ACT Government

Chief Minister, Treasury and Economic Development

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Australian Capital Territory

Tax Expenditure Statement 2015-16

Macroeconomic Branch
Economic and Financial Group

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1 SCOPE

Tax expenditures arise from government policies that treat some taxpayers differently to others.

Positive tax expenditures reduce a person's tax liability compared to the standard treatment, by way of an exemption, a concession or an incentive.

Negative tax expenditures increase a person's tax liability compared to the standard treatment. These measures are uncommon at the ACT level and are outside the scope of this Statement.

This Statement outlines the Territory's positive tax expenditures, namely exemptions, concessions and incentives, in 2015-16. Favourable tax treatments represent a cost to the Government by way of revenue foregone.

This Statement also reports on the tax waivers granted. That is, cases where an entity has not had to pay a tax that they otherwise would have, as a result of Ministerial or bureaucratic decisions.

This Statement is based on ACT tax policies as of 2015-16, whether or not the time period or the reference to 'ACT' is specifically stated in the text.

This Statement does not cover:

- Progressive tax scales designed to promote fairness in the tax system.

Progressive tax scales, such as those of general rates, are outside the scope of this paper, as this type of progressivity makes the distribution of tax fairer and more equitable. Such arrangements are not a subsidy for people on the lower end of the tax scale.

However, this is to be distinguished from differing tax rates being used as a price signal. In such cases, the aim is to influence taxpayer behaviour as a matter of policy. One such example is the Vehicle Emission Reduction Scheme. The scheme charges a lower duty on low emission cars, while charging more on higher emission cars, thereby influencing buyer choices. This type of differentiation is within the scope of this Statement.

- Tax exemptions that result in no real net benefit for the recipient.

These measures are typically in place to prevent unintended consequences from broad brush legislation. For example, accommodation allowances paid to reimburse an employee are exempt from payroll tax. The intent of this exemption is to define the coverage of the tax, rather than providing a tax break. These types of provisions are outside of the scope of this Statement.

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- Tax arrangements that are outside the policy control of the ACT Government, such as the Commonwealth Government's exemptions from all ACT taxes[1], are excluded.
- The ACT Government General Government Sector's tax exemption is excluded.

This exemption is excluded from the scope of this Statement as any tax on this sector represents an internal transfer of funds within the ACT Government.

However, ACT Government Business Enterprises are included within the scope of this Statement. That is, any particular exemption provided to these entities would be counted as a tax expenditure.

Tax exemptions given to the charitable sector fall within the scope of this Statement.

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[1] Commonwealth Government includes its Government Business Enterprises.

Notes

The actual costs of tax expenditures are reported where possible. If an actual amount is not available, an estimated cost is reported. The actual amounts are denoted as such in the tables, to be distinguished from the estimates.

Estimates - rounded to the nearest $10,000.

Actuals - rounded to the nearest $1,000.

The line items in the tables may not add up to the totals due to rounding.

Tax expenditures may have a nil reported value due to one of the following:

.. value is not zero, but rounded to zero.

0 zero. The usage of the tax concession is nil or unlikely to have occurred in 2015-16, hence no cost has been incurred.

- Not applicable.

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Terms and Definitions

Not-for-profit organisation

Organisations that do not operate for the profit, personal gain or other benefit of particular people.

Charity

A subsector of not-for-profit organisations that are carried on for a religious, educational, benevolent or charitable purpose, for example:

- religious institutions;
- poverty relief organisations;
- cultural, educational and health promotion organisations; and
- organisations that operate solely to promote the wellbeing and welfare of society.

Charities are eligible for tax concessions under ACT tax laws.

Excluded organisation

ACT tax laws specifically state the types of entities that cannot receive a charity designation in relation to ACT taxes:

- a political party;
- an industrial organisation;
- a professional organisation;
- an organisation that promotes trade, industry or commerce; and
- a class of organisation prescribed by regulation.

These entities are known as 'excluded organisations'. An excluded organisation may still be eligible for tax concessions under ACT tax laws, provided it has obtained a 'beneficial organisation determination'.

Beneficial organisation determination

Certain excluded organisations may apply to the Commissioner for ACT Revenue for a beneficial organisation determination. If approved, the recipient organisation will be eligible for tax concessions under ACT tax laws in a similar manner as charities.

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The following excluded organisations may apply for a beneficiary organisation determination:

- a professional organisation;
- an organisation that promotes trade, industry or commerce; and
- a class of organisation prescribed by regulation.

The charitable sector

For the purpose of this Statement, the charitable sector refers to any type of not-for-profit entity that is eligible for tax concessions under ACT tax laws, either due to being a charity, or being a recipient of a beneficiary organisation determination. The charitable sector does not include non-government schools or hospitals, which are accounted for separately in this Statement.

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2 OVERVIEW

The ACT Tax Expenditure Statement identifies and also quantifies the tax exemptions, concessions and incentives provided by the ACT Government in 2015-16.

This Statement is prepared to:

- provide information on the ACT tax system; and
- inform ACT Government policy considerations.

Tax expenditures are important levers for the ACT Government to achieve its economic and social objectives. The costs of tax expenditures are, however, less visible compared to direct expenditures, as the costs of tax expenditures are revenue that the Government does not receive. Foregone revenue is often not readily observable.

