
Aspects of the Australian Tax System

A Preliminary Outline

TaxWatch

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INTRODUCTION

This Paper

This Information Paper has been prepared by TaxWatch to provide a preliminary outline of current types and levels of taxation in Australia. Some comparisons are provided with earlier periods and with taxation systems in other countries.

The Paper focuses on aspects which are likely to be of interest to community sector organisations concerned with developing or commenting on tax policy. It will be updated on a regular basis and further developed over time in order to cover a wider range of issues. Suggested amendments or additions are welcome and should be directed to the addresses below.

About TaxWatch

TaxWatch is a community information service on tax policy issues which affect social justice. It focuses mainly on issues which have a substantial impact on the lives of low and middle-income Australians.

TaxWatch seeks to provide information in a comprehensible, reliable and up-to-date manner. It will not give advice to individual tax payers or provide detailed technical information which is already readily available to people who are directly affected.

TaxWatch will also provide access to a range of opinions on key issues. It will do so by including independent contributions on its website (currently under construction) and providing community organisations and the media with a referral service for identifying appropriate sources of expert opinion on particular issues.

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PART I

General levels of taxation and expenditure

Section 1: OVERALL TAXATION

Introduction

1. Part I of this Paper summarises general levels of Australian tax revenue and government expenditure, especially by comparison with other OECD countries. Descriptions of Australian revenue in this Paper focus on the financial year 2006-7 because it is the latest for which international comparisons can be made using the OECD's authoritative *Revenue Statistics*ⁱ. Major changes since that time are noted in the text where appropriate.

2. OECD countries differ widely in population, size of economy, geographical area and other factors which could be seen as key characteristics affecting tax policy and revenue. The OECD's main ("unweighted") measure of average levels counts each country equally, while its "weighted" average adjusts for their respective shares in the overall total of "gross domestic products" (GDPs). The first measure can be criticised for putting too little emphasis on relative sizes of country's economies and the second for putting too much, especially in relation to Japan and US.

3. This paper uses both the unweighted OECD average and an unweighted average of a sub-group of countries which are somewhat closer to Australia's economic, social and physical circumstances than many other OECD members. A report commissioned by the Australian Government in 2006 (the ICAT report) used the latter type of approach to compare Australia with nine other countries, forming a sub-group it called the "OECD-10"ⁱⁱ.

4. A selection of this kind is inevitably somewhat subjective and where debatable choices have to be made, care should be taken to reflect a representative spectrum of tax systems. This paper uses an "OECD-9" comprising Australia, Austria, Canada, Japan, Netherlands, Spain, Sweden, the United Kingdom and United States. By comparison with the OECD-10, this group includes Austria and Sweden in place of Ireland, New Zealand and Switzerland. While still somewhat skewed towards the low-tax end of the OECD spectrum, it is less so than the OECD-10 and there are fewer countries which are very much smaller in population than Australia.

Our overall level of taxation

5. Australia's overall level of tax revenue was 30.6% of GDP in 2006-7ⁱⁱⁱ. This ranked in the lowest-third of the OECD's 30 countries and of the OECD-9, which is typical of its position during at least the last forty years^{iv}. It is currently eighth-lowest amongst the full OECD membership and more than 5% below the OECD average of 35.9% of GDP. The only countries with much lower levels are Japan, Korea, Mexico, Turkey and the US.

6. Australian tax revenue has risen from an average of about 28% during the 1980s to about 30% during the last ten years^v. This increase is marginally less than the corresponding increase in the OECD average. Since 2000, the Australian level has

fallen more than twice as much as the OECD average and by as much as the OECD-9 average^{vi}.

7. Australia's comparative level of tax revenue can also be assessed by calculating the extent to which it would rise or fall if it was the same proportion of GDP as in other OECD countries. For example, Table I.A below shows that our revenue would rise by about \$195bn and \$70bn respectively if we matched the levels in Sweden and the UK, and by about \$55-65bn if we matched the averages for the OECD-9 or for all OECD countries. These increases can be compared with our 2006-7 tax revenue of about \$320bn.

8. The only OECD-9 countries with lower tax revenue relative to GDP than Australia are US and Japan. Each of those countries has been running high budget deficits and has accumulated levels of government debt which easily exceed 40% of GDP in the US and 80% in Japan^{vii}. By contrast, Australia has been running overall budget surpluses and relatively little government debt. If the US raised sufficient tax revenue to eliminate its budget deficit and began winding back its very high level of government debt, its level of revenue relative to GDP would have been similar to Australia's in 2007 (and substantially higher in the following two years)^{viii}. Even at present revenue levels, the total tax per head of population is slightly higher in the US than in Australia because its GDP per head is much higher^{ix}.

TABLE I.A

APPROXIMATE CHANGES IN AUSTRALIAN TAX REVENUE TO EQUAL LEVELS IN OTHER COUNTRIES		
	(% Aust GDP)	(Aust \$)
OECD-9		
Austria	+11.1	+115bn
Canada	+2.7	+30bn
Japan	-2.7	-30bn
Netherlands	+8.7	+90bn
Spain	+6.0	+65bn
Sweden	+18.5	+195bn
United Kingdom	+6.5	+70bn
United States	-2.6	-25bn
Average	+6.0	+65bn
OECD		
Average	+5.3	+55bn

Notes: OECD-9 average excludes Australia. If 50% of compulsory superannuation is treated as tax, the amounts in the second column of figures fall by about \$15bn (see para 12 below).
Source: Calculated from OECD *Revenue Statistics* (2008), Tables 1 and 36.

Compulsory superannuation

9. It may be argued that the OECD's official definition of tax understates Australia's relative level of taxation. It excludes our compulsory superannuation contributions but includes compulsory social security contributions which comprise a substantial proportion of revenue in most OECD countries and are used to provide retirement benefits and other forms of social security or social welfare.

10. The OECD's exclusion of compulsory superannuation contributions is justified because, by contrast with tax payments, they are made to a private fund chosen by the individual contributor and the amount eventually payable to the contributor depends heavily on the earnings record, service fees and other particular conditions of the chosen fund. They also benefit from substantial tax concessions upon initial payment and subsequently.

11. On the other hand, their exclusion tends to exaggerate differences between Australia and the countries in which compulsory social security contributions are applied to provide forms of assistance which in our country are funded from tax revenue. Accordingly, it is appropriate to assess the extent to which the OECD data would be affected if some account was taken of our compulsory superannuation.

12. There is no precise answer as to which is the correct way of taking superannuation into account. However, if as much as one-half of Australia's compulsory superannuation contributions were added to our total tax revenue, it could rise by about 1.5% of GDP^x. This would lift our ranking amongst all OECD countries by about two places but we would still be in the lowest-third, and we would be seventh amongst the OECD-9^{xi}. In the remainder of this paper, tax revenue is principally defined in accordance with the OECD practice. At key points, however, indications are provided of the impact of taking some account of compulsory superannuation contributions.

Section 2: BROAD CATEGORIES OF TAXATION

Taxes based on incomes (“direct taxation”)

13. Australia's revenue from taxes based on personal and corporate incomes is just under 20% of GDP, which ranks 23rd amongst the 30 OECD countries and, as shown in Table I.B, is the lowest in the OECD-9^{xii}. This category (sometimes called “direct” taxation^{xiii}) includes personal and corporate income tax, social security contributions and payroll taxes.

14. A little under 65% of our total tax revenue is raised in this way, which is in the middle of the full OECD rankings but less than most of the OECD-9 countries (including the US and Japan, for each of which the proportion is over 70%)^{xiv}. Further details of the composition of this revenue are provided in Part II below.

