THE ASPREY REVIEW AND TAX EXPENDITURES: A MISSED OPPORTUNITY FOR REFORM?

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Abstract

The 1975 Asprey Review is widely regarded as laying the foundation for many major reforms to the Australian tax system. In doing so, it articulated three enduring principles that continue to underpin tax reform debates in Australia today: efficiency, equity, and simplicity. The comprehensive scope of the Asprey Review led to recommendations on introducing a capital gains tax regime, an employee fringe benefits tax regime, and a broad-based consumption tax, as well as reforms to trust and company taxation. While most scholars critically assess these substantive reform proposals, a significant area of tax reform recommendations, tax expenditures, is often overlooked. Despite the nascent nature of the tax expenditures concept at the time, the Review clearly articulated the need to consider tax expenditures in the context of reform measures. Throughout the Report, an emphasis is placed on the role of tax concessions, exemptions, and deductions, but this is done in the context of their implications for efficiency, equity, and simplicity. These concessions, however, represent tax expenditures that operate as de facto government spending through the tax system. Fifty years on, this article revisits the Asprey Review, critically evaluating the extent to which it engaged with the concept and implications of tax expenditures. Through the analysis of 38 specific observations made by the Committee in its final report, this study reveals how its recommendations, while acknowledging the fiscal significance of tax expenditures, failed to fully embrace Stanley Surrey's tax expenditure framework. This article argues that this omission and the subsequent failure to consider tax expenditures as equivalent to direct spending represent a significant missed opportunity to address a key driver of fiscal opacity and structural inequality in the Australian tax system. By positioning the Review and its consideration of tax expenditures within its historical context, the article explores why the aspects of tax expenditure management may have been subsequently overlooked and considers how a more robust treatment of them might shape future tax policy debate and reform.

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I INTRODUCTION

In 1973, Stanley Surrey, when discussing the United States tax regime, wrote that 'the principal ways to tax reform and improvement of our federal tax system lie in the concept of tax expenditures'.[1] At that time, the phrase 'tax expenditures' was not well known, as Surrey had first used it in a 1967 speech given when he was Assistant Secretary for Tax Policy.[2] In that speech, he emphasised that provisions of the federal income tax, including special exemptions, exclusions, deductions, and other tax benefits, were methods of providing governmental financial assistance and not part of the structure required for the income tax system. Instead, he pointed out that these were government expenditures made through the tax system, which had a similar purpose to direct spending programs listed in the regular budget.[3]

Surrey published his seminal work on tax expenditures at the same time that Australia was undergoing what would in hindsight be considered the foundation for significant tax reform for decades to come. The 1975 Asprey Review[4] is widely regarded as laying the groundwork for many of the significant reforms to the Australian tax system that we see today.[5] The foundation of the proposed reforms was articulated in three enduring principles that continue to underpin tax reform debates in Australia: an efficient, equitable, and simplified tax system. The comprehensive scope of the Review led to recommendations on introducing a capital gains tax regime, an employee fringe benefits regime, and implementing a broad-based consumption tax, as well as reforms to trust and company taxation. While most scholars critically assess the substantive reform proposals contained in the Review, the concept of tax expenditures as a means of critiquing any reform discussion and recommendations is generally overlooked.[6]

Fifty years on, this article revisits the Asprey Review, critically addressing a fundamental question as to the extent to which the Asprey Review engaged with the tax expenditure concept, and what the consequences of the Committee's approach were for subsequent Australian tax expenditure policy development. By positioning the Review and its consideration of tax expenditures within its historical context, the article explores why tax expenditures management may have been subsequently overlooked and considers how a more robust treatment might have shaped subsequent tax policy debate and reform. An emphasis is placed on the importance of tax expenditure management to the implementation of public policy, and why, due to the ability of tax expenditures to erode a comprehensive tax base, they should be viewed as equally significant as any other substantive tax policy matter.[7] Arguably, the question is of significance as it highlights how conceptual frameworks shape policy analysis and

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[1] Stanley Surrey, *Pathways to Tax Reform: The Concept of Tax Expenditures* (Harvard University Press, 1973) vii.

[2] Surrey outlines the basis of the concept as explained in his 1967 speech in his subsequent book on the topic: ibid.

[3] Ibid.

[4] Taxation Review Committee (Justice Kenneth Asprey, chair), *Full Report* (31 January 1975) ('Asprey Review').

[5] Chris Evans and Richard Krever, 'Tax Reviews in Australia: A Short Primer' in Chris Evans and Richard Krever (eds), *Australian Business Tax Reform in Retrospect and Prospect* (Thomson Reuters, 2009) 3, 4-11.

[6] For a discussion on tax reform after a Tax Review, see generally Chris Evans, Richard Krever and Peter Mellor (eds), *Australia's Future Tax System: The Prospects After Henry* (Thomson Reuters, 2010).

[7] See, for example, Australian National Audit Office, *Preparation of the Tax Expenditures Statement* (Performance Audit Report No 32 of 2007-08, 2008); Christopher Heady and Mario Mansour, 'Tax Expenditure Reporting and Its Use in Fiscal Management: A Guide for Developing Economies' (How To Note 19/01, International Monetary Fund, 2019) <https://www.elibrary.imf.org/view/journals/061/2019/002/article-A001-en.xml>.

institutional design, with lasting consequences for fiscal governance and democratic accountability.

This study finds that the Asprey Committee demonstrated a sophisticated understanding of the tax expenditure concept, despite its nascent nature. Often, language was used that paralleled that of Surrey. However, the Committee's analysis was centred on the conceptual framework of efficiency, equity, and simplicity, rather than that of tax expenditures being the equivalent of direct spending programs. The Asprey Committee's terms of reference provided that it was to have regard to 'the need to ensure a flow of revenue sufficient to meet the revenue requirements of the Commonwealth'.[8] As such, it was within the scope of the Review to consider not only ways of increasing tax revenue but also ways to reduce tax expenditures. While the Asprey Review placed significant emphasis on recommendations that broadened the tax base, failing to consider tax expenditures comprehensively was a lost opportunity. This omission and subsequent failure to consider the management aspects of tax expenditures, framed as spending programs, represents a significant missed opportunity to address a key driver of fiscal opacity and structural inequality in the Australian tax system.[9] This argument is based on the fact that analysis and reform of tax expenditures require both the management and reporting of deviations from the tax base.[10]

Many of the distributional concerns that the Committee documented have intensified in the 50 years since the Asprey Review. Current evidence demonstrates that Australia emphasises reporting rather than management of tax expenditures, operating outside the systematic evaluation and democratic oversight frameworks that international best practice requires. It is proposed in this article that a failure to fully recognise and assess deviations as equivalent to direct spending programs, reflecting Surrey's conceptual framework, may have led to this path in Australian tax policy today.[11]

The remainder of this article is structured as follows. Section II explains the tax expenditure concept as articulated by Stanley Surrey and differentiates between tax expenditure reporting and management. Section III provides a systematic analysis of the Asprey Review, highlighting that tax expenditures were not assessed as equivalent to direct spending programs when discussed in the Report. Instead, they were framed as part of the three broad underpinnings of efficiency, equity, and simplicity, and analysed as part of the tax system. Section IV demonstrates that subsequent consideration of tax expenditures in Australia has continued this path, with recognition of tax expenditures to ensure transparency, but without Surrey's core management principles being applied. In section V of the article, the question is asked as to whether the Asprey Review was a missed opportunity to adopt a comprehensive tax expenditure management system rather than a model that focuses on reporting. The article then provides a possible framework for tax expenditure management. Section VI concludes.

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[8] Asprey Review (n 4) para 1.8.

[9] Leonard E Burman and Marvin Phaup, 'Tax Expenditures, the Size and Efficiency of Government, and Implications for Budget Reform' (2012) 26(1) *Tax Policy and the Economy* 93; Australia Institute, 'Tax System Turbocharging Wealth Inequality in Australia' (Media Release, 13 August 2024) <https://australiainstitute.org.au/post/tax-system-turbocharging-wealth-inequality-in-australia/>.

[10] Surrey (n 1).

[11] Paul Palisi, 'Tax Expenditure Analysis: Origins, Debates and Future Prospects' (Australian Treasury Working Paper No 2017-03, 2017).

