# 4 Methodological changes to the estimates

This chapter summarises the methodological changes included in the assistance measurement system for the *Trade & Assistance Review 2013‑14*. These adjustments relate to:

* the Small Business simplified depreciation rules;
* Export Finance Insurance Corporation’s national interest business;
* income tax averaging provision for primary producers;
* R&D Tax Incentive; and
* negative tax concessions.

Small Business simplified depreciation rules

The Small Business simplified depreciation rules scheme is a tax concession that enables small business entities with an aggregated annual turnover of less than $2 million to access concessional depreciation arrangements for business assets. Under the concessions, small businesses can immediately write-off assets that cost less than $1 000. Assets above $1 000 are depreciated through simplified pooling arrangements at a rate of 30 per cent (15 per cent in the first year). The general small business pool can be immediately deducted at the end of the income year if its value is less than $1000 (before deducting depreciation for the year) (Australian Government 2015).

Previously, in June 2013, the then Australian Government announced a number of taxation measures intended to help small businesses (those with turnover of less than $2 million) (PC 2014). These measures applied between 1 July 2012 and 31 December 2013, and included:

* a $6500 instant write-off for purchases of new equipment;
* an immediate deduction for the first $5000 of motor vehicle purchases; and
* the ability to ‘carry back’ losses to offset past profits.

Following the change in arrangements applying to the scheme between 2012‑13 and the first half of 2013‑14, revenue foregone under the tax concession increased significantly from negative $40 million in 2012‑13 to positive $1.4 billion in 2013‑14.

Prior to 2013‑14, information on the specific industry incidence of the scheme had not been readily available. Accordingly, the tax concession was classified to the *Unallocated other* industry grouping in the Commission’s ANZSIC-based classification.

For the 2013‑14 *Review*, partly in response to the significant increase in revenue foregone under the scheme in 2013‑14, information from the ABS publication *Counts of Australian Businesses, including entries and exits* (Cat. No. 8165) was used to allocate the concession to the Commission’s ANZSIC-based industry classification (table 4.1). Under this approach, the average number of small businesses in operation over the 12 month period to June 2012 and with an annual turnover of less than $2 million, was used to allocate the tax concession across the Commission’s ANZSIC-based industry groupings. Using this approach, it was found that over 80 per cent of the value of the concession was estimated to accrue to service industries in 2013‑14.

Export Finance Insurance Corporation’s national interest business

The Export Finance and Insurance Corporation (EFIC) is an Australian Government statutory authority which provides a range of credit and finance services to exporters. These services are provided through a:

* Commercial Account, in which the Government guarantees all EFIC businesses (although to date EFIC has been self-funded, building up its own reserves, and has not called on this guarantee); and
* National Interest Account, in which EFIC is directed to undertake transactions which the Government considers to be in the ‘national interest’ (in these cases, the Government directly bears the costs if export payments are in default).

As EFIC receives no funding from the government to support its Commercial Account activities, these have not been treated as providing assistance to industry, although it is recognised that the Government guarantee could afford a pecuniary benefit to the operations of EFIC that flow on to the clients of EFIC.

The National Interest Account has been used on an ad hoc basis, predominately by commodity exporters. The account has also been used to accommodate debts accrued under a discontinued AusAid scheme — the Development Import Finance Facility (DIFF). From these activities, EFIC has built up a stock of debt and the government provides funding to EFIC for administering these debts.

For past editions of the *Trade & Assistance Review*, the Commission has used information from the line item in EFIC’s annual reports to allocate funding to the industries that initially benefited from insurance payouts, or other payments in the case of the DIFF debts.

