

international airport terminals that are owned by the Commonwealth. Instead, the terminals will be vested, along with other airport assets, in the Federal Airports Corporation (FAC) in accordance with the *FAC Act*.

Defence Service Homes Corporation (DSHC)

The Government has recently re-considered its May 1985 decision that the Defence Service Homes Scheme be transferred to the private sector. The restructuring of the Scheme is discussed in *5. Housing and Community Amenities nec*. The present portfolio of DSHC mortgages and the insurance business are to be sold. The terms of the sale are yet to be finalised, however it is expected that the sale will take place in 1988-89 yielding a significant return to the Government.

Commonwealth Accommodation and Catering Services Ltd (CACS)

The Government has decided to dispose of the Commonwealth's 100 per cent interest in CACS. In 1984 the Government agreed to allow CACS to provide accommodation and catering services to all Commonwealth departments on a fixed contract basis for three years, with the supply of these services subject to public tendering thereafter. These contracts are due to expire on 1 July 1988. To enhance the saleability of CACS, the Government has decided to extend the existing food services and accommodation contracts by six months to 31 December 1988.

Commonwealth Task Force

The Government has set up a Task Force chaired by the Department of Finance to coordinate the asset sales program. The Task Force, which will draw on private sector expertise to assist it with various sales, as and when necessary, has direct responsibility for managing the proposed sales of the Defence Service Homes Corporation, the Commonwealth Accommodation and Catering Service and the stocks of phosphate rock that the Commonwealth owns around the country. It is closely involved in the proposed re-development of the Tokyo Embassy complex and the sale of surplus land at that Embassy, and is also overseeing progress with various other property sales being handled by relevant Departments.

STATEMENT NO. 4—ESTIMATES OF REVENUE 1987-88

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STATEMENT NO. 4—ESTIMATES OF REVENUE 1987-88

Total budget revenue in 1987-88 is estimated at \$78 119m, an increase of \$5 935m or 8.2% over 1986-87. The measures announced in the Budget are estimated to add a net \$35m to revenue in 1987-88.

Revenue in both 1986-87 and 1987-88 has been substantially reduced by the personal income tax reductions from 1 December 1986 and 1 July 1987. In the absence of these measures, revenue would have been \$1500m higher in 1986-87 and \$4480m higher in 1987-88.

RECEIPTS MEASURES

The table below shows the estimated revenue effects in 1987-88 and in a full year of:

- (1) tax reform measures announced on 19 September 1985 which have been subject to modification during the past year or otherwise warrant mention;
- (2) other measures announced prior to the Budget; and
- (3) measures announced in this Budget.

The following costings of measures announced as part of the 19 September 1985 tax reform and those announced during the last year may differ from those provided in the original announcements because of revisions to base or parameter estimates.

Measure	Estimated change in revenue	
	1987-88	Full year (a)
	\$m	\$m
(1) Tax Reform Package		
Imputation system of company tax	-50(b)	-300(b)
Fringe benefits tax	750	750
Substantiation requirements	200	190
Quarterly instalment system for provisional tax	70(c)	-
Personal income tax rate scale	-4 480	-4 500
Capital gains tax	50-100(d)	*
(2) Other Measures Announced Prior to the Budget		
Income Tax—		
New arrangements for superannuation	4	30
Deductibility of gifts	..	..
Offshore banking units—interest withholding tax exemption	..	..
Discounted and deferred interest securities	..	..
Thin capitalisation and corporate restructures	..	..
Investment allowance	-	-30
Application of taxation laws to offshore areas	..	..
Customs and Excise Duty—		
Change in diesel fuel rebate scheme	6	7
Ceiling on excise rate increases	-34	-(e)
Crude oil excise	-20	-60(f)
Duty free passenger concessions and migrant vehicle concessions	20	21
Customs duties of non-departmental Commonwealth agencies	75(g)	75(g)
Surcharge on aviation gasoline	4	4
Wholesale Sales Tax—		
Exemption for certain tourism promotional material	..	..
Removal of exemption for Commonwealth commercial authorities	320(g)	400(g)
ACT Taxes and Charges—		
Business franchise fees on tobacco products	2	2
Financial institutions duty(FID)	-0.6(h)	-0.4(h)
Stamp duty on insurance premiums	..	..
ACT tax and stamp duty on transfer of company debentures	..	..
Measures to Counter Tax Avoidance and Evasion—		
Use of annuities to avoid tax	..	..
Redeemable preference shares	..	..
Double-dipping tax avoidance arrangements	..	..
Statutes of limitations	..	..

Measure	Estimated change in revenue	
	1987-88	Full year (a)
	\$m	\$m
(3) Measures Announced in the Budget		
Income Tax—		
Pensioner rebate	-	-
Social security and Commonwealth education allowance beneficiary rebates	..	-8
Medicare levy low income thresholds	-10	-40
Provisional tax uplift factor	..	..
Negative gearing measures	-24	(f)
Depreciation allowances on buildings	..	-(j)
Wholesale Sales Tax—		
Purchases by US missions and consular posts in Australia	..	..
ACT Taxes and Charges—		
Business franchise fee on petroleum products	6	10
Stamp duty on conveyances	2	3
Land tax	2	2
Tax on ACT totalisator turnover	1	1
Gaming machine tax	1	2
Motor vehicle registration charges	2	2
Other Measures—		
Increase in radio and television station licence fees	3	7
Tendering systems for the granting of new radio and television licences	22	*
Fee for conversion from AM to FM by regional radio licensees	2	*
Radiocommunications licence fees	1	3
Australian design rule compliance plates	1	1
Uranium export levy	1	1
Immigration and migration application fees	16	29
Indexation of passport fees	3	7
Commonwealth loan guarantee charge	1	1
Quarantine charges	3	6
Administrative Appeals Tribunal—filing fees	..	..
Air transport regulatory charges	2	4

- .. Less than \$0.5m.
- * The nature of the provision is such that a reliable estimate cannot be provided at this stage.
- (a) Unless otherwise indicated, full year figures are estimates of the ultimate change in receipts that would occur if the measure applied in respect of the whole of 1987-88; they are not necessarily the same as the estimated change in receipts in 1988-89.
- (b) Revenue cost of the full system, including cost of imputation credits, abolition of branch profits tax and of dividend withholding tax on franked dividends, offset by increased company tax rate.
- (c) The measure is revenue neutral in ongoing terms; however, \$70m associated with late payments will be brought forward to 1987-88.
- (d) There is, as yet, considerable uncertainty as to the extent of realised capital gains on which capital gains tax is to be paid in 1987-88. The figure in the table is the revenue estimated to be directly attributable to the new capital gains tax provisions introduced as part of the 1985 tax reform package. It is based principally on substantial past increases in sharemarket prices and, adopting necessarily tentative assumptions as to the size of realised gains, the amount exempt from tax and the amount taxed as income. The bulk of taxable realised sharemarket gains would be taxed as income under either s.25 (1) or s.26AAA of the Income Tax Assessment Act 1936. It is also likely that the new capital gains tax provisions are indirectly generating a substantial increase in revenue from those other sections. Expected revenue from the capital gains tax and these related provisions has been included in the appropriate income tax categories.
- (e) This measure is applicable only to 1987-88.
- (f) The estimated average annual cost of these arrangements over the five years to 1991-92.
- (g) Under transitional arrangements Telecom will receive a refund of up to \$100m of sales tax if total sales tax and customs duty payments exceed \$360m in respect of 1987-88. Refunds of \$80m are expected to be paid in 1987-88 with the remainder of up to \$20m payable in 1988-89.
- (h) With the introduction of the FID on 1 September 1987 certain other duties on financial transactions were abolished, resulting in a small net loss of revenue. The additional \$0.2m cost in the year of introduction is due to the FID having a longer collection lag than one of the duties it has replaced.
- (i) The cost will peak at about \$80m in 1988-89 when interest deductions carried forward will be allowed against 1987-88 incomes. The revenue cost will be \$47m in 1989-90, and will fall considerably in later years.
- (j) Savings are estimated at \$3m in 1988-89, and will increase to \$10m in 1989-90, \$29m in 1990-91 and will exceed \$500m per annum after 25 years.

(1) TAX REFORM PACKAGE

Some modifications to components of the 19 September 1985 tax reform package were made during the past year. These related to the imputation system of company tax, the fringe benefits tax and substantiation requirements, the quarterly instalment system for provisional tax and the capital gains tax. On 1 July 1987, the second stage of the personal income tax cuts took effect.

Imputation System of Company Tax

On 19 September 1985 the Treasurer announced that a full imputation system for company income tax would commence in the 1987-88 income year. On 10 December 1986 the Treasurer announced that the new system would operate broadly as foreshadowed in the 1985 tax reform package, with the principal exception that a compensatory tax would not be imposed on companies when they pay out dividends. Rather, imputation credits would attach to 'franked' dividends, ie those effectively paid out of income which has borne tax at the company rate of 49%. As part of the imputation package, the branch profits tax has been removed as from 1 July 1987 (on 1986-87 income) and the dividend withholding tax has been removed in relation to franked dividends paid on and from 1 July 1987. Imputation credits may be utilised only to offset income tax payable by Australian resident individuals and therefore do not extend to exempt taxpayers or non-residents.

With the company rate of tax and the maximum marginal personal income tax rate aligned at the 49% level from 1 July 1987, the Division 7 provisions relating to undistributed profits of private companies have been abolished, subject to transitional provisions. As part of the imputation package, changes to the tax treatment of bonus share issues and distributions by company liquidators have also been introduced.

Fringe Benefits Tax (FBT) and Substantiation Requirements

A fringe benefits tax was introduced with effect from 1 July 1986 and new substantiation requirements for employment-related expense claims also came into effect on that date in respect of income earned on or after 1 July 1986. A number of important changes, back-dated to 1 July 1986, were announced during the year.

On 26 August 1986 it was announced that the following exemptions from FBT would apply: hospital and medical treatment and other benefits provided under workers' compensation; travel costs for the purpose of employment interviews; specified expenses arising from work relocation; and travel costs incurred in obtaining medical treatment while employed in prescribed developing countries. The change in tax treatment of fringe benefits paid to employees located overseas will ensure that their fringe benefits are exempted from tax to the same extent as their wage and salary income.

Following a review, a number of further changes were announced on 29 October 1986. For both FBT and income tax substantiation purposes, the motor vehicle log book requirements have been substantially reduced, with taxpayers generally required to maintain a log book for a period of only 12 weeks where the log book method is chosen. The requirement for documentation of petrol and oil expenses has been removed. Minor benefits of small value which are infrequently provided or difficult to record and value have been exempted. The annual exemption for staff discounts on in-house benefits has been increased from \$200 to \$500. All private use by employees of employers' facilities and equipment has been made

exempt, as have all car parking benefits. Additional concessions have been extended to relocation expenses (the costs of selling and buying a principal residence), occupational health and counselling, safety and long service awards, holiday travel and children's education for overseas employees. Specified compassionate benefits (eg benefits provided in emergencies) have also been made exempt. Finally, remote area benefits have been accorded further concessions; the discount on housing benefits has been increased from 40% to 50%, a generous statutory value replaced the statutory formula as an optional way of valuing housing benefits, and restrictions have been eased on the application of the remote area holiday travel discount of 50%.

Quarterly Instalment System for Provisional Tax

The tax reform measures announced on 19 September 1985 provided for a compulsory quarterly instalment system for the payment of annual provisional tax liabilities, commencing in 1987-88. Legislation for the new system was enacted in early June 1987, but with several significant amendments. The threshold for the general exemption from the provisional tax instalment provisions has been raised from \$2000 to \$500^a. In addition, payment of provisional tax by instalments will not be required of primary producers or of authors and inventors with abnormal income.