II THE TAX EXPENDITURE CONCEPT

The central tenet of the tax expenditure debate, whether reporting or management thereof, is the definition of the concept itself. The concept of tax expenditures, first coined by Stanley Surrey in 1967, has continued to evolve, with Surrey noting its dynamic nature. Surrey's original framework for the evaluation was based on the principle that tax systems should be evaluated against a normative baseline, with deviations from this baseline constituting tax expenditures equivalent to direct government outlays.[12] Surrey viewed tax expenditures as a 'vast subsidy apparatus' hidden within the tax regime that escaped the scrutiny applied to conventional government spending.[13] Nearly 20 years after first articulating the concept, Surrey and McDaniel drew attention to the fact that 'the tax expenditure concept requires a dynamic and continuing analysis of the provisions in a tax system'.[14]

Surrey's original concept was grounded in what he believed was the consensus among tax policy experts regarding the proper structure of an income tax.[15] His determination of what constituted a tax expenditure was based upon the Haig-Simons definition of income, as the normative income tax base.[16] Surrey viewed this definition of income as providing an objective foundation for distinguishing between structural tax provisions necessary for implementing an income tax and special provisions that represented government spending through the tax system.[17]

Surrey advocated for comprehensive tax expenditure management beyond simple reporting. His central philosophy was one of the core management principles of expenditure control. This rested on his observation that tax expenditures were the equivalent of direct spending programs and should be subject to the same scrutiny and evaluation criteria. The reporting of tax expenditures in what is commonly referred to as a tax expenditures budget was designed to be a policy tool to identify provisions in the income tax regime that could be either eliminated or converted to direct spending programs. He believed that through transparency, critical analysis would occur, and this would reveal them to be poorly targeted or inefficient when compared to direct spending programs. Surrey also held the view that many tax expenditures violated the traditional criteria of equity, efficiency, and simplicity for assessing taxes.

Surrey's work is not without its critics. Most notably, immediately after Surrey coined the phrase, Boris Bittker argued that there were insecure foundations upon which Surrey's tax expenditure analysis was constructed,[18] with a lack of 'a generally acceptable model, or set of principles, enabling us to decide with reasonable assurance which income tax provisions are

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[12] Surrey (n 1).
[13] Ibid.
[14] Stanley S Surrey and Paul R McDaniel, *Tax Expenditures* (Harvard University Press, 1985) 196.
[15] Surrey (n 1).
[16] The Haig-Simons definition of income (also known as Schanz-Haig-Simons income) defines income as consumption plus change in net worth. It can be expressed mathematically as: Income = Consumption + Change in Net Worth, where Consumption refers to the money spent on goods and services of any kind, and Change in Net Worth refers to the increase or decrease in the value of one's assets over the tax period. See James Alm, 'Is the Haig–Simons Standard Dead? The Uneasy Case for a Comprehensive Income tax' (2018) 71(2) *National Tax Journal* 379.
[17] Surrey (n 1).
[18] Boris I Bittker, 'A "Comprehensive Tax Base" as a Goal of Income Tax Reform' (1967) 80(5) *Harvard Law Review* 925.

departures from the model'.[19] This critique was based on the notion that it was impossible to establish a neutral baseline against which tax expenditures could be measured. This leads to the idea that defining and estimating the fiscal significance of tax expenditures is subjective. Such criticism, however, has not prevented the widespread adoption of the concept in domestic jurisdictions, most notably in the form of tax expenditure reporting by governments worldwide. However, this adoption is generally seen as incomplete, with a focus on reporting rather than genuine tax expenditure management.[20] Surrey's original idea was to treat tax expenditures as the equivalent of direct spending programs.

The significance of tax expenditures is highlighted in the literature. Burton and Sadiq emphasise that tax expenditures are significant 'by virtue of their number, distribution, impact upon the fiscal position of states, constitutional significance, impact upon public administration in general and tax administration in particular, and also because of their relevance to the legitimacy of democratic governments'.[21] As Burton and Sadiq note, 'tax expenditures are politically significant in contemporary democracies because they afford politicians the opportunity to combine the politically powerful message of providing a "tax cut" while simultaneously delivering government "spending" upon politically significant issues such as welfare, small business, the environment, and other substantive policy areas'.[22] This political dimension helps explain what von Haldenwang and co-authors identify as tax expenditures being a central but often hidden element of public revenue systems. They note that tax expenditures provide governments with political leverage to introduce distributive policies. At the same time, the real costs and benefits are often unknown or deliberately kept out of public debate.[23]

Tax expenditure reporting and management, when viewed through the lens of being equivalent to direct spending programs, enables a critical analysis of those parts of the tax system that do not contribute to the primary purpose of revenue raising.[24] This analysis is essential to fiscal sustainability because the budgetary impact of expenditures is equivalent to direct spending programs, thereby reducing funds available for government priorities.[25] Regular reporting, monitoring, and assessment of tax expenditures is seen as a critical part of the tax review and reform process in many jurisdictions due to their significance.[26]

Traditionally, there has been a distinction between tax expenditure reporting and tax expenditure management. Reporting focuses on transparency and accountability through the identification, measurement, disclosure, benchmarking, and classification of tax expenditures. On the other hand, tax expenditure management focuses on policy and governance through evaluation, integration, control mechanisms, decision-making processes, performance

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[19] Boris I Bittker, 'Accounting for Federal "Tax Subsidies" in the National Budget' (1969) 22(2) *National Tax Journal* 244, 247.
[20] Mark Burton and Miranda Stewart, 'Promoting Budget Transparency Through Tax Expenditure Management: A Report on Country Experience for Civil Society Advocates' (University of Melbourne Legal Studies Research Paper No 544, 2011) 25-30.
[21] Mark Burton and Kerrie Sadiq, *Tax Expenditure Management: A Critical Assessment* (Cambridge University Press, 2013) 5 (footnote omitted).
[22] Ibid (footnote omitted).
[23] Christian von Haldenwang et al, 'The Politics of Tax Expenditures' in Lukas Hakelberg and Laura Seelkopf (eds), *Handbook on the Politics of Taxation* (Edward Elgar, 2021) 129.
[24] Burton and Sadiq (n 21) 20.
[25] Heady and Mansour (n 7).
[26] OECD, *Tax Expenditures in OECD Countries* (OECD Publishing, 2010) <https://www.oecd.org/en/publications/tax-expenditures-in-oecd-countries_9789264076907-en.html>; Heady and Mansour (n 7).

monitoring, and budget integration. The primary goal of tax expenditure reporting is to ensure hidden spending through the tax system is visible to stakeholders, but it does little beyond transparency. This is a reactive approach to any tax expenditure regime and fails to evaluate them as policy tools. Management, on the other hand, requires the active governance of tax expenditures to ensure control and optimisation of existing and proposed tax expenditures.

In the next section of this article, the fundamental question as to the extent to which the Asprey Committee engaged with the tax expenditure concept and the way that this engagement manifested and was articulated is addressed.

III A SYSTEMATIC ANALYSIS OF THE ASPREY REVIEW

An analysis of the Asprey Review to critically assess whether the concept of tax expenditures was embraced as equivalent to direct spending, considering the aspects of reporting and management, offers the foundation for determining the influence that this Review may have had over the last 50 years in terms of how Australia has reported on and managed tax expenditures. The overarching research objective of this study is to explore the extent to which the Review recognised and conceptualised tax expenditures (or concessions) as direct spending, as well as the associated implications of such tax concessions. Even though throughout the document an emphasis was placed on the role of tax expenditures, which consist of concessions, exemptions, and deductions that operate as de facto government spending through the tax system, there are nuances in the way that tax expenditures are considered.

This investigation employs systematic content analysis of the Asprey Committee's documented positions on tax concessions and deductions by coding relevant text in the Review report. In particular, the study examines 38 specific observations and recommendations extracted from the Review that refer to the tax concessional deductions to recognise the Committee's perspective on these. For instance, whether the Committee viewed certain tax concessions in terms of equity, efficiency, and simplicity of the tax system is examined. In addition to reviewing the Committee's positions on tax concessions, this investigation questions whether the Asprey Review failed to recognise any significant aspects of the implications of tax concessions. In other words, while tax concessions are undoubtedly linked to those principles that underpin the tax system, the potential to view these concessions as tax expenditures or government direct spending, which is a precursor for tax expenditure management, cannot be ignored. This approach enables both quantitative assessment of the Committee's emphasis across different dimensions and qualitative analysis of its approach to specific policy challenges.

The coding framework was developed through iterative analysis of the Review text, with categories refined to ensure mutual exclusivity and comprehensive coverage. The study encompasses the complete text of the Taxation Review Committee's Full Report, published in January 1975. This document comprises over 550 pages of discussion and recommendations and is a comprehensive documentation of the Committee's approach to tax policy reform. All sections relating to tax concessions, deductions, exemptions, and preferential provisions were included in the analysis.

A *Quantitative Overview of the Committee's Documented Positions*

Systematic content analysis of the Asprey Review revealed 38 specific observations and/or recommendations related to tax expenditure concepts. This provides the empirical foundation for understanding the Committee's approach to tax expenditures and their relationship to Surrey's framework. The analysis demonstrates that while the Committee showed a sophisticated understanding of many issues in Surrey's tax expenditure framework, their analysis remained anchored in traditional tax policy categories rather than expenditure management principles.