TABLE I.B

REVENUE FROM TAXES BASED ON INCOMES*		
	% of GDP	Ranking
OECD 9		
Australia	19.5** (18.1)	9
Austria	29.1 (12.0)	2
Canada	21.8 (16.2)	5
Japan	20.1 (9.9)	8
Netherlands	24.9 (10.7)	3
Spain	23.6 (11.4)	4
Sweden	34.6 (19.4)	1
United Kingdom	21.6 (14.7)	6
United States	20.2 (13.5)	7
Average	23.9 (14.0)	
OECD		
Average	22.5 (13.0)	

* I.e, personal income tax, corporate income tax, social security contributions and payroll tax. Figures in brackets are revenue from the first two categories.
 ** Inclusion of 50% of compulsory superannuation contributions would increase this total by about 1.5% (see para 12).
 Source: Calculated from OECD, *Revenue Statistics* (2008), Table 6.

15. Claims that Australian revenue from taxes based on personal and corporate incomes is very high relative to comparable countries are misleading and sometimes disingenuous. Unlike the OECD, the comparisons often exclude revenue from income taxes levied by governments below the national level. Yet, for example, most States and Provinces in the US and Canada levy substantial income taxes and many American municipal authorities also have income taxes^{xv}.

16. The comparisons also often ignore compulsory social security contributions, which are recognised by the OECD as taxes and are paid by employers and employees on the basis of wage incomes. As mentioned, they are used to provide assistance which in Australia is funded from general tax revenue. In Japan and European countries such as France, Germany, the Netherlands and Spain, these contributions are the largest source of tax revenue^{xvi}.

17. For reasons mentioned earlier, it is legitimate when comparing levels of taxes on income to argue that at least some account should be taken of compulsory superannuation contributions. If as much as half of these contributions were taken into account, Australia's direct taxation revenue would be 19th amongst the OECD and seventh amongst the OECD-9^{xvii}.

Other taxes

18. This category covers taxes related to the production, ownership, transfer or use of assets, goods or services are often collectively called "indirect" taxation. They include taxes such as land taxes, council rates, gift and death duties, goods and services taxes, stamp duties and excise duties.

19. Australia's revenue from taxes in this general category is about 11% of GDP, which is 25th in the OECD and seventh in the OECD-9^{xviii}. Of all OECD countries, only the US, Japan and Switzerland raise substantially less revenue as a proportion of GDP. Further details of the composition of this revenue are provided in Part III below.

Summary

20. Table I.C summarises Australia's approximate rankings for broad categories of tax revenue within the full range of OECD countries and the OECD-9. Precise comparisons in some of these respects are impossible and claims to the contrary are often seriously misleading. Further details about the categories and alternative approximations are provided in Parts II and III and in the Appendix. They include indications of the impact of taking compulsory superannuation contributions into account.

TABLE I.C

	APPROXIMATE RANKING OF AUSTRALIAN TAX REVENUE AMONGST OECD COUNTRIES	
	OECD	OECD-9
Total taxes	23/30	7/9
Taxes related to incomes	=23/30	9/9
- Individuals*	15/27	7/9
- Corporations*	19/27	7/9
Other taxes	25/30	7/9
- Related to assets	9/30	5/9
- Related to goods and services	26/30	6/9

* Relevant data is available for only 27 OECD countries. The impacts of taking superannuation into account are summarised in Part II below.
Source: Calculated from OECD, *Revenue Statistics* (2008), Table 6, 10, 12, 16, 18, 20.

Section 3: OVERALL EXPENDITURE

"Direct" expenditure

21. Most government expenditure is made in the form of "direct" expenditure, such as capital grants to schools and hospitals or recurrent payments of salaries or social security, rather than in "indirect" tax benefits and concessions.

22. Australia's level of direct government expenditure as a proportion of GDP was about 33.8% in 2007-8 which is the latest period for which OECD comparisons are available^{xix}. Only Korea and Switzerland had lower levels amongst the full OECD and Australia had the lowest level amongst the OECD-9.

23. This level of Australian expenditure, and its relative position amongst OECD countries, is broadly typical of at least the last fifteen years or so. Table I.D shows that our total expenditure of approximately \$380bn is about \$75bn (almost 20%) below the OECD average and about \$100bn below the OECD-9 average.

TABLE I.D

	CHANGE IN AUSTRALIAN EXPENDITURE TO MATCH LEVELS IN OTHER COUNTRIES	
	(% GDP)	(approx A\$)
OECD 9		
Austria	+14.6	+165bn
Canada	+ 5.3	+60bn
Japan	+2.0	+25bn
Netherlands	+11.5	+130bn
Spain	+5.0	+55bn
Sweden	+17.6	+200bn
United Kingdom	+10.7	+120bn
United States	+3.6	+40bn
Average	+8.8	+100bn
OECD		
Average	+6.5	+75bn

Source: OECD *Economic Outlook*, no 84, 2008, Annex Table 25, with unweighted averages.
Notes: Data relate to 2007 (2007-8 for Australia). OECD-9 average excludes Australia.

“Indirect” expenditure

24. Indirect expenditures are made through the tax system and are commonly called “tax expenditures”. They include tax exemptions, concessions and benefits which reduce the amount of tax that would otherwise have been payable. They also include some tax benefits which may be greater than the total tax payable and therefore result in a net payment to the taxpayer.

25. Overall tax expenditure is difficult to quantify with much precision but it is reasonably clear that by 2007-8 our annual total was more than \$100 billion. This includes the Commonwealth Government’s estimate of about \$70 billion for its own tax expenditures as well as at least \$20-25 billion for major tax expenditures about which it provides no estimates and another \$10 billion based on estimates by some State governments of their own tax expenditures^{xx}.

26. Of the Commonwealth’s own estimates, almost 40% was attributed to superannuation and more than 10% to the concessional rate for capital gains (which especially benefits landlords and shareholders)^{xxi}. Amongst other Commonwealth and State tax expenditures, major items relate to exemptions for owner-occupied housing, payroll tax, stamp duties and land tax^{xxii}.

27. These estimates put total Australian tax expenditure for 2007-8 in the vicinity of 10% of GDP which is more than one-quarter as much as our level of direct expenditure. Reliable comparisons amongst OECD members are not available due to major methodological problems.

PART II

Taxes based on incomes

Section 1: TAXES BASED ON PERSONAL WORK INCOMES

Introduction

1. Personal incomes can be divided broadly into “work income” (especially wages and salaries) and “asset income” (especially from real estate, shares and savings). This section outlines some key aspects of taxes on work income. In particular, it looks at

- basic tax rates applying to work income;
- “net” and “effective” tax rates;
- “fringe benefits” and related issues.

2. Some historical and international comparisons are included but the variety and complexity of rate scales, definitions of income, types of concession and related taxes make such comparisons very difficult and prone to misrepresentation^{xxiii}.

Basic tax rates

Income tax scales

3. Australia has a general “tax-free threshold” of income below which the rate is zero for everyone. It also has tax exemptions and “offsets” which effectively provide many people with a zero rate on some income above that threshold. This applies, for example, to tax offsets for people on low incomes and for older people. Some countries do not have a general tax-free area but provide either a universal deduction from taxable income or some zero rates through targeted offsets or rebates^{xxiv}.

4. Above the tax-free threshold, Australia currently has four marginal rates which apply above specified income thresholds. The basic rates, excluding the 1.5% Medicare levy, are:

15% above \$6,000	30% above \$34,000
40% above \$80,000	45% above \$180,000

From July 2009, the 30% rate will start above \$35,000 and the 40% rate will be reduced to 38%^{xxv}. The thresholds at which our rates take effect are not automatically adjusted over time. Automatic indexation for price inflation does apply in Canada, Netherlands and to some extent in several other countries^{xxvi}.