The costings are undertaken based on the revenue foregone approach, which measures the cost of a tax expenditure by the value of benefits that it provides. For a demand driven tax expenditure, its cost is calculated as:

Value of tax benefit per recipient X *Number of recipients*

The costing of a tax expenditure will be actual, if the ACT Government has all the relevant data about this tax expenditure. Otherwise, costs are estimated using other data sources. Notations are used in the tables to differentiate the estimated and actual costs.

The estimated costs should be interpreted with care. The reliability of estimates is dependent on the quality and availability of data and also the assumptions being used. This reflects that data are generally collected from people who pay tax, not from those who do not. The costing is based on the best possible information that is available.

Moreover, the revenue foregone from a tax expenditure is often not the same as the extra revenue to be expected from the abolition of this tax expenditure. This is because the latter is subject to behavioural changes by taxpayers. When a tax expenditure is abolished, such as the removal of a tax incentive, taxpayers will react to the change and this may mean that the number of recipients will change, and hence affect the revenue outcomes. The revenue foregone approach does not make assumptions on such behavioural changes.

Care should also be taken when comparing the ACT's tax expenditures with those reported in other jurisdictions' tax expenditure statements. The scopes of the tax expenditure statements, as well as the definitions, benchmark and measurement for tax expenditures may differ across jurisdictions. A comparison may not be like for like.

The Sources and Methods document outlines the key methodologies used in the costing process.

The Statement also has two attachments. Attachment A outlines the waivers on taxes and fees granted. Attachment B outlines the targeted assistance concessions provided by the Government.

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3 TOTAL TAX EXPENDITURE

In 2015-16, the ACT Government's total tax expenditure is estimated at $260.8 million. This is equivalent to 5 per cent of the ACT's total direct expenditure[2].

Table 1 below shows that revenue foregone is the highest for payroll tax at $188.2 million, followed by conveyance duty at $32.6 million and general rates at $17.5 million.

Table 1: Tax Expenditures by Revenue Line

2015-16	Revenue Foregone $'000
Payroll tax	188,150
Conveyance duty	32,614
General rates	17,500
Motor vehicle registration	8,973*
Motor vehicle duty	7,213
Lease Variation Charge	3,119*
Fire and Emergency Services Levy	2,848
Water Abstraction Charge	397*
Total	**260,813**

*Actual costs. Others are estimates.

1. The tax expenditures do not include any waivers or targeted assistance concessions.

Table 2 below lists the 10 largest tax expenditures in the ACT.

Table 2: The 10 Largest Tax Expenditures

	2015-16	Revenue Foregone $'000
1	Payroll tax – tax free threshold for private sector businesses	145,300
2	Payroll tax – the charitable sector exemption[1]	19,100
3	Payroll tax – non-government schools exemption[1]	17,800
4	Conveyance duty – Loss Fill Asbestos Insulation Eradication Buyback Concession Scheme	14,020*
5	Conveyance duty – Home Buyer Concession Scheme	11,742*
6	General rates – pensioner rebate	9,160*
7	Motor vehicle registration – pensioner remission	8,944*
8	Motor vehicle duty – Vehicle Emission Reduction Scheme	6,343*
9	Payroll tax – non-government hospitals exemption[1]	5,300
10	General rates – non-government schools exemption	4,700

*Actual costs. Others are estimates.

1. For the purposes of this Statement, the charitable sector does not include non-government schools or hospitals, which are costed as separate categories.

[2] ACT's total direct expenditure was $5.107 billion in 2015-16.

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Table 3 below shows the beneficiaries by value of tax benefits received.

Table 3: Beneficiaries by Value of Tax Benefits Received

2015-16	Revenue Foregone $'000
The business sector	**145,300**
Payroll tax threshold	145,300
Non-government schools[1]	**23,340**
Payroll tax	17,800
General rates	4,700
Fire and Emergency Services Levy	840
The charitable sector[1]	**22,840**
Payroll tax	19,100
General rates	2,950
Fire and Emergency Services Levy	550
Conveyance duty	200
Motor vehicle duty	40
Pensioners	**19,462***
General rates rebate	9,160*
Fire and Emergency Services Levy rebate	1,358*
Motor vehicle registration	8,944*
Home buyers	**16,555***
Home Buyer Concession Scheme	11,742*
Pensioner Duty Concession Scheme	1,677*
Over 60's Home Bonus Scheme	3,136*
Non-government hospitals[1]	**5,960**
Payroll tax	5,300
General rates	560
Fire and Emergency Services Levy	100
Others	**27,357**

*Actual costs. Others are estimates.

1. For the purposes of this Statement, the charitable sector does not include non-government schools or hospitals, which are accounted for separately.

For 2015-16, the business sector accounted for 56 per cent of the total cost; non-government schools 9 per cent; and the charitable sector 9 per cent.

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4 TAX EXPENDITURES BY REVENUE LINE

Payroll Tax

Payroll tax is calculated as 6.85 per cent of an employer's taxable payroll, where the payroll[3] exceeds the tax free threshold ($1.85 million in 2015-16). The taxable payroll includes wages and salaries, allowances, superannuation, fringe benefits and contractor payments.

