Chapter 39

A REVENUE NEUTRAL PERSPECTIVE

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Revenue neutral reform

39.1 The Review's terms of reference direct it to examine reforms to business investments and the scope for certain specified options in relation to capital gains taxation within a revenue neutral context.

Examining the scope for two trade-offs

39.2 As explained in the Overview, the Review has considered two separate revenue neutral trade-offs:

- first, the scope to lower the company tax rate in response to a broadening of the base; and
- second, the scope to alter the taxation arrangements applying to capital gains.

39.3 In principle, a revenue negative outcome on one of the trade-offs could be financed by an appropriately revenue positive outcome on the other trade-off. The Review is waiting until its consultations on the current discussion paper are finished before giving further consideration to this possibility.

39.4 For both trade-offs, revenue neutrality must be assessed against the baseline of the Government's fiscal figuring that reflects the budgeted-for tax reform measures announced in *A New Tax System*. As those measures include implementation of the Government's announced reforms to the taxation of entities, any changes to those entity measures or additional entity options, including in relation to the taxation of fringe benefits, arising as a consequence of the Review's recommendations may affect the potential to achieve a lower corporate tax rate.

39.5 Importantly, therefore, the options presented in this discussion paper are appropriately considered, not in isolation, but as integral components of what is required to be an overall revenue neutral package of reforms.

First trade-off: broadening the base to reduce the company rate

39.6 Summarised in Table 39.1 are the revenue implications of one approach to broadening the base in order to achieve a company tax rate of 30 per cent. Reducing the company tax rate to 30 per cent would involve a cost to revenue in terms of both the existing company tax base and the extensions to the company tax base that arise from the entity measures

presented in *A New Tax System*. That revenue cost is reflected in Panel A of Table 39.1.

39.7 The investment base broadening options presented in Panel B of Table 39.1 were selected with a view to illustrating the potential to achieve a 30 per cent company tax rate. The options identified do not prejudge the outcome of the Review process — whether of the consultations still to come, the substance of the Review's final recommendations or future decisions by the Government on those recommendations. Alternative options in relation to some of the investment items are presented in Table A.1.

39.8 Panel C of Table 39.1 lists the various entity-related options raised throughout the discussion paper as alternatives to the treatment proposed in *A New Tax System*. The revenue implications of options proposed in Chapter 38 for changing current FBT arrangements are summarised in Panel D of Table 39.1. Consistent with the framework set by the revenue neutral trade-off, the associated revenue implications of these options are presented in the context of a 30 per cent company tax rate.

39.9 The ultimate outcome in relation to this trade-off will therefore be determined by the revenue impacts of the following factors:

- the extent of investment base broadening, particularly in relation to accelerated depreciation;
- the extent of departures — proposed as a result of the current review — from the entity regime outlined in *A New Tax System*; and
- the nature of any changes proposed in relation to FBT arrangements.

Second trade-off: broadly revenue neutral changes to the taxation of capital gains and losses

39.10 Summarised in Table 39.2 are the revenue implications of removing indexation and averaging of capital gains. Also presented are the revenue implications of a range of alternative treatments for capital gains and losses. The various options are presented on the basis of a 30 per cent company tax rate.

Basis of revenue estimates

39.11 The revenue estimates have been prepared in consultation with the Australian Taxation Office using the latest available data. Nevertheless, some costings need to be viewed as indicative. In some cases the costings rely on assumptions about the extent of the relevant tax base and behavioural

responses to the change in the taxation treatment being examined. The revenue impact of some options may need to be modified if further information becomes available during the consultation process.

Table 39.1: A revenue neutral trade-off between a broader base and a 30 per cent company tax rate[a]