5. The current number of rates in Australia is much fewer than applied 30 years or so ago^{xxvii}, when there was as many as ten rates ranging from 7%-67%, and is similar to most other OECD-9 countries^{xxviii}. Several Eastern European countries recently adopted a single income tax rate but are not really “flat-tax” systems because deductions, thresholds, credits and other features produce a diversity of effective tax rates^{xxix}. These countries usually also levy other taxes on incomes by requiring substantial social security contributions.

Top, bottom and average rates

6. Australia's top marginal rate was cut from 60% to below 50% about twenty years ago and is now almost exactly in the middle of both the OECD and OECD-9 countries^{xxx}. Due to a recent major increase in the threshold, the top rate now commences at a level of income at least twice as high as prevailed throughout that period^{xxxi} and at a level which is in the middle of the OECD and OECD-9 ranges^{xxxii}. Amongst the OECD-9 countries, only the US and Spain have both a lower tax rate and a higher threshold than Australia^{xxxiii}.

7. Our bottom marginal rate of 15% plus the Medicare levy is about one-third lower than twenty years ago but the income level at which it commences is now about one-quarter lower than at that time^{xxxiv}. General international comparisons of bottom marginal rates are of little value in light of the range and complexity of scales, low-income concessions and other factors.

8. Table II.A shows marginal and average work income tax rates for different relative wage levels in Australia over recent decades^{xxxv}. The marginal rate is the highest payable on any of the person's income and the average rate is calculated after allowing for different marginal rates across their total income.

9. The table shows that marginal and average rates have fallen considerably for higher-earners during the last twenty years. Marginal rates have fallen for some lower-earners but the average rates for this group have remained stable. The table is based on average full-time earnings, which is currently about \$60,000, but most people in paid work (including part-timers) earn about 20% less^{xxxvi}.

TABLE II.A

% OF AVERAGE WAGES	MARGINAL TAX RATES				AVERAGE TAX RATES			
	1986	1996	2006	2009**	1986	1996	2006	2009**
50%	24%	20%	30%	15%	13%	14%	13%	12%
75%	29%	34%	30%	30%	17%	19%	18%	17%
100%	44%	34%	30%	30%	21%	22%	21%	20%
150%	46%	47%	40%	38%	30%	29%	25%	24%
200%	57%	47%	40%	38%	36%	33%	29%	28%
250%	57%	47%	45%	38%	43%	38%	33%	30%

* Average Weekly Ordinary Time Earnings (AWOTE), currently about \$60,000.
 ** July 2009 tax scales (as legislated) and average wages (as estimated by Treasury).
 Source: ABS, *Average Weekly Earnings Australia*, cat 6302.0, Table 1; tax scales from www.ato.gov.au; Treasury wage estimates in *Mid-Year Economic and Fiscal Outlook 2008-9*, Table 3.2.

Related taxes

10. Unlike Australia, most OECD-9 countries have compulsory social security contributions by employees which are based on their work income and classified as taxes. They usually apply at a flat rate, varying between about 5% and 20% of wages according to the country^{xxxvii}. The overall rate is often lower, however, for people with higher incomes because there is a ceiling on the income taken into account or on the overall contribution required. Australia's compulsory superannuation contributions are set at a flat rate of 9%, with an exemption for very low-income workers, but are not classified by the OECD as a tax.

11. Of the few countries without social security contributions, most require employers to pay a payroll tax on the total value of the wages and other remuneration which they pay to employees. In Australia, the tax is levied by State governments and is usually fixed at a flat rate of about 6% above a relatively high threshold, often in the vicinity of \$3/4 million^{xxxviii}. Only about 10% of employers are liable to pay the tax because small firms, non-profit organisations and Commonwealth Government entities are exempt.

“Net” and “effective” tax rates

“Net” rates

12. Most tax systems include a number of “offsets”, “rebates”, “credits”, “benefits” or other measures which effectively reduce the “net” amount of income tax payable. For example, as mentioned above, special exemptions and offsets eliminate or substantially reduce tax liability for low-income, pensioner and retired people in Australia. The “net” rate may also be affected by the extent to which other income-related taxes such as social security contributions are taken into account and income-tested welfare benefits are included (whether delivered through the tax system or as social security).

13. A recent OECD survey combined personal income tax rates, employee social security contributions and income-tested family payments to calculate an “average net tax rate”. It found that in Australia the average net rate for a single person on average wages was 24%, a little below the midpoints of the OECD-9 and OECD ranges^{xxxix}.

14. Rates for other household types in the survey (single people, sole parents and couples with income levels at 67%, 100% or 167% of average wages respectively) also were below the middle of the OECD-9 range and around the middle of the full OECD range. Our net marginal rates, however, were above the midpoints for some household types, mainly due to tight income-testing of family benefits.

15. A broader OECD survey of the so-called “tax wedge” also takes account of employer social security contributions and payroll tax. It shows Australia clearly in the lowest-quarter of the OECD and the OECD-9 for all but one household type (for which it was in the lower-half)^{xl}. We would be around the average levels if compulsory superannuation contributions were also taken fully into account.

16. Great caution must be shown, however, when seeking to analyse net tax rates, especially in different eras or countries. It is impossible to adjust precisely for differences between countries in social security contributions, payroll tax and superannuation contributions. The same applies to differences in the opportunities for personal work income to be received effectively as fringe benefits, corporate or trust income, or other tax-reducing forms.

17. Comparisons of “net” tax rates usually include effects of basic family payments (even if paid as social security rather than tax benefits). But they do not usually include effects of other assistance such as unemployment or disability benefits or of tax rebates such as we have in Australia for some rental, child care and health insurance expenses. They usually ignore differences concerning dividend imputation, deductibility of work expenses, anti-avoidance measures and other potentially substantial impacts on ultimate tax liability.

“Effective” rates

18. There has been increasing focus in recent years on so-called “effective marginal tax rates” (EMTRs). EMTRs usually take account of income tests on a broader range of financial assistance, such as unemployment benefits and rent subsidies, than is included in “net” tax rates. As Australia makes greater use of income tests than most other OECD countries, the level of our EMTRs and the number of people affected by them tend to be comparatively high.

19. Analyses of EMTRs must be approached with great caution. First, they often tend to understate the problem for many lower-income people by not taking account of loss of other income-tested assistance such as rent discounts on public housing. Second, an increase in the number of people experiencing EMTRs may be a desirable trend if it results, for example, from relaxed means-testing. Conversely, a reduction in the number may be an adverse result. Third, the crucial issue is often the overall “clawback” through taxes and means-testing which arises from a substantial change in work income (due for example to re-entering the workforce), rather than the marginal rate on any particular dollar of increase.

20. A recent Treasury report addressed the third of these issues by focusing on what it called participation tax rates (PTRs), being the average clawback rate on the overall increase in gross work income^{xii}. It estimated that the highest PTRs (above 50%) currently affect a number of partnered women, as well as some sole parents and men in jobless households, with overall wage increases in the order of \$10,000 or less.

“Fringe benefits” and related issues

21. Many employees in Australia receive “fringe benefits” such as free or discounted use of motor vehicles (including petrol and parking) and payment for items such as housing, meals, entertainment, health insurance, child care and education. Some of these benefits may be provided in lieu of employees claiming work-related tax deductions or receiving higher wages.