The measure does not increase annual tax payable in ongoing terms, but it is expected that collections associated with late payments under the previous system could be brought forward each year, commencing in 1987-88 when they could be up to \$70m. The smoother pattern of receipts will result in reduced sales of short-term Government securities; associated interest savings are estimated to be of the order of \$120m in 1987-88.

Personal Income Tax Rate Scale

As foreshadowed by the Treasurer on 19 September 1985, the second stage of the reductions in personal income tax rates and changes to thresholds took effect on 1 July 1987. These changes have been reflected fully in PAYE instalments from that date and will be used for assessment and provisional tax purposes in respect of 1987-88 income.

The rate scale for assessment of 1987-88 incomes is compared below with the earlier rate scales:

Income Range (per annum)	Marginal Tax Rate (cents per dollar)		
	Before 1 December 1986	From 1 December 1986	From 1 July 1987
\$			
0-4595	0	0	0
4596-5100	25	0	0
5101-12500	25	24	24
12501-12600	30	24	24
12601-19500	30	29	29
19501-28000	46	43	40
28001-35000	48	46	40
35001 and over	60	55	49

Capital Gains Tax

The following changes to the capital gains tax have been announced since the last Budget:

- the treatment of bonus shares issued after 30 June 1987 has been modified to be consistent with the treatment of distributions under the imputation system of company tax;
- the treatment of call payments on certain partly-paid bonus shares or units issued after 1:00 p.m., 10 December 1986, in respect of original shares or units acquired prior to 19 September 1985 was changed to deem such payments to constitute new investment and therefore to be subject to the capital gains tax;
- the treatment of units in unit trusts was changed to enable depreciation allowances for income-producing buildings to be passed through to unitholders with no additional capital gains tax liability; and
- individual taxpayers who cease to be Australian residents now have the option to defer capital gains tax liability on ex-Australian assets until the assets are disposed of, in certain limited circumstances, accrued gains on such assets are now exempt from tax.

(2) OTHER MEASURES ANNOUNCED PRIOR TO THE BUDGET

INCOME TAX

New Arrangements for Superannuation

On 12 January 1987 the Government announced changes to the income tax law relating to the taxation of lump sum superannuation and kindred payments effective from 13 January 1987. Any excessive non-arm's length income derived from that date by approved deposit funds is subject to tax at the rate of 50% in line with similar provisions already applying to superannuation funds. The tax rate is reduced to 49% from 1987-88. Lump sum payments made as an alternative to a superannuation pension or annuity entitlement are to remain subject to taxation as eligible termination payments. Measures also were announced to guard against the exploitation of annuity contracts.

Deductibility of Gifts

Since the 1986-87 Budget, the Government has announced that gifts to the following bodies would qualify as deductible donations (for gifts of \$2 or more made after the dates, or in the inclusive periods, shown in brackets):

- Lionel Murphy Foundation (24.4.1987)
- Australia-Hellenic Memorial Trust Fund (1.4.1987 to 30.6.1989)
- 9th Australian Division Memorial of Participation (El Alamein) Fund (15.6.1987 to 30.6.1989)
- Korean and South East Asian and Vietnam War Memorial Anzac Square Trust Fund (15.6.1987 to 1.7.1989)

Offshore Banking Exemption from Interest Withholding Tax

On 1 July 1986 the Treasurer announced that interest paid to non-residents by separate offshore banking units (OBUs) is to be exempt from interest withholding

tax where their deposits accepted or borrowings in foreign currencies are on-lent only to non-residents. On 9 April 1987 the Treasurer announced further details on the relevant legislative arrangements to apply to OBUs. The major points were:

- the exemption is to be confined to authorised banks, State banks, and other financial institutions authorised to deal in foreign currency;
- the exemption will also apply to transactions, denominated in Australian dollars, between non-residents which are intermediated by an OBU and its offshore branches or subsidiaries; and
- anti-avoidance measures will help ensure that the exemption is confined to 'genuine' offshore banking transactions.

Discounted and Deferred Interest Securities

The tax rules applying to discounted and deferred interest securities are to be modified to deny, from 23 April 1987, deductions for interest on an accruals basis in respect of qualifying securities, where the securities are issued in Australia to, or on behalf of, a non-resident associate of the issuer, or in accordance with certain other arrangements between associates that are designed to minimise Australian tax

Thin Capitalisation and Corporate Restructures

In the context of liberalising foreign investment policy, the thin capitalisation and corporate restructuring conditions of approval imposed on foreign investors under foreign investment policy are to be replaced by amendments to the income tax law. Those conditions of approval counter tax avoidance practices which would otherwise have enabled foreign investors to avoid Australian taxes on the profits from their Australian investments.

In broad terms, the new provisions will apply to interest-bearing loans or other debt provided by foreign investors (or associates) to an Australian company or business enterprise where that interest-bearing foreign debt is more than three times the foreign investors' equity in the company or business. Where the ratio is exceeded, a tax deduction for interest paid on the debt, to the extent of the excess, will be disallowed to the company or business. In recognition of the special funding needs of banks and non-bank financial intermediaries, a ratio of 6:1 is to be allowed for foreign investments in this sector.

Investment Allowance

The Treasurer announced on 12 June 1987 that the investment allowance cut-off date, by which eligible property must be in use or installed ready for use, would be extended from 30 June 1987 to 31 December 1987.

Application of Taxation Laws to Australia's Offshore Areas

The scope of the income and sales tax laws is to be extended, with effect from 21 January 1987, to apply in areas adjacent to, and in the land masses of, certain of Australia's island territories. They will also be extended to cover installations within the outer limits of the continental shelf or within 200 nautical miles of Australia. The changes will mean that non-residents will be taxed on commercial activities, such as tourism operations conducted in the territories concerned, or on fixed installations or structures in the waters surrounding these territories. Appropriate exemptions will apply for bona fide Norfolk, Christmas and Cocos (Keeling) Islands residents.

CUSTOMS AND EXCISE DUTY

Diesel Fuel Rebate Scheme

As a result of an Efficiency Scrutiny Review, legislative and administrative changes, which took effect from 1 August 1987, continue the procedure of claimants self assessing the quantity of diesel fuel eligible for rebate but place greater emphasis on claimants substantiating their claims. To simplify administrative procedures the actual rebate payable on claims received in any given month will be the average of the declared rates of rebate which were in force on the last day of each of the preceding six months. This means a slight variation in previous arrangements under the Scheme whereby primary producers paid no excise on eligible diesel fuel and miners paid only 2.388 cents per litre.

Six Per Cent Ceiling on Excise Rate Increases

The Prime Minister announced on 13 March 1987 that a ceiling of around 6% will be imposed on the combined total of the indexation adjustments in August 1987 and February 1988. The full August 1987 adjustment was made in the usual way while the February 1988 adjustment will be such as to achieve a total increase in rates of around 6% over the two adjustments.

Changes to Crude Oil Excise

During 1986-87, the Government undertook a detailed review of the crude oil taxation arrangements and subsequently announced new arrangements that came into effect from 1 July 1987. These arrangements include the reduction in the top 'old' oil excise rate from the 1986-87 concessional rate of 80% (previously 87%) to 79% in 1987-88, 77% in 1988-89 and 75% by 1989-90; the exemption from excise of the first 30 million barrels of crude oil production from new offshore projects (in those areas not subject to the resource rent tax); the exemption from excise of the first 30 million barrels of crude oil from all onshore fields; and the exemption from excise of LPG production onshore and of condensate marketed separately from crude oil.

Full details are set out in the Appendix to this statement.

Change in Duty Free Passenger Concessions and Abolition of Migrant Vehicle Concessions

Commencing 1 July 1987, the arrangements governing customs duty and sales tax free entitlements for passengers arriving from overseas were changed so that all goods up to a value of \$400 per adult person (\$200 for persons under 18 years) may be brought in duty and tax free. In addition to this concession, duty and tax free entry is allowed for all clothing (other than furs) for the personal use of travellers, articles for personal hygiene and for tobacco and alcohol within the existing quantity limits on these goods. Normal rates of duty apply to imports above the \$400 limit.

The import duty and sales tax concession for migrants' motor vehicles (other than vintage cars) was abolished from 14 May 1987.

Payment of Customs Duties by Certain Non-departmental Commonwealth Agencies

From 1 July 1987, certain Commonwealth non-departmental agencies became liable to customs duty on all their imports.

Surcharge on Aviation Gasoline for General Aviation

From 1 July 1987, the fixed annual air navigation charges (ANCs) which apply to general aviation were replaced by a 3.9 cents per litre surcharge incorporated in the excise on aviation gasoline. Refunds of ANCs (up to \$4m), prepaid in respect of the period after 1 July 1987, are being made to relevant general aviation operators. In addition, landing charges are payable for general aviation aircraft which use the capital city primary airports scheduled to be taken over by the Federal Airports Corporation.

WHOLESALE SALES TAX

Conditional Exemption for Certain Tourist Publicity and Tourism Promotional Material

Certain tourist publicity and tourism promotional materials for use or free distribution (but not for sale) by national tourist organisations of any foreign country, or representatives of such organisations, are to be exempted from sales tax with effect from 1 July 1987.

Removal of Exemption for Certain Commonwealth Commercial Authorities

The sales tax exemption for certain previously exempt Commonwealth commercial authorities (including Telecom and Australia Post) has been withdrawn as from 13 May 1987.

The effect of withdrawing the exemption is that sales tax is payable on goods supplied to these authorities. In addition, where certain of these authorities were previously exempt from direct liability for sales tax on goods they manufactured themselves or imported directly, they are now taxable.

A transitional concession for 1987-88 is being applied in the case of Telecom. A refund will be paid to Telecom if the total tax payment arising from the removal of the exemption from both sales tax and customs duty exceeds \$360m in respect of 1987-88. The amount of the refund is estimated at \$80m in 1987-88, with a further payment of up to \$20m in 1988-89.

ACT TAXES AND CHARGES

ACT Business Franchise Fees on Tobacco Products

The rate of business franchise fee on the sale of tobacco products to ACT residents was increased from 25% to 30% from 14 November 1986.

ACT Financial Institutions Duty

As foreshadowed in the 1986-87 Budget, FID has been introduced in the ACT with effect from 1 September 1987. Simultaneously, the higher rates of debits tax, which applied only in the ACT, and certain stamp duties have been abolished. These duties were:

- stamp duty on cheques, bills of exchange and promissory notes;
- loan security duty; and
- stamp duty on hire purchase arrangements.

FID is levied at a rate of 0.03% on amounts received by financial institutions, with a maximum duty of \$300 per transaction. Instead of a rate per transaction, a rate of 0.005% is levied monthly on the average daily liability of short term money market dealers for amounts received by them in the ACT.

Stamp Duty on Insurance Premiums

Insurance premiums received by insurers for insurance of goods carried in international trade, and of the hulls of vessels and aircraft engaged in international trade, were exempted from ACT stamp duty and tax from 1 January 1987. This was to counter the trend whereby aviation and marine insurance was being written overseas to the detriment of Australian insurers. The co-operation of the States and Northern Territory with respect to their own stamp duties and similar taxes on insurance premiums has also been sought.

ACT Tax and Stamp Duty on Transfers of Company Debentures

The Government, in line with similar decisions already taken in all States, decided to abolish, with effect from 16 July 1987, ACT tax and stamp duty as it applied to transfers of debentures. This will require consequential amendments to anti-avoidance legislation covering transfers of marketable securities introduced last year, so as to confine the effects of this legislation to marketable securities other than debentures. These amendments will have retrospective effect to 10 June 1986.