	1999-00 $m	2000-01 $m	2001-02 $m	2002-03 $m	2003-04 $m
A: Cost to revenue of reducing the company tax rate to 30 per cent [b]					
Existing company tax base[c]	-120	-1,980	-2,140	-1,930	-2,190
Taxing trusts as companies[d]	0	-420	-480	-370	-490
Deferred company tax[d]	-20	-120	-190	-190	-210
Refundable imputation credits[d]	0	0	180	180	190
Life insurers[d]	-20	-190	-230	-210	-240
Share buy-backs, liquidations and extending the same business test to all trust losses[d]	0	0	30	20	20
Company payment arrangements[e]	-30	-340	-400	-380	-190
Total	-190	-3,040	-3,240	-2,880	-3,110
B: Gain to revenue from investments at a 30 per cent company tax rate[f]					
Capital write-off:					
remove accelerated depreciation[g]	0	90	990	1,900	2,390
limit expensing of assets acquired for less than $300 to aggregate of $10,000	0	20	170	160	100
buildings and structures — effective life[h]	0	0	20	40	70
mining and quarrying — effective life[i]	0	0	20	30	40
reform balancing charge arrangements[j]	0	100	500	220	80
deduct blackhole expenditures (indefinite life)[k]	0	-10	-40	-60	-100
Total	0	190	1,660	2,290	2,580
Leasing and rights:					
rights not currently deductible[l]	0	-30	-30	-50	-60
tax leases as loans to prevent structuring of payments[m]	0	10	20	30	30
prevent the assignment of leases	0	10	30	90	140
Total	0	-20	20	70	110
Other:					
taxation of financial arrangements[n]	0	20	60	0	10
transfer of mining losses[o]	0	0	40	40	40
Total	0	20	100	40	40
Total revenue from investments	0	180	1,770	2,390	2,730

Table 39.1: A revenue neutral trade-off between a broader base and a 30 per cent company tax rate[(a)] (cont)

	1999-00 $m	2000-01 $m	2001-02 $m	2002-03 $m	2003-04 $m
Growth dividend[(p)]	0	50	100	150	200
Response effects[(q)]	Not available	Not available	Not available	Not available	Not available
Net revenue from the investment/company tax rate trade-off	**-190**	**-2,810**	**-1,370**	**-340**	**-180**
C: Revenue impact of alternative entity options at a 30 per cent company tax rate[(r)]					
Provide collective investment vehicles with 'flow-through' treatment:[(s)]					
and not tax tax-preferred income	0	-60	-100	-70	-60
and tax tax-preferred income	0	-60	-50	-40	-40
Allow refunds of imputation credits within year of receipt[(t)]	0	-240	-10	-10	-20
Collect deferred company tax on assessment[(u)]	-40	-230	30	-10	20
Replace deferred company tax:					
with a resident dividend withholding tax (RDWT)[(v)]	-40	170	-80	-90	-90
by taxing unfranked inter-entity distributions[(w)]	-40	30	-90	-110	-120
Allow franking credits for foreign dividend withholding tax:[(x)]					
collective investment vehicles	0	0	-50	-50	-60
other entities	0	0	-160	-170	-190
Tighten thin capitalisation provisions:					
arm's length gearing[(y)]	0	50	550	450	500
a fixed gearing ratio[(z)]	0	50	500	350	400
denial of interest deductions for offshore investments in highly geared controlled cases[(aa)]	0	-	150	100	100
Bonuses on existing life insurance policies:					
current tax treatment with a one year delay in the change to the rebate rate[(bb)]	0	0	-20	0	0
apply imputation system to existing policies[(cc)]	0	0	-60	-50	-50
apply imputation system to all existing policies[(dd)]	0	0	-60	-50	-50
D: Revenue impact of alternative FBT options at a 30 per cent company tax rate[(ee)]					
Assignment and taxation of fringe benefits to individuals:					
non-car fringe benefits (except entertainment and on-premise car parking)	0	-170	-180	-190	-190
car fringe benefits:					
retain current treatment but attribute benefit to employee	0	-220	-230	-240	-250
value car benefit presuming 20% business use and attribute to employee[(ff)]	0	530	550	570	590

Table 39.1: A revenue neutral trade-off between a broader base and a 30 per cent company tax rate[a] (cont)

	1999-00 $m	2000-01 $m	2001-02 $m	2002-03 $m	2003-04 $m
value car benefit presuming 50% business use and attribute to employee[ff]	0	-60	-70	-70	-70
revise statutory formula and attribute to employee					
scale 1 (25%, 30%, 35%, 35%)[gg]	0	440	450	470	490
scale 2 (constant 25%)[hh]	0	160	170	180	180
apply a tax free threshold of $1000	0	-1,460	-1,510	-1,570	-1,620
Repeal FBT on entertainment without deductibility[ii]	0	-460	-470	-490	-510
Repeal FBT on on-premise car parking	0	-70	-80	-80	-80
Remove concessional treatment for Public Benevolent Institutions and some not-for-profit organisations[jj]	0	260	270	280	290

(a) A positive revenue number implies a positive impact on the budget balance. Costings are based on the framework specified in *A New Tax System*. All investment options have a commencement date of 1 July 2000 while the entity options have a commencement date of the 2000-01 income year. All options have been costed at a 30 per cent company tax rate. Estimates have been rounded to the nearest $10 million. A '–' indicates an amount less than $5 million or greater than -$5 million.