22. Fringe benefits are generally taxed at the top marginal income tax rate, irrespective of the employee’s level of work income. The employer is responsible for paying this tax (FBT) but it has to be reported on employee pay slips and many employees probably receive lower wages than they would get if they were not also receiving the benefit.

23. FBT at the top marginal rate tends to increase net tax rates on work income for low- and middle-wage workers but not for those on higher incomes. The special concessions which apply to FBT on motor vehicle benefits may remove or reduce this effective rate increase for many people. But like most concessions, they are more valuable to people whose direct wages or salaries are taxable at the top marginal rate. The concessions reduce the overall revenue obtained from FBT by about 45% (more than \$3 billion)^{xiii}.

24. Remuneration for work may be provided in other ways which attract less tax liability than wages or salaries. These ways include

- arrangements which provide remuneration that is taxable as corporate income, for which a flat 30% rate applies, or as a concessionally-taxed “termination” payment”;
- employer superannuation contributions, which are taxed at a flat 15% rate and also enjoy subsequent concessions through the 15% flat rate on superannuation fund earnings.

25. In Australia, a number of types of work-related expenses can be claimed as deductions which reduce the amount of income that is subject to tax. The overall level of deductions has become very substantial, especially in relation to motor vehicles, clothing and education^{xiiii}. Most OECD-9 countries have tighter restrictions on the expenses which can be claimed^{xlv}.

Section 2: TAXES BASED ON PERSONAL ASSET INCOMES

Introduction

26. Personal income from assets can be broadly classified as either

- recurrent receipts (eg, interest, dividends and rent); or
- “capital gains” from sales (eg, of shares and real estate).

In general, capital gains are taxed more lightly than recurrent receipts and much more lightly than work income.

27. Ownership of assets is distributed across the population much more unequally than income. The 5% of households with the highest asset ownership own about 30% of all household assets, and the top 20% own about 60% of total assets^{xiv}. By contrast, the lowest 10% of households have no net assets and the lower-half of all households own less than 10% of total assets. More than a quarter of all asset income is received by the top 1% of income-earners, and more than a half is received by the top 10% of income-earners^{xvi}.

28. The concentration of assets in the top 20% of households is greatest in relation to shares and other business assets and is least in relation to vehicles^{xlvii}. Real estate, bank savings and superannuation are in the middle but in each case about 60% of the total is owned by the top 20% of households. Of course, the assets of superannuation funds are held principally in assets such as shares and real estate.

29. The tax system for asset incomes cannot be assessed adequately without considering also taxes such as land taxes or stamp duties which are based principally on the value of assets rather than the income generated by them. Taxes of this kind are considered in Part III.

Recurrent receipts

30. *Interest receipts* on bank deposits or other loans are generally taxed in the same way as work income. This can be unduly harsh in times of significant inflation as much of the “interest” is not really income but rather compensation for the eroding value of the original loan.

31. Unlike some other countries, we do not provide broad exemptions or discounts for interest income from savings accounts^{xlviii}. This contributes to taxation of interest income being higher than in other OECD-9 countries and than other major forms of asset income^{xlix}. But our superannuation system provides tax concessions for that form of saving which, at least for higher-income people, are very substantial (see below). Also, tax concessions are now available for savings up to specified levels in special First Home Saver Accounts.

32. *Share dividends* are theoretically taxed at the same rates as work income. Generally speaking, however, Australia’s system of “dividend imputation” reduces shareholders’ tax liability by the same amount as the corporation pays on its income at the standard 30% corporate rate. Our net taxation of dividends from Australian companies is lower than most other OECD-9 countries for average earners and in the mid-range for higher earners^l.

33. *Rental receipts* are also theoretically taxed at the same rates as work income. It has become common, however, for landlords to reduce tax on rental income by borrowing heavily to buy the property and then claiming their repayments as deductions against income from rent and other sources^l. This practice of “negative gearing” is especially attractive to people on the top marginal tax rate, for whom the deductions are of greater value.

34. The ultimate benefit for taxpayers of “negative gearing” is usually dependent on making a profit from selling the rental property and having it taxed at the special discount rate for capital gains (see below). The practice became much more widespread after the discount was introduced in 1999 and real estate prices increased substantially. It is less attractive where substantial capital gains are less certain. Some countries restrict the practice by preventing or limiting deduction of expenses in one type of activity (eg, as a landlord) from income in another (eg, as a doctor)^{lii}.

35. *Superannuation benefits* are fully tax-exempt if taken after the age of 60. This applies whether they are paid principally in a lump sum or in regular payments. The benefits ultimately payable are enhanced considerably for many people by the initial employer contributions having been taxed at 15% rather than the beneficiary’s marginal rate. They are also enhanced by the superannuation funds being taxed on their earnings at only 15% (or 10% on capital gains).

36. Higher-earners benefit far more than lower-earners from these special concessions for superannuation. This is because on each dollar contributed they get a discount of 30% from the top marginal tax rate by comparison with only 15% or zero for those on the lower marginal rates (plus 1.5% for the Medicare levy where applicable). Their relative benefit is multiplied by the fact that they usually have greater capacity to make large contributions. Overall, the tax concessions for superannuation cost about \$25bn per year by 2006-7^{liii}.

Capital gains

37. In Australia, asset income through capital gains is combined with other forms of income and taxed at the same basic income tax rates. If an asset has been held for more than one year, however, only half of the gain is taxed. Some countries tax capital gains separately from other income, often at flat rates or at rates which are lower for assets held for more than a specified period (commonly one year)^{liv}.

38. Another approach is to exempt most types of capital gains or, as in the UK, exempt all of them up to an annual collective limit^{lv}. The Netherlands exempts most types of gains on sale but deems assets to be producing income at a flat rate during the period of ownership and then taxes that income annually at a flat rate. This latter approach addresses one of the major biases towards capital gains which arises if they are only taxed upon eventual sale rather than on a regular annual basis as they applies to recurrent forms of asset income and to work income.

39. These differences from the tax methods used for work income usually provide greater advantages for high-income taxpayers, if only because those taxpayers' share of overall capital gains tends to be higher than their share of overall work income^{lvi}. This effect is greatly increased by the widespread practice of allowing owner-occupied housing to enjoy full exemption from capital gains tax or a similarly extensive form of tax relief^{lvii}. In Australia, the full exemption costs about \$10bn per year and is accompanied by other exemptions which cost a broadly similar amount^{lviii}.

40. Accordingly, capital gains tax in Australia applies mainly to sales by shareholders, landlords and other business owners. It is not possible to make overall comparisons of our capital gains tax rates relative to other countries but the rate applying to shareholders on the top marginal rate is similar to some countries in the OECD-9 (such as Canada, the Netherlands and the United Kingdom) although higher than others (such as US and Japan)^{lix}.

Section 3: TAXES BASED ON CORPORATE INCOMES

Introduction

41. This section covers all types of corporate income, as no major distinction is made in Australia between corporate asset income and other types of corporate income. It looks at relevant taxes in Australia and comparable countries, focusing on

- tax rates;
- comparisons with personal income tax rates.

Tax rates

42. In Australia, corporate income is subject to a flat tax rate of 30%. Corporate asset income is combined with, and treated in broadly the same way as, other corporate income. Unlike personal asset income, account is taken of all capital gains (rather than only 50%) even if the asset has been held for more than a year.

43. The Australian corporate rate of 30% in 2006-7 was right in the middle of the OECD-9 and OECD ranges^{lx}. It had been cut from 49% over the last twenty years, which was a greater reduction than the average for OECD countries over that period. By 2008, the OECD average had fallen so that Australia was now in 11th position but it remained fifth in the OECD-9 range (below the US, Japan, Canada and Spain and only slightly above the UK and Sweden)^{lxi}.