The Committee's most explicit statement of tax expenditure principles appears in section 3.4:

> Firstly, where tax stops and expenditure starts is often unclear. A tax concession to a particular area of spending in the private sector can as well be looked upon as an expenditure of revenue as a failure to collect it, and it is often an issue of importance to tax policy whether such concealed subsidies should not better be given overtly. Still more important is the point that cash transfers to individuals, the whole class of social service payments of every kind, are inextricably bound up with the equity of the taxation system. The Committee certainly does not regard itself as qualified to advise upon the details of the social services and is aware of other inquiries at work in this area. But some consideration of cash grants, taxable or otherwise, is essential in the design of an optimal tax system.[27]

This observation captures the essence of Surrey's insight that tax expenditures constitute government spending through the tax system. The Committee's use of the phrase 'expenditure of revenue' directly parallels Surrey's terminology, while their reference to 'concealed subsidies' demonstrates understanding of the transparency implications that motivated Surrey's framework. However, it seemed to adopt the view that these concealed subsidies, taken holistically, were outside the scope of the Review.

The Committee's documented positions cluster around several key analytical themes, revealing the relative emphasis placed on different aspects of tax reform concerns, as categorised in Table 1. Six key themes were identified: (1) equity considerations (11 observations, 29%); (2) administrative and implementation challenges (13 observations, 34%); (3) efficiency and simplification (5 observations, 13%); (4) tax and public expenditure integration (5 observations, 13%); (5) transparency and democratic accountability (3 observations, 8%), and (6) direct tax expenditure recognition (1 observation, 3%). Each category dealt with different areas of concern.

Table 1: Asprey Review Observations on Tax Expenditures by Category

Category	Number of Observations	Percentage
Administrative Challenges	13	34.2%
Vertical Equity	8	21.1%
Tax and Public Expenditure	5	13.2%
Efficiency and Simplicity	5	13.2%
Horizontal Equity	3	7.9%
Transparency and Accountability	3	7.9%

[27] Asprey Review (n 4) para 3.4.

Direct Tax Expenditure Recognition	1	2.6%
Total	**38**	**100.0%**

Equity considerations critiqued both vertical equity (8 observations) and horizontal equity concerns (3 observations). The Committee devoted a great deal of attention to the equity implications of tax expenditures, demonstrating a sophisticated understanding of the distributional consequences of these concessions embedded in the tax system. Administrative challenges received the most significant emphasis, reflecting practical concerns about implementation complexity. Administrative and implementation challenges were explicitly related to compliance costs, assessment difficulties, and administrative complexity. Efficiency and simplification dealt with policy effectiveness and administrative streamlining.

For analysis purposes in this study, although the coding is categorised as above, the Committee viewed these categories as inextricably connected dimensions. For example, the administrative challenges are often considered by the Committee as a risk to the efficiency and simplicity of the tax system. Tax and public expenditure integration recognised the relationships between tax concessions and direct spending. Transparency and democratic accountability were considered, including reporting requirements and parliamentary oversight. Nonetheless, the Committee's direct reference to tax concessions as governments' forgone revenue is only evident in 2.6% (1 of 38) of the documented observations in recognising the difference between the tax base and tax expenditures. While this was established earlier in the Review, the analysis of tax concessions is only central to identifying the implications on traditional tax policy issues (eg, equity).

The dominance of traditional tax policy categories (equity, efficiency, simplicity) in the Committee's analysis, accounting for 76% of total observations, suggests they approached tax expenditures within established analytical frameworks rather than adopting Surrey's expenditure equivalence perspective. In Surrey's view, contained in his original work, the purpose of recognising tax expenditures was to classify government costs incurred through the tax system, enabling budgeting, evaluation, and comparisons with other government expenditures designed to achieve the same purpose.[28] The Asprey Committee demonstrated remarkable insight in identifying the fiscal and policy significance of tax concessions, often using language that closely paralleled Surrey's tax expenditure framework. However, as noted above, the pattern in the Asprey Review provides quantitative evidence that the Committee did not fully embrace Surrey's conceptual innovation by recognising, evaluating, and managing tax expenditures as direct spending equivalence.

B *Recognition without Conceptualisation*

The analytical precision of the tax expenditure concept in terms of measurement remains challenging to this day. However, the rhetorical force with which it applies is much more significant. As Burton and Sadiq observe, Surrey's use of the term tax expenditure 'constitutes a rhetorical device intended to expose the framing effect arising from a reluctance or failure to recognise that not gathering revenue from a particular taxpayer is substantively the same as gathering revenue from the taxpayer and then handing the same sum back to that taxpayer'.[29] It is this insight that is designed to force tax policy-makers to recognise that tax spending rules

[28] Stanley S Surrey and William F Hellmuth, 'The Tax Expenditure Budget – Response to Professor Bittker' (1969) 22(4) *National Tax Journal* 528.
[29] Burton and Sadiq (n 21) 59 (footnote omitted).

should be subjected to the same review as direct spending programs. By treating tax expenditures as the equivalent of direct spending programs, the question of distributive justice and the role of the state in redistributing resources from higher-income groups to lower-income groups is also highlighted.[30] The inevitable questions surrounding the role the state plays in such redistribution are not addressed, but the framing is powerful in drawing attention to whether the tax system is the appropriate mechanism for such redistribution and what principles should apply.[31]

When viewed through contemporary tax expenditure management frameworks, the Asprey Committee's analysis reveals the limitations of partial adoption of tax expenditure concepts. Rather than treating tax concessions as equivalent to direct spending programs requiring systematic evaluation and management, the Review continued to frame them within traditional tax policy categories of efficiency, equity, and simplicity. This represents what tax expenditure scholars characterise as a failure to fully embrace the 'rhetorical device intended to expose the framing effect' that Surrey had carefully constructed.[32] This is the underlying fundamental concept in Surrey's conceptualisation of tax expenditures. His framework was not just in technical analysis but in reframing how policy-makers and citizens think about tax expenditures.

By maintaining traditional tax policy framing, the Committee limited its ability to develop the institutional innovations Surrey advocated. For example, when discussing the concessional deductions for charitable donations, the Committee states:

> If gifts are deductible from income for tax purposes, the government in effect reimburses the donor for a larger share of the gift the higher the donor's income, and this may be thought vertically inequitable, even though the donor does not reap any personal material benefit from the making of the gift.[33]

Here, the vertical inequality is observed and framed from the perspective of taxpayers. However, the effect is that the government indirectly subsidises a higher amount for the high-income earner through donations. Yet, the Committee did not analyse tax concessions as the government spending programs, with the result that additional revenue is lost (or increasing tax expenditures), which may lead to broader distributional implications (eg, inequity) in public spending. In other words, the equity implications of the regressive nature of tax concessions extend beyond the two groups of taxpayers of interest (ie, high-income and low-income) and generate broad implications for social services relying on government public funding. The Committee did not address this, failing to conceptualise the tax expenditure concept as a device intended to expose framing effects of direct spending.

While tax concessions are not thoroughly investigated or framed as the equivalent to direct spending, the Committee did recognise the interconnection between the tax concessions and other policies. For example, the Committee's observation that '[c]oncessions granted for any one purpose will generally have consequences for others, whether this is desired or not'[34] demonstrates a clear understanding of policy interactions within the tax expenditures framework but falls short of the systematic evaluation needed to assess the use of tax

[30] Ibid 165.
[31] Ibid.
[32] Ibid 59.
[33] Asprey Review (n 4) para 25.22.
[34] Ibid para 12.20.

expenditures fully. Undoubtedly, the recognition of the interconnection between tax concessions and direct spending in the Review was a significant step towards identifying and reporting tax expenditure in later years. However, the Asprey Review was conducted at an unprecedented time, when the evolving global tax discussions recognised the importance of accounting for government subsidies through the tax system as equivalent to direct spending programs. This timing, as well as the comprehensive nature of the objectives of the Asprey Review, that is, to ensure the flow of revenue sufficient to meet the revenue requirements of the Commonwealth,[35] posed an opportunity for the Review to examine tax concessions as equivalent to direct spending, establishing a path for systematic evaluation and management of tax expenditures. However, this opportunity was missed.

C *The Quantification Challenge*

The Committee's quantitative analysis of tax concessions also provides what we now recognise as an early example of tax expenditure reporting that precedes modern techniques. In particular, the Committee noted that concessional deductions 'reduce the tax base by almost 20 per cent, involving a loss of revenue under the current progressive rate structure equivalent to more than one-third of the sums actually raised'.[36] The discussion of reduced revenue can be equated to the current measurement of revenue forgone through tax expenditures, and demonstrates an anticipated approach to modern tax expenditure measurement techniques used today. The Committee provided a detailed breakdown of revenue losses by category: dependant allowances (28% of total concessional deductions), life insurance and superannuation payments (24% of total concessional deductions), medical expenditure and insurance (19% of total concessional deductions), and other deductions (29% of total concessional deductions).[37]

This quantitative analysis by the Committee highlights their concerns about the substantial fiscal implications of tax expenditures. Their finding that removal of all concessional deductions would permit 'a reduction in tax rates over all income levels by a proportion, on average, of more than 25 per cent of the rate currently applying' demonstrates a careful consideration of trade-offs between tax expenditures and tax rates.[38] This quantitative approach is arguably impressive for its time. However, it was insufficient for comprehensive tax expenditure management. Modern scholarship recognises that measurement of tax expenditures is challenging for all sorts of reasons, including difficulties in identifying 'the true beneficiary of a tax expenditure, as opposed to the formal legal beneficiary'.[39] The Committee's breakdown of revenue losses provided useful fiscal information but did not address the incidence and distributional questions that current analysis identifies as crucial for tax expenditure assessment. Their static analysis highlights what is now considered a limitation of traditional measurement approaches that ignore behavioural responses and broader economic effects.[40] The Asprey Committee's early recognition of the magnitudes of tax expenditures demonstrates that they understood the fiscal stakes involved. Unfortunately, this was not supported by a comprehensive framing of these expenditures as direct spending that would require a systematic evaluation.