(b) Reducing the company tax rate to 30 per cent involves a cost to revenue in terms of both the existing company tax base and the extensions to the company tax base presented in *A New Tax System*. The extensions to the company tax base include: taxing trusts as companies; share buy-backs and liquidations; refundable imputation credits; deferred company tax; the life insurance measures and the changes to company payment arrangements.

(c) The estimates reflect the net cost to revenue of lowering the company tax rate to 30 per cent on the company tax base that would otherwise be projected to exist in the absence of the reforms contained in *A New Tax System,* taking into account revised parameters.

(d) The estimates are based on updated revenue figures for this measure and reflect the difference in the amount of revenue forgone/saved at a 30 per cent company tax rate compared to a 36 per cent company tax rate.

(e) This reflects the revenue impact of lowering the company tax rate to 30 per cent on the revenue bring forward arising from the new company payment arrangements outlined in *A New Tax System,* updated for revised parameters.

(f) The investment options were costed such that the individual revenue estimates can be added to get a total investment figure. In particular, where appropriate, options have been costed on the basis that accelerated depreciation is removed. Each of the costings has been prepared on the basis that the option is unanticipated. That is, no allowance has been made for potential taxpayer response effects associated with the timing of investments.

(g) The estimates reflect the difference between deductions available under an effective life treatment and the existing accelerated write-off treatment. Longer run revenue estimates for this option are sensitive to the rate of growth in investment in plant and equipment and the allocation of that investment between items with different effective lives.

(h) The estimates reflect the difference between deductions that would be available under an effective life treatment and the existing treatment for buildings and structures, which provides 4 per cent annual write-off for short term traveler accommodation and industrial income producing buildings and 2.5 per cent annual write-off for all other income producing buildings.

(i) The estimates reflect the difference between deductions that would be available under an effective life treatment and the existing treatment for mining and quarrying expenditures. The existing immediate deductibility for exploration and prospecting is not included in this costing.

(j) This proposal includes removing the balancing charge rollover and applying a balancing charge upon the conversion of use of assets from assessable to non-assessable purposes.

(k) Under this proposal, some blackhole expenditures that are presently not deductible or only deductible as a capital loss would be eligible for write-off.

(l) The estimate of the cost to revenue of this option is considered to be indicative only. The extent of expenditure on rights that are currently not deductible to the purchaser, except as a capital loss at the end of the right, and the extent to which such expenditures are currently being re-characterised by taxpayers to claim immediate deductions are not clear. This costing assumes that the granting of the right is treated as a part realisation of the underlying asset for CGT purposes.

(m) Under the sale and loan methodology, the asset is deemed to be sold to the lessee at the commencement of the lease and a loan made from the lessor to the lessee, equal to the value of the leased asset less payments made by the lessee. This treatment of leases prevents tax benefits being derived through structuring of lease payments.

(n) This revenue estimate mainly reflects the revenue impact of the taxation of interest and discount income on an accruals basis. The proposed options for the taxation of financial arrangements are considerably more extensive in their coverage. The revenue impact of some of the options – for example, disposal of liabilities and anti-avoidance measures – is unquantifiable but may be revenue positive.

(o) This option reflects the saving to revenue that would arise from removing the ability to carry forward excess mining deductions and transfer those excess deductions upon disposal of the entity.

(p) This is the estimated impact on Commonwealth revenue arising from higher economic growth than might otherwise occur as a consequence of moving tax and commercial value closer together across a wide range of investments while lowering the company tax rate to 30 per cent. Due to the inherent difficulties associated with determining the size of such effects, a conservative estimate has been adopted. The estimate reflects a short run impact. The longer run impact on economic growth and revenue would be higher.