44. Account must be taken of the fact, however, that some countries reduce their rates for businesses which are small or have lower incomes, and/or for asset income^{lxii}. In countries like Canada, UK and US these reductions can have considerable impact. On the other hand, our dividend imputation system substantially decreases the effective tax rate on shareholders relative to many other countries.

45. Some international comparisons of our corporate tax rates are misleading because they omit other countries' State and local taxes on corporations. They also often fail to acknowledge that employers in most OECD countries pay substantial tax in the form of social security contributions^{lxiii}. But account must also be taken in this context of our payroll taxes (albeit providing many exemptions) and our compulsory employer contributions to superannuation.

46. These differences exemplify the difficulty of making broad comparisons between corporate income tax systems. Certainly comparisons which focus overwhelmingly on the basic corporate income tax rate are of very limited validity. In its detailed study of effective tax rates on different types of corporate activity, the ICAT report in 2006 found that Australia was not systematically lower or higher than comparable OECD countries^{lxiv}. Subsequent government reports are less comprehensive but do not establish a different conclusion^{lxv}.

47. The share of overall tax revenue which comes from corporate income tax is fourth highest in the OECD and highest in the OECD-9. But the Taxation Review Panel (the "Henry Review") has pointed out that this "largely reflects structural differences in the composition of the incorporated sector ..., the imputation system as well as the strong performance of the Australian corporate sector in recent years"^{lxvi}.

48. As the substantial increase in corporate revenue in recent years has been due almost entirely to an increase in profits, the effective corporate income tax rate as a proportion of profits has risen very little and remains below the rates of a decade and two decades ago^{lxvii}.

Comparison with personal rates

49. The gap between our top personal income tax rate of 46.5% (including the Medicare levy) and the corporate income tax rate of 30% can encourage some self-employed people to incorporate and some employees to become incorporated independent contractors. The main adverse consequences of this encouragement are loss of tax revenue, unfairness to those who cannot take advantage of these options, possible vulnerability through loss of employee status, and the time and money necessary to obtain and maintain corporate status.

50. The number of private companies has increased substantially over the last twenty years, although it appears now to be stabilising^{lxviii}. This increase may be due principally, however, to benefits of incorporation such as limited liability and income-splitting opportunities and to many employers wanting to avoid employment costs by "outsourcing" work to purportedly independent contractors, rather than to the gap between the corporate and top personal rates. It may also have been boosted by the introduction of dividend imputation.

51. It is important to bear in mind that the corporate rate is a flat rate on all income whereas the top personal rate applies only above a high level (now \$180,000). From July 2009, it will not be until taxpayers' incomes reach about \$160,000 that their average rate reaches 30%^{lxix}. When the administrative costs of incorporation are included, the overall benefits of being taxed at the 30% corporate rate become questionable for most taxpayers.

52. For reasons explained earlier, international comparisons in this field are difficult. It should be noted, however, that there is no pattern across other countries of similarity between their personal and corporate rates^{lxx}.

Section 4: REVENUE FROM TAXES BASED ON INCOMES

Levels of revenue

53. The overall level of revenue from taxes based on incomes has been described earlier^{lxxi}. This section focuses separately on the respective shares of those taxes which may be borne by individual and corporations. It is impossible to distinguish

precisely what shares of taxes related to incomes are ultimately borne by individuals and which by corporations^{lxxii}. A number of different ways of doing so are illustrated in the Appendix to this paper and the results are outlined below^{lxxiii}.

Individuals

54. International comparisons of taxes on personal incomes are seriously misleading unless they take account not only of personal income tax but also of the large social security contributions which many countries require employees to pay, based on their incomes, and are correctly categorised by the OECD as taxes.

55. This in turn may mean that some account should be taken of payroll taxes which are paid by employers but based on employees' incomes and arguably borne to some extent by them. Some account could also be taken of Australia's compulsory superannuation contributions, although not classified as taxes.

56. Appendix Table 1 shows the results of a number of different methods for taking these various taxes and superannuation contributions into account. Each of them shows Australia in the bottom half of the OECD and the lowest-third of the OECD-9. This includes those methods which seek to take due account of compulsory superannuation contributions.

57. Table II.B below illustrates one possible method, which takes account of personal income tax, employee social security contributions and a 50% share of payroll tax. It shows Australia at seventh position amongst the OECD-9 countries and the same approach puts us at fifteenth amongst the 27 OECD countries for which relevant data is available^{lxxiv}. Inclusion of compulsory superannuation contributions would raise the rankings in the order of one place amongst the full OECD but leave the OECD-9 position unchanged at seventh^{lxxv}.

TABLE II.B

	APPROXIMATE TAX REVENUE AS PERCENTAGE OF GDP			
	Income tax (personal)	Soc. sec. cont.* (employee)	Payroll tax (50%)	Total and ranking**
OECD-9				
Australia	11.4	Nil	0.7	12.1 (7)
Austria	9.3	5.8	1.4	16.5 (2)
Canada	12.1	2.0	0.4	14.5 (3)
Japan	5.1	4.4	Nil	9.5 (8)
Netherlands	7.4	6.8	Nil	14.2 (4)
Spain	6.9	1.8	Nil	8.7 (9)
Sweden	15.7	2.7	1.4	19.8 (1)
United Kingdom	10.8	2.8	Nil	13.6 (5)
United States	10.2	2.9	Nil	13.1 (6)
Average	9.9	3.2	0.4	13.5

* Contributions by self-employed and non-employed people are not included.
 ** Inclusion of 25% of compulsory superannuation contributions would increase the Australian total by about 0.75% but would not change the ranking.
 Source: Calculated from OECD, *Revenue Statistics* (2008), Tables 10, 16, 20.

Corporations

58. International comparisons of corporate income tax are very misleading if they do not also take account of the great differences between countries in the taxes which corporations must pay in the form of employer social security contributions or payroll taxes. It can also be argued that some account should be taken of Australia's compulsory superannuation contributions even though they are not taxes.

59. Appendix Table 2 shows the results of a number of different methods for taking these various taxes and superannuation contributions into account. Each of them shows Australia somewhere in the lowest-third of the OECD and of the OECD-9 (or in the lower-half if superannuation is taken into account).

60. Table II.C below illustrates one possible method, which takes account of corporate income tax, employer social security contributions and a share of payroll tax. It shows Australia as seventh amongst OECD-9 countries and the same approach puts us at nineteenth amongst the 27 OECD countries for which relevant data is available^{lxxvi}. Inclusion of superannuation to an appropriate degree could raise these rankings in the order of two and three places respectively^{lxxvii}.

TABLE II.C

APPROXIMATE TAX REVENUE AS PERCENTAGE OF GDP				
	Income tax (corporate)	Soc. sec. cont* (employer)	Payroll tax (50%)	Total and ranking**
OECD-9				
Australia	6.6	Nil	0.7	7.3 (7)
Austria	2.2	6.7	1.4	10.3 (3)
Canada	3.7	2.8	0.4	6.9 (8)
Japan	4.7	4.6	Nil	9.3 (4)
Netherlands	3.4	4.6	Nil	8.0 (5)
Spain	4.2	9.0	Nil	13.2 (2)
Sweden	3.7	9.7	1.4	14.8 (1)
United Kingdom	4.0	3.8	Nil	7.8 (6)
United States	3.3	3.4	Nil	6.7 (9)
Average	3.9	5.0	0.5	9.4
* Contributions by self-employed and non-employed people are not included.				
** Inclusion of 25% of compulsory superannuation contributions would increase the Australian total by about 0.75% but would not change the ranking.				
Source: Calculated from OECD, <i>Revenue Statistics</i> (2008), Tables 12, 18, 20.				