MEASURES TO COUNTER TAX AVOIDANCE AND EVASION

Use of Annuities to Avoid Tax

The Government announced on 19 September 1986 that deferred annuities not purchased for retirement purposes are to be taxed on an accruals basis, under the legislation applying to discounted and other deferred interest securities, rather than when received in cash at some future date.

Redeemable Preference Shares

All redeemable preference shares with an effective term to maturity of two years or less, issued after 7 April 1986 and before 1:00 p.m., 10 December 1986, are treated as debt for income tax purposes.

On 10 December 1986 the Treasurer announced that dividends on all redeemable preference shares and similar instruments issued after 1:00 p.m. on that date and before 1 July 1987 would be treated as equity income but would not be eligible for the section 46 rebate when received by companies. From 1 July 1987, dividends paid on redeemable preference shares and similar financing arrangements, irrespective of term, are denied the section 46 rebate when received by resident companies, unless they are dividends franked with imputation credits.

Double-Dipping Tax Avoidance Arrangements

On 17 December 1986 the Treasurer announced amendments to the tax laws, with immediate effect, to overcome schemes by which companies utilise the income tax laws of Australia and another country to obtain a double tax benefit for what is essentially the same outlay. The measures will have effect only where the Australian revenue is detrimentally affected by the double-dipping arrangements.

Statutes Of Limitations

Amendments of the taxation law in 1986 modified the application of State and Territory limitation laws, in those cases where an objection or appeal has been lodged against an assessment, so that any applicable limitation period is taken to have ended as if it had commenced to run when the objection, or any subsequent appeal, becomes final.

On 14 August 1987 the Treasurer announced that the taxation law would be amended further to make it clear that this measure also applies to additional tax for late payment.

(3) MEASURES ANNOUNCED IN THE BUDGET

INCOME TAX

Pensioner Rebate

A rebate is allowable for taxpayers in receipt of an Australian social security or repatriation pension that is subject to Australian income tax. In order to allow eligible pensioners to take full advantage of the \$250 rebate following the full year effects of the reductions in personal income tax rates on 1 December 1986 and 1 July 1987, the income level above which the maximum rebate begins to shade out is to be increased from \$5914 to \$6142 in 1987-88. The rebate will be reduced by 12.5 cents for each dollar of taxable income in excess of \$6142 until fully extinguished at \$8142.

Social Security and Commonwealth Education Allowance Beneficiary Rebates

Rebates are available for taxpayers in receipt of Australian social security, unemployment, sickness or special benefits and certain Commonwealth education allowances to ensure that persons wholly or mainly dependent on a taxable benefit do not bear income tax. To this end, the maximum amount of rebate is to change from \$190 in 1986-87 to \$180 in 1987-88 for single beneficiaries (this lower level of rebate reflects the decision announced in the May Statement to align the level of single sickness benefit and single unemployment benefit) and from \$280 to \$430 for (legal or de facto) married beneficiaries. The maximum amount of rebate will continue to be reduced at the rate of 12.5 cents for each \$1 of taxable income in excess of the implied thresholds; for 1987-88 the thresholds are to be raised from \$5669 to \$5850 for single beneficiaries and from \$9436 to \$10 350 for married beneficiaries. The rebate will shade out completely at a taxable income of \$7290 for a single beneficiary and \$13 790 for a married beneficiary.

Medicare Levy Low Income Thresholds

In 1986-87 the low income thresholds were \$8030 for single persons and \$13 370 for married couples and sole parents, with an addition of \$1660 to the threshold for each dependent child or student. In line with past practice, these will be increased to \$8980, \$15 090 and \$2100 respectively in 1987-88.

Provisional Tax Uplift Factor

To take account of expected growth in incomes, provisional taxpayers' incomes for the previous year have, since 1980-81, been increased by a standard percentage to obtain notional current year incomes on which the calculation of provisional tax payments is based. The standard percentage applied last year was 11% and a factor of 11% will apply again in 1987-88. The 1987-88 rate scale will be applied to notional incomes calculated in that way.

Provisional taxpayers retain the option of self-assessing, ie of providing an estimate of their income for the current year which is then used in calculating their provisional tax payment. The provisional tax payment of those who self-assess will be derived by applying the 1987-88 rate scale to their estimates of 1987-88 income.

BUSINESS INCOME TAX

Negative Gearing

The Government has decided to abolish the negative gearing quarantining provisions relating to rental property investments with effect from the commencement of the 1987-88 income year. Interest deductions carried forward from previous years will be allowed as a deduction in the 1987-88 or later income years.

Depreciation Allowances on Buildings

In conjunction with the negative gearing decision, the Government has decided to reduce the depreciation allowance on new income-producing buildings from 4% to 2 1/2%.

This change will take effect for buildings where construction commences after 15 September 1987 except where:

- construction is pursuant to a contract entered into on or before that date; or
- the land on which the building is constructed was acquired on or before 15 September 1987 and borrowings used to finance construction were contracted for that purpose on or before that date.

WHOLESALE SALES TAX

Purchases by US Missions and Consular Posts in Australia

The Government has agreed to grant sales tax exemptions for official purchases by the US embassy and consular posts in Australia with effect from 1 July 1987, subject to the granting of similar exemptions with respect to purchases by Australian missions and posts in the US.

ACT TAXES AND CHARGES

In its 1986 Report on Financing the Australian Capital Territory, the Commonwealth Grants Commission found that in 1985-86 ACT revenues fell short of expenditures on territorial and municipal functions by \$55m (or \$214 per capita) more than would be consistent with the principle of fiscal equalisation with the States. Measures announced in the previous two Budgets have reduced the degree to which the ACT revenue-raising effort is below that of the standard States. In order to improve further the ACT revenue-raising effort, the Government is introducing the following measures (further details are provided in the Statement of 15 September 1987 by the Minister for the Arts, Sport, the Environment, Tourism and Territories).

Business Franchise Fee on Petroleum Products

A franchise fee will be introduced at the wholesale level on sales of petroleum fuels to ACT residents from 1 November 1987 at the rate of 3.53 cents per litre for motor spirit and 3.57 cents per litre for diesel fuel. Diesel fuel sold for off-road use will be exempt.

Stamp Duty on Conveyances

Effective from 16 September 1987, the rate of stamp duty on transfers or assignments of interests in land applying to that part of the value that exceeds \$300 000 will be increased from \$3.50 per \$100 to \$4.50 per \$100, and to that part of the value that exceeds \$1m from \$3.50 per \$100 to \$5.50 per \$100.

Land Tax

The rate of land tax on non-residential properties will be increased from 0.5% to 0.75% of unimproved value effective from 1 July 1987. Land used primarily for primary production will continue to be exempt.

Tax on ACT Totalisator Turnover

The rate of tax on the turnover of the totalisator operations of the ACT's Gaming and Liquor Authority will be increased from 4% to 5% (including the 1% levy previously paid to the Community Development Fund) effective from 27 September 1987.

Gaming Machine Tax

Effective from 1 April 1988, the ACT rate of gaming machine turnover tax for licenced clubs (currently at 10% of net revenue) will be adjusted to achieve a return to the Government equivalent to the NSW levels.

Motor Vehicle Registration Charges

Registration charges for private passenger vehicles will be increased by \$20 (from \$85 to \$105) effective immediately. Registration charges for other vehicle categories will also increase by similar proportions.

OTHER MEASURES

Increase in Radio and Television Station Licence Fees

With effect from 1 January 1988, the Government has decided to increase the ceiling rate for commercial television station licence fees from their current maximum of 8% of annual gross earnings (AGE) to a maximum of 9% for AGE of \$100m and above. Similarly, it has been decided to increase the ceiling rate payable by radio stations from 5.5% to 6.5%, and to make other minor amendments to the fee scale. The measures are expected to impact only upon the largest commercial metropolitan television and radio stations.

Tendering Systems for the Granting of New Radio and Television Licences

The Government has changed the selection process for the granting of new commercial radio and television licences. Applicants for licences will now be required to submit a sealed bid along with their initial application. The Australian Broadcasting Tribunal will conduct a simplified licence grant inquiry to determine whether any of the applicants are unfit to be considered for a licence. The highest bidder amongst the suitable applicants will be awarded the licence.

This initiative will not affect the equalisation of television services in regional areas, and at this stage there are no plans to issue additional commercial television licences anywhere.

Fee for Conversion from AM to FM by Regional Radio Licensees

In recognition of the advantages of FM broadcasting over AM, existing commercial AM radio licensees in areas facing competition from new FM stations will be allowed to convert to FM broadcasting, providing it is technically appropriate to do so.

Reflecting the higher value of an FM licence, a conversion fee will be payable based on the estimated size of the market.

Radiocommunications Licence Fees

To maintain their real value, radiocommunications licence fees are to be increased by an average of 7% with effect from 1 December 1987.

Australian Design Rule Compliance Plates

The charge for motor vehicle compliance plates supplied to vehicle manufacturers and importers for motor vehicles which comply with Australian design rules is

to increase from \$3.50 to \$5.00. The increase will become effective from 1 October 1987.

Uranium Export Levy

The Government has decided to increase the levy under the *Customs Tariff (Uranium Concentrate Export Duty) Act 1980* from 80c/kg to \$1.02/kg; this is estimated to recover 75% of the costs of the Office of the Supervising Scientist associated with uranium mining.

Immigration and Migration Application Fees

The Government has decided to introduce from 1 January 1988 a charge of \$5 per adult passenger on airlines which require immigration clearance services for passengers entering Australia.

The Government has also decided that infringement notices will be issued from 1 January 1988 to international airlines and shipping companies which commit offences under the *Migration Act 1958* by bringing to Australia passengers who do not have full visa documentation.

These fees are consistent with the cost recovery principles adopted by successive governments.

From 1 October 1987, individuals seeking a review of *Migration Act* decisions which affect resident and visitor status will be required to lodge a fee equivalent to that charged by the Administrative Appeals Tribunal (AAT). Consistent with refund arrangements applying generally to appeals to the AAT, the fee of \$240 will be refundable if the appeal is successful.

Migration application fees are to be increased from \$40 to \$60 on lodgement of an application, and from \$110 to \$165 for further processing of the application. Other fee increases include the application for grant of resident status (from \$200 to \$300) and the processing of entry permits for visitors extending their stay in Australia (from \$35 to \$50). These increases will become effective from 1 October 1987.

Indexation of Passport Fees

From 1 October 1987, passport fees for adults will increase from \$60 to \$66 and for children from \$25 to \$27, in line with general movements in the Consumer Price Index (CPI) for the twelve months ending 31 March 1987. Subsequent increases will be on 1 July of each year in line with general movements in the CPI for the preceding twelve months ending 31 March. This measure will maintain the real value of the 1986-87 level of passport fees. In addition, as from 1 January 1988 a new 'frequent traveller' passport will be available from the Department of Foreign Affairs and Trade for a fee of \$100.

Commonwealth Loan Guarantee Charge

A loan guarantee charge is to be levied from 1987-88 on off-budget borrowings of Commonwealth business enterprises to cover the guarantee either provided explicitly or implicit in the enterprises' status as government-owned bodies.

The charge represents an extension of the charge levied in 1986-87 on borrowings that were explicitly guaranteed by the Commonwealth, the revenue from which is classified under outlays (see 8E *Administrative Services* function in Statement No. 3). The charge is in recognition of the contingent liabilities assumed by the Commonwealth and will serve to bring the borrowing costs of these enterprises more into line with companies in the private sector.