(q) It is not possible to estimate accurately the adverse impact on revenue of taxpayer responses to a reduction in the company tax rate. In particular, a reduction in the company tax rate to 30 per cent would increase the incentive to alienate personal income through interposed entities, at a cost to revenue.

(r) The estimates for the following options are presented as deviations from updated revenue estimates for the business taxation measures contained in *A New Tax System,* valued at a 30 per cent company tax rate.

(s) Under this option, income distributed by collective investment vehicles would retain its character and be taxed in the hands of investors. To qualify for this tax treatment, collective investment vehicles would need to be widely held, distribute all income annually and, if distributions of tax-preferred income were not taxed, meet certain investment criteria. This estimate excludes the cost of allowing foreign tax credits for foreign dividend withholding tax to flow through to investors, as this is shown under the option 'Allow franking credits for foreign dividend withholding tax'.

(t) Under this proposal, excess imputation credits would be refundable within the year of distribution, rather than on assessment, for individuals who are certain to receive a refund.

(u) Under this proposal, all deferred company tax would be collected on assessment, rather than by instalment (as would be the case under the proposals outlined for trusts and companies in *A New Tax System).* The revenue estimates reflect the application of this option to both companies and trusts and take into account refundable imputation credits.

(v) Includes the cost of applying a resident dividend withholding tax to unfranked profit distributions paid by resident companies and trusts to residents, less refundable imputation credits associated with such dividends. Also included is the refund of resident dividend withholding tax on inter-entity unfranked distributions received by non-residents and application of 15 per cent dividend withholding tax to the dividend plus refund.

(w) Includes the effect of taxing inter-entity unfranked profit distributions in the receiving entity's hands. Also included is the refund of company tax on inter-entity unfranked distributions received by non-residents and application of 15 per cent dividend withholding tax.

(x) Under this option, companies and trusts would be provided with franking credits for foreign dividend withholding tax levied on foreign dividends received by these entities.

(y) Under this option, interest expenses of a company group in Australia in excess of the group's worldwide gearing level would not be deductible unless a similar gearing level would be expected in a comparable entity. These estimates are rounded to the nearest $50 million.

(z) Under this option, interest expenses of a company group in Australia that are in excess of a fixed gearing ratio would not be deductible unless the gearing level of the Australian operations was consistent with the worldwide gearing level of that group. These estimates are rounded to the nearest $50 million.

(aa) Under this option, interest expenses of a company group in Australia with controlled offshore investments would not be deductible if the gearing of the Australian operations exceeds a fixed ratio, unless that gearing is in line with the gearing of its global operations. The estimates for this option are considered to be indicative. These estimates are rounded to the nearest $50 million.

(bb) Continue to apply the current taxation treatment to bonuses paid on existing life insurance investment policies, with the change in the level of the rebate (for the change in the tax rate applying to life insurers) applying to bonuses paid after 30 June 2001.

(cc) Under this proposal, the redesigned imputation system outlined in *A New Tax System* would apply to bonuses paid on existing life insurance investment policies terminated within 10 years. The current taxation treatment would continue to apply to bonuses paid on existing policies terminated after 10 years.

(dd) Under this proposal, the redesigned imputation system outlined in *A New Tax System* would apply to bonuses paid on all existing life insurance investment policies. The rate of tax on bonuses paid on existing policies terminated after 10 years would be capped at the company tax rate of 36 per cent. It is not possible to quantify the full cost of this option. However, the cost to revenue would be at least as large as that shown for the option of applying the imputation system to policies terminated within 10 years. The additional cost for bonuses paid on policies terminated after 10 years would be expected to decline over time as the stock of pre-existing policies is drawn down.

(ee) All options have a commencement date of the 2000-01 FBT year. Each of the options has been costed independently.

(ff) It is assumed that where business use is greater than the presumed level, the substantiated operating cost method would be used.

(gg) Under scale 1, the revised formula for valuation would be: 25 per cent for 0–14,999km; 30 per cent for 15,000–24,999km; 35 per cent for 25,000–39,999km; and 35 per cent for 40,000km and over.

(hh) Under scale 2, the revised formula for valuation would be a constant 25 per cent across all kilometre ranges.

(ii) The removal of entertainment from FBT coverage would return the treatment of all entertainment to its pre-1995 non-deductible status.

