



Tax background paper

**National Reform Summit
John Daley, Grattan Institute
August 2015**

Summary

Budget repair should include some tax increases

- Australia has small government by international standards
- Using expenditure/GDP in 2008 as a benchmark cherry-picks an unusual year when nominal GDP was boosted by both business cycle and mining revenues
- Size of budget challenges mean that Commonwealth and State governments will need to boost revenues as well as contain spending
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Current tax breaks on superannuation should be wound back

- More than half the benefits go to the top 20 per cent of households, most of whom would save anyway, and be unlikely to qualify for an Age Pension
- Most of the voluntary contributions are tax structuring by over 60s rather than early savings for retirement
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Negative gearing and capital gains tax discounts should be limited

- These tax breaks distort investment choices and inflate house prices

A higher or broader GST would be an efficient way to raise revenues and compensation can be effective

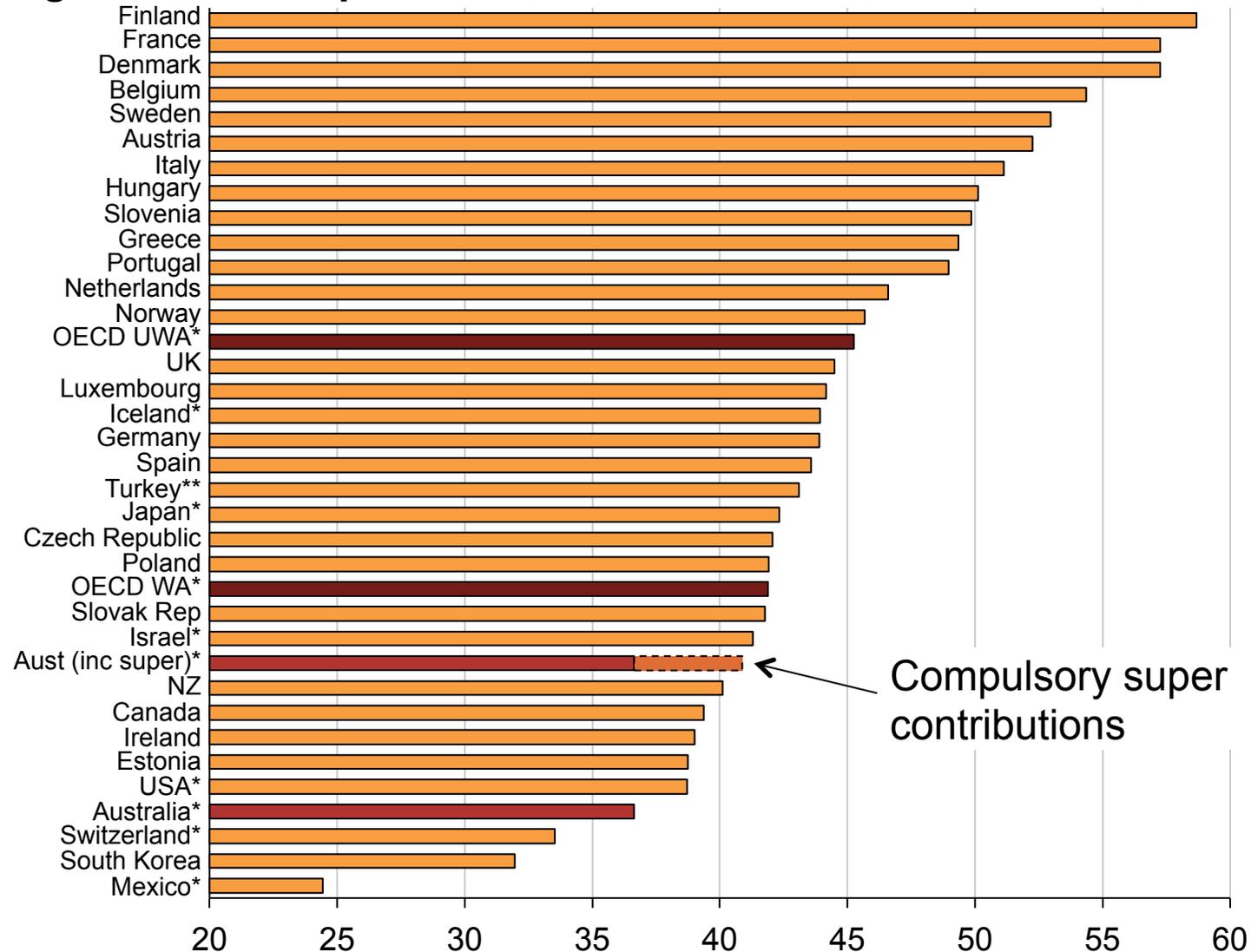
- Compensation can be targeted to the bottom 20% through the welfare system