Table 4 below shows that the Territory's tax expenditure on payroll tax is estimated at $188.2 million in 2015-16.

Table 4: Payroll Tax – Tax Expenditures

2015-16	Revenue Foregone $'000
Tax free threshold for private sector businesses	145,300
Exempt employers	
The charitable sector[1]	19,100
Non-government schools[1]	17,800
Non-government hospitals[1]	5,300
Exempt wages	
Group Training Organisations – trainees and apprentices	430
Long term unemployed	200
Building and construction industry – the portable leave scheme	20
Total	**188,150**

All above figures are estimates.

1. For the purposes of this Statement, the charitable sector does not include non-government schools or hospitals.

Tax free threshold for private sector businesses

Payroll tax is levied on businesses of a substantial size. Businesses with a payroll under $1.85 million are exempt from payroll tax. Businesses with a payroll over $1.85 million pay payroll tax on the portion of wages that exceeds the threshold.

Should the business also have employees in other jurisdictions, it is the business's Australia-wide payroll that is the basis to determine whether the business is over the threshold in the ACT.

Should a business be part of an employer group, the grouping rules will apply which will typically reduce the threshold entitlement that is available.

[3] Payroll means the employer's Australia-wide payroll.

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This tax expenditure only relates to private sector businesses. It does not cover any public sector business enterprises, nor does it cover not-for-profit entities (though also part of the private sector) such as non-government schools/hospitals and charities.

The benchmark tax free threshold is assumed to be zero, meaning that any amount of tax free threshold represents, hypothetically, a concessional treatment. The benchmark tax rate is assumed at the normal tax rate of 6.85 per cent (the 2015-16 rate). These parameters are adopted purely for the costing purposes. The value of revenue foregone relates to wages both above and below the tax free threshold.

From 1 July 2016, the Government increased the payroll tax threshold in the ACT to $2 million.

The charitable sector

The charitable sector[4] is exempt from payroll tax. The costing is based on all wages in the sector, including wages below the threshold.

Non-government schools

Independent and Catholic schools up to the secondary level are exempt from payroll tax. The costing is based on all wages in the sector, including wages below the threshold.

Non-government hospitals

Non-government hospitals are exempt from payroll tax. The costing is based on all wages in the sector, including wages below the threshold.

Group Training Organisations – trainees and apprentices

Group Training Organisations (GTO's) arrange work placements for trainees and apprentices with host firms. A GTO is the responsible employer for its trainees and apprentices, including the administration of payroll. The trainees and apprentices' wages are exempt from payroll tax.

Other wage expenses a GTO may have, such as those related to corporate staff, are subject to payroll tax as normal, with an entitlement to the tax free threshold.

[4] The charitable sector includes the charities as well as the organisations that have a beneficiary organisation determination approved.

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Long term unemployed

This exemption applies where an employer hires an employee who was previously unemployed for 12 months or longer. These employees' wages are exempt from payroll tax for the first 12 months of their employment.

Building and construction industry – portable leave scheme

Employers in the building and construction industry make periodic contributions to the portable long service leave scheme (administered by the ACT Long Service Leave Authority). These contributions are made to fund the employees' leave entitlements, akin to superannuation contributions. However, unlike superannuation which is a component of the taxable payroll, the long service leave contribution is exempt from payroll tax.

Other industrial portable leave schemes are not exempt from payroll tax.

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General Rates and Fire and Emergency Services Levy

General rates and the Fire and Emergency Services Levy (FESL) are part of the same land based taxes bill levied on residential and commercial properties in the ACT.

For residential properties, rates comprise a fixed charge and a variable charge. The variable charge is calculated on the average land value of the past three years (the Average Unimproved Value).

The FESL is a fixed amount across all residential properties, regardless of land values.

For commercial properties, both rates and the FESL are progressive taxes comprising a fixed charge and a variable charge. The variable charge is calculated on the Average Unimproved Value of the property.

Table 5 below shows that the Territory's tax expenditures on rates and FESL are estimated at $17.5 million and $2.8 million in 2015-16.

Table 5: General Rates and Fire and Emergency Services Levy – Tax Expenditures

2015-16	Revenue Foregone	
	Rates	FESL
	$'000	$'000
Residential property		
Pensioner rebate	9,160*	1,358*
Commercial property		
Not-for-profit sector exemption	2,950	550
Non-government schools exemption	4,700	840
Non-government hospitals exemption	560	100
Small clubs fixed charge exemption	130*	-
Total	**17,500**	**2,848**

*Actual costs. Others are estimates.

Pensioner rates rebate

Centrelink and Department of Veterans' Affairs age pensioners are eligible for a rates rebate on their principal place of residence.

Two schemes operated concurrently in 2015-16:

- A 50 per cent rebate, no upper limit. This scheme was closed on 1 July 1997 to new entrants, but continued for those already in the scheme under grandfathering provisions.
- A 50 per cent rebate, capped at $700. This scheme is available to pensioners who joined the scheme post 1 July 1997.

From 1 July 2016, the uncapped scheme is frozen at 2015-16 levels where the rebate exceeds the cap of $700.