(jj) Not-for-profit organisations affected by this option include community clubs, trade unions and sporting associations.

Table 39.2: The scope to implement alternative taxation arrangements for capital gains in a revenue neutral manner[(a)]

	1999-00 $m	2000-01 $m	2001-02 $m	2002-03 $m	2003-04 $m
Gain to revenue from existing CGT measures					
Remove indexation of capital gains[(b)]	0	50	450	500	550
Remove CGT averaging[(c)]	0	0	150	150	200
Total	0	50	600	650	750
Revenue impact of alternative CGT options[(d)]					
$1,000 CGT threshold for individuals[(e)]	0	0	-100	-150	-150
30% capped rate for individuals[(e)]	0	0	-350	-450	-600
20% reduction in CGT rate for individuals[(e)(f)]	0	0	-350	-450	-600
30%, 25%, 12% CGT rate for individuals[(e)(g)]	0	0	-350	-500	-650
Scrip-for-scrip rollover relief for listed public companies	0	0	-100	-50	-50
Stepped rate CGT options:[(e)]					
six-year phase down options[(h)]	0	0	-350	-450	-600
ten-year phase down — option 1[(i)]	0	0	-400	-550	-750
ten-year phase down — option 2[(j)]	0	0	-450	-600	-750
Capital loss quarantining:					
carry-back of losses against past capital gains on all assets[(k)]	0	0	-450	-400	-450
carry-back of losses against past capital gains on assets acquired after 1 July 2000[(k)]	0	0	-100	-200	-250
immediate deductibility for assets assessed on an annual basis[(l)]	0	-	-	-	-
restrict quarantining to shares and units in trusts[(e)(m)]	0	0	-50	-100	-200
carry forward capital losses with interest[(k)(n)]	0	0	0	-50	-100

(a) A positive revenue number implies a positive impact on the budget balance. Costings are based on the framework specified in *A New Tax System*. The estimates take account of the once-off CPI and asset price impact of the indirect tax reforms outlined in *A New Tax System*. All options have a commencement date of 1 July 2000 and have been costed at a 30 per cent company tax rate. Estimates have been rounded to the nearest $50 million. A '–' indicates an amount less than $25 million or greater than -$25 million.

(b) This revenue estimate includes the effect of removing indexation before the once-off CPI price impact of the proposed indirect tax reforms outlined in *A New Tax System* occurs. The revenue estimate would be significantly smaller if the removal of indexation was delayed until after the flow-through of the once off CPI impact.

(c) The revenue estimates reflect an assumption that indexation is removed.

(d) The estimates reported below are presented as deviations from the benchmark set by the removal of indexation and capital gains tax averaging, unless specified otherwise.

(e) The estimates are indicative only and are highly contingent on the behavioural assumptions used. The estimates assume that the accompanying legislation includes complex anti-avoidance provisions, for example, to reduce income switching, capital loss creation and value shifting. The revenue risks associated with these options could be considerable.

(f) Under this option, the CGT rate would be 80 per cent of an individual's marginal rate. The discount has been determined so as to equate approximately the revenue cost of this option with that of the 30 per cent capped-rate option.

(g) Under this option, the CGT rates would be set at a maximum of 30 per cent for individuals on a marginal rate of 47 per cent and 40 per cent and 5 percentage points below the marginal rate for other taxpayers.

(h) Under this option, marginal CGT rates would phase down over six years. The phase down discounts have been determined so as to equate approximately the revenue cost of this option with that of the 30 per cent capped-rate option. Two possible structures for the phase down are presented in Tables A.2 and A.3. The revenue cost of this option could be significantly larger if taxpayers respond by realising capital gains in years when other income is low.

(i) Under this option, marginal CGT rates would phase down over 10 years. The structure for the phase down for these estimates is presented in Table A.4. The revenue cost of this option could be significantly larger if taxpayers respond by realising capital gains in years when other income is low.

(j) Under this option, marginal CGT rates would phase down over 10 years. The structure for the phase down for these estimates is presented in Table A.5. The revenue cost of this option could be significantly larger if taxpayers respond by realising capital gains in years when other income is low.

(k) These estimates are indicative only and are highly contingent on the assumptions used. They have not been adjusted for the removal of indexation or averaging.

