under Section 14 of the *Payroll Tax Act 1971.* Further, most apprentice and trainee wages are exempt from the mental health levy. The revenue foregone as a result of these exemptions cannot be quantified at this time.

Graduated scale

Queensland employers with Australian payrolls between $10 million and $100 million are liable for a primary rate of 0.25 per cent, and those with payrolls above $100 million are liable for the primary rate of 0.25 per cent plus an additional rate of 0.5 per cent. The benchmark rate for the mental health levy is assumed to be 0.75 per cent.

For the 2022–23 financial year, the thresholds are adjusted to accommodate the levy commencing during the financial year. For wages paid or payable for the period 1 January to 30 June 2023, Queensland employers with Australian payrolls between $5 million and $50 million are liable for a primary rate of 0.25 per cent, and those with payrolls above $50 million are liable for the primary rate of 0.25 per cent plus an additional rate of 0.5 per cent.

Land tax

The benchmark tax base is assumed to be all freehold land within Queensland. As outlined below for each specific tax expenditure, the appropriate benchmark tax rate for land tax is either the top rate of land tax applicable in Queensland (excluding surcharges) in each financial year, or the effective rate under the graduated scale of land tax rates for revenue foregone.

Liability threshold

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.

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. The benchmark rates used for estimating the tax expenditures were the highest rates applicable for different types of owner, 2.25 per cent for individuals, 2.5 per cent for absentees and 2.75 per cent for companies and trustees.

Principal place of residence exemption

Land owned by resident individuals as their principal place of residence is excluded from the estimate of taxable land value in calculating land tax. The benchmark rates used for estimating the tax expenditures were the effective rate under the graduated scale of land tax rates.

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. The benchmark rates used for estimating the tax expenditures were the effective rate under the graduated scale of land tax rates.

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 per cent 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 measures were implemented with most of the impact in earlier financial years. The foregone revenue in 2021–22 reflects the interest cost associated with the 3-month deferral of 2020–21 land tax liabilities.

Duties

Home concession

A concessional rate of duty applies to purchases of a principal place of residence. A one per cent concessional rate applies on dutiable values up to $350,000, rather than the normal schedule of rates between 1.5 per cent and 3.5 per cent. 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, phasing out at $550,000.

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.

Additional foreign acquirer duty exemption

An Australian-based foreign corporation or trust whose commercial activities involve significant development by adding to the supply of housing stock in Queensland, where such development is primarily residential, may be eligible for ex-gratia relief from the additional 7 per cent additional foreign acquirer duty.

Insurance duty

The benchmark tax base is assumed to be all premiums for general insurance policies (not for life insurance). The benchmark tax rate is 9 per cent.

Queensland Waste Levy

The Queensland waste levy is payable by landfill operators on waste disposed to landfill, except waste generated and disposed in the non-levy zone. In 2022–23, the levy rate was $95 per tonne in the metropolitan levy area and $88 per tonne in the regional levy area (higher for regulated wastes).

General levy exemptions exist for particular wastes, such as those from declared disasters and severe local weather events. Also, levy exemptions are available on application for other particular wastes, such as waste from charitable recycling organisations and community clean-up events.

Levy discounts of 50 per cent 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 per cent of gross revenue applies for standard transactions in the Brisbane and Gold Coast casinos. A concessional tax rate of 10 per cent applies for gross revenue from standard transactions in the Cairns and Townsville casinos. The tax rate applicable to gaming machines in casinos is 30 per cent of gross revenue in the Brisbane and Gold Coast casinos, and 20 per cent in the Cairns and Townsville casinos.

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