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| Table 4.1 Allocation of Small Business Simplified Depreciation Rules to industry, 2008‑09 to 2013‑14  $ million (nominal) |
| |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | | Industry grouping | 2008-09 | 2009-10 | 2010-11 | 2011-12 | 2012-13 | 2013-14 | | **Primary production** | **5.7** | **7.6** | **12.3** | **0.9** | **-3.8** | **134.3** | | Horticulture and fruit growing | 0.8 | 1.1 | 1.7 | 0.1 | -0.5 | 19.0 | | Sheep, beef cattle and grain farming | 3.1 | 4.1 | 6.7 | 0.5 | -2.1 | 73.1 | | Other crop growing | 0.3 | 0.3 | 0.5 | <0.1 | -0.2 | 6.0 | | Dairy cattle farming | 0.4 | 0.5 | 0.8 | 0.1 | -0.2 | 8.4 | | Other livestock farming | 0.3 | 0.4 | 0.6 | <0.1 | -0.2 | 6.6 | | Aquaculture and fishing | 0.2 | 0.3 | 0.5 | <0.1 | -0.1 | 5.3 | | Forestry and logging | 0.3 | 0.4 | 0.6 | <0.1 | -0.2 | 6.9 | | Primary production support services | 0.4 | 0.5 | 0.8 | 0.1 | -0.3 | 9.0 | | **Mining** | **0.2** | **0.3** | **0.5** | **<0.1** | **-0.1** | **5.0** | | **Manufacturing** | **2.3** | **3.1** | **5.0** | **0.4** | **-1.5** | **54.2** | | Food, beverages and tobacco | 0.3 | 0.4 | 0.7 | 0.1 | -0.2 | 8.0 | | Textiles, leather, clothing and footwear | 0.2 | 0.3 | 0.5 | <0.1 | -0.1 | 5.3 | | Wood and paper products | 0.2 | 0.2 | 0.4 | <0.1 | -0.1 | 4.1 | | Printing and recorded media | 0.2 | 0.3 | 0.4 | <0.1 | -0.1 | 4.5 | | Petroleum, coal, chemical and rubber | 0.1 | 0.2 | 0.3 | <0.1 | -0.1 | 3.3 | | Non-metallic mineral products | 0.1 | 0.1 | 0.2 | <0.1 | -0.1 | 2.2 | | Metal and fabricated metal products | 0.4 | 0.6 | 1.0 | 0.1 | -0.3 | 10.6 | | Motor vehicles and parts | 0.1 | 0.1 | 0.2 | <0.1 | -0.1 | 1.8 | | Other transport equipment | 0.1 | 0.1 | 0.2 | <0.1 | -0.1 | 2.4 | | Machinery & equipment manufacturing | 0.3 | 0.4 | 0.6 | <0.1 | -0.2 | 6.4 | | Furniture and other manufacturing | 0.2 | 0.3 | 0.5 | <0.1 | -0.2 | 5.6 | | **Services** | **50.2** | **67.0** | **108.8** | **8.4** | **-33.5** | **1188.5** | | Electricity, gas, water & waste services | 0.2 | 0.2 | 0.3 | <0.1 | -0.1 | 3.6 | | Construction | 9.9 | 13.2 | 21.4 | 1.6 | -6.6 | 234.0 | | Wholesale trade | 1.9 | 2.5 | 4.1 | 0.3 | -1.3 | 45.2 | | Retail trade | 3.7 | 4.9 | 8.0 | 0.6 | -2.4 | 86.9 | | Accommodation & food services | 2.3 | 3.0 | 4.9 | 0.4 | -1.5 | 53.6 | | Transport, postal & warehousing | 3.8 | 5.0 | 8.1 | 0.6 | -2.5 | 88.9 | | Information & telecommunications | 0.5 | 0.7 | 1.1 | 0.1 | -0.4 | 12.4 | | Financial and insurance services | 4.7 | 6.3 | 10.3 | 0.8 | -3.2 | 112.3 | | Property, professional & admin. | 16.0 | 21.3 | 34.7 | 2.7 | -10.7 | 378.8 | | Public administration and safety | 0.2 | 0.3 | 0.5 | <0.1 | -0.1 | 5.1 | | Education and training | 0.7 | 1.0 | 1.6 | 0.1 | -0.5 | 17.6 | | Health care and social assistance | 3.0 | 3.9 | 6.4 | 0.5 | -2.0 | 69.9 | | Arts and recreation services | 0.8 | 1.1 | 1.7 | 0.1 | -0.5 | 18.9 | | Other services | 2.6 | 3.4 | 5.6 | 0.4 | -1.7 | 61.2 | | **Unallocated othera** | **1.6** | **2.1** | **3.5** | **0.3** | **-1.1** | **38.0** | | **Total** | **60.0** | **80.0** | **130.0** | **10.0** | **-40.0** | **1420.0** | |
| Figures may not add to totals due to rounding. a Unallocated other includes budgetary measures where details of beneficiaries are unknown. |
| *Sources*: Commission estimates based on ABS publication *Counts of Australian Businesses, including entries and exits* (Cat. No. 8165) and Tax Expenditure Statement 2014, Australian Government 2015, p. 61, item B81. |
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For the 2013‑14 *Review*, there was a large increase in the value of the line item (from $2.7 million in 2012‑13 to $82 million in 2013‑14). The reason for the increase was increased payments to Tourism Australia for services undertaken on behalf of the Department of Foreign Affairs and Trade. Such expenditure would not ordinarily be treated as industry assistance. Moreover, the composition of previous expenditures under this item could not be confirmed as a measure of government support to industry through the EFIC national interest business. Assistance estimates attributable to EFIC, including previous years estimates, were therefore not reported in the 2013‑14 *Review*. It is intended to re-visit the assistance implications of EFIC, including the nature of the service payment to Tourism Australia, for future *Reviews*.