(l) It is assumed that part of the cost of allowing immediate deductibility of capital losses for those assets assessed on an annual basis is reflected in the costings for those assets (presented elsewhere in the revenue tables).

(m) This option has been costed on the assumption that only those assets purchased after the implementation date would qualify for the new treatment. Hence, it would have a pronounced transitional phase. The longer run cost to revenue of this option would be considerably larger than the estimates presented for the period 2000-01 to 2003-04. In costing the option it has been assumed that an effective definition of shares and units in trusts could be implemented and enforced. If this were not the case the revenue cost could be considerably higher.

(n) Under this option, capital losses realised after 1 July 2000 would be carried forward with an uplift factor equal to the 10 year government bond rate. The longer run cost to revenue of this option would be larger than the estimates presented for the period 2000-01 to 2003-04.

Appendix A

Other options

A.1 Table A.1 contains estimates of some other options canvassed in this paper in the areas of capital write-offs, leasing and rights, and CGT.

A.2 Tables A.2 — A.5 provide illustrations of the CGT stepped rate structures discussed in Chapter 11.

Table A.1: Other investment and CGT options[(a)]

	1999-00 $m	2000-01 $m	2001-02 $m	2002-03 $m	2003-04 $m
Capital write-off[(b)]					
Replace accelerated depreciation with:[(c)]					
effective life plus 20% loading	0	60	710	1,320	1,740
effective life plus 50% loading	0	30	320	570	820
Immediate deduction under the diminishing value method where opening value is $100 or less or 4% or less of original cost[(d)]	0	-	-	-	-
Remove expensing of assets acquired for less than $300	0	20	230	230	140
Buildings and structures:[(e)]					
effective life plus 20% loading	0	0	10	20	30
effective life plus 50% loading	0	0	-10	-20	-20
Mining and quarrying:[(f)]					
effective life plus 20% loading	0	0	10	20	30
effective life plus 50% loading	0	0	0	10	10
Leasing and rights					
Tax leases as loans to prevent transfer of accelerated depreciation[(g)]	0	30	270	310	310
Allow tax exempts access to tax preferences[(h)]	0	-140	-310	-390	-400
Capital gains tax					
Replace current averaging with one-half averaging for assets held for more than a year[(i)]	0	0	100	100	100

(a) A positive revenue number implies a positive impact on the budget balance. Costings are based on the framework specified in *A New Tax System*. All options have a commencement date of 1 July 2000 and have been costed at a 30 per cent company tax rate. Each of the costings has been prepared on the basis that the option is unanticipated. That is, no allowance has been made for potential taxpayer response effects associated with the timing of investments. Estimates have been rounded to the nearest $10 million. A '–' indicates an amount of less than $5 million or greater than -$5 million.

(b) Each of the options was costed independently of other capital write-off options listed in this table. That is, each capital write-off option has been costed on the basis that all other write-off options do not proceed.

(c) The estimates reflect the difference between deductions available under the existing accelerated write-off treatment and those under effective life treatment with the specified loading. The loading is applied as a percentage increase in the annual rate of write-off applying under the effective life treatment. For example, if the rate of write-off under effective life treatment is 20 per cent and the loading is 10 per cent, then the accelerated rate of write-off would be 22 per cent. Longer run revenue estimates for this option are sensitive to the rate of growth in investment in plant and equipment and the allocation of that investment between items with different effective lives.

(d) The ongoing revenue impact of this option is expected to be small but there could be an initial once-off cost to revenue. An estimate of the once-off cost to revenue was not available at the time of printing.

(e) The following options replace the existing treatment for buildings and structures, which provides 4 per cent annual write-off for short term traveler accommodation and industrial income producing buildings and 2.5 per cent annual write-off for all other income producing buildings, with treatment based on effective life. The loading is applied as a percentage increase in the annual rate of write-off applying under the effective life treatment, as per footnote (c).

(f) The following options replace the existing treatment for mining and quarrying expenditures with treatments based on effective life. The loading is applied as a percentage increase in the annual rate of write-off applying under the effective life treatment, as per footnote (c).

(g) Under the sale and loan methodology, the asset is deemed to be sold to the lessee at the commencement of the lease and a loan made from the lessor to the lessee, equal to the value of the leased asset less payments made by the lessee. This treatment of leases prevents tax benefits being derived through tax preference transfer, particularly in relation to accelerated depreciation.