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[35] Ibid para 1.8.
[36] Ibid para 12.18.
[37] Ibid para 12.1
[38] Ibid para 12.18.
[39] Burton and Sadiq (n 21) 10.
[40] Ibid 165, 58.

The Review's discussion on the distributional consequences raised what tax expenditure scholars characterise as the 'upside-down effect' of tax expenditures, providing insights that more recent evidence validates. At the same time, their equity analysis highlighted its limitations of not undertaking a review using a systematic expenditure management framework. The Committee observed that 'the deductions allowed under the present system tend to favour those with higher incomes', identifying the regressive nature of tax concessions delivered through deductions in progressive tax systems.[41] This finding aligns with the critique of tax expenditures as inefficient and inequitable forms of government assistance. The Committee's Report highlighted that tax deductions provide greater benefit to taxpayers facing higher marginal tax rates, creating a systematic bias toward higher-income beneficiaries. They provided an example of the dependent spouse deduction, which was available at the time, noting that there was a deduction of $364 for a dependent spouse, which is 'rapidly reduced when the spouse has income of her (or his) own'; the report stated that '[t]here are two criticisms of the concession: the first that a poor man's wife is worth less than a rich man's, the second that the concession is in any case too modest'.[42] This observation, although obvious, highlights the effects of tax expenditures and how they interact with deduction-based tax expenditures to create regressive distributional outcomes.

The Committee's proposed solution of converting deductions to rebates addressed vertical equity concerns while maintaining tax-side delivery of assistance. As the Committee explained, '[t]he link between the level of tax rates and the tax saving involved in concessions for dependants would vanish were such concessions to be given as tax rebates rather than as deductions from taxable income'.[43] This recommendation represents what is characterised as partial adoption of tax expenditure thinking, recognising that the value of tax expenditures should not vary with marginal tax rates. However, the Committee did not extend their equity analysis to question whether tax-side delivery was optimal compared to direct spending alternatives, nor did they consider the broader distributional implications that modern analysis identifies as crucial for comprehensive evaluation. Modern scholarship notes that '[a]ll else being equal … refundable tax credits can be the most equitable mechanism for delivering a tax expenditure in a progressive taxation system'.[44] Still, it warns that 'there is a danger in too readily assuming that a refundable tax credit is distributively fair and thereby avoiding a wider inquiry regarding non-cash benefits and burdens of the tax expenditure'.[45]

More recent research confirms the ongoing significance of the distributional concerns the Committee identified. Analysis of Australia's retirement policies demonstrates how tax expenditures continue to provide the greatest benefits to higher-income earners while delivering limited assistance to those most in need.[46] Specifically, the Parliamentary Budget Office analysis provided in the latest *Tax Expenditures and Insights Statement* reveals that superannuation tax expenditures worth AUD 52.6 billion annually provide 60% of benefits to the highest income quintile. In comparison, the lowest income quintile receives only 1% of

[41] Asprey Review (n 4) para 12.26.
[42] Ibid para 12.3. We also note the assumption at the time that it was a husband claiming the dependent spouse deduction.
[43] Ibid para 6.57.
[44] Burton and Sadiq (n 21) 114 (footnote omitted).
[45] Ibid.
[46] Lidia Xynas and Dr Steve Jaynes, 'From Tax Expenditures to Rebates: An "Output Based Equity" Approach for Australia's Retirement Policies' (2012) 22(1) *Revenue Law Journal*.

benefits.[47] This ongoing distributional inequity suggests that the Committee's reform recommendations, while raising some equity concerns, did not fundamentally alter the regressive structure of tax expenditure delivery. This is an issue that recent scholarship identifies as a systematic problem requiring a comprehensive institutional response.[48] Overall, the persistence and escalation of distributional bias over 50 years validates the Committee's analytical insights while demonstrating the limitations of their institutional recommendations.

D *Administrative Challenges*

The Committee's analysis of administrative challenges associated with tax concessions closely parallels what scholars identify as fundamental problems with integrating spending programs within tax systems, providing insights that remain highly relevant for modern tax expenditure management. The Committee noted that '[c]oncessional deductions are recognised by those who administer income tax as one of the more difficult, uncertain and costly parts of their task'.[49] This observation anticipated what current frameworks identify as systematic challenges rather than merely technical difficulties in implementing tax expenditures. The Committee also recognised that administrative challenges create differential access to tax benefits, noting that complexity favours taxpayers with access to professional advice. This insight continues to stand true in that '[t]hose able to afford high quality tax advice may be better placed to take advantage of tax expenditures'.[50]

The Committee also noted that 'assessors have a task that is essentially retrospective: to check claims made in the light of past expenditures by persons who may well have been uncertain whether or not deductions would be allowed'.[51] This reflects broader problems with delivering targeted spending through mass tax systems, which are designed for revenue collection rather than spending program administration. The Committee's observations about difficult cases ('Is this book educational? Are wigs medically necessary?'[52]) anticipate what modern scholarship identifies as the challenge of 'obtaining sufficient information to deliver the government spending without aggravating public concerns regarding taxation red tape'.[53] These difficulties reflect fundamental tensions between the administrative requirements of targeted spending programs and the mass processing capabilities of tax systems.

Tax expenditure management frameworks reveal why these administrative challenges reflect deeper institutional problems rather than merely technical difficulties. Modern analysis argues that 'the integration of a plethora of public policy measures within the tax framework engenders challenges surrounding the administration of tax expenditures' that create systematic risks to tax system legitimacy.[54] These challenges include role conflict in tax administration, where revenue collection objectives conflict with spending program delivery requirements;

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[47] Parliamentary Budget Office, 'Tax Expenditures' (Webpage, 14 November 2024) <https://www.pbo.gov.au/about-budgets/budget-insights/budget-explainers/tax-mix/taxes-transfers-tax-expenditures/tax-expenditures> and accompanying Australian Treasury, *Tax Expenditures and Insights Statement 2024-25* (17 December 2024) ('*Tax Expenditures and Insights Statement 2024-25*').
[48] Burton and Sadiq (n 21); Eric A San Juan, 'The Distributive State and the Function of Tax Expenditures' (2018) 71(3) *Tax Lawyer* 673.
[49] Asprey Review (n 4) para 12.25.
[50] Burton and Sadiq (n 21) 116.
[51] Asprey Review (n 4) para 12.25.
[52] Ibid.
[53] Burton and Sadiq (n 21) 142.
[54] Ibid 134.

compliance framework misapplication, where tax compliance procedures are poorly suited to spending program administration; and performance measurement problems, where tax administration metrics do not capture spending program effectiveness.[55]

Work by international bodies confirms the ongoing relevance of the administrative challenges the Committee identified. The International Monetary Fund notes that tax expenditures can result in substantial administrative and compliance costs while creating challenges for tax administration.[56] The World Bank *Tax Expenditure Manual* recognises that the administrative costs of tax expenditure are higher than utilising direct spending programs and involve 'cost of assessing tax returns, ensuring their accuracy and resources allocated to the audit functions'.[57] From a tax management perspective, tax expenditures are justified when the social benefits of such spending outweigh any administrative, compliance, and social costs. Thus, while recognising the challenges of tax expenditure administration, it is crucial to evaluate tax concessions in terms of both targeted policy objectives and associated administrative burdens.[58] It is well documented that countries implementing comprehensive tax expenditure management frameworks achieve better outcomes through systematic institutional design.[59] Canadian practice demonstrates how dedicated administrative capacity, specialised evaluation procedures, and integration with expenditure management systems can address many of the challenges the Committee identified.[60] This suggests that the administrative problems are not inherent to tax expenditure delivery but reflect institutional design choices that can be addressed through comprehensive reform.

The Committee's recognition of these challenges was perceptive, but their recommendations did not address the institutional innovations that scholarship has gone on to suggest are necessary for effective tax expenditure management. The Committee's analysis of administrative challenges in tax concessions focuses on efficiency and simplicity, overlooking the need for a systematic evaluation of these expenditures in terms of administrative costs and targeted policy objectives. Modern analysis emphasises that overcoming administrative challenges requires systematic institutional design that addresses the fundamental tension between revenue collection and spending program delivery within unified administrative systems.