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Pensioner Fire and Emergency Services Levy rebate

Centrelink and Department of Veterans' Affairs age pensioners are eligible for a 50 per cent rebate on the FESL, in addition to the rates rebate.

For 2015-16, the FESL is a fixed amount of $196 per property and hence the rebate is $98 per property, regardless of the land values.

The charitable sector

The charitable sector[5] is exempt from commercial rates and the FESL on properties which they own and use for charitable purposes.

Non-government schools

Independent and Catholic schools up to the secondary level are exempt from rates and the FESL.

Non-government hospitals

Non-government hospitals that do not operate for a profit are exempt from rates and the FESL.

Note that this is different to the for-profit hospitals and clinics, which are not exempt.

Small clubs fixed charge exemption

The ACT Government provides a rates relief to certain small community clubs exempting them from the fixed charge part of the rates ($2,130 per property in 2015-16). These clubs remain liable for the variable charge part of the rates, as well as the FESL.

This program will be reviewed at the end of 2018-19.

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[5] The charitable sector includes charities and organisations that have a beneficiary organisation determination approved. Though, one exception is the community housing sector, which is subject to rates and Fire and Emergency Services Levy as normal.

Conveyance Duty

Conveyance duty is a transaction tax levied on the purchases of real properties. Conveyance duty payable is calculated on a progressive scale according to the dutiable value of the purchase.

Table 6 below shows that the Territory's tax expenditure on conveyance duty is estimated at $32.6 million in 2015-16.

Table 6: Conveyance Duty – Tax Expenditures

2015-16	Revenue Foregone $'000
Duty exemption	
Community housing	1,839*
Duty concessions	
Loose Fill Asbestos Insulation Eradication Buyback Concession Scheme	14,020*
The charitable sector	200
Home buyer assistance	
Home Buyer Concession Scheme	11,742*
Pensioner Duty Concession Scheme	1,677*
Over 60's Bonus Scheme	3,136*
Total	**32,614**

*Actual costs. Others are estimates.

Community housing

Community housing providers[6] are exempt from conveyance duty on purchases of properties that are used for community housing.

Loose Fill Asbestos Insulation Eradication Buyback Concession Scheme

This scheme forms part of the ACT Government's broader strategies to eradicate loose-fill asbestos in the Territory.

Mr Fluffy home owners who opted into the voluntary buyback program are eligible for a duty concession on the purchase of a replacement property. The buyback scheme closed on 30 June 2015.

The value of the concession to be provided is linked to the value of the property surrendered (the asbestos affected property). If the new purchase is valued at less than the property surrendered (a "downsize"), the duty will be fully offset.

[6] Community housing providers include Housing ACT and Community Housing Canberra. Housing ACT is an ACT Government Business Enterprise, which is included in the scope of this Statement.

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If the purchase is valued at more than the property surrendered, there will be a partial duty payable on the price differential, that is:

- the duty calculated on the new property (the higher amount);

  minus

- the duty credit on the surrendered property (the lower amount).

The charitable sector

The charitable sector[7] is exempt from duty on transfers of properties from 25 November 2015. Prior to that, the charitable sector was substantially exempt from duty, paying a nominal duty of $20 on each transfer.

Home Buyer Concession Scheme

The Home Buyer Concession Scheme (HBCS) may be available to first home buyers, as well as buyers who have not owned a property in the previous two years.

To be eligible, the applicant is to purchase a new or substantially renovated property or a vacant block of land. The applicant is to meet the household income threshold, and also to continuously live in the property for 12 months or more after moving in.

The property value thresholds as at 30 June 2016 are below.

Table 7: Home Buyer Concession Scheme, Property Value Thresholds

As at 30 June 2016	Lower threshold $20 duty for purchases up to the lower threshold	Upper threshold No concession for purchases over the upper threshold
Dwelling	$455,000	$585,000
Vacant block	$272,200	$317,600

For a purchase valued less than the lower threshold, a nominal duty of $20 is applied. From the lower threshold up to the upper threshold, a concessional duty is applied. From the upper threshold onwards, no concession is available.

The property value thresholds are updated every six months.

[7] The charitable sector includes charities and organisations that have a beneficiary organisation determination approved.

Pensioner Duty Concession Scheme and Over 60s Home Bonus Scheme

The Pensioner Duty Concession Scheme (PDCS) may be available to Centrelink and Department of Veterans' Affairs age pensioners, and disability support pensioners aged 50 and over.

Up until 31 December 2016, the ACT Government also provided the Over 60s Home Bonus Scheme, which was the PDCS equivalent for non-pensioners aged 60 and over. The Over 60s Home Bonus Scheme ceased on 31 December 2016.

Under either scheme, the applicant must continuously live in the property for 12 months or more after moving in. The purchase must take place within 12 months of the sale of the person's previous property.

The property value thresholds as at 30 June 2016 are below.

Table 8: Pensioner Duty Concession Scheme and Over 60s Home Bonus Scheme, Property Value Thresholds

As at 30 June 2016	Lower threshold $20 duty for purchases up to the lower threshold	Upper threshold No concession for purchases over the upper threshold
Dwelling	$660,000	$865,000
Vacant block	$350,800	$419,900

For purchases valued under the lower threshold, a nominal duty of $20 is applied. From the lower threshold up to the upper threshold, a concessional duty is applied. From the upper threshold onwards, no concession is available.