(h) Allowing tax exempts access to tax preferences would only be considered if tax preference transfer is not prevented more generally. The revenue estimate assumes that tax exempt entities access tax preferences at the company tax rate. It is assumed that, as an extreme case, all new investment in depreciable plant and equipment by tax exempt entities is leased, in order to take maximum advantage of existing accelerated depreciation allowances.

(i) The revenue estimates reflect an assumption that indexation remains.

Table A.2: CGT stepped rate with six-year phase down — Option 1

		Taxable income				
		> $75,000	$50,000 to $75,000	$20,000 to $50,000	$6,000 to $20,000	Less than $6,000
Period of ownership		CGT statutory rate: per cent				
0 yr to	< 1 yr	47.0	40.0	30.0	17.0	0
1 yr to	< 2 yrs	47.0	40.0	30.0	17.0	0
2 yrs to	< 3 yrs	43.6	38.0	26.4	14.6	0
3 yrs to	< 4 yrs	40.2	36.0	22.8	12.2	0
4 yrs to	< 5 yrs	36.8	34.0	19.2	9.8	0
5 yrs to	< 6 yrs	33.4	32.0	15.6	7.4	0
6 yrs to	< 7 yrs	30.0	30.0	12.0	5.0	0
> 7 yrs		30.0	30.0	12.0	5.0	0
Implied annual discount (statutory rate reduction)		3.4	2.0	3.6	2.4	0

Table A.3: CGT stepped rate with six-year phase down — Option 2

		Taxable income				
		> $75,000	$50,000 to $75,000	$20,000 to $50,000	$6,000 to $20,000	Less than $6,000
Period of ownership		CGT statutory rate: per cent				
0 yr to	< 1 yr	47.0	40.0	30.0	17.0	0
1 yr to	< 2 yrs	47.0	40.0	30.0	17.0	0
2 yrs to	< 3 yrs	44.6	37.6	27.6	14.6	0
3 yrs to	< 4 yrs	42.2	35.2	25.2	12.2	0
4 yrs to	< 5 yrs	39.8	32.8	22.8	9.8	0
5 yrs to	< 6 yrs	37.4	30.4	20.4	7.4	0
6 yrs to	< 7 yrs	35.0	28.0	18.0	5.0	0
> 7 yrs		35.0	28.0	18.0	5.0	0
Implied annual discount (statutory rate reduction)		2.4	2.4	2.4	2.4	0

Table A.4: CGT stepped rate with ten-year phase down — option 1

		Taxable income				
		> $75,000	$50,000 to $75,000	$20,000 to $50,000	$6,000 to $20,000	Less than $6,000
Period of ownership		CGT statutory rate: per cent				
0 yr to	< 1 yr	47	40	30	17	0
1 yr to	< 2 yrs	47	40	30	17	0
2 yrs to	< 3 yrs	40	34	26	16	0
3 yrs to	< 4 yrs	40	34	26	16	0
4 yrs to	< 5 yrs	32	28	22	14	0
5 yrs to	< 6 yrs	32	28	22	14	0
6 yrs to	< 7 yrs	25	22	18	13	0
7 yrs to	< 8 yrs	25	22	18	13	0
8 yrs to	< 9 yrs	17	16	14	11	0
9 yrs to	< 10 yrs	17	16	14	11	0
> 10 yrs		10	10	10	10	0

Table A.5: CGT stepped rate with ten-year phase down — Option 2

		Taxable income				
		> $75,000	$50,000 to $75,000	$20,000 to $50,000	$6,000 to $20,000	Less than $6,000
Period of ownership		CGT statutory rate: per cent				
0 yr to	< 1 yr	47	40	30	17	0
1 yr to	< 2 yrs	47	40	30	17	0
2 yrs to	< 3 yrs	39	35	25	16	0
3 yrs to	< 4 yrs	39	35	25	16	0
4 yrs to	< 5 yrs	30	30	20	15	0
5 yrs to	< 6 yrs	27	27	17	14	0
6 yrs to	< 7 yrs	27	27	17	13	0
7 yrs to	< 8 yrs	23	23	13	13	0
8 yrs to	< 9 yrs	23	23	13	11	0
9 yrs to	< 10 yrs	20	20	10	10	0
> 10 yrs		20	20	10	10	0