Quarantine Charges

The Government has decided to revise cost recovery arrangements for agricultural quarantine services. From 1 March 1988, charges will be set to recover 60% of the total cost of providing quarantine services, less the costs of Government services of a non-commercial nature. Exemptions will continue to apply for foreign diplomatic staff, the clearance of foreign vessels, equipment involved in joint defence exercises, and accompanied personal luggage of passengers and non-commercial goods sent by parcel post. Under current policy, charges are designed to recoup the direct operating costs.

Changes are also being made in the general quarantine area to waste disposal and quarantine operations at international seaports and airports. As current contracts expire or are renegotiated, approved contractors will be empowered to tender on a commercial basis for disposal of waste from ships and aircraft. As an interim measure it is proposed, from 1 November 1987, to raise fee levels for seaport waste disposal to collect the full cost of undertaking this activity.

Administrative Appeals Tribunal—Filing Fees

The Government has decided to increase filing fees for matters coming before the AAT from \$200 to \$240 effective from 17 September 1987.

Air Transport Regulatory Charges

The Government has decided to introduce new charges and increase certain existing charges from 1 October 1987 for air transport regulatory services provided by the Department of Transport and Communications.

REVENUE ESTIMATES

The following table compares estimated revenue for 1987-88 with 1986-87 collections. A discussion of the outcome for 1986-87, compared with the budget estimates for that year and the outcome for 1985-86, is contained in Statement No. 5. Information on collections in earlier years is provided in Statement No. 6.

	1986-87			1987-88		
	Actual	Change on 1985-86	Estimate	Change on 1986-87	Proportion of total revenue	
	\$m	%	\$m	\$m	%	%
Taxation Revenue -						
Income Tax -						
Individuals						
Gross PAYE (a)	30 657	11.2	32 655	1 998	6.5	41.8
Refunds (a)	2 520	5.7	2 610	90	3.6	3.3
Net PAYE	28 136	11.7	30 045	1 909	6.8	38.5
Other (a)	7 457	30.9	8 215	758	10.2	10.5
Medicare Levy (b)	1 715	28.5	2 065	350	20.4	2.6
Prescribed Payments System	765(c)	48.6	835	70	9.1	1.1
Total Individuals	38 074	16.3	41 160	3 086	8.1	52.7
Companies	6 714	9.9	7 675	961	14.3	9.8
Withholding Tax	639	13.8	600	-39	-6.1	0.8
Fringe Benefits Tax	535	n.a.	750	215	40.1	1.0
Total Income Tax	45 962	16.6	50 185	4 223	9.2	64.2
Sales Tax	6 348	10.8	7 110	762	12.0	9.1
Excise Duty -						
Crude Oil and LPG	2 062	-48.7	2 187	125	6.1	2.8
Petroleum Products	4 666	65.8	4 800	134	2.9	6.1
Other	2 557	7.7	2 700	143	5.6	3.5
Customs Duty -						
Imports	3 237	-1.4	3 220	-17	-0.5	4.1
Coal Exports	52	-10.2	60	8	16.4	0.1
Debits Tax (d)	261	29.0	330	69	26.5	0.4
ACT Taxes and Charges	185	22.6	216	31	17.1	0.3
Other Taxes, Fees and Fines	357	-2.5	435	78	21.8	0.6
Total Taxation Revenue	65 685	12.5	71 243	5 558	8.5	91.2
Non-Tax Revenue -						
Interest	3 560	3.3	3 674	114	3.2	4.7
Rent, Dividends and Royalties	2 934	25.0	3 199	265	9.0	4.1
Miscellaneous Receipts from Commonwealth Enterprises	4	..	3	-1	..	..
Total Non-Tax Revenue	6 498	12.2	6 876	378	5.8	8.8
TOTAL REVENUE	72 184	12.4	78 119	5 935	8.2	100.0

(a) These figures exclude the Medicare levy, which is listed separately.

(b) Estimate only; the Medicare levy is not separately identified at the point of collection.

(c) Includes an estimated \$50m collected from companies under the Prescribed Payments System.

(d) On 1 July 1987 the bank account debits tax law was extended to cover debits made to payment order accounts with non-bank financial institutions. Accordingly, the 'bank account debits tax' is now referred to as the 'debits tax'.

Total revenue in 1987-88 is estimated to increase by 8.2%, to \$78 119m, equivalent to 26.8% of forecast GDP, compared with 27.3% in 1986-87.

TAXATION REVENUE

Total taxation revenue in 1987-88 is forecast to increase by 8.5%, to \$71 243m, following an increase of 12.5% in 1986-87. Estimates for the principal taxation revenue items are described below.

INCOME TAX—INDIVIDUALS

Income tax collections from individuals are estimated to grow by 8.1% in 1987-88, compared with 16.3% in 1986-87. As well as gross PAYE collections, this aggregate includes PAYE refunds, non-PAYE collections from individuals, and collections from the Medicare levy and the Prescribed Payments System.

PAYE Instalment Deductions

Gross PAYE receipts (net of the Medicare levy) are estimated at \$32 655m, an increase of 6.5% compared with 11.2% in 1986-87.

The estimate is based on employment growth for wage and salary earners of 2 1/4% and an increase in average weekly earnings (on a national accounts basis, excluding superannuation) of around 6%.

The relatively slow forecast growth in gross PAYE receipts reflects:

- the full year effect of the 1 December 1986 tax cut and 11 months' effect of the 1 July 1987 tax cut;
- slightly slower growth of earnings and employment of wage and salary earners forecast for 1987-88; and
- the first-tier flat dollar element of the 1987-88 wage increases, which will have a smaller revenue effect than would an equal increase in the total wage bill derived from uniform percentage increases across all income ranges.

PAYE Refunds

Refunds in 1987-88 relate to tax instalments deducted from salary and wage income earned in 1986-87 and earlier years. They are estimated at \$2610m in 1987-88, an increase of 3.6%. This modest increase reflects the effects of the substantiation and tax free threshold changes.

Other Individuals

Collections from taxpayers in this category in 1987-88 are generally determined by tax on 1986-87 assessed income, less any credits for amounts paid in 1986-87 as provisional tax, PAYE and payments made under the Prescribed Payments System, plus provisional tax for 1987-88 which, in general, is calculated by raising 1986-87 income by an uplift factor of 11%, and applying the 1987-88 tax rates.

Collections from other individuals (net of the Medicare levy) in 1987-88 are estimated at \$8 215m, 10.2% higher than the previous year. This compares with the exceptionally strong increase of 30.9% in 1986-87 which resulted from unusually high income growth in the previous year and, related to that, a surge in the number of provisional taxpayers. The 1987-88 tax estimate reflects reduced, but still substantial, growth in 1986-87 of income subject to provisional tax, a consequence mainly of a levelling out in interest rates which reduced the growth of interest earnings.

Additional major influences on other individuals collections in 1987-88 are:

- the full-year effect of the 1 December 1986 tax cut and the effect on provisional tax of the 1 July 1987 tax cut; and

- the granting of tax credits on franked dividends paid to individual shareholders (which is expected to be reflected through increased self-assessment of provisional tax).

Medicare Levy

Medicare levy collections are estimated at \$2065m in 1987-88, 20.4% higher than 1986-87 collections. About half of this increase is attributable to the full year effect of the rate rise, effective from 1 December 1986, from 1.0% to 1.25%. The total estimate comprises \$1680m from PAYE taxpayers (gross PAYE \$1820m, less refunds of \$140m) and \$385m from other individuals.

Prescribed Payments System

Collections under the Prescribed Payments System in 1987-88 are estimated at \$835m, an increase of 9.1% following a lift of 48.6% in 1986-87 (reflecting the rate rise from 10% to 15% on 1 July 1986). The 1987-88 estimate is based on prospective activity in the building and transport sectors where this form of tax payment predominates.

INCOME TAX—COMPANIES

Company tax collections in 1987-88 are estimated at \$7675m, an increase of 14.3% compared with 9.9% in 1986-87. Tax collections will be boosted by the increase from 46% to 49% in the company tax rate as from 1 July 1987 (a major element in the introduction of the dividend imputation scheme which will lower collections from individuals and non-residents), higher collections against tax outstanding at the start of the year and intensified audit activities.

Overall growth in corporate taxable income in 1986-87 (the base for 1987-88 payments) is estimated to have been affected by a substantial decline in incomes from the mining and resources sector and by the increasing impact of the 5/3 accelerated depreciation regime.

WITHHOLDING TAX

Withholding tax collections are estimated at \$600m in 1987-88, a decline of 6.1% compared with an increase of 13.8% in 1986-87. The cessation from 1 July 1987 of withholding tax on franked dividends is estimated to lower dividend withholding tax to \$50m compared with \$173m in 1986-87. Interest withholding tax is expected to increase to \$550m in 1987-88, from \$466m in 1986-87, implying slower growth than in the previous two years when depreciation boosted the \$A value of interest payments fixed in foreign currencies.

FRINGE BENEFITS TAX

Collections from the fringe benefits tax—excluding those from Commonwealth Government on-budget authorities—are estimated at \$750m in 1987-88, an increase of 40.1%. This increase reflects:

- four quarterly instalments rather than the three instalments in 1986-87, the first year of the tax; and
- an increase in the FBT rate from 46% to 49%, to align with the new corporate and maximum marginal personal tax rates.

SALES TAX

Sales tax collections are estimated at \$7110m in 1987-88, an increase of 12.0% compared with 10.8% in 1986-87. Nearly half of the expected growth in 1987-88 is attributable to the withdrawal of the sales tax exemption for Commonwealth commercial authorities announced in the May Statement (expected to increase collections by \$320m). The growth in consumption of goods subject to sales tax in 1987-88 is expected to be somewhat weaker than the growth in private consumption in aggregate.

Estimated collections of sales tax on goods falling within the specified rate classes for 1986-87 and 1987-88 are shown in the following table:

Rate Class	1986-87 Actual	1987-88 Estimate	Change on 1986-87
	\$m	\$m	%
10%	1 006	1 070	6.4
20%	4 274	4 865	13.8
30%	731	810	10.8
Not allocated by rate (a)	337	365	8.3
TOTAL SALES TAX	6 348	7 110	12.0

(a) These collections cannot be allocated readily to particular rate categories. They include amounts collected on imports at entry as well as an amount for recoveries in respect of avoidance and evasion practices.

EXCISE DUTY

Total collections of excise duty are estimated at \$9687m, 4.3% above the 1986-87 outcome. The main components of this estimate are shown in the following table:

	1986-87		1987-88	
	Actual	Change on 1986-86	Estimate	Change on 1986-87
	\$m	%	\$m	%
Crude Oil and LPG	2 062	-48.7	2 187	125
Petroleum Products(a)	4 666	65.8	4 800	134
Total Petroleum	6 727	-1.5	6 987	260
Other Excise—				
Beer	1 363	8.4	1 462	99
Potable Spirits	144	6.8	137	-7
Tobacco Products	1 018	7.0	1 068	50
Other(b)	32	7.6	33	1
Total Other Excise	2 557	7.7	2 700	143
TOTAL EXCISE DUTY	9 284	0.9	9 687	403

(a) Includes motor spirit, diesel fuel (net of rebates), aviation gasoline, aviation turbine fuel, fuel oil, heating oil, kerosenes and—as an offset—refunds/drawbacks of petroleum products excise to eligible users.
(b) Includes the coal excise duty and refunds/drawbacks.