E *Tax Expenditures and Direct Spending Programs*

Perhaps most significant to understanding the Committee's relationship to Surrey's framework, the Review recognised interconnections between tax concessions and direct spending programs that anticipate present-day emphasis on holistic fiscal management while illustrating the limitations of their institutional development. The Committee observed that 'the particular objectives served by concessional deductions are also served by other kinds of government activity', demonstrating understanding of policy overlap that Surrey's framework

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[55] Ibid.

[56] Sebastian Beer et al, 'How to Evaluate Tax Expenditures' (How To Note 22/05, International Monetary Fund, 2022).

[57] See World Bank, *Tax Expenditure Manual* (2024) section 7.2.12 <https://documents1.worldbank.org/curated/en/099062724151636908/pdf/P174543148ba880bb188fd1ce06f588a6aa.pdf>.

[58] Beer et al (n 56).

[59] Ibid.

[60] John Lester, 'Reviewing Federal Tax Expenditures' in Jinyan Li, J Scott Wilkie and Larry F Chapman (eds), *Income Tax at 100 Years: Essays and Reflections on the Income War Tax Act* (Canadian Tax Foundation, 2017).

emphasises.[61] This insight suggests movement toward Surrey's preferred approach of systematic comparison between tax expenditures and direct spending alternatives.

The Committee's recommendation that 'the long-term aim should be to replace concessional deductions, wherever possible, with assistance given in other ways' represents the most explicit statement of preference for direct spending over tax expenditures in the Review.[62] This recommendation aligns with Surrey's argument that direct expenditure programs typically achieve policy objectives more effectively and equitably than tax expenditures. However, the Committee's rationale remained grounded in traditional tax policy objectives rather than the expenditure management principles that scholarship over the last 50 years advocates for. Their emphasis on 'efficiency, simplicity and equity alike' as justification for preferring direct spending reflects their efficiency-equity-simplicity framework rather than Surrey's expenditure equivalence principle.[63]

Current tax expenditure management frameworks help illuminate why the Committee's integration insights were significant but incompletely developed. Effective tax expenditure management requires recognition that tax expenditures and direct spending represent alternative institutional ways for achieving policy objectives, requiring systematic comparison of their respective merits across multiple dimensions, including effectiveness, efficiency, equity, accountability, and administrative feasibility.[64] The Committee's analysis lacked the systematic evaluation framework that international practice now demonstrates is essential for effective integration.

The Committee's observation that 'greater reliance on carefully administered public expenditure and less on concessional deductions might bring gains' approaches tax expenditure management frameworks but was not developed into systematic recommendations for tax expenditure management institutions.[65] This limitation reflects their focus on tax system reform rather than broader fiscal governance. The institutional limitations the Committee failed to address continue to constrain Australian budgetary policy today. The Parliamentary Budget Office suggests ongoing problems with policy fragmentation and a lack of systematic coordination between tax expenditures and direct spending programs addressing similar objectives.[66] This fragmentation creates inefficiency, reduces policy effectiveness, and undermines democratic accountability.

Specific examples include Australia's retirement savings regime with superannuation tax expenditures (AUD 52.6 billion annually) operating separately from age pension spending (AUD 55.3 billion annually)[67] without systematic coordination or evaluation of optimal policy mix; housing assistance with negative gearing and capital gains tax concessions (AUD 20.0 billion annually)[68] operating separately from direct housing assistance programs (AUD 6.9

[61] Asprey Review (n 4) para 12.22.
[62] Ibid para 12.29.
[63] Ibid.
[64] Burton and Sadiq (n 21) Chapter 6.
[65] Asprey Review (n 4) para 12.25.
[66] Parliamentary Budget Office (n 47).
[67] Richard Denniss and David Richardson, 'Self-Funded or State-Funded Retirees? The Cost of Super Tax Concessions' (The Australian Institute, February 2023) <https://australiainstitute.org.au/wp-content/uploads/2023/02/P1368-Superannuation-tax-concessions-2023-Web1.pdf>.
[68] The Australia Institute, 'Negative Gearing and Capital Gains Tax Discount Driving Up House Prices' (Media Release, 1 October 2024) <https://australiainstitute.org.au/post/negative-gearing-and-capital-gains-tax-discount-driving-up-house-prices/>.

billion annually)[69] without systematic integration; and child support, with family tax benefits delivered through the tax system operating separately from direct family assistance payments, without a comprehensive evaluation of delivery mechanisms. These examples demonstrate the enduring fragmentation between tax expenditure and direct spending policies institutionalised within the Australian fiscal policy framework, which is a result of decades of tax expenditure reform measures centralised on reporting rather than management.

In light of the analysis and findings outlined above, the next section of this article considers the trajectory of tax expenditure recognition, reporting, and management in Australia over the last 50 years.

IV TAX EXPENDITURES IN THE AUSTRALIAN CONTEXT

Tax expenditures have been part of the Australian income tax system for over a century, dating back to 1908, when tax exemptions were introduced for invalid and old-age pensions. While numerous tax expenditures were progressively introduced into the tax regime over the decades, it was not until 1973 that tax expenditures were considered part of broader tax reviews, and even then, they were not explicitly recognised as such. The first reference to the notion of 'tax expenditure' can be traced to the 1972-73 Budget Papers, where it was stated that:

> The Commonwealth's direct expenditure on social services, health, housing and repatriation benefits and services ... is not a full measure of the cost to the Commonwealth of its welfare and repatriation assistance. In addition, there are certain taxation concessions having welfare aspects granted to taxpayers under the income tax law and the sales tax law.[70]

In 1973, the *Review of the Continuing Expenditure Policies of the Previous Government* (Coombs Review) was undertaken to identify and estimate the cost of expenditures of the previous Liberal government.[71] It assessed 48 tax expenditure programs, each of which it referred to as 'disguised' expenditure.[72] For each 'disguised' expenditure, comprehensive information was provided, outlining the nature of each expenditure, cost, date of introduction, nature of the commitment, purpose, and operation, followed by commentary and possible legislative reform. Specifically, the Coombs Review considered the benefits of various tax expenditure programs in relation to the cost to the revenue and the community. It was critical of many of the 'disguised' expenditures and recommended multiple measures in terms of both simplification and scrutiny. The Coombs Review was followed by the Fitzgerald Report to the Minister for Minerals and Energy in 1974, which quantified tax concessions and compared them with the mineral industry's contributions.[73] It was during this time that the Asprey Review

[69] Productivity Commission, *Report on Government Services 2025* (10 June 2025) <https://www.pc.gov.au/ongoing/report-on-government-services/2025>.
[70] Australian Government, *Budget Statement No 10: Commonwealth Assistance for Social Welfare and Repatriation, Budget 1972-73*, in Commonwealth, *Parliamentary Debates*, House of Representatives, 15 August 1972, 133, 135.
[71] Task Force to Enquire into the Continuous Expenditure Policies of the Previous Government (HC Coombs, chair), *Review of the Continuing Expenditure Policies of the Previous Government, Report of the Task Force Appointed by the Prime Minister the Honourable EG Whitlam* (June 1973).
[72] Ibid.
[73] TM Fitzgerald, *The Contribution of the Mineral Industry to Australian Welfare: Report to the Minister for Minerals and Energy* (April 1974).

was being undertaken, and as discussed above, it reported on what it referred to as 'concessional deductions'. The main categories it highlighted included dependant allowances, medical and education expenses, zone allowances, life insurance, superannuation premiums, and gifts to charities. It was also observed that they primarily reflected considerations of equity as well as particular social and economic policies.[74]

The 1970s were a period when awareness of the need for tax expenditure reporting and management was first explored in Australia. The Coombs Review provided valuable insights into Australia's tax expenditure regime, particularly in terms of its positioning within the tax system and tax expenditure management. In contrast, the Asprey Review referred to tax expenditures as concessional deductions rather than tax expenditures. The continuation of conceptualising tax concessional deductions as 'revenue forgone' or 'tax expenditures', as well as remarking on the need for budgeting tax expenditures by the Coombs and Fitzgerald reports, was perhaps overlooked. Given the in-depth analysis of the tax system, including concessions in terms of the 'big three' dimensions, the absence of analysis of tax expenditures, particularly in these dimensions, and the further regulatory push for tax expenditure budgeting may have been a missed opportunity. Building on the Coombs and Fitzgerald reviews, as well as parallel international movements in the US and Canada, the Asprey Report had an opportunity to consolidate prior improvements concerning the tax expenditure concept in Australia, which could have served as the basis for comprehensive tax reporting and management.