Property value thresholds are updated every six months.

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Motor Vehicle Duty

Motor vehicle duty is levied on the establishment of a registration and on the transfer of a motor vehicle. The duty rates for each new vehicle are dependent on the environmental performance rating of that model, from Rating A the most environmentally friendly to Rating D the least. The rating is assigned according to the motor vehicle emission data published in the Green Vehicle Guide. All second hand vehicles are taxed at Rating C.

Table 9 below shows that the Territory's tax expenditure on motor vehicle duty is estimated at $7.2 million in 2015-16.

Table 9: Motor Vehicle Duty – Tax Expenditures

2015-16	Revenue Foregone $'000
Duty exemption	
People with certain disabilities	40
The charitable sector	40
Vintage vehicles	10
Caravans and camp trailers	780
Duty concession	
Vehicle Emission Reduction Scheme	6,343*
Total	**7,213**

*Actual cost. Others are estimates.

People with certain disability

People with certain disabilities are eligible for a duty concession on purchases of a disability modified vehicles. The value of the modification is exempt from duty. Veterans with certain disabilities are eligible for a full remission.

The charitable sector

The charitable sector[8] is exempt from duty on purchases of motor vehicles.

Vintage vehicles

Vintage vehicles affiliated to car clubs may be exempt from motor vehicle duty. This recognises that these vehicles are used as a hobby, on a limited basis.

[8] The charitable sector includes charities and organisations that have a beneficiary organisation determination approved.

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Caravans and camp trailers

Non-motorised caravans and camp trailers are exempt from duty.

Vehicle Emission Reduction Scheme

The scheme establishes the duty rates for motor vehicles, from Rating A to Rating D according to the model's level of emission.

Generally, Rating A is applied to electric and hybrid cars. Rating B is applied to compact cars.

Rating C is applied to medium and large cars, as well as to second-hand and non-rated vehicles. Rating C is the most common, accounting for 84 per cent of the vehicle transactions in 2015-16.

Rating D is related to high powered cars, large four wheel drives and some commercial vehicles.

In terms of the duty rate, Rating A is duty free, while Rating B, C and D are taxed at increasing rates. Second-hand and non-rated vehicles are taxed at Rating C.

This tax expenditure reflects that greener cars pay either no duty (Rating A) or a low duty (Rating B), compared to the benchmark Rating C as is applied to a majority of cars. Being the benchmark rate, Rating C is assumed to be the standard tax rate that would have applied to all cars, had the concessional rates, hypothetically, not existed.

Note that though Rating C's tax rates are lower than Rating D's, Rating D is not suitable for being the benchmark tax rate. This is because Rating D is effectively a surcharge that discourages the purchases of higher emission cars. It is therefore a negative tax expenditure and is excluded from the scope of this Statement.

The value of duty foregone from the Vehicle Emission Reduction Scheme is calculated as the total of:

- duty foregone on A-rated vehicles relative to Rating C; and
- duty foregone on B-rated vehicles relative to Rating C.

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Motor Vehicle Registration Fee

Motor vehicle registration fees are payable upon the renewal of a registration. It is calculated based on the tare weight of the vehicle, and the length of the registration (3 months, 6 months or 12 months).

Table 10 below shows that the Territory's tax expenditure on motor vehicle registration fees was $9.0 million in 2015-16.

Table 10: Motor Vehicle Registration Fee – Tax Expenditures

2015-16	Revenue Foregone $'000
Exemption	
Pensioners	8,944*
Concessions	
Gas and electric vehicles	13*
Primary producers	16*
Total	**8,973***

*Actual costs.

Pensioners

Centrelink and Department of Veterans' Affairs age pensioners are eligible for a full exemption on the motor vehicle registration fee.

Gas and electric vehicles

Gas or electric vehicles receive a 20 per cent remission on the motor vehicle registration fee.

Primary production

Motor vehicles used in primary production receive a 45 per cent remission on the motor vehicle registration fee.

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Lease Variation Charge

The value of a block of land is closely linked to the permitted use of the land. For example, the valuation of a block of land may increase significantly, should its permitted use be changed to allow development. This reflects the value of development potential created by such a change.

The Lease Variation Charge (LVC) captures the value uplift resulting from the ACT Government granting more development rights to a given block of land. The LVC is assessed as part of the development approval process.

There are two types of lease variation:

- Section 276E – codified lease variation. The LVC payable is listed in the fee schedules. The fee schedules cover a variety of lease variations. The amount payable depends on the type and location of the proposed development, and represents the value uplift to be expected from such a lease variation.
- Section 277 – non-codified lease variation. S277 lease variations are those that fall outside of the s276E fee schedules. Without a set fee, the value uplift is instead calculated on a case by case basis, based on the assessed land values before and after the proposed lease variation.

The LVC's tax rate is 75 per cent of the value uplift[9].

From 6 March 2014, the ACT Government has provided extra remissions (a lower tax rate) for several types of s276E and s277 lease variations through its economic stimulus package. These measures, along with others, support the building and construction industry and the wider economy. The program is due to expire in March 2018.