61. It can be argued that some revenue from the corporate income tax should be regarded as borne by individuals. This approach would tend to reduce Australia's level of tax on corporations, and increase its level of tax on individuals, relative to OECD averages. But attribution of, say, half of corporate income tax as being borne by individuals would leave Australia's ranking unchanged at seventh amongst the OECD-9.

PART III

Taxes based on assets, goods and services

Section 1: TAXES BASED ON ASSETS

Introduction

1. The major types of assets in Australia include real estate (land and buildings), shares and other forms of business ownership, superannuation accounts and savings.
2. The principal taxes on assets summarised in this section are divided broadly into
 - “ownership” taxes, which are levied during the period of ownership of an asset (eg, land tax and council rates);
 - “transfer” taxes, which are levied on transfers of ownership or other interests relating to assets (eg, estate duties and stamp duties on real estate leases).
3. The summary does not cover taxes on asset income, such as rental income or capital gains, which were outlined when considering income taxes in Part II. It also does not include taxes on goods and services of the kind outlined in Section 2 of this Part.

Ownership taxes

General assets

4. Australia does not have a tax on overall asset ownership (sometimes called a wealth tax). About half of all OECD countries, however, have a small annual tax on the total value of a taxpayer’s assets, subject to some exemptions^{lxxviii}.

Real estate

5. There are two types of tax on ownership of real estate assets in Australia. First, local councils levy “rates” on landowners, usually at a flat percentage of land value (sometimes also including the improved value) above a specified threshold^{lxxix}. This is the major source of direct tax revenue for councils although they also receive grants from Commonwealth and State tax revenue. Council rates are usually set at levels of up to 10% of the land value and may require approval by the State government.
6. Second, all States impose annual land taxes on the unimproved value of land above a specified threshold, with marginal rates usually tending to increase as the value increases^{lxxx}. Extensive exemptions are provided, however, including for all owner-occupied dwellings with the effect that substantially more than half of the potential revenue is foregone. The marginal rates for other dwellings are usually based on the value of all the owner's properties (excluding their principal residence) rather than separately for each dwelling.

Transfer taxes

Gift and death

7. Australia does not impose taxes on the value of assets transferred by gift or death, having abolished taxes of this kind at Commonwealth and State level several decades ago. All but three other OECD countries have such a tax, however, every other OECD-9 country except Canada (which achieves a similar effect by taxing deemed asset income from the transferred assets)^{lxxxix}.

8. Tax rates in the OECD on transfers by gift or death are usually progressive and may range up to 40% or more, with exemptions for transfers to close relatives or charities^{lxxxii}. However, the taxes are aimed principally at affecting the use and distribution of assets rather than raising substantial revenue.

Other transfers

9. Australia has a number of taxes related to asset transfers other than by gift or death, especially State taxes on transfers relating to real estate, shares or money^{lxxxiii}. The most significant are State "stamp duties" based on the value of assets being purchased, borrowed, leased or sold. The scope and rate of these taxes vary considerably between States and over time. Some rates relating to real estate are high by OECD-9 standards.

Overall revenue

10. Overall revenue raised in Australia by taxes on asset ownership and transfers is 2.8% of GDP which ranks fifth in the OECD-9 and ninth in the full OECD^{lxxxiv}. As Table III.A shows, countries above us include the UK, US and Canada. As taxes in this category make a small contribution to total tax revenue (usually well under 10%), rankings within it have little impact on overall revenue rankings.

11. Australia's relatively high ranking is due principally to stamp duties on asset transfers (which make up about 50% of so-called "property taxes")^{lxxxv}. Another third of the revenue is from council rates which pay for services such as rubbish removal that in many other countries are charged for separately and not counted as taxes.

12. As mentioned earlier, most OECD countries, unlike Australia, have broad-based wealth or gift/death taxes. They do not raise large amounts of revenue but can have substantial impacts on behaviour and increase revenue raised under other headings (eg, by encouraging gifts or sales prior to death, thereby, generating tax liabilities on resultant capital gain and ongoing income).

TABLE III.A

	REVENUE FROM ASSET TAXES AS PERCENTAGE OF GDP						TOTAL AND RANKING
	ASSET OWNERSHIP			ASSET TRANSFER			
	Real estate	Gen. assets	Total	Gift/ death	Other	Total	
OECD-9							
Australia	1.4		1.4	1.4		1.4	2.8 (5)
Austria	0.2		0.2	0.1	0.3	0.4	0.6 (9)
Canada	2.7	0.2	2.9	-	0.2	0.2	3.4 (2)
Japan	1.9		1.9	0.3	0.3	0.6	2.5 (6)
Netherlands	0.7		0.7	0.3	0.9	1.2	1.9 (7)
Spain	0.7	0.2	0.9	0.3	1.9	2.2	3.3 (3)
Sweden	0.9	0.2	1.1	-	0.4	0.4	1.4 (8)
UK	3.3		3.3	0.3	1.0	1.3	4.6 (1)
US	2.9		2.9	0.2		0.2	3.1 (4)
Average	1.6	0.1	1.7	0.2	0.7	0.9	2.6

Source: Calculated from OECD, *Revenue Statistics* (2008), Country Tables.

Section 2: TAXES BASED ON GOODS AND SERVICES

Introduction

13. Taxes related to goods and services may be levied in relation to production, import, transfer or use. They can be broadly divided into

- “general” taxes, which apply to a broad range of goods or services (eg, a GST);
- “specific” taxes, which relate to particular goods or services (eg, excise and customs duties, vehicle registration fees).

General taxes

14. Australia’s Goods and Services Tax (GST) is levied on purchases of goods and services at a flat rate of 10% on any increase in value during the previous stage in their production and distribution. This is the fourth lowest rate of the 29 OECD countries which have a similar tax^{lxxxvi}; a rate of 15% or more is required for membership of the European Union. Apart from the US which has no such tax, the only OECD-9 country with a lower rate is Japan on 5%.

15. Our GST, like all but two OECD countries, has a list of goods and services on which reduced or no GST is levied^{lxxxvii}. Our list includes financial supplies, food, water, education, health care, existing dwellings, exports and charitable services. Most countries levy reduced or no GST in these areas, although the precise scope and effective rates differ considerably. In a number of countries, the list includes items such as public, sporting and cultural services, heating, books and other publications.

Specific taxes

16. The main Australian taxes in this category are

- “excise duties” on the production of particular goods (eg, fuel, alcohol and tobacco products);
- “customs duties” on the import of particular goods (eg, tariffs on motor vehicles).

17. *Excise duties* are usually based on the value of the goods and/or the proportionate content of a particular ingredient such as alcohol. In Australia, fuel, alcohol and tobacco are the main products subject to excise duties. Our rates for fuel are low by OECD-9 and OECD standards and are falling further due to lack of indexation^{lxxxviii}. Our rates for alcohol and tobacco are not clearly high or low by comparison with other countries^{lxxxix}.

18. *Customs duties* are usually based on value or volume. The basic rate is 5% but a 10% rate applies to passenger vehicles and 7.5-17.5% rates apply to some textile and clothing items^{xc}.

19. Other Australian taxes included in this category of specific goods and services taxes include vehicle registration and licence fees (which are relatively high by OECD standards), gambling taxes and taxes on insurance contracts.