Tax expenditures gained formal recognition in Australia in the 1980s and became part of the mainstream tax reporting landscape. Throughout the 1980s, tax expenditures were the subject of numerous reviews and reports, as well as the release of the first public Tax Expenditure Statement. This increase in tax expenditure review and reporting began in 1982, when the House of Representatives Standing Committee on Expenditure was prompted by parliamentary concern regarding the reporting of tax expenditures. The resulting report, entitled *Taxation Expenditures*, concluded that there was an absence of information on tax expenditures in terms of scope, annual cost to the budget, and purpose.[75] It also concluded that while tax expenditures were useful in certain situations, they were 'generally regressive in nature, were not certain of reaching only those people for whom they were intended, were difficult to evaluate, and frequently involved a trade-off between equity and efficiency'.[76]

The first significant advances in tax expenditure reporting followed. From 1980, there was limited reporting of major tax expenditures, attached as an appendix to the annual Budget Papers. While there was ultimately only partial implementation of the Report of the House of Representatives Standing Committee, on 27 March 1985, the Treasurer provided his support for the recommendations contained in the 1982 Standing Committee Report. This led to the first Tax Expenditures Statement, reporting on the 1986 income year, being tabled in Parliament in early 1987. Tax Expenditure Statements are now produced annually in Australia as a result of legislative reform mandating their annual production.[77]

At the same time, the Economic Planning Advisory Council (EPAC) in a 1986 report considered ways to improve the reporting, evaluation, and accountability of tax expenditures. It highlighted the similarity between direct spending and tax expenditures, suggesting that they

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[74] Asprey Review (n 4) 111.
[75] House of Representatives Standing Committee on Expenditure, *Taxation Expenditures* (August 1982) 1, as noted in Australian National Audit Office (n 7) 82.
[76] This summary of the Committee findings is contained in Australian National Audit Office (n 7) 82.
[77] Current legislative requirements are contained in the *Charter of Budget Honesty Act 1998* (Cth).

should undergo the same budgetary review and control.[78] The Council also concluded that there was value in using the outlay equivalence approach to estimate the value of tax expenditures, thereby helping to integrate tax expenditures into the regular Budget process.[79] By the end of the 1980s, Australia had introduced reasonably comprehensive tax expenditure reporting. Australia now had an annual tax expenditure statement detailing the program to assist in the better management of tax expenditures. Consequently, although not all recommendations were implemented, it is arguable that the 1980s witnessed significant advancements in the reporting of tax expenditures, resulting in greater transparency. It was now a matter of advancing the reporting to continually improve the transparency and assist in the management of tax expenditures.

A decade after the Economic Planning Advisory Council Report, tax expenditures were once again considered, this time by the National Commission of Audit. Its Report to the Commonwealth government, addressing the management and financial activities of the Commonwealth government,[80] was critical of the way that tax expenditures were reported in Australia. It noted that the Australian reporting of tax expenditures fell short of overseas best practice. One of its key recommendations in the context of the Charter of Budget Honesty was that '… tax expenditures be treated as much as possible like program expenditures'.[81]

This recommendation was based on findings that the different budgetary processes applying to tax concessions and expenditure programs contributed to a lack of transparency. It highlighted several significant differences, including the lower level of monitoring for tax expenditures, the difficulty in accurately costing tax expenditures, the lack of individual ministerial responsibility for tax expenditures, and the absence of established procedures to examine ways of containing blowouts in tax concessions.[82] The Commission concluded that '[a]s a result of all these factors, tax concessions are a largely non-transparent form of assistance. This lack of transparency makes the effect of tax concessions on the budget less visible and reduces accountability. It also increases the likelihood that poorly targeted concessions will remain on offer'.[83]

The Commission went on to state:

> For these reasons, it is preferable that tax expenditures are treated as much as possible like program expenditure in an Australian fiscal reporting Act. This would entail the inclusion, where possible, of estimates of the revenue cost of tax concessions in budget documents, as well as the scrutiny of tax concessions alongside program expenditure in the lead-up to the budget. … this reform needs to be preceded by a comprehensive review of all existing tax concessions. Such a review would facilitate regular and ongoing monitoring of the cost and effectiveness of tax concessions and would be consistent with the objectives of the Charter of Budget Honesty. While outside the Commission's terms of reference, the review could also assess the extent to which tax concessions are meeting policy objectives.

[78] Economic Planning Advisory Council (EPAC), *Tax Expenditures in Australia* (1986).
[79] See discussion of the EPAC report in Australian National Audit Office (n 7) 84. EPAC also concluded that there should be a review of all tax expenditures and reporting similar to the Canadian regime.
[80] National Commission of Audit (Robert R Officer, chair), *National Commission of Audit Report to the Commonwealth Government* (June 1996).
[81] Ibid 11.1.
[82] Ibid 11.2.
[83] Ibid.

Ultimately, the National Commission of Audit recommended that '[t]ax expenditures should be treated as much as possible like program expenditures in all published fiscal reports and statements and in all budgetary processes'.[84] This recommendation was made in June 1996, and in August 1996, the Taxation Expenditure Review (TER 97) commenced. This review confirmed and expanded on the shortcomings outlined in the National Commission of Audit Review. In doing so, it also concluded that tax expenditures should be monitored similarly to outlay programs.

The TER 97 aimed to address both reporting and substantive issues relating to tax expenditures. However, consideration of the outcomes was postponed due to a shift in focus to a broad reform of Australia's tax system. In April 1998, the Government considered a revised and arguably watered-down report (TER 98) which, unlike the TER 97, advocated for the retention of most tax expenditures. Following a review of existing tax expenditures, first announced in the 1996-97 Budget, the government stated that it would undertake periodic monitoring and evaluation of all tax expenditures through normal Budget processes.[85] Also in 1998, the current requirement for reporting tax expenditures, as contained in the *Charter of Budget Honesty Act 1998*, was introduced. This Act provided that the report must contain a detailed statement of tax expenditures, with its stated purpose being to 'provide updated information to allow the assessment of the Government's fiscal performance against the strategy set out in the current fiscal strategy statement'.[86]

In 1999, the Review of Business Taxation, referring to tax expenditures as tax concessions, also recommended an ongoing process to periodically and systematically review all tax expenditures to determine whether the objectives for their introduction remain current and are most effectively delivered through the taxation system.[87] Again, Australia experienced a decade of improved reporting, accompanied by limited reform in tax expenditure management. Unfortunately, by the end of the 1990s, none of the substantive recommendations from any of the reports had been implemented. Consequently, very little progress had been made in the management of tax expenditures.

Despite the lack of progress in tax expenditure reporting and management in the 1990s, Australia was presented with a unique opportunity in the following decade to undertake both reform of tax expenditure reporting and substantive reform of tax expenditures within the tax regime. This arose from a further review, specifically investigating the preparation of the tax expenditure statement, as well as a broader, comprehensive review into all aspects of Australia's future tax system. The first opportunity to present itself was a report delivered by the Australian National Audit Office[88] on the preparation of the tax expenditure statement. The impetus for this report arose in March 2007, when the Senate Standing Committee on Finance and Public Administration released its report, entitled *Transparency and Accountability of Commonwealth Public Funding and Expenditure*. The Committee stated that it supported the publication of the tax expenditures statement as an essential accountability mechanism. It

[84] Ibid 11.19.
[85] Australian Treasury, *Annual Report 1998-99* (20 October 1999).
[86] Australian National Audit Office (n 7) 11.
[87] Review of Business Taxation (John Ralph, chair), *A Tax System Redesigned: More Certain, Equitable and Durable* (July 1999) 275.
[88] The Australian National Audit Office is a specialist public sector practice providing a full range of audit services to the Parliament and Commonwealth public sector agencies and statutory bodies. The Auditor General is responsible, under the *Auditor-General Act 1997*, for providing auditing services to the Parliament and public sector entities. The Australian National Audit Office supports the Auditor-General, who is an independent officer of the Parliament.

suggested that the Australian National Audit Office and the Treasury, in line with submissions received, ascertain what aspects of the tax expenditure statement could be further improved.[89] Recommendations included an ongoing prioritised review of the existing program of tax expenditures, better integration of tax expenditures in the annual Budget process, and improvements in the reliability of data reporting.