Broad-based property taxes are efficient and fair

- Property tax revenues grow with the economy and are less volatile than stamp duties

Australian government is relatively small, even including super

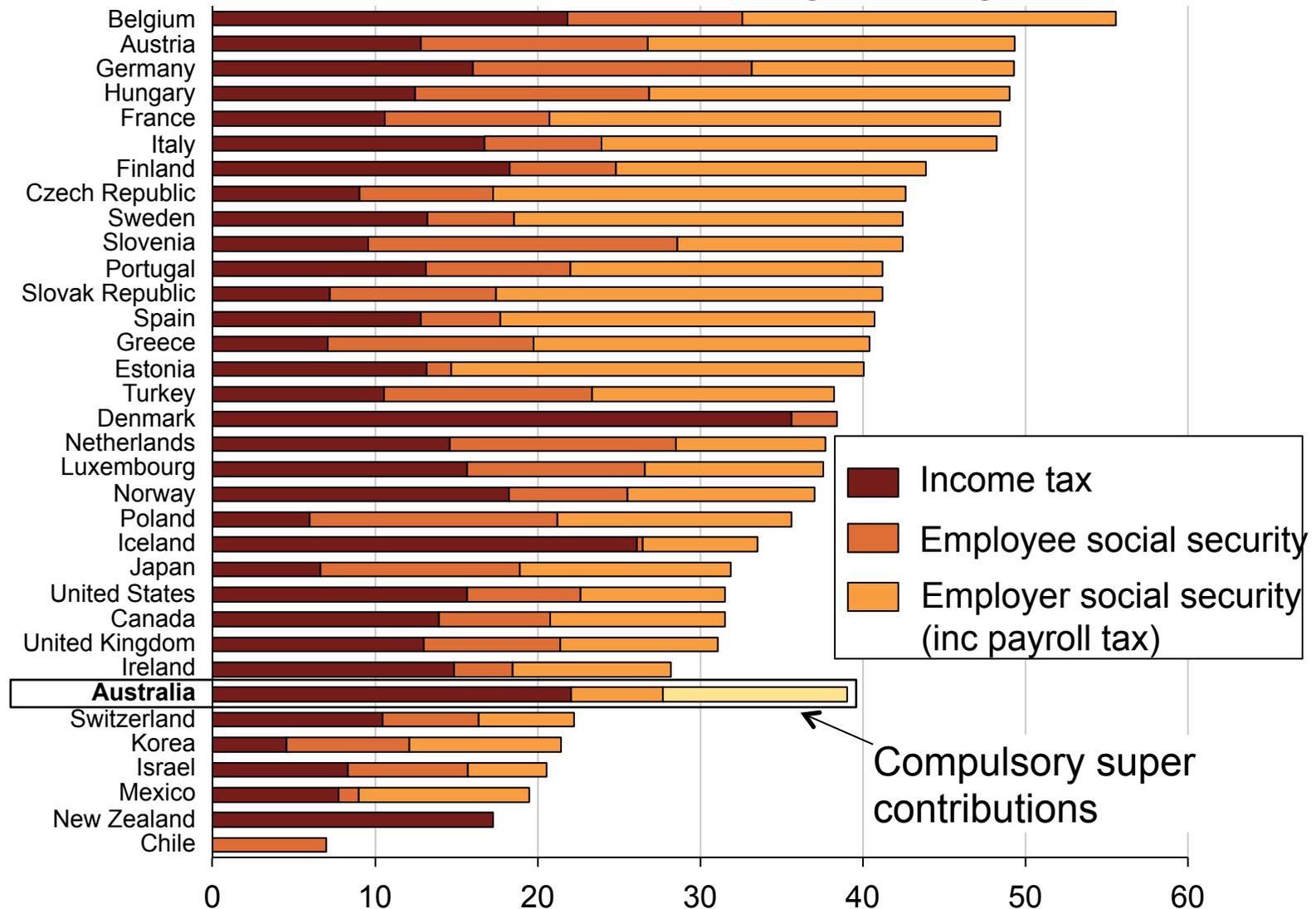
General government expenditure, OECD countries, as % of GDP, 2014