Overall revenue

Goods and services

20. The approximate revenue obtained by Australia from taxes relating to goods and services is about 8% of GDP which ranks 26th in the full OECD (with Japan, Switzerland and the US being substantially lower)^{xc}. This may be partly due to Australia’s basic GST rate of 10% being much lower than the 15% required as a condition of membership of the European Union. As Table III.B shows, Australia’s ranking is sixth amongst the OECD-9.

21. The Table also shows that Australia's revenue from the sub-category of "general taxes" is seventh in the OECD-9. Revenue from "excise and customs duties" is ranked fourth and is more than half as much as the revenue raised from the GST on a much wider range of goods. Revenue in the "other category" is second in the OECD-9 range and comes almost entirely from taxes on motor vehicles, gambling and insurance.

TABLE III.B

	REVENUE FROM GOODS & SERVICES TAXES AS % OF GDP			
	General (GST)	Excise/ Customs	Other specific	Total and ranking
OECD-9				
Australia	4.0	2.8	1.5	8.3 (6)
Austria	7.7	2.5	1.4	11.5 (3)
Canada	4.7	1.8	1.6	8.1 (7)
Japan	2.6	2.0	0.6	5.2 (8)
Netherlands	7.3	3.4	1.3	12.0 (2)
Spain	6.4	2.2	1.3	9.9 (5)
Sweden	9.2	2.9	0.7	12.8 (1)
United Kingdom	6.7	3.0	1.0	10.8 (4)
United States	2.2	1.2	1.3	4.7 (9)
Average	5.6	2.4	1.2	9.3

Sources: OECD, *Revenue Statistics 2008*, Country Tables.^{xcdi}

22. The GST is levied by Commonwealth legislation and collected by the Commonwealth. However, its introduction was by agreement with the States which undertook to remove a number of their taxes in return for receiving all of the GST revenue. Customs and excise duties are now raised solely by the Commonwealth as the States have been held to lack the necessary constitutional power. All revenue in the "other taxes" category is levied by the States.

APPENDIX

APPENDIX TABLE 1

ALTERNATIVE MEASURES OF TAXES BASED ON INCOME WHICH ARE BORNE BY INDIVIDUALS			
TAX PACKAGE (see code below)	% of GDP	OECD-27 ranking	OECD-9 ranking
OECD taxes*			
1. PIT	11.4	7	3
2. PIT, SSC	11.4	25	9
3. PIT, SSC, PT	12.8	25	9
4. PIT, ½ SSC, ½ PT	12.1	20	8
5. PIT, WSSC, ½ PT	12.1	15	7
OECD taxes plus Australian superannuation**			
6. PIT, SSC, PT, ½ CSC	14.3	24	9
7. PIT, ½ SSC, ½ PT, ¼ CSC	12.9	18	8
8. PIT, WSSC, ½ PT, ¼ CSC	12.9	14	7

* Calculated from OECD, *Revenue Statistics* (2008), Tables 10, 16, 20.
** Based on full CSC as 3% of GDP.

APPENDIX TABLE 2

ALTERNATIVE MEASURES OF TAXES BASED ON INCOME WHICH ARE BORNE BY CORPORATIONS			
TAX PACKAGE (see code below)	% of GDP	OECD-27 ranking	OECD-9 ranking
OECD taxes*			
1. CIT	6.6	2	1
2. CIT, SSC	6.6	25	9
3. CIT, SSC, PT	8.0	24	9
4. CIT, ½ SSC, ½ PT	7.3	19	7
5. CIT, ESSC, ½ PT	7.3	19	7
OECD taxes plus Australian superannuation**			
6. CIT, SSC, PT, ½ CSC	9.5	=21	8
7. CIT, ½ SSC, ½ PT, ½ CSC	8.8	15	6
8. CIT, ½ SSC, ½ PT, ¼ CSC	8.1	18	6
9. CIT, ESSC, ½ PT, ½ CSC	8.8	15	5
10. CIT, ESSC, ½ PT, ¼ CSC	8.1	16	5

* Calculated from OECD, *Revenue Statistics* (2008), Tables 12, 18, 20.
** Based on full CSC as being 3% of GDP (see fn 10).

Code for Appendix Tables I and 2

CIT	corporate income tax
CSC	compulsory superannuation contributions (Australia)
ESSC	employers' social security contributions
PIT	personal income tax
PT	payroll tax
SSC	social security contributions
WSSC	workers' (employees') social security contributions

Note: OECD 27 excludes Mexico, Poland and Iceland as relevant data is not available

NOTES

The following abbreviations are used in some references in the tables and notes.

AES (2008)	Australian Election Study, <i>Trends in Australian Political Opinion</i> (Australian National University)
APRA (2008)	Australian Prudential Regulation Authority, <i>Annual Superannuation Bulletin, June 2007</i> (APRA)
Headey (2005)	B. Headey and others, "The Structure and Distribution of Household Wealth in Australia", <i>Australian Economic Review</i> (2005), vol 38, no 2, pp159-175.
ICAT (2006)	R. Warburton and P. Hendy, <i>International Comparison of Australian Taxes</i> (Australian Govt).
Leigh (2006)	A. Leigh, "Political Economy of Tax Reform in Australia", <i>Public Policy</i> , vol 1, Issue 1.
OECD (2008)	Organisation for Economic Cooperation and Development, <i>Revenue Statistics 1965-2007</i> (OECD)
Treasury (2008)	<i>Architecture of Australia's Tax and Transfer System</i> (Australian Govt)
Henry Review (2008)	<i>Australia's Future Tax System: Consultation Paper</i> (Australian Govt)
Warren (2004)	N. Warren, <i>Tax Facts, Fiction and Reform</i> (Australian Tax Research Foundation).
Warren (2006)	<i>Benchmarking Australia's Intergovernmental Fiscal Arrangements</i> (NSW Govt).
Wilson (2003)	S Wilson and T Breusch, "Taxes and social spending: The shifting demands of the Australian public", <i>Australian Journal of Social Issues</i> , vol 38, no 1.

ⁱ For most other countries, the OECD data is for the calendar year 2006.

ⁱⁱ ICAT (2006), pp5-6.

ⁱⁱⁱ OECD (2008), Table 1.

^{iv} OECD (2008), Table 1; ICAT (2006), p xvii.

^v Calculated from OECD (2008), Table 3 (see also Charts D and E).

^{vi} See OECD (2008), Table A.

^{vii} OECD, *Economic Outlook*, no 84, 2008, Annex Tables 27, 33.

^{viii} Calculated from OECD, *Economic Outlook*, no 84, 2008, Annex Table 27; OECD, *Revenue Statistics 2008*, Table 1.

^{ix} OECD (2008), Table 34.

^x In 2006-7, employer contributions were approximately \$65bn (see APRA (2008) p34) which is about 6.2% of GDP. Compulsory superannuation contributions comprise about 45% of this total (ie, a little under 3% of GDP) with the remainder being "salary sacrifice" and other voluntary arrangements. As mentioned in the text, even the compulsory contributions lack key characteristics of a tax.

^{xi} Calculated from OECD (2008), Table 1.

^{xii} Calculated from OECD (2008), Table 6.

^{xiii} Eg, Treasury refers to it as "direct taxation levied on incomes – wages, salaries, payrolls and profits": Australian Treasury, *Pocket Guide* (2008, p3). See also ICAT (2006), p29.

^{xiv} OECD (2008), Table 7.

^{xv} OECD (2008), Tables 142, 168.

^{xvi} OECD (2008), Table 7.

^{xvii} Calculated from OECD (2008), Table 6, with compulsory superannuation contributions calculated as in note 10 above.

^{xviii} OECD (2008), Tables 22 and 24.

^{xix} OECD, *Economic Outlook* no 84, 2008, Annex Table 25.