The Australia's Future Tax System Review (Henry Review) did consider tax expenditures as part of its 'root and branch' review of Australia's tax system. Several recommendations were made in relation to tax expenditures under the heading of 'monitoring and reporting on the tax system'. Specifically, Recommendation 135 provided that:

> The Australian government should ensure that the rules governing the development of the Budget encourage trade-offs between tax expenditures and spending programs. Budget decision-making processes should measure and treat tax expenditures and spending programs symmetrically, to ensure that there is no artificial incentive to deliver programs through one mechanism rather than another.[90]

Further, Recommendation 137 stated that:

> The government should ensure that reporting standards are independently developed for the identification and measurement of tax expenditures in the Tax Expenditures Statement. In addition, the standards should establish a basis for reporting the broader economic and distributional effects of tax expenditures in the periodic Tax and Transfer Analysis Statement...[91]

In 2013, the Australian National Audit Office assessed the extent to which the Department of the Treasury and the Australian Taxation Office had improved the management of tax expenditure estimates by implementing the six recommendations in the 2008 Australian National Audit Office (ANAO) audit and the three recommendations made by the Joint Committee of Public Accounts and Audit (JCPAA) following its inquiry.[92] It found that only two of the recommendations were implemented, being the promotion of more comprehensive reporting of tax expenditures by liaising with Commonwealth entities to identify all entities that potentially administer tax expenditures, and developing arrangements to obtain relevant data from entities outside the Treasury portfolio and reporting selected tax expenditures using the revenue gain method. It particularly highlighted the fact that, unlike government outlays, once introduced, tax expenditures are not subject to parliamentary scrutiny.[93] It commented that because of this lack of scrutiny, it is important to have other processes in place to assess whether tax expenditures are achieving their policy objectives. It noted that the Treasury commenced a systematic review of tax expenditure items in 2008, but this ceased in 2011, with only 31% reviewed.[94]

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[89] Senate Standing Committee on Finance and Public Administration, *Transparency and Accountability of Commonwealth Public Funding and Expenditure* (2007) 33.
[90] Australia's Future Tax System Review Panel (Ken Henry, chair), *Australia's Future Tax System: Report to the Treasurer* (December 2009) Pt 1, 105.
[91] Ibid 106.
[92] For a discussion of the recommendations from the ANAO and JCPAA inquiry see: Australian National Audit Office, *Preparation of the Tax Expenditures Statement* (Performance Audit Report No 34 of 2012-13, 9 May 2013) <https://www.anao.gov.au/work/performance-audit/preparation-the-tax-expenditures-statement>.
[93] Ibid 17.
[94] Ibid 18.

Little in the way of improvements to tax expenditure management has occurred since, and the focus remains on reporting. The current Australian approach to tax expenditure reporting is outlined in the *Tax Expenditures and Insights Statement*, released annually by the Treasury. Currently, the *Charter of Budget Honesty Act 1998* requires the Australian government to report on the size of tax expenditures in a separate report, called the Tax Expenditures and Insights Statement (TEIS), and to also provide a summary of similar information in each annual Budget.[95] The Australian Treasury's 2024-25 *Tax Expenditures and Insights Statement* reveals that total tax expenditures now exceed AUD 200 billion annually.[96] If these concessions were administered as additional tax and spending, the Australian government's Budget would be over one-third larger. The Treasury emphasises that transparent reporting of tax expenditures helps show the full impact of government policies on individuals, households, and businesses, and highlights revenue that the government does not collect due to certain tax features.[97] However, this remains primarily a reporting rather than a management function, illustrating the limitations identified in Surrey's original framework implementation.

This current approach is the culmination of 50 years of government and parliamentary reviews outlined above. These decades of reviews in Australia, starting at the time of the Asprey Review, have critically assessed tax expenditures, tax expenditure reporting, and tax expenditure management, resulting in numerous recommendations, with a pattern that shows consistent recognition of tax expenditures as an important policy issue requiring better integration into Budget processes. However, limited implementation of the substantive reforms recommended by these reviews has occurred. The question remains as to whether a different approach in the Asprey Review would have resulted in greater tax expenditure management.

In the next section of this article, an approach that adopts a tax expenditure management focus is discussed to highlight the types of recommendations the Asprey Review could have made had Surrey's conceptual framework been adopted. In that case, tax expenditures would have been assessed as the equivalent of direct spending programs, and a management framework would have been endorsed.

V A MISSED OPPORTUNITY

Despite the nascent nature of the tax expenditures concept at the time, the Asprey Review clearly articulated the need to consider tax expenditures in the context of reform measures. However, the analysis provided in section III of this article highlights that tax expenditures were not assessed as equivalent to direct spending programs when discussed in the Report. Instead, they were framed as part of the three broad underpinnings of efficiency, equity, and simplicity, and analysed as part of the tax system design. This is despite the fact that throughout the Report, an emphasis was placed on the role of tax expenditures, consisting of concessions, exemptions, and deductions. The failure to identify tax expenditures as the equivalent of direct spending programs meant that scant attention was paid to the management of these often costly and flawed programs. As demonstrated in section IV, subsequent consideration of tax expenditures in Australia has continued this path, with recognition of tax expenditures to ensure transparency, but without Surrey's core management principles being applied.

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[95] Parliamentary Budget Office (n 47).
[96] Australian Treasury, *Tax Expenditures and Insights Statement 2024-25* (17 December 2024) ('*Tax Expenditures and Insights Statement 2024-25*').
[97] Ibid.

Recent literature increasingly emphasises institutional structures rather than technical analysis, reflecting recognition that effective tax expenditure management requires systematic institutional innovation and active management frameworks. This validates this study's argument that the Asprey Committee's analytical sophistication was insufficient without corresponding institutional development. The growing literature's emphasis on transparency and democratic oversight validates Surrey's original concerns about fiscal opacity while highlighting ongoing implementation challenges. Studies increasingly emphasise that tax expenditures require oversight frameworks equivalent to direct spending programs.[98]

Tax expenditure reporting without management reveals what Burton and Stewart refer to as 'democratic accountability gaps' in Australian practice, noting that tax expenditures, unlike direct spending, do not require annual parliamentary appropriation and can continue indefinitely.[99] This accountability deficit directly reflects the institutional limitations that the Asprey Committee failed to address through the systematic adoption of Surrey's framework. Ongoing accountability problems exist today, as while direct spending programs require annual budget approval and regular parliamentary oversight, tax expenditures worth over AUD 200 billion annually operate with minimal systematic review or democratic scrutiny.[100] This creates what amounts to entitlement spending operating outside the regular Budget process.

Current Treasury practice emphasises comprehensive reporting of tax expenditure magnitudes and beneficiaries through the annual *Tax Expenditures and Insights Statement*. Still, it lacks systematic evaluation and management frameworks for assessing effectiveness, efficiency, or optimal delivery mechanisms.[101] Palisi's analysis broadly characterises the current practice as reporting rather than genuine tax expenditure management, noting that tax expenditure reporting has failed to curb the growth of tax expenditures,[102] arguably reflecting the institutional limitations established following the Asprey Review. This distinction reflects the institutional choices made following the Asprey Review, where technical analysis was developed without comprehending the implications of corresponding management and evaluation frameworks. This contrasts with international best practice that integrates reporting with systematic evaluation and management processes.

Jurisdictionally, Canada's tax expenditure management regime demonstrates systematic integration of tax expenditure analysis with expenditure management systems, enabling regular assessment against direct spending alternatives and evidence-based policy decisions about optimal delivery mechanisms.[103] Canadian implementation includes several institutional innovations that address the limitations this study identifies in Australian practice. For example, there is Budget integration with tax expenditure costs systematically integrated with portfolio budget processes, enabling whole-of-government policy coordination; systematic evaluation with regular evaluation processes assess tax expenditure effectiveness using methodologies comparable to direct spending program assessment; parliamentary oversight with formal mechanisms ensure regular parliamentary consideration of tax expenditure policies with oversight equivalent to direct spending programs, and sunset provisions with systematic review requirements with evidence-based renewal processes for tax expenditure policies.[104]

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[98] See for example, Burton and Sadiq (n 21).
[99] Burton and Stewart (n 20).
[100] Parliamentary Budget Office (n 47).
[101] Palisi (n 11); Australian Treasury, *Tax Expenditures and Insights Statement 2024-25* (n 96).
[102] Palisi (n 11).
[103] Lester (n 60).
[104] Ibid.

Recent European Commission analysis also demonstrates sophisticated regional approaches to tax expenditure coordination that address both national governance and international coordination challenges.[105] European Union practice increasingly emphasises systematic evaluation, cross-country comparison, and integration with fiscal governance frameworks. This analysis emphasises that 'regular reporting, monitoring and assessment of tax expenditures is crucial as it allows Member States to review and revise their tax policies'.[106] This approach provides a template for systematic implementation while addressing coordination challenges in multi-jurisdictional contexts.

Further, recent International Monetary Fund (IMF) guidance provides a comprehensive framework for tax expenditure evaluation that addresses institutional design challenges while providing practical implementation guidance.[107] The IMF emphasises that 'systematic evaluations … are needed to guide informed decision-making and to avoid a situation where the narrative on the benefits of [tax expenditures] is primarily driven by profiting stakeholders'.[108] The IMF guidance addresses precisely the institutional mechanisms the Asprey Committee could have recommended, such as clear policy objective identification for all tax expenditures, cost-effectiveness analysis comparing tax expenditures with direct spending alternatives, regular sunset clauses with evidence-based renewal requirements, and integration with broader fiscal governance and Budget management frameworks.[109]

The World Bank's 2024 *Tax Expenditure Manual* represents the most comprehensive recent guidance on institutional design for effective tax expenditure management.[110] The Manual addresses conceptual foundations, measurement methodologies, evaluation frameworks, governance mechanisms, and political economy considerations for tax expenditure reform. This comprehensive approach validates Surrey's original insights while providing practical guidance for institutional development that addresses theoretical controversies through transparent democratic processes rather than technical solutions. The World Bank approach emphasises that effective tax expenditure management requires institutional innovation rather than incremental improvement in technical analysis.

