

TREASURER



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CONVERSION OF THE COMMONWEALTH REBATE FOR APPRENTICE FULL-TIME TRAINING TAX EXPENDITURE TO OUTLAYS

Financial Implications (\$m)

1997-98	1998-99	1999-00	2000-01
-	35	45	55

Note: These numbers represent notional gains to revenue arising directly from conversion of this tax expenditure to outlays. They include the gain to revenue from removing the tax exemption of payments and from the additional nominal amount of payments (designed to make recipients no worse off).

Explanation

Commonwealth financial assistance to employers of apprentices was enhanced in 1977 via taxation exemption under section 23(jc) of the *Income Tax Assessment Act 1936* for payments under the Commonwealth Rebate for Apprentice Full-Time Training (CRAFT) scheme. Through CRAFT the Commonwealth contributes to meeting the cost of apprentices. Current payments made under CRAFT which attract the taxation exemption include, for the incentive regime introduced in December 1996, commencement, recommencement, progression and additionality payments and, for previous incentive regimes, commencement, recommencement and completion payments.

The Government has decided to remove the tax exemption of the existing CRAFT Apprentice Training Incentive. To support the Government initiative to increase higher level structured training, the approximate value of the tax expenditure will be returned as a completion payment to 'for profit' employers of Australian Qualifications Framework Level 3 (AQF3) new apprentices. The conversion of the CRAFT tax expenditure to outlays in the 1997-98 Budget and forward estimates removes an anomaly between the taxation treatment of apprenticeship and traineeship incentives and forms part of a refined incentives package which reinstates incentives for large employers. This measure is shown correspondingly as an increase in outlays.

After account is taken of the other elements of the entry level training (ELT) package, and abstracting from timing effects (which reflect the one year lag in tax receipts), the conversion is broadly budget neutral over the medium term.

Conversion to a purely outlays programme will simplify the current ELT arrangements and improve the overall transparency of benefits to the public while clarifying the costs to Government.

The changes will take effect from 1 January 1998, subject to the passage of the necessary tax legislation. While the conversion of the CRAFT tax expenditure to outlays will mean that incentive payments for all apprentices who commence or recommence after 1 January 1998 will be taxable,

incentive payments for those apprentices who commenced prior to 1 January 1998 will retain their tax exempt status.

The proposed changes are in line with other reforms to the ELT system and form part of the total cost to the budget of the wider reforms. The changes also address a number of issues raised in the Government's *Review of the Impact of Restrictions on Entry Level Training Incentives* undertaken by the Allen Group and are consistent with the principles relating to the conversion of tax expenditures outlined in the 1996 *National Commission of Audit Report*. Details on the outlays aspects of this conversion are presented in the measure titled 'Changes to entry level training employer incentives' described in Part I of Budget Paper No 2 under the Employment, Education, Training and Youth Affairs portfolio.

The above material is a full extract of the description of the measure as contained in *Budget Paper No 2: Budget Measures 1997-98*. This paper explains all outlays and revenue measures, and is available from Australian Government Bookshops or from the Treasury Internet site at <http://www.treasury.gov.au/budget>

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