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- ^{xx} See Australian Treasury, *Tax Expenditures Statement 2008*, Table 2.1; Productivity Commission, *First Home Ownership* (2004), p109; Warren (2004), pp201-212.
- ^{xxi} Australian Treasury, *Tax Expenditures Statement 2008*, p11.
- ^{xxii} See Productivity Commission, *First Home Ownership* (2004), p 109; Warren (2004), pp201-212.
- ^{xxiii} For examples of the diversity, see ICAT (2006), Appendix Table 4.5.
- ^{xxiv} See, eg, ICAT (2006), p41 and Appendix Tables 4.5.4; Warren (2004), p130.
- ^{xxv} Tax Laws Amendment (Personal Income Tax Reduction) Act 2008.
- ^{xxvi} ICAT (2006), p67 and Appendix Table 4.5.4.
- ^{xxvii} Warren (2004), Table 8.1.
- ^{xxviii} OECD, *Fundamental Reform of Personal Income Tax* (2006), Figure 1.5.
- ^{xxix} ICAT (2006), p74.
- ^{xxx} Treasury (2008), p207.
- ^{xxxi} Adjusted from Warren (2004), Table 8.2. Values indexed by CPI.
- ^{xxxii} Treasury (2008), p 207
- ^{xxxiii} Treasury (2008), p207.
- ^{xxxiv} Adjusted from Warren (2004), table 8.2. Values indexed by CPI.
- ^{xxxv} See also ICAT (2006), Chart 4.5 which is based on average *male* earnings.
- ^{xxxvi} Leigh (2006), p6.
- ^{xxxvii} See, eg, ICAT (2006), Appendix Table 4.5.7; OECD, *Taxing Wages 2006-7*.
- ^{xxxviii} See, eg, Warren (2004), p254.
- ^{xxxix} OECD, *Taxing Wages 2006-7*, Tables I.14 and I.18. These tables include social security contributions by employees but not employers, and omits payroll tax and compulsory superannuation contributions. See also ICAT (2006), Appendix 4.2.
- ^{xl} OECD, *Taxing Wages 2006-7*, Table I.12. See also ICAT (2006), pp63-66 and Appendices 4.1, 4.3.
- ^{xli} Henry Review (2008), pp106-7.
- ^{xlii} Henry Review (2008), p90.
- ^{xliiii} About \$13bn in 2005-6, the latest period for which data are available (Australian Taxation Office, *Taxation Statistics 2005-6*, Table 2.8).
- ^{xliiv} ICAT (2006), Table 4.2.
- ^{xlv} Headey (2005), pp164-5. See also ABS, *Household Wealth and Wealth Distribution, 2005-6* (cat no 6554.0), p16.
- ^{xlvi} Treasury (2008), p184.
- ^{xlvii} See note 53.
- ^{xlviii} Treasury (2008), pp208-9 and Chart 5.9. See also ICAT (2006), pp209-10 and chart 6.4.
- ^{xlix} At least in relation to people on the top marginal rate: see Treasury (2008) p 209.
- ^l Treasury (2008), pp208-9 and Chart 5.9. See also ICAT (2006) pp204-6 and Charts 6.1 and 6.2.
- ^{li} See generally, Warren (2004), pp149-57.
- ^{lii} See Productivity Commission, *First Home Ownership* (2004), pp84-85.
- ^{liii} Australian Treasury, *Tax Expenditures Statement 2007*, Table 2.2 p9; see also Treasury (2008) p244 for this and an alternative approach to costing
- ^{liv} Treasury (2008), p263. See also ICAT (2006), pp201-2, 206-9, Appendix 6.2; Warren (2004), pp135-148.
- ^{lv} See preceding note.
- ^{lvi} See, eg, Warren (2004) p149. Taxable capital gains are also relatively common at the bottom end of the income scales (ATO, *Taxation Statistics 2005-6*, Table 2), presumably reflecting the prevalence of retirees in the latter group.
- ^{lvii} ICAT (2006), Appendix 6.2; Warren pp139-49.
- ^{lviii} Henry Review (2008), p205. See also Productivity Commission, *First Home Ownership* (2004), p109.

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- ^{lix} Treasury (2008), pp208-9 and Chart 5.9. See also ICAT (2006), pp206-8, Appendix Table 6.2.1 (adjusting for the use of flat rates rather than marginal rates in some countries).
- ^{lx} ICAT (2006), p141-4, Chart 5.7. Unlike some purported comparisons, this chart correctly includes taxes at all levels of government.
- ^{lxi} Treasury 2008, p 210, Chart 5.10.
- ^{lxii} See, eg, Treasury (2008), ch8; ICAT (2006), Appendix Tables 5.2.1, 5.5.1, 5.7; Warren (2004), pp188-194.
- ^{lxiii} For the size of these contributions, see, eg, OECD, *Revenue Statistics 2008*, Table 18.
- ^{lxiv} ICAT (2006), Section 5.2.
- ^{lxv} See Treasury (2008) and Henry Review (2008).
- ^{lxvi} Treasury (2008), p211.
- ^{lxvii} Henry Review (2008), p58.
- ^{lxviii} Warren (2004), Table 12.6.
- ^{lxix} For July 2009 tax scales, see Tax Laws Amendment (Personal Income Tax Reduction) Act 2008.
- ^{lxx} See, eg, ICAT (2006), ppxxvi-xxvii, 210-3.
- ^{lxxi} See Part 1, Section 2.
- ^{lxxii} For example, employees may receive lower wages if their employers have to pay wage-based taxes such as social security contributions or payroll taxes.
- ^{lxxiii} See Appendix Tables 1 and 2.
- ^{lxxiv} See option 5 in Appendix Table 1. For reasons explained in para 12 and footnote 10 above, the approach taken for the indicative calculations in this paper is to include 50% of the compulsory contributions. Tables II. B and II.C count 25% as borne by the employer and 25% as borne by the employee.
- ^{lxxv} See Appendix Table 1.
- ^{lxxvi} See option 5 in Appendix Table 2. See also note 82 above.
- ^{lxxvii} See Appendix Table 2.
- ^{lxxviii} Treasury (2008), p206.
- ^{lxxix} See, eg, ICAT (2006), p290; Gabbitas and Eldridge, *Directions for State Tax Reform* (Productivity Commission, 1998) ch 7.
- ^{lxxx} See, eg, Productivity Commission, *First Home Ownership* (2004), p82; ICAT (2006), pp289-90; Gabbitas and Eldridge (see preceding note), ch7.
- ^{lxxxi} See Treasury (2008), p206; OECD (2008), Country Tables; ICAT (2006), pp282-3.
- ^{lxxxii} See, eg, ICAT (2006), p284.
- ^{lxxxiii} See, eg, ICAT (2006), pp284-8.
- ^{lxxxiv} OECD (2008), Table 22.
- ^{lxxxv} OECD, *Revenue Statistics 2008*, Table 139.
- ^{lxxxvi} ICAT (2006), Chart 8.6.
- ^{lxxxvii} See ICAT (2006), pp247-249 and Appendix Tables 8.1.1 and 8.1.2.
- ^{lxxxviii} ICAT (2006), pp251-5, Charts 8.5, 8.7, 8.9.
- ^{lxxxix} ICAT (2006) p256, Appendices 8.2-8.5.
- ^{xc} See, eg, Treasury (2008) ch.9; Henry Review (2008), chs11-12.
- ^{xci} OECD (2008), Table 24.
- ^{xcii} OECD tax categories in each column are General (5110), Excise/Customs (5121, 5123); Other (5122, 5124-8; 5200); Total (5000).