Income tax averaging provisions for primary producers

Reflecting income volatility in the primary production sector, the income tax averaging provisions for primary producers concession allows primary producers to average their income over a five-year cycle. Under the averaging provisions, primary producers may pay tax on their income at the rate of tax applicable to their average income, regardless of whether the average rate is greater or less than ordinary rates. This provides a concession as the saving from paying less tax in high income years outweighs additional tax paid in low income years (Australian Government 2015).

The Commission sources estimates of revenue foregone under the income tax averaging scheme from the Treasury’s annual Tax Expenditure Statement (TES). For the 2014 TES, however, the Treasury did not provide an estimate for the tax concession in 2013‑14. Treasury noted that projections beyond 2012‑13 have not been reported as the concession is sensitive to variations in primary production income, which depends on a number of external factors. The Treasury, however, provides a range of possible estimates of revenue foregone from $100 million to $1 billion.

For the 2013‑14 *Review*, the Commission has aligned its estimate of revenue foregone under the scheme in 2013‑14 with Treasury’s estimate for the previous year, $150 million. This contrasts with the approach used for the 2012‑13 *Review*, where the lower end of the range was selected to represent revenue foregone under the scheme. This approach subsequently under estimated Treasury’s estimate for the scheme in 2012‑13 by $50 million.

Estimates of the concession since 2008‑09 are presented in table 4.2. In view of changes in reporting of this item in the TES, the treatment of this item will require review in forthcoming *Trade & Assistance Reviews*.

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| Table 4.2 Income tax averaging provisions for primary producers, 2008‑09 to 2013‑14  $ million (nominal) |
| |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | |  | 2008‑09 | 2009‑10 | 2010‑11 | 2011‑12 | 2012‑13 | 2013-14a | | Income tax averaging provisions for primary producers | 100.0 | 85.0 | 155.0 | 145.0 | 150.0 | 150.0 | |
| a The Commission has aligned its estimate of revenue foregone under the scheme in 2013‑14 with Treasury’s estimate for the previous year, $150 million. |
| *Source*: Australian Government (2015), p. 45, item B40. |
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R&D Tax Incentive

The R&D Tax Incentive scheme (the replacement scheme for the R&D tax concession and Premium R&D tax concession schemes) provides a tax offset for eligible R&D activities which is designed to encourage firms to engage in R&D that ‘benefits’ Australia (ATO 2015). The Incentive has two main components:

* a refundable tax offset for certain eligible entities whose aggregated turnover is less than $20 million and payable at a rate of 43.5 per cent of expenditure on eligible R&D activities
* a non-refundable tax offset for all other eligible entities payable at a rate of 38.5 per cent on eligible R&D expenditure.