Data for countries marked with an asterisk is for 2013; for Turkey is 2012
Source: OECD <http://dx.doi.org/10.1787/888933248323>.

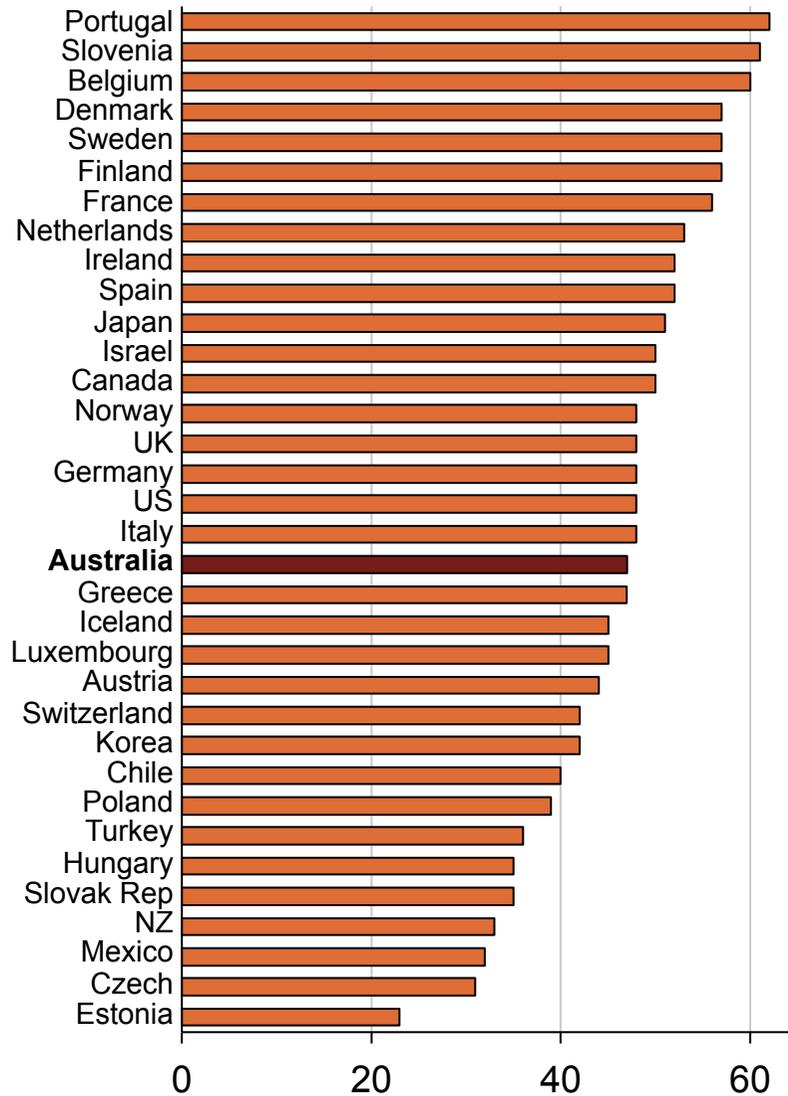
Australian labour taxes are relatively low if social security contributions are included

Taxes on labour costs, OECD countries, as % of gross wages, 2014