The concessions offered as part of this stimulus are tax expenditures.

Table 11 below shows that the Territory's tax expenditure on LVC was $3.1 million in 2015-16.

[9] The 75 per cent tax rate is commonly referred to as a 25 per cent remission rate.

Table 11: Lease Variation Charge – Tax Expenditures

2015-16	Revenue Foregone $'000
S276E – Codified variation	
Economic stimulus – residential – extra 30 per cent remission	16*
Public housing – extra 25 per cent remission[1]	11*
S277 – Non-codified variation	
Economic stimulus - extra 25 per cent remission	1,229*
Economic stimulus - sustainable or adaptable building design	1,038*
Remediation of former service station – extra 75 per cent remission	525*
Childcare centres – extra 75 per cent remission	300*
Total	**3,119***

*Actual costs.

1. Public housing lease variations can also fall under s277. In 2015-16, there was no instance of s277 public housing lease variations, and all such lease variations related to s276E.

Economic stimulus – residential lease variations – extra 30 per cent remission

Under the ACT Government's economic stimulus, a s276E residential lease variation may be eligible for an extra 30 per cent remission on the LVC, should such a lease variation seek to increase the number of dwellings permitted on the block.

Public housing – extra 25 per cent remission

Housing ACT's public housing developments[10] may be eligible for an extra 25 per cent remission on the LVC.

Economic stimulus – extra 25 per cent remission

Under the ACT Government's economic stimulus, a s277 lease variation may be eligible for an extra 25 per cent remission on the LVC, provided there is a development approval, and that the development approval relates to the construction of a building on the land.

Economic stimulus - sustainable or adaptable building design

Under the ACT Government's economic stimulus, a s277 lease variation may be eligible for extra remissions up to 25 per cent on the LVC, if such a lease variation is to incorporates sustainability or adaptability building designs, or both.

Sustainable design is one that is able to be certified for a Green Star rating of 5 or above, alternatively a Nationwide House Energy Rating Scheme ('NatHERS') rating of 6.5 or above.

[10] Housing ACT is an ACT Government Business Enterprise, which is included in the scope of this Statement.

Adaptable design relates to residential developments. It makes provisions for future modifications that will meet the useability and mobility needs of seniors or people with disabilities.

Remediation of former service stations

A lease variation may be eligible for an extra 75 per cent remission on the LVC, if such a lease variation involves the rehabilitation of the site of a former service station. Together with the 25 per cent default remission, this extra remission will reduce the LVC to nil.

Childcare centres

Childcare centres will receive an extra 75 per cent remission on LVC. Together with the 25 per cent default remission, this extra remission will reduce the LVC to nil.

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Water Abstraction Charge

The Water Abstraction Charge (WAC) is paid by users who are licensed to take water in the ACT. The charge reflects the value of water as a scarce resource, as well as the Territory's costs incurred in relation to water catchment management and environmental protection.

For 2015-16, the WAC rate for non-potable water (surface and ground water) is $0.265 per kilolitre of water. The tax expenditures reflect the ACT Government's concession schemes in relation to the extraction of non-potable water.

Table 12 below shows that the Territory's tax expenditure on WAC was $397,000 in 2015-16.

Table 12: Water Abstraction Charge – Tax Expenditures

2015-16	Revenue Foregone $'000
Golf Clubs - Market Equity Scheme	152*
Golf Clubs - Infrastructure Offset Scheme	150*
Agriculture - Competition Equalisation Payment Scheme	95*
Total	**397***

*All above figures are actual.

Golf Clubs - Market Equity Scheme

Under the scheme, ACT golf clubs receive a 50 per cent discount on WAC incurred in relation to the extraction of non-potable water for the maintenance of golf courses.

This discount brings the cost of non-potable water for ACT golf clubs down to a level that is comparable to that of the NSW golf clubs operating in the surrounding regions.

Golf Clubs - Infrastructure Offset Scheme

Under the scheme, ACT golf clubs are able to claim an offset until the end of 2020 on their WAC liabilities for eligible capital expenditure invested into water saving infrastructure during the period of 2002 to 2015.

If the available offset amount for a golf club is greater than its WAC bill, the WAC liability will be fully offset, with no WAC payable.

Golf clubs under the scheme were required to demonstrate to the ACT Government how their capital spending is linked to improved water efficiency outcomes.

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Agriculture - Competition Equalisation Payment Scheme

Under the scheme, eligible ACT irrigators will receive a rebate on WAC incurred in relation to the extraction of non-potable water used in primary production.

This rebate reduces the cost of non-potable water for ACT irrigators to a level that is no more than that of the NSW irrigators operating in the surrounding region.

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ATTACHMENT A – WAIVERS

A tax waiver releases a taxpayer from the obligation of paying debts owed to the ACT Government. Waivers are not tax expenditures. Waivers are administrative actions taken on a case by case basis, whereas tax expenditures are government policies that are applied uniformly across taxpayers.

The annual financial statements of the Directorates contain information on tax waivers, however, do not report on a whole of government base[11].