For 2013‑14, the Commissioner of Taxation annual report provides an estimate for the R&D Tax Incentive scheme of around $2 billion. This estimate includes both the refundable and non-refundable components although neither component is published separately. In addition, the Treasury’s Tax Expenditure Statement (TES) publishes an estimate of the revenue foregone for the non-refundable component of the R&D Tax Incentive. The refundable component of the scheme, however, is not separately published.

The estimate for the R&D Tax Incentive refundable tax offset, as published in the *Trade & Assistance Review*, is therefore a derived estimate based on information provided in the Commissioner of Taxation annual report and the TES. For 2013‑14, the derived estimate ($911 million) for the refundable component of the scheme is calculated as the total funding estimate for the R&D Tax Incentive scheme, as published in the Commissioner of Taxation annual report 2013‑14 (p. 84), less the TES 2015 estimate for the non-refundable component of the R&D Tax Incentive (Item B80, p. 61).

Estimates of the R&D Tax Incentive in 2012‑13 and 2013‑14, including the derived estimate for the refundable tax offset, are presented in table 4.3.

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| Table 4.3 R&D Tax Incentive funding, 2012‑13 and 2013‑14  $ million (nominal) |
| |  |  |  |  | | --- | --- | --- | --- | | Program | Source | 2012‑13 | 2013-14 | | R&D Tax Incentive |  |  |  | | – Non-refundable tax offset | *Treasury’s Tax Expenditure Statement 2014* | 1080.0 | 1120.0 | | – Refundable tax offset | *(Derived estimate)* | *509.0* | *911.0* | | **Total** | *Commissioner of Taxation annual report* | **1589.0** | **2031.0** | |
| *Sources*: Commission estimates based on Commissioner of Taxation annual report (various years) and Tax Expenditure Statement 2014, Australian Government 2015, p. 61, item B80. |
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Negative tax concessions

A tax concession, or expenditure, arises where the actual tax treatment of an activity or class of tax payer differs from the benchmark tax treatment.[[1]](#footnote-1) Tax concessions include tax exemptions, deductions or offsets, concessional tax rates and deferrals of tax liability. A positive tax concession reduces tax payable relative to the benchmark, while a negative tax concession increases tax payable relative to the benchmark (Australian Government 2015).

For the 2013‑14 *Review*, the Commission’s assistance estimates included four negative tax concessions:

* Tax deductions for grape vines;
* Film industry deductions (division — 10B & 10BA);
* R&D tax offset payments — exemption; and
* R&D Tax Incentive — exemption of refundable tax offset.

These tax concessions fall into two main groups. First, the accelerated depreciation tax concessions for grape vines and film industry deductions, were negative in 2013‑14 largely because they are no longer available to new entrants and the alternative, or current benchmark tax treatment, only allows for assets to be depreciated over a longer time period. The current concessional arrangements (asset write-off of 13 per cent per annum) increases tax payable relative to the older benchmark (asset write-off of 25 per cent per annum) resulting in a negative tax concession.

Second, the R&D tax offset exemptions are negative because of the structure of the broader R&D tax concession and R&D Tax Incentive schemes and the unavailability of certain parts of each scheme for certain types of business entities. For example, the R&D Tax Incentive scheme (the replacement scheme for the R&D tax concession) provides a tax offset for eligible R&D activities designed to encourage firms to engage in R&D.

Companies that claim the R&D refundable tax offset, however, are unable to claim deductions for the R&D expenditure. The absence of these deductions constitutes a negative tax concession and explains the negative estimates. The value of the R&D refundable tax offset, however, exceeds the loss from being unable to claim deductions for R&D expenditure so that net positive assistance is afforded industry under the arrangements.

1. Benchmarks represent a standard taxation treatment that applies to similar taxpayers or types of activity and can also incorporate structural elements of the tax system. Determining benchmarks involves judgment, hence, the choice of benchmark can be contentious (Australian Government 2015). [↑](#footnote-ref-1)