Crude Oil and LPG Levies

Revenue from these sources is estimated at \$2187m in 1987-88, 6.1% higher than in 1986-87. Projected collections reflect the effect of assumed higher average crude oil prices, partly offset by an anticipated decline in crude oil production, a reduction in the top marginal excise rate for 'old' oil, a forecast step down in crude oil prices from 1 January 1988 associated with the introduction of a free market, lower collections of LPG excise due to lower domestic LPG prices and the exemption from excise of all onshore production of crude oil and LPG. Details are set out in the Appendix to this statement.

Net crude oil excise collections are estimated at \$2172m in 1987-88. This estimate assumes that world crude oil prices will remain at the level ruling when the 1 August 1987 import parity price was set (\$A29.00) and that there will be no change in crude oil prices in Australia apart from an expected fall with the introduction of a free market on 1 January 1988.

LPG excise collections in 1987-88 are estimated at \$15m on the assumption that 1 July 1987 export prices prevail throughout the financial year. Domestic prices and excise rates are expected to increase somewhat during the year as those export prices are taken into account. (Details of LPG pricing arrangements and price movements are provided in the Appendix to this statement.)

The Commonwealth also receives income from the resource rent royalty (RRR) levied on petroleum production from Barrow Island in Western Australia. Collections from these sources are included as 'Petroleum Royalties' in the non-tax revenue table in this statement. Details of the RRR arrangements were set out in Statement No. 4, and the Appendix to that statement, in the 1985-86 Budget Paper No. 1.

Excise Indexation

Under the system of indexation, the rates of duty for the main excisable commodities (with the exception of crude oil and LPG) are adjusted each August and February in line with half-yearly CPI movements. During 1987-88, excise rate indexation increases are to be limited to about 6%. The rates of duty for the main excisable commodities that applied at 19 August (Budget night) 1986, and after the indexation increases of 4 February and 15 August 1987, are shown in the following table:

	Rates applying from:		
	19 August 1986	4 February 1987	15 August 1987
	\$	\$	\$
Petroleum Products (per litre)			
Motor Spirit	0.23884	0.20756	0.20097
Diesel—Gross	0.23884	0.20756	0.20097
—Rebates Primary Producers	0.23884	0.20756	0.20097 (a)
Mining	0.21496	0.18368	0.17709 (a)
Other	0.18185	0.15803	0.15301 (a)
Aviation Gasoline	0.20107	0.17473	0.20870
Aviation Turbine Fuel	0.19099	0.16597	0.16070
Fuel Oil	0.04954	0.04305	0.04168
Heating Oil	0.04954	0.04305	0.04168
Kerosenes	0.04954	0.04305	0.04168
Beer (per litre)			
Between 1.15% and 3.8% alcohol by volume	0.67002	0.70754	0.73230
Greater than 3.8% alcohol by volume	0.76243	0.80513	0.83331
Potable spirits (per litre of alcohol)			
Brandy	20.07	21.19	21.93
General Rate for Other Spirits	23.51	24.83	25.70
Spirits nei and Liqueurs nei	24.14	25.49	26.38
Tobacco Products (per kg of tobacco)			
Cigarettes	37.26	39.35	40.73
Cigars	37.26	39.35	40.73
Manufactured Tobacco	37.26	39.35	40.73

(a) From 1 August 1987, the actual rebate payable on claims received in any given month will be the average of the declared rates of rebate which were in force on the last day of each of the preceding six months.

Petroleum Products Excise

Excise from refined petroleum products is estimated at \$4800m in 1987-88, an increase of 2.9% on 1986-87. This modest increase principally reflects the excise rate reductions in July and August 1987 aimed at offsetting the revenue gains (of the crude oil levy) that resulted from the 1 July and 1 August 1987 increases in the import parity price.

Taken together, total petroleum products excise and crude oil (and LPG) levy collections are estimated at \$6987m in 1987-88, an increase of 3.9% following a fall of 1.5% in 1986-87.

Other Excise Duty

Collections from the remaining excise categories—beer, potable spirits and tobacco products—are estimated at \$2700m. The projected increase of 5.6% on 1986-87 is attributable to indexation increases; clearances of beer, potable spirits and tobacco products are all forecast to fall slightly, consistent with the trends in recent years.

CUSTOMS DUTY

Imports

Collections of customs duty on imports are estimated at \$3220m, 0.5% lower than in 1986-87. While little change in the nominal value of imports is expected, the underlying average rate of duty is projected to fall in year-average terms, continuing a trend evident in the past two years when the SA depreciation reduced demand for imported consumer goods which attract relatively high rates of duty. However, this fall is expected to be moderated by the adoption of tariff harmonisation (announced on 22 September 1986) to simplify the existing complex tariff structure. In addition, 1987-88 revenue is expected to be boosted by \$95m because of changes (announced in the May Statement) governing duty free passenger concessions, the abolition of migrant vehicle concessions, and the removal of exemptions from payment of customs duties by non-departmental Commonwealth agencies.

Coal Exports

Reflecting little expected change in the volume of dutiable exports, collections from the coal export duty are estimated at \$60m.

DEBITS TAX

Debits tax collections are estimated at \$330m, an increase of 26.5% on 1986-87, reflecting the full-year effect of the rate increases of 50% in most rate categories effective from 1 December 1986.

ACT TAXES AND CHARGES

Collections from ACT taxes and charges are estimated at \$216m, an increase of \$31m on 1986-87. The main components are shown in the table below:

	1986-87 Actual	1987-88 Estimate	Change on 1986-87
	\$m	\$m	\$m
Payroll Tax	39	43	4
Stamp Duty	52	53	1
ACT General Rates	35	39	4
Other	58	81	23
TOTAL ACT TAXES AND CHARGES	185	216	31

The increase in estimated stamp duty revenue reflects the impact of the change in ACT stamp duty arrangements announced in the Budget (\$2m), growth in activity, offset in part by the effects of one-off share transactions in 1986-87 and the introduction of the FID from 1 September 1987.

The estimated increase of \$23m in the 'Other' category reflects the introduction of new revenue measures and revised rates under existing measures. As foreshadowed in last year's Budget, the FID was introduced on 1 September 1987 and replaced elements of the debits tax and some stamp duties as they applied to ACT financial transactions. It is expected that this change will be broadly revenue neutral; estimated revenue in 1987-88 from FID is \$4m and in a full year \$6m. The balance of the increase reflects, in part, the introduction of a business franchise fee on sales of petroleum products (\$6m), the full year effect of the ACT land tax introduced in the 1986-87 Budget and the increased rate announced in this Budget (\$4m), the full year effect of the increase in the tobacco franchise fee announced during 1986-87 (\$1m), increased motor vehicle registration charges (\$2m), the increased rate of turnover tax on totalisator operations of the ACT Gaming and Liquor Authority (\$1m) and adjustment of the rates of gaming machine taxation (\$1m).

OTHER TAXES, FEES AND FINES

The main components of other taxes, fees and fines are as follows:

	1986-87 Actual	1987-88 Estimate	Change on 1986-87
	\$m	\$m	\$m
Recoupment Tax	6	10	4
Broadcasting and Television Station Licence Fees	77	113	36
Radiocommunications Licence Fees	33	37	3
Stevedoring Industry Collections	24	28	4
Departure Tax	56	61	5
Passport Fees	34	37	3
Patents, Trade Marks and Design Fees	28	30	2
Immigration and Migration Application Fees	17	37	20
Court and Tribunal Fees	7	8	1
Other	75	74	-1
TOTAL OTHER TAXES, FEES AND FINES	357	435	78

Broadcasting and Television Station Licence Fees

Licence fees are levied on a progressive basis by the Commonwealth on the annual gross earnings (AGE) of commercial radio and television stations. Revenue from this source is projected to increase by \$12m to \$88m in 1987-88. Some \$3m of the increase is attributable to higher ceiling rates for these licence fees and the

balance reflects current projections of further growth in the AGE of most commercial radio and television stations. A further \$24m is expected to be raised by new fee arrangements for new radio licences and for radio licensees converting from AM broadcasting to FM (see Measures section).

Radiocommunications Licence Fees

The radio frequency spectrum is used by corporations and individuals for a wide variety of private, commercial and public radiocommunications purposes. Since September 1983 radiocommunications licence fees have included a 'royalty' component in recognition of the financial benefits derived from use of the spectrum. The rates are to be increased from 1 December 1987 by an average of 7% to maintain their real value.

Stevedoring Industry Collections

Certain award entitlements and non-award benefits for waterside workers are funded by levies on employers under stevedoring industry legislation. These levies, which are expected to yield \$28m in 1987-88, are paid to the Stevedoring Industry Finance Committee for disbursement.

Departure Tax

The departure tax is estimated at \$61m in 1987-88; it largely reflects the continued strong growth in international tourism.

Passport Fees

Revenue from passport fees is estimated at \$37m in 1987-88, an increase of \$3m over 1986-87. The increase arises from a small rise in the number of passports expected to be issued in 1987-88, and the decision to index passport fees annually in line with movements in the CPI, commencing 1 October 1987.

Patents, Trade Marks and Design Fees

Fees are levied by the Patents, Trade Marks and Design Office for applications to register patents, trade marks and designs pursuant to the relevant Acts and for annual renewal of registrations. Revenue from this source is estimated at \$30m in 1987-88, an increase of \$2m on 1986-87.

Immigration and Migration Application Fees

Total revenue from these sources is estimated to increase to \$37m in 1987-88, mainly reflecting the decisions to increase migration application fees from \$40 to \$60 on lodgement of an application and from \$110 to \$165 for further processing of the application (\$7m) and to introduce an on-arrival clearance service charge of \$5 per adult passenger on airlines which require immigration clearance services for passengers entering Australia (\$8m).

Court and Tribunal Fees

The increase in estimated receipts for 1987-88 reflects the full year effect of the introduction of a \$200 filing fee for applications to the Administrative Appeals Tribunal, together with the decision in the Budget to increase this fee to \$240, indexation of court fees in the Federal and Family Courts, and an expected increase in applications to the courts.

Other

The small decline in this category is attributable mainly to the reduction of \$22m in the Bass Strait Freight Adjustment Levy, reflecting the Government's decision to introduce a free market for indigenous crude oil (thereby dismantling the allocation system) from 1 January 1988.

Partly offsetting increases are anticipated in the following items:

- fees for occupational superannuation funds (\$6m), which are levied to recover the administrative costs of supervising arrangements. The delay in passing the legislation to establish the Occupational Superannuation Commission means that the revenue from fee collections will now be received in 1987-88 instead of 1986-87;
- quarantine charges (\$4m), which are levied to recover part of the costs relating to animal and plant imports, the disposal of waste from aircraft and ships, and the general health clearance of incoming vessels and aircraft. Under current policy, charges are designed to recoup direct operating costs. However, from 1 March 1988, 60% of the attributable total cost of quarantine activities will be recovered, except for the contractual costs of waste disposal, costs of feed and veterinary supplies provided to livestock, associated freight costs and overtime costs which are fully recoverable. Charges are adjusted annually to reflect movements in costs;
- Interstate Road Transport Charge (\$4m), which results from charges on the registration of vehicles and licensing of operators engaged in interstate trade and commerce, commenced on 1 January 1987 and 1987-88 is the first full year of operation. The registration charge ensures that the owners of such vehicles make a contribution to the repair and maintenance costs of the roads they use; and
- the loan guarantee charge (\$1m), which will be levied from 1987-88 on the off-budget borrowings of Commonwealth business enterprises in respect of implicit, as well as explicit, guarantees associated with the enterprises' status as government-owned bodies.

NON-TAXATION REVENUE

This heading covers interest paid to the Commonwealth Government from sources outside the budget sector, dividends received from Government-owned companies and miscellaneous receipts from Commonwealth enterprises.