In 2015-16, the Government granted 19 waivers under s131 of the *Financial Management Act* 1996, of a total amount of $2.2 million (Table A1 below). This is not counted towards tax expenditures.

Table A1: Tax Waivers by Revenue Head[1,2]

2015-16	Number of Waivers	$'000	Notes
Payroll tax	5	2,164	The waivers were part of the ACT Government's wider measures to facilitate investment and job creation in the Territory.
General rates	9	22	The waivers were provided to support homeowners who were adversely affected by loose fill asbestos as part of the ACT Government's broader efforts to eradicate asbestos in the Territory.
Land tax	5	19	The waivers were provided in exceptional circumstances to achieve a beneficial policy outcome.
Total	**19**	**2,205**	

All above figures are as per ACT Government data.

Notes:

1. There were no waivers for other taxes in 2015-16, for example, the Lease Variation Charge.
2. In addition, there was also an Act of Grace (refund) for conveyance duty of $15,000 (rounded), due to exceptional circumstances. An Act of Grace is a direct expenditure, not revenue foregone. Acts of Grace are also reported in the 2015-16 CMTEDD annual report.

[11] As of 2015-16, there were two Directorates with tax administration responsibilities: the Environment and Planning Directorate for the Lease Variation Charge, and the Chief Minister, Treasury and Economic Development Directorate (ACT Revenue Office and Access Canberra) for all other taxes.

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Waivers of fees and charges

Additionally, Tables A2 and A3 below show the waivers of major fees and charges that were granted in 2015-16, under s131 of the *Financial Management Act* 1996.

Table A4 below shows the waivers of court fees under s15 of the *Courts Procedures Act 2004.* Waivers are not counted in tax expenditures.

Table A2: Chief Minister, Treasury & Economic Development Directorate (Access Canberra) – Fee Waivers

2015-16	Number	$'000	Notes
Extension of Time fee[1]	3	33	Waivers were provided in exceptional circumstances to achieve a positive outcome.

1. In the Territory, lessees are required to build on their blocks within a prescribed timeframe. Payment of Extension of Time fees allows lessees extra time to build on a block.

Table A3: Environment and Planning Directorate[1,2] – Fee Waivers

2015-16	Number[3]	$'000	Notes
De-concessionalisation of lease fee	1	1,660	A waiver was provided to Hockey ACT to enable the organisation to become self sustaining in the future, as well as facilitating a development that will benefit the wider community.[4]
Development application fee	4	604	Waivers were provided in exceptional circumstances to achieve a positive outcome.
Total	5	2,264	

1. The Directorate was renamed Environment, Planning and Sustainable Development Directorate since 1 November 2016.

2. In addition, there was an Act of Grace for de-conconsessionalisaiton fee of $11,000 (rounded). This was made as part of the de-concessionalisation fee waiver process.

3. Cases of development application fee waivers and de-concessionalisation fee waivers may be related to the same lessee.

4. The Hockey ACT de-concessionalisation fee waiver was reported in the media.

Table A4: Justice and Community Safety Directorate – Fee Waivers

2015-16	Number[1]	$'000	Notes
Court transcript fees	68	13	Waivers are provided by the Registrars of the Courts on a case by case basis, depending on the circumstances, under s15 of the *Courts Procedures Act 2004*.
Court registration fees	119	313	
Total	187	326	

1. Cases of Court transcript fee waivers and court registration fee waivers may be related to the same applicants.

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ATTACHMENT B – SOCIAL CONCESSIONS AND SUBSIDIES

The ACT Government provides a range of social concessions and subsidies to households in need and community groups. These policy measures are outside of the tax system and are not tax expenditures.

Table B1 below outlines the social concessions and subsidies which incur revenue foregone, at a cost of $193.3 million.

Table B2 below outlines the social concessions and subsidies that are provided by way of direct expenditure, at a cost of $18.1 million.

The cost of social concessions and subsidies is $211.4 million[12].

Table B1. ACT Government Social Concessions and Subsidies – Revenue Foregone[1]

2015-16	Revenue foregone $'000	Notes
Concessional rent for community groups		
ACT Property Group properties	15,840	The ACT Government, through the ACT Property Group, leases Territory owned premises to community groups and not-for-profit childcare centres, under concessional rental arrangements, or free of charge (often involving a nominal rent such as 5 cents a year). In 2015-16, the Government provided 131 concessional leases and 64 peppercorn (free) leases to the community sector.
Public housing		
Public housing rental rebate[2]	142,226	In 2015-16, the Government, through Housing ACT, provided about 10,600 public housing dwellings to Canberrans in need. Additionally, The Government provided 650 subsidised dwellings to the community housing sector, which are in turn on-leased to low income households at concessional rates.
Public housing water consumption costs	6,838	The Government does not pass on water consumption costs to public housing tenants. The Government absorbs these costs. This is in contrast to private landlords in the ACT, who are able to recover the water usage charges from tenants, if separately metered.
2015-16	**Revenue foregone**	**Notes**

[12] Care should be taken when interpreting the total cost of $211.4 million. The cost of concessions that involve revenue foregone ($193.3 million) is estimated, while the cost of concessions that involve direct expenditures is an actual statistic ($18.1 million). They are two different measures and may not be like for like.