Current international best practice provides empirical evidence of what comprehensive implementation of a tax expenditure regime entails and the benefits it achieves for democratic accountability and fiscal management. The Asprey Committee's failure to recommend systematic evaluation and oversight mechanisms may have contributed to the expansion of tax expenditures in Australia without corresponding accountability safeguards. While the Committee recognised some fiscal and policy implications of tax concessions, they did not systematically address what modern analysis identifies as broader impacts upon constitutional significance, impact upon public administration in general and tax administration in particular, and also because of their relevance to the legitimacy of democratic governments.[111] Had the Asprey Committee fully adopted Surrey's framework, their recommendations would likely have emphasised systematic budgetary integration of tax expenditures with direct spending programs, fundamentally altering the trajectory of Australian fiscal governance institutional

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[105] European Commission, Directorate-General for Economic and Financial Affairs et al, *Tax Expenditures in the EU: Recent Trends and New Policy Challenges* (Publications Office of the European Union, 2024).
[106] Ibid 1.
[107] Beer et al (n 56).
[108] Ibid 1.
[109] Ibid.
[110] World Bank (n 57).
[111] See generally, Burton and Sadiq (n 21).

development. It could be argued that the Committee's approach established precedent for treating tax expenditures as tax policy issues rather than expenditure management challenges, contributing to the limited development of systematic evaluation and oversight mechanisms that current analysis identifies as essential for effective fiscal governance.

Complete adoption of Surrey's framework would have required institutional mechanisms that best practice identifies as essential for democratic fiscal governance. The Committee could have recommended that annual tax expenditure budgets be subject to parliamentary scrutiny equivalent to direct spending appropriations, ensuring that tax expenditures receive the same democratic oversight as direct expenditure programs. The Committee's recommendation for 'specified purpose and … limited period' concessions approaches this principle but falls short of systematic Budget integration.[112] Tax Expenditure Statements have previously revealed the ongoing consequences of this institutional gap, stating, 'Tax expenditures, like direct expenditures, affect the government's budget. However, unlike direct expenditures, tax expenditures once legislated become part of the tax law with a recurring fiscal impact and do not receive regular scrutiny through the budget process'.[113] This creates what amounts to entitlement spending operating outside regular Budget discipline, precisely the type of democratic accountability gap Surrey's framework was designed to address.

Adopting Surrey's conceptual framework entails a systematic comparative analysis of tax expenditures versus direct spending alternatives using standardised cost-effectiveness methodologies. This enables evidence-based decisions about optimal delivery mechanisms for government assistance rather than the ad hoc approach that characterises Australia's traditional practice. Full implementation would have required integration of tax expenditure costs into portfolio budget processes to enable whole-of-government policy coordination. This would address the policy fragmentation that analysis identifies as a significant constraint on Australian fiscal governance effectiveness. The Asprey Committee's sophisticated distributional analysis demonstrated capacity for such evaluation but was not integrated with a systematic assessment of delivery mechanism alternatives.

The Parliamentary Budget Office makes it clear that tax expenditures do not require annual parliamentary appropriation and can continue indefinitely, creating accountability deficits that contrast sharply with the oversight applied to direct spending programs.[114] This reflects an ongoing implication of the Asprey Committee's failure to recommend systematic democratic oversight mechanisms. These problems reflect the Committee's recognition of administrative challenges, but without providing any corresponding institutional means to address them systematically.

The distributional concerns relating to tax expenditures confirm the ongoing significance of path dependency while demonstrating intensification of the problems the Asprey Committee identified. These patterns reflect the 'upside-down effect' that Surrey identified and the Committee recognised, showing that structural biases have intensified rather than diminished. The persistence of regressive distributional patterns validates the Committee's analytical insights while confirming the inadequacy of their institutional recommendations. Policy

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[112] Asprey Review (n 4) section 3.26.

[113] See, for example, the 2019 Tax Expenditures Statement: Australian Treasury, *Tax Benchmarks and Variations Statement 2019* (2020) 1 <https://treasury.gov.au/sites/default/files/2019-03/ch1-3.pdf>. The current Tax Expenditures and Insights Statement no longer states this.

[114] Parliamentary Budget Office (n 47).

fragmentation continues to constrain fiscal effectiveness through a lack of coordination between tax expenditures and direct spending programs addressing similar objectives.

As noted above, international developments increasingly advocate approaches that would bring Australian practice closer to Surrey's original framework, providing a template for addressing the institutional limitations this study identifies. These reform proposals demonstrate the feasibility of comprehensive implementation while highlighting ongoing barriers to change. The Asprey Review's treatment of tax expenditures offers several critical lessons for reform efforts that extend beyond the Australian context. The way policy-makers conceptualise tax expenditures determines reform trajectories. The Committee's framing within efficiency-equity-simplicity categories, while analytically sophisticated, limited the consideration of Surrey's expenditure equivalence insights. Reform efforts must explicitly engage with conceptual foundations to avoid similar limitations.

VI CONCLUSION

Whilst the Asprey Review may be lauded as one of the most significant reviews in terms of tax reforms in Australia, there was an apparent missed opportunity to recognise tax expenditures as the equivalent of direct spending programs and assess them accordingly. The Committee focused on tax expenditures within its three broad principles adopted in its assessment and tax reform proposals: efficiency, equity, and simplicity. Subsequent reviews have been conducted to assess tax expenditures, but none have led to significant reform.

Despite 40 years of tax expenditure reporting in Australia, there has been little in the way of innovative or progressive management of tax expenditures. The overarching approach of the Asprey Review appears to be one of accepted integration of tax expenditures into Australia's comprehensive tax regime. To that extent, various tax expenditures were implicitly considered part of the tax base, rather than ideally being carved out. This was potentially a missed opportunity in tax expenditure management as opposed to tax expenditure reporting. Tax expenditure development remains piecemeal and incremental. There is a trend for broad *ex post* justification of tax expenditures as part of the design of the Australian tax regime. The consequence is that while there has been some reform of tax expenditure reporting, the management of tax expenditures in a comprehensive framework does not exist. The question remains as to whether an assessment by the Asprey Review of tax expenditures as direct spending programs would have altered the course of tax expenditure management.

The 1975 Asprey Review represents a case study in the importance of conceptual frameworks for policy reform. Through a systematic analysis of 38 documented observations in the Review, this research demonstrates that the Committee's approach to tax expenditures constituted a potentially missed opportunity with enduring implications for Australian fiscal governance and democratic accountability. That being said, the Asprey Committee was faced with the challenge of dealing with tax expenditures nearly 50 years ago, in an environment where reporting, analysis, and management were almost non-existent. The fact that their existence was recognised is perhaps remarkable. The quantitative evidence reveals that while the Committee demonstrated remarkable analytical sophistication in recognising equity, efficiency, and administrative implications of tax expenditures, its failure to fully embrace Stanley Surrey's conceptual framework established institutional limitations that continue to constrain Australian tax expenditure policy today. The Committee's partial adoption of Surrey's insights, recognising tax concessions as equivalent to government spending while continuing to treat them as traditional tax policy issues, may have established what scholarship characterises as institutional path dependency that has shaped Australian practice for 50 years.

The Asprey Review's legacy in tax expenditure recognition represents both achievement and missed opportunity. It was an achievement in recognising the fiscal and policy significance of tax expenditures and providing a sophisticated analytical foundation. However, it was a missed opportunity in failing to establish the conceptual and institutional foundations for the comprehensive tax expenditure management that Surrey's framework offered. Understanding this history provides valuable insights for current efforts to reform tax expenditure policy and highlights the enduring importance of conceptual clarity in fiscal policy development. The path Surrey offered, that of comprehensive fiscal transparency, systematic evaluation, and democratic accountability, remains available for countries willing to undertake the institutional innovation required for its implementation. In the 50 years since Asprey, tax expenditure analysis provides transparency but limited policy value, and prospects for significant improvement appear dim unless a genuine framework is adopted.

Ultimately, to reduce the democratic accountability gap and ensure there is a comprehensive tax expenditure management framework in place, several features should be institutionalised in that framework. First and foremost, precise policy objectives for all tax expenditures should be articulated. By specifying clear, measurable policy objectives against which effectiveness can be assessed, there is explicit consideration of whether tax-side delivery is optimal for achieving stated goals and enables systematic evaluation of policy performance. Second, there should be systematic cost-effectiveness analysis as regular comparison of tax expenditures with direct spending alternatives using standardised methodologies would allow evidence-based decisions about optimal delivery mechanisms. Third, there should be mandatory sunset clauses, which would then require evidence-based renewal. Fourth, full integration of tax expenditure costs into portfolio budget processes would enable whole-of-government policy coordination and democratic oversight equivalent to direct spending programs. Fifth, distributional impact analysis equivalent to direct spending programs would enable better-informed policy decisions about targeting and design. It is with this framework that genuine tax expenditure management will occur.