Details are set out below:

	1986-87 Actual	1987-88 Estimate	Change on 1986-87
	\$m	\$m	\$m
Interest received from the States and Northern Territory—			
On Advances for State Loan Council Programs and NT			
Advances	2073	2115	42
On Specific Purpose and Special Advances—			
Housing Agreements	265	289	24
Other	89	93	4
Other Interest Revenue—			
ACT—Housing and Other	28	25	-2
Defence Service Homes	75	77	2
Non-Budget Authorities—			
ACT Electricity Authority	2	2	..
Australian National Railways Commission	8	8	..
Snowy Mountains Hydro-Electric Authority	72	73	1
Pipeline Authority	33	31	-2
Australian Postal Commission	6	5	..
Australian Telecommunications Commission	661	653	-8
Public Financial Enterprises	4	1	-3
Other	245	302	57
Total Interest Revenue	3560	3674	114
Rent, Dividends and Royalties received from—			
Non-Budget Authorities—			
Qantas Airways Limited	15	25	10
Overseas Telecommunications Commission	40	46	6
Australian National Airlines Commission	—	13	13
Other (including Australian Shipping Commission)	6	8	2
Public Financial Enterprises—			
Reserve Bank of Australia	2601	2659	58
Commonwealth Banking Corporation	100	68	-32
Housing Loans Insurance Corporation	12	1	-12
Australian Industry Development Corporation	9	10	2
Other Rent, Dividends and Royalties—			
Petroleum Royalties	103	113	10
Royal Australian Mint	7	212	205
Other (incl receipts nec)	42	43	1
Total Rent, Dividends and Royalties	2934	3199	265
Miscellaneous Receipts from Commonwealth Enterprises	4	3	-1
TOTAL NON-TAXATION REVENUE	6498	6876	378

Total non-tax revenue in 1987-88 is estimated at \$6876m, an increase of 5.8% over 1986-87 collections.

INTEREST REVENUE

The States and Northern Territory

The estimated increase in 1987-88 in interest received on advances to the States under the State Governments' Loan Council Borrowing Program reflects the increase in the level of such advances in 1986-87 (on which full year interest is paid in the subsequent year). Also contributing have been increased interest rates on debt rolled over in 1986-87 and the first half of 1987-88. The rate of increase has slowed compared with 1986-87, due to the States opting to nominate all their advances for public housing in 1987-88.

Interest revenue from the Northern Territory is estimated to increase to \$79m in 1987-88, reflecting, inter alia, continued growth in the level of outstanding general purpose advances to the Northern Territory.

Receipts of interest from the States and the Northern Territory in respect of concessional housing loans are expected to increase by around 9% in 1987-88. This increase is principally attributable to increased public housing nominations by the States and the Northern Territory from their loan funds programs since 1985-86.

Included in 'other' interest revenue from the States and the Northern Territory are:

- interest on Commonwealth loans made to New South Wales, Victoria, Queensland and Western Australia under the *National Railways Network (Financial Assistance) Act 1979* for main-line railway upgrading;
- interest on advances to the States for sewerage and other projects under the *Urban and Regional Development (Financial Assistance) Act 1974*; and
- interest on advances for on-lending to primary producers under the *States Grants (Rural Reconstruction) Act 1971* and *States Grants (Rural Adjustment) Act 1976*.

ACT—Housing and Other

Revenue in 1987-88 is estimated at \$25m and includes payments of interest by mortgagors under the Commissioner for Housing Loan Scheme and the Commonwealth of Australia Mortgage Vendor Finance Scheme. The decrease mainly reflects a reduced number of outstanding loans to be discharged.

Defence Service Homes

Interest on any capital advanced to the Defence Service Homes Corporation (DSHC) or rolled over during a year is payable at the current long-term bond rate. Interest on outstanding capital is payable at the rate applying at the date it was advanced or rolled over.

The estimated increase of \$2m in interest revenue from the DSHC is mainly attributable to the rollover of \$107m at higher interest rates.

An interest rate subsidy covers the difference between the interest payable to the Commonwealth on the Corporation's capital and the interest charged to borrowers on loans provided by the Corporation. The interest rate subsidy, estimated at \$98m for 1987-88, is offset against gross interest payments by the Corporation of \$175m to produce the net \$77m shown in the table.

As part of the Government's decision on the future of the Defence Service Homes Scheme, the present portfolio of DSHC mortgages is to be sold to the private sector in 1988-89 (see 5. *Housing and Community Amenities* function in Statement No. 3).

Non-Budget Authorities

The fall in total interest revenue from both the Australian Telecommunications Commission (Telecom) and the Australian Postal Commission (Australia Post) in 1987-88 reflects, in part, capital repayments by both Commissions in 1986-87 of \$98m and \$3m respectively. This effect was partially offset by the conversion on 1 July 1987 of a further one-tenth of the respective amounts of outstanding pre-1975 capital vested in each of Telecom and Australia Post from 13.2% to 14.425% and 14.725% respectively. The new rates reflect the estimated rates of interest which these authorities would have had to pay for a borrowing from the capital market on 1 January 1987, including the effect on rates of the Government's decision to impose an ongoing charge on all borrowings by Commonwealth business enterprises that are explicitly or implicitly Commonwealth guaranteed. Also offsetting the impact of the capital repayment was a rollover of a loan of \$103m to Telecom in February 1987 involving an increase in the interest rate from 10.4% to 14.65% reflecting the equivalent market rates at the time.

The estimated \$2m decrease in interest receipts from the Pipeline Authority results from a reduction in the total outstanding balance of loans from the Commonwealth. This reduction is due to repayments made during 1986-87 and a better than anticipated trading performance during 1986-87 resulting in the Authority not requiring any new advances during that year.

Public Financial Enterprises

The reduction of \$3m under this category mainly reflects the full repayment of all outstanding deposits to the Commonwealth in 1986-87 by the Primary Industry Bank of Australia. As a result there will be no further interest payment due from this source. In addition, the Commonwealth's shareholding in the Bank has now been sold.

Other Interest

The increase of \$57m under this category reflects mainly increases in the following items:

- the higher average level of cash balances (up \$49m) estimated to be maintained with the Reserve Bank of Australia throughout 1987-88, although the pattern underlying that average is of a high starting level early in the year with a run-down of balances over the course of the year; and
- interest on capital from the Transport and Storage Trust Account has increased by \$14m as a result of measures, to take effect on 1 October 1987, to place the Department of Administrative Services' transport and storage operation on a more commercial basis. Interest will be paid on all fixed capital employed in the operation. In 1986-87, interest was paid on appropriated working capital only.

RENT, DIVIDENDS AND ROYALTIES

Non-Budget Authorities

The Overseas Telecommunications Commission (OTC) is required to pay a single final dividend to the Commonwealth out of the operating profits that it earns

each year, based on a percentage of the total shareholder funds in OTC as at the beginning of its income year (ie 1 April). The percentage for 1987-88 remains at 15% and the estimated dividend payable in 1987-88 is \$46m, a \$6m increase on 1986-87.

Dividend payments to the Commonwealth by Qantas are expected to be \$25m in 1987-88. This amount includes an interim dividend of \$5m expected to be paid in December 1987.

The Australian National Airlines Commission (Australian Airlines) will resume dividend payments to the Commonwealth with a \$13m dividend in respect of profits earned in 1986-87. The previous dividend payment from Australian Airlines was \$2m in 1981-82.

The Australian Shipping Commission (ANL) is expected to pay a dividend of \$7m in 1987-88 in respect of profits earned in 1986-87, \$2m more than was paid in 1986-87 on profits earned in 1985-86.

Public Financial Enterprises

Total payments from the Reserve Bank to the Commonwealth in 1987-88 are estimated at \$2659m, an increase of \$58m on 1986-87.

The *Reserve Bank Act 1959* requires the Reserve Bank to pay its net earnings, after provisions for contingencies and appropriations to reserves, to the Commonwealth. The 1987-88 payment includes \$1493m from Central Banking Business (CBB) profits in 1986-87, \$107m as a final payment from the 1986-87 profits of the Note Issue Department and an estimated interim payment in June 1988 of \$1000m from the Bank's expected 1987-88 profits.

In 1986-87 net earnings of CBB were \$2283m, compared with net earnings of \$1671m in 1985-86. In the main, the increase reflected higher gains from sales of foreign currency. These were associated with supplying part of the Government's foreign currency requirements and with the Bank's other operations in the foreign exchange market. The balance of CBB earnings was mainly attributable to interest received on holdings of domestic and foreign securities. A transfer to RBA reserves of \$762m was made from the CBB's 1986-87 operating earnings to provide against possible future losses from fluctuations in exchange rates.

1987-88 payments by the Bank to the Commonwealth will also include \$60m from the Rural Credits Department's (RCD) capital and reserves. This was part of the \$120m determined by the Board of the Bank to be surplus to RCD requirements; the remaining \$60m was credited to the Reserve Bank Reserve Fund.

Total payments from the member banks of the Commonwealth Banking Corporation are estimated at \$68m in 1987-88.

Dividends from net profits in 1986-87 of the Commonwealth Bank of Australia and its subsidiary, the Commonwealth Savings Bank, are expected to be \$61m in 1987-88, compared with \$100m in 1985-86. The decrease of \$39m reflects a lower proportion of the Banks' earnings being paid to the Commonwealth, compared with

the previous year, and a lower profit outcome for the Banks in 1986-87. The lower earnings arise from a combination of greater competition in the corporate lending market and a difficult trading year in savings bank activities.

It is also proposed that the *Commonwealth Banks Act 1959* be amended to provide for payments to the Commonwealth from the profits of the Commonwealth Development Bank. This is expected to result in additional revenue to the Commonwealth of \$7m in 1987-88.

Payments from the Housing Loans Insurance Corporation are expected to decline from \$12m in 1986-87 to \$1m in 1987-88. In 1986-87 a once-only payment of \$10m was made from the Corporation's general reserve to consolidated revenue. As well, dividend payments by the Corporation in 1987-88 are expected to decline, as a result of difficult trading conditions, from those made in 1986-87.

AIDC dividend payments are estimated to increase to \$10m, following an increase in after-tax trading profits. The dividend rate of 50% of net profit is fixed by statute.

Other Rent, Dividends and Royalties

Estimated revenue from petroleum royalties includes the Commonwealth's share of resource rent royalty paid in respect of oil production from Barrow Island, as well as offshore petroleum royalties. After deducting the Commonwealth's share of royalties (around one third) relating to Bass Strait and North West Shelf production, the balance is passed on to the relevant State. In addition, the Commonwealth will pay to Western Australia an agreed portion of its share of royalty from the North West Shelf Project. The estimated increase in petroleum royalties of \$10m in 1987-88 mainly reflects the impact of higher world crude oil prices.

Payments from the Royal Australian Mint relate to seigniorage on circulating coin production and profits from the production of numismatic coins. The expected very sharp increase in payments in 1987-88 of \$205m (from \$7m in 1986-87) reflects mainly the revenue expected from the proposed introduction of the \$2 coin in the first half of 1988 and expected increases in seigniorage and profits from circulating and numismatic coinage to commemorate Australia's Bicentenary.

APPENDIX: PETROLEUM TAXATION AND RELATED ARRANGEMENTS

This Appendix describes the taxation arrangements applying to crude oil, Liquefied Petroleum Gas (LPG) and other petroleum, including the major changes to crude oil excise and marketing arrangements announced in June 1987.

I. OVERVIEW OF PETROLEUM TAXATION

Various taxation arrangements apply specifically to the petroleum industry. They can be divided into *two* stages: taxation of crude petroleum production and taxation of petroleum products.