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	$'000	
Targeted assistance Concessions		
Water and sewage rebate	11,157	The Government provides a water and sewage rebate to eligible households, as well as to community organisations as part of the Community Service Obligations (CSOs)[3]. In 2015-16, the households accounted for 49 per cent of the cost, and the CSO concessions accounted for 51 per cent. In 2015-16, the rebate benefited about 59,600 eligible households[4], at a cost of $5.7 million. These households received a rebate for up to 68 per cent of the supply charge ($425 a year in 2015-16). The rebate also benefited about 370 community organisations, at a cost of $5.5 million[5]. From 2017-18, the water and sewage rebate will combine with the energy and utility rebate to form one concession.
ACTION bus concession[6]	8,245	The Government provides concessional or free bus travels to eligible Canberrans[7]. In 2015-16, the Government provided about 8.4 million concessional or free bus trips.
Special Needs Transport Program	5,804	In 2015-16, the Government provided special needs transport services to about 400 eligible students who have a disability.
Driver licence fee concession	503	In 2015-16, the Government provided a driver licence fee concession to about 3,700 eligible Canberrans[8].
Ambulance transport fee exemption	2,696	The Government provides an ambulance fee exemption to eligible Canberrans[9]. In 2015-16, the Government provided about 3,200 exempt ambulance trips.
Cost of social concessions & subsidies - revenue foregone	**193,309**	

Notes:

1. Revenue foregone is measured on a total Territory basis, taking into account transactions between the General Government Sector and the Public Trading Enterprises (such as Housing ACT and Icon Water).

2. Rent rebate is also reported in the Community Service Directorate Annual Report 2015-16.

3. Community Service Obligation (CSO) water concession applies to schools and hospitals. CSO sewage concession applies to churches, hospitals and benevolent and charitable institutions.

4. Water and sewage concession – eligibility criteria: pensioners; Centrelink Low Income Health Care Card holders; Veterans Affairs Gold Card holders; or asylum seekers.

5. Community organisations pay a lower rate for water consumption (depending on the seasonal weather and other factors). These organisations also pay a reduced sewage charge, based on the number of flushing units installed.

6. ACTION bus concessions are reported in Territory and Municipal Services Directorate Annual Report 2015-16. From 2016-17, this information will be contained in the Transport Canberra and City Services Directorate annual reports.

7. ACTION bus – eligibility criteria for free travel: Children under 5; seniors over 70; Veterans Affairs Gold Card holders (totally and permanently disabled); or passengers with a visual impairment.

Eligibility for concessional travels: students; pensioners; Centrelink Health Care Card holders; or Veterans Affairs Gold Card holders.

8. Driver licence fee concession – eligibility criteria: pensioners; Veterans Affairs Gold Card holders; and Centrelink Health Care Card holders who are unemployed.

9. Ambulance transport fee exemption – eligibility criteria: school students; pensioners; and people who are injured in certain circumstances, e.g. motor vehicle accidents.

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Table B2 below shows the social concessions and subsidies funded by way of direct expenditure. The Government pays the respective service providers for the delivery of these programs.

Table B2. ACT Government Social Concessions and Subsidies – Direct Expenditures[1]

2015-16	Costs $'000	Notes
Energy and utility rebate	13,892	In 2015-16, the Government provided a rebate on electricity bills (up to $426 a year) to eligible households to assist with the cost of living. This concession benefited about 115,000 eligible households in 2015-16[2]. From 2017-18, the energy and utility rebate will be combined with the water and sewage rebate to become one concession.
Life support rebate	285	In 2015-16, the Government provided a rebate on electricity bills (up to $122 a year) to about 9,400 eligible Canberrans. This rebate supports Canberrans who require extra electricity usage due to life support equipment at home.
Taxi Subsidy Scheme	1,851	The Government subsidised taxi travels for eligible Canberrans who have severe activity limitations. The percentage of subsidy depends on the type of disability, capped to a maximum amount ($37 per trip in 2015-16). In 2015-16, the Government subsidised about 91,000 taxi trips.
Funeral Assistance Program	248	The Government subsidies the costs of funerals for households who are in a financial hardship. This program allows families to have simple dignified funerals. In 2015-16, the Government financially contributed to 52 funerals.
Spectacles subsidy[3]	1,803	In 2015-16, the Government provided subsidies to about 11,500 eligible Canberrans for the costs of their spectacles[4].
Cost of concessions & subsidies - direct expenditures	**18,079**	

Notes:

1. Direct expenditures do not include the costs to the Government to run these programs, such as staffing and over heads.
2. Energy and utility concessions are available to pensioners and Centrelink Low Income Health Care Card holders. The usage rate may not capture people who receive both the life support rebate and the energy and utility rebate.
3. Spectacle subsidy includes: the ACT Spectacles Subsidy Scheme, the ACT Senior Spectacles Scheme, and the Low Vision Aids Scheme.
4. The ACT Spectacles Subsidy Scheme is available to pensioners and Centrelink Healthcare Card holders. The ACT Senior Spectacles Scheme is available to Seniors Card holders. The Low Vision Aids Scheme is available to Canberrans with degenerative eye conditions.

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Macroeconomic Branch
Economic and Financial Group