- **Crude petroleum taxation:** The Commonwealth imposes excises on the production of crude oil and LPG, and is introducing a resource rent tax on offshore production of petroleum. The States impose royalties on onshore production and share, with the Commonwealth, offshore royalties and onshore rent royalties levied on petroleum production. These taxes on production can be seen as a means by which the community obtains a return from the exploitation of the nation's scarce natural resources. To the extent that crude oil and gas prices are set by world market conditions or parity prices prevail, these taxes do not add to the prices to consumers but reduce the returns to producers. Some States also impose a levy on sales of natural gas.
- **Petroleum product taxation:** These taxes are levied after the refinery process on domestic and imported products. The Commonwealth collects the product excises from petroleum distributors when petroleum products leave bonded storage at their terminals. Most of the States levy, on petroleum wholesalers, franchise fees which are related to petroleum sales, and levy a fixed licence fee on petroleum retailers.

Table 1 and Chart 1 show that the revenue from crude oil excise and petroleum royalties has declined sharply since 1985-86, following the sharp fall in oil prices in February 1986.

Table 1: Commonwealth and State Revenues: Excises, Royalties and Franchise Fees

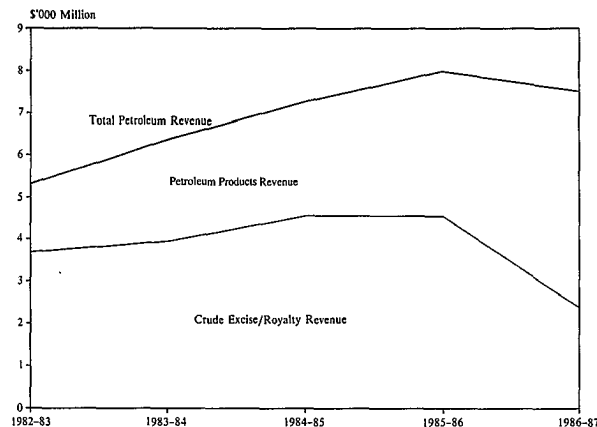
	1982-83	1983-84	1984-85	1985-86	1986-87
	\$m				
Commonwealth Crude Oil and LPG Excises	3486	3651	4202	4019	2062
Commonwealth Royalties and Resource Rent Royalties	68	85	97	169	103
State Royalties and Resource Rent Royalties (a)	132(b)	208(b)	244	352	212
Total Revenue from Crudes	3686	3944	4543	4540	2377
Commonwealth Product Excises	1293	1973	2207	2813	4666
State Franchise Fees (c)	334	432	508	553	473
Total Revenue from Products	1627	2405	2715	3366	5139
Total Revenue from Petroleum	5313	6349	7258	7906	7516

(a) Source: State budget documents and Auditors-General reports.

(b) Does not include the Northern Territory.

(c) Source: ABS, Taxation Revenue Australia, 1985-86, Catalogue No. 5506.

Chart 1: Commonwealth and State Petroleum Revenue



Although oil prices have since recovered from about US\$8 per barrel in mid-1986 to more than US\$18 per barrel in mid-1987, they are still well below the mid-1985 price of about US\$28 per barrel. The decline in crude oil excise revenue in 1986-87 has also been affected by reduced excise rates on 'old' oil, an extension of concessions on the coverage of crude oil excise and by lower crude oil production. The decline in revenue from crude oil excise and petroleum royalties was partially offset by increased revenue from product excises. A downward trend in crude oil excise is likely to continue as Bass Strait crude oil production declines in the years ahead.

2. RESOURCE RENT TAX—RESOURCE RENT ROYALTY

Resource rent tax (RRT) and resource rent royalty (RRR) arrangements apply respectively to offshore and onshore petroleum projects and, where applied, replace the excise and royalty. The RRT was introduced by the Commonwealth to apply with effect from 1 July 1984 to all new offshore petroleum projects other than those covered by production licences granted before then and other than the permit area from which those licences were drawn, while the RRR can be applied to onshore petroleum projects with the agreement of the relevant State. At present, the Jabiru field in the Timor Sea has been developed under RRT policy. An RRR agreement, which is based on the RRT model, was introduced by the Western Australian Government for Barrow Island, in agreement with the Commonwealth,

and replaces both the Commonwealth's crude oil excise and the State royalty, with revenues shared 25:75 between the State and the Commonwealth. Negotiations are proceeding to apply an RRR to the Mereenie field in the Northern Territory.

Unlike crude oil excises, the RRT and RRR are tied directly to the profitability of a project and are payable only when it exceeds a threshold level (see below). Taxes in this form aim to avoid discouraging exploration and development while providing the community with a fair proportion of the potentially high returns from the exploitation of such scarce and non-renewable resources. In contrast, production based taxes, such as the crude oil excise, are not automatically responsive to the profitability of projects.

Broadly, the RRT is to be levied on a project basis at a rate of 40% on all income from petroleum defined to allow both current and capital expenditures (including eligible exploration expenditure within the original exploration permit area from which the project's production licences are drawn) to be written off in the year in which they are paid, and to exclude payments and receipts relating to the provision of debt and equity capital. Any excess of deductible expenditures over receipts from petroleum will be compounded forward at a 'threshold' rate set at the long term bond rate plus 15 percentage points (except in respect of exploration expenditure, made more than 5 years before the granting of the first production licence, which is to attract compounding at a rate equal to the increase in the GDP deflator). RRT payments will be deductible for company tax purposes.

3. CASH BIDDING

The Government's cash bidding system for the granting of petroleum exploration permits also provides a return to the community for access to petroleum resources. Under this system, which began in November 1985, permits are awarded to the highest bidder, provided certain financial and technical criteria are satisfied. In March 1986, the results of the bidding round for the Timor Sea region were announced. The successful bids for this region totalled about \$32m.

4. CRUDE OIL EXCISE ARRANGEMENTS

On 4 June 1987 the then Minister for Resources and Energy announced changes to the crude oil excise arrangements to apply from 1 July 1987. The main changes to the excise arrangements were as follows:

- the maximum rate of excise on 'old' oil is reduced to 79% from the 1986-87 concessional rate of 80% (previously 87%). It will be reduced further over the next two years to 77% in 1988-89 and to 75% in 1989-90 and thereafter. If the price of crude oil rises above \$A32.50 per barrel (indexed by the Consumer Price Index (CPI)) the top marginal excise rate (TMER) for 'old' oil will be adjusted upwards to a limit of 80% according to a formula¹;

1. The formula is:

$$\text{adjusted TMER} = \text{TMER} + 0.15 \frac{(P - 32.50 \text{ indexed})}{P}$$

where TMER is the prevailing top marginal excise rate expressed in decimals and P is the crude oil price. 'Old' oil is that discovered before 18 September 1975.

- for new offshore projects, ie those that commenced production after 1 July 1987, in Bass Strait and on the North West Shelf, the first 30 million barrels of crude oil production from the relevant petroleum accumulations are exempt from crude oil excise, excluding production that would otherwise have been captured by prior developments;
- for onshore fields, the first 30 million barrels of crude oil production are exempt from excise;
- LPG produced onshore is exempt from excise; and
- condensate marketed separately from crude oil is exempt from excise.

As a result of these changes it is expected that production of Bass Strait crude oil will average 389 thousand barrels per day (kbd) in 1987-88. In response to these concessions the Bass Strait producers have indicated they will, amongst other things:

- restart Kingfish A production and produce from Flounder at maximum rates, as soon as practicable, and proceed with projects to enhance the rate of production in certain Bass Strait fields, involving expenditure of about \$300m;
- undertake new developments in Bass Strait involving expenditure of \$400-600m and also reassess the Tuna B development which, if implemented, could entail expenditure of \$800m; and
- increase their exploration activities in several areas within Australia, with expenditure of up to \$600m providing crude oil prices remain above \$US15 per barrel.

Table 2 sets out excise rates applying to 'old', 'intermediate' and 'new' oil in 1987-88. Currently, 'old' oil accounts for about 76% of total Bass Strait production, and of that some 70% is levied at the maximum excise rate.

Table 2: Excise Rates on Crude Oil Production

Annual Production Range	Average Daily Production Rate (d)	Excise Rates (% of Bass Strait Import Parity Price)									
		'Old' Oil (a)		'Intermediate' Oil (b)		'New' Oil (c)					
		Marginal	Average (e)	Marginal	Average (e)	Marginal	Average (e)				
Megalitres	kbd										
0-50	0-0.87	. . .	0	0	0	0	0	0	0	0	0
50-100	0.87-1.72	. . .	5	2.50	0	0	0	0	0	0	0
100-200	1.72-3.44	. . .	15	8.75	0	0	0	0	0	0	0
200-300	3.44-5.17	. . .	20	12.50	0	0	0	0	0	0	0
300-400	5.17-6.90	. . .	40	19.38	15	3.75	0	0	0	0	0
400-500	6.90-8.62	. . .	70	29.50	30	9.00	0	0	0	0	0
500-600	8.62-10.35	. . .	79	37.75	50	15.83	10	1.67			
600-700	10.35-12.07	. . .	79	43.64	55	21.43	20	4.29			
700-800	12.07-13.79	. . .	79	48.08	55	25.63	30	7.50			
800+	13.79+	. . .	79	n.a.	55	n.a.	35	n.a.			

(a) 'Old' oil areas currently in production are: Halibut, Kingfish A and B, Barracouta, Mackerel, South Mackerel, West Kingfish, Cobia, Marlin, Snapper, Tuna and Flounder.

(b) Bream, Perch, Dolphin and Turrum will produce oil subject to the 'intermediate' excise scale.

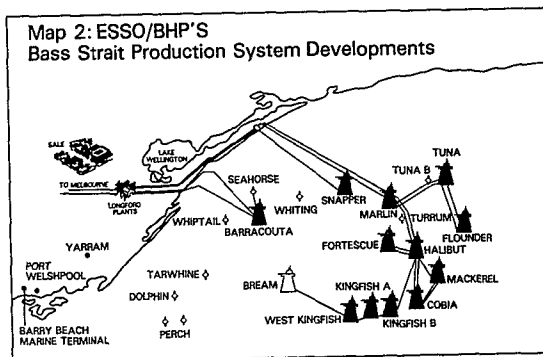
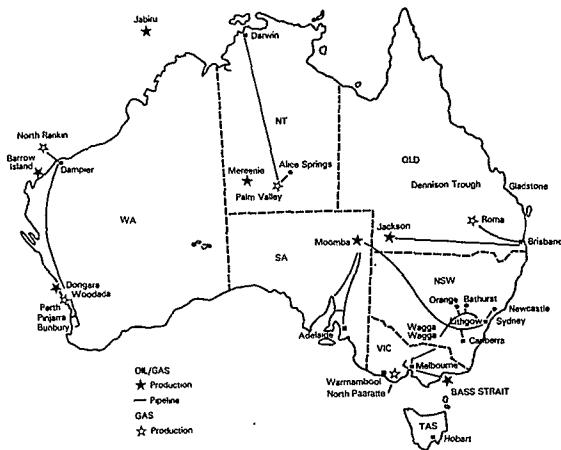
(c) 'New' oil areas include: West Kingfish, Fortescue, Snapper, Tuna and Flounder (all currently producing) and Whiting, Tarwhine, Seahorse and Whiptail (not yet producing).

(d) The first 30 million barrels of crude oil from new projects in Bass Strait and on the North West Shelf which commenced production from 1 July 1987 will be exempt from excise. For a medium sized Bass Strait field producing say, 13 kbd of 'new' oil, excise would not be paid until about the sixth year of production, after which a top marginal rate of 30% would apply (average rate about 6%).

(e) Average excise rates at the top of each production range.

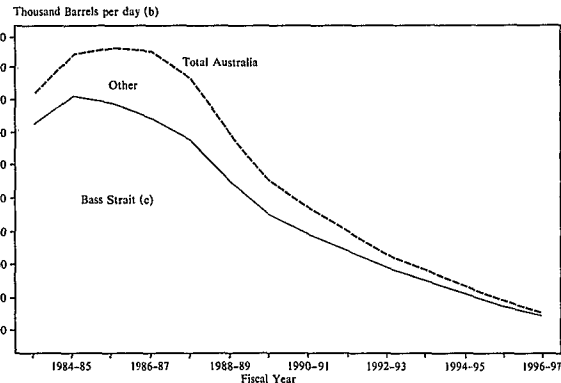
Maps 1 and 2, respectively, provide details of the major oil and gas production areas in Australia and Esso/BHP's current and prospective production areas in Bass Strait.

Map 1: Major Oil and Gas Production Areas in Australia



Australian crude oil production is expected to decline over the next decade (see chart 2) with the depletion of the main producing area, Bass Strait, which is currently about two-thirds depleted. Australian crude oil and condensate production reached a peak rate of nearly 547 kbd in 1985-86 but fell to an average rate of 542 kbd in 1986-87. Export volumes recovered from 87 kbd in 1985-86 to around 99 kbd in 1986-87. Crude oil import volumes have risen from an average of 107 kbd in 1985-86 to around 133 kbd in 1986-87. A further increase in traded volumes is expected with the introduction of a free market (see section 6 below).

Chart 2: Forecast Total Australian Crude Oil Production (a)



- (a) Production from currently known reserves based on advice from producers.
- (b) Rounded to nearest thousand.
- (c) As at June 1987 and includes comingled condensate.

5. CRUDE OIL ALLOCATION SCHEME

The Crude Oil Allocation Scheme was introduced in 1965 with the objective of guaranteeing a market for domestically produced crude oil through its allocation to domestic refiners. The scheme has been modified several times since, especially in recent years, and now permits sales to be made outside the allocation process ('free market' sales), including for export. These free market sales are transacted at market determined prices rather than at the import parity price.

Since 1978, all allocated domestically produced crude oil has been sold at an import parity price (IPP) set by the Government based on its assessment of the price which refiners would be required to pay to import a similar quality crude oil. Since 1 March 1986, the import parity price for Australian crude has been based on an average of spot price movements for four Middle East crudes (as a proxy for changes in the price of Arab Light), together with allowances for the quality differences between indigenous crudes and Arab Light, international and domestic

freight rates, wharfage, insurance and an average of recent \$US/\$A exchange rates. Table 3 shows the import parity price for Bass Strait crude oil and marker crude oil prices since July 1983.

Table 3: Import Parity Price for Bass Strait Crude Oil and Marker Crude Oil Prices

	Marker Crude (a)	IPP (b)
	(\$US/barrel fob)	(\$A/barrel Westerntport)
1 July 1983	29.00	36.53
1 January 1984	29.00	34.68
1 July 1984	29.00	35.36
1 January 1985	29.00	36.78
1 March 1985	28.00	38.44
1 May 1985	28.00	44.97
1 July 1985 (c)	27.32	44.50
1 September 1985	27.62	42.25
1 January 1986 (d)	27.67	43.71
1 March 1986 (e)	16.77	27.09
1 April 1986	12.55	20.59
1 May 1986	11.36	18.90
1 June 1986	12.45	20.04
1 July 1986	11.09	18.73
1 August 1986	8.07	15.75
1 September 1986	12.93	24.79
1 October 1986	13.70	24.94
1 January 1987	15.14	26.05
1 February 1987	18.11	30.34
1 March 1987	17.57	29.37
1 May 1987	17.87	27.82
1 July 1987	18.03	27.89
1 August 1987	18.68	29.00

(a) Based on fob price of the Saudi Arabian crude at Ras Tanura, Arab Light, until 1 March 1986. The official price for Arab Light was used until 1 May 1985.

(b) Prices (and excise rates) are set in dollars per kilolitre but, for purposes of comparison, are converted to dollars per barrel.

(c) From 1 July 1985, calculated as a 50:50 weighted average of the official and spot prices calculated as the average of the mid-points for buying and selling reported in *Platt's Oilgram Price Report* over the latest available two weekly period in the month preceding the date of effect of the new IPP.

(d) From 1 January 1986, the price of Arab Light crude oil was calculated on a 20:80 weighted average of the official and spot prices with spot prices calculated as in footnote (c).

(e) From 1 March 1986, a proxy for Arab Light consisting of a basket of four crudes has been used. The average spot prices for the four crudes were sourced from *Platt's Oilgram Price Report* for each crude, normally over the latest available two week period in the month preceding the date of effect of the IPP.

6. NEW MARKETING ARRANGEMENTS

On 21 June 1987, the then Minister for Resources and Energy announced new marketing arrangements for crude oil to apply from 1 January 1988. Refiners and crude oil producers will be permitted to negotiate freely the quantities and prices of crude oil they buy and sell, without Government involvement. The deregulation decision was made on the basis of assurances from oil refiners that they will continue to lift the output of the very small oil producers (producing up to 5 kbd) in a timely manner and at fair market-related prices. Oil refiners also gave assurances that there will be no closures of refineries as a result of deregulation and they will be maintaining their existing arrangements for Australian flag shipping.

The new marketing arrangements require a change in the basis for calculating crude oil excises. Previously, the IPP was used for sales under domestic allocation arrangements, while excise on exports has been calculated on realised prices. A system based on realised prices will be used for all crude oil excise calculations from 1 January 1988.

7. PETROLEUM PRODUCT EXCISES

Petroleum product excises have provided an increasing share of total Commonwealth revenue from taxes specific to petroleum, accounting for some 68% in 1986-87. Changes in the rates for motor spirit (petrol) and automotive distillate (diesel) since 1983 are set out in Table 4.

Table 4: Excise Rates for Petrol and Diesel from 1 July 1983

		Cents per litre					
1983-84	1 Jul	22 Aug	2 Feb				
		7.155	9.027	9.397			
1984-85	2 Feb						
			9.641				
1985-86	2 Aug	4 Feb	15 Mar	17 Apr	17 May	14 Jun	
		10.007	10.437	15.766	18.368	19.200	18.622
1986-87	18 Jul	1 Aug	16 Aug	19 Aug	13 Sep	16 Oct	19.706
		19.240	20.010	20.884	23.884	20.185	
			17 Jan	4 Feb	14 Mar	16 May	
			19.655	20.756	18.720	19.150	19.840
1987-88	18 Jul	15 Aug					
		19.808	20.097				

Since August 1983, the excise rates have been indexed each six months based on movements in the CPI. On 13 March 1987, the Prime Minister pledged that the Government will restrict the increase in excises which would otherwise have occurred at the next two half-yearly indexation adjustments to a total of around 6%. At the first of those adjustments in August 1987, excise rates were increased by 3.5%, the same as the CPI rise in the March and June quarters of 1987; the February 1988 adjustment will be such as to limit the combined adjustment to around 6%.

Since April 1986, the revenue effects of changes in crude oil excise and royalty due to adjustments in import parity prices (but not other factors) have been offset by discretionary changes in the excise rates on petroleum products.

8. PETROLEUM PRODUCTS PRICING AND FREIGHT SUBSIDIES

The Prices Surveillance Authority (PSA) endorses maximum wholesale prices for petrol, distillate, aviation fuels and refinery produced LPG. For products other than LPG the PSA sets a uniform maximum base price at refinery capital cities, to which State government franchise fees and any premia for State low lead requirements are added. The PSA also sets freight differentials which represent the cost of moving product to country areas, and buyer category differentials for sales made by oil companies to certain categories of purchasers.

Table 5 shows the PSA endorsed maximum wholesale base prices of super grade petrol for the capital cities since August 1984, when the present approach to pricing commenced, and the capital city differential applicable as at 1 June 1987.

Table 5: Endorsed Maximum Base Price of Super Grade Petrol

	Jul	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
1984-85	—	42.42	42.42	42.65	42.65	42.65	42.65	42.65	43.78	45.59	49.74	49.91
1985-86	49.91	49.74	49.74	48.11	48.11	48.11	48.11	49.59	49.59	43.82	42.82	42.82
1986-87	43.16	43.93	46.93	49.05	49.29	49.67	49.67	50.07	50.17	49.90	49.90	49.65

Maximum Wholesale Price Differentials: June 1987

	Sydney	Melbourne	Perth	Adelaide	Hobart	Brisbane	Darwin	Canberra
Franchise Fees	5.53	4.26	4.52	2.31	7.52	—	—	—
Low Island Freight	0.20	0.41	—	0.31	0.11(e)	—	—	1.50
Freight Differential	—	—	—	—	—	—	—	—
Total Differential	3.73	4.67	4.52	2.82	7.70	—	—	1.50

(a) The endorsed maximum wholesale price in June 1987 thus ranged from 49.65 cents a litre in Darwin and Brisbane to 57.35 cents per litre in Hobart.

Freight differentials for motor spirit, automotive distillate and aviation fuels are calculated for about 4000 country locations recognised by the Australian Customs Service as retail sites, remote locations or safe anchorages for the purposes of the Petroleum Products Freight Subsidy Scheme. The freight differentials calculated by the PSA are used in the determination of subsidies under that scheme. The scheme provides a subsidy on freight costs for these fuels, above a set margin (from 22 September 1987 of 10.2 cents per litre) which is indexed to the CPI. The cost of the Petroleum Products Freight Subsidy Scheme in 1986-87 was \$16m.

9. LPG PRICING AND EXCISE

The Commonwealth also sets wholesale prices for both naturally occurring and refinery produced LPG for automotive and traditional industrial, residential and commercial uses. Prices for exports, petrochemical and other uses are determined on the basis of negotiations with the producers. New price setting arrangements were introduced on 1 November 1986 to apply until 30 September 1988. Under the new arrangements an administered wholesale price is determined on 1 April and 1 October each year at \$20 a tonne above the average export price of Bass Strait propane for the six month period to end-February and end-August respectively.

Excise is not payable on naturally occurring LPG produced from fields which first commenced production after 16 August 1977 and from pools discovered after 17 August 1976. The excise rate is determined on 1 April and 1 October each year, based on negotiated prices and quantity weights over the same six month period as for the pricing arrangements, and the administered wholesale price determined for the next six month period. The formula for the excise rate is 60% of the excess of the weighted average of domestic and export prices over \$147 per tonne.

The administered wholesale prices, export parity prices and excise rates for naturally occurring LPG from July 1984 to September 1987 are shown in Table 6.

Table 6: LPG Prices and Excise Rates

Date	Administered Wholesale Price (a)	Average Export Price (b)	Excise Rate (c)
From:	per tonne \$	per tonne \$	per tonne \$
1.7.84	244.75	260.80	68.61
1.10.84	240.59	283.52	64.66
1.4.85	253.34	310.90	68.29
1.10.85	262.21	307.36	94.13
1.4.86	269.55	173.41	95.04
1.10.86	267.41	162.96	35.81
1.11.86	214.18	168.58	28.28
1.4.87 to 30.9.87	184.02	180.74(d)	9.84

(a) Administered wholesale prices for Bass Strait propane at Long Island Point.

(b) Average for period.

(c) Approximate dollars per tonne conversion of excise rates, which are set in dollars per kilolitre.

(d) For period to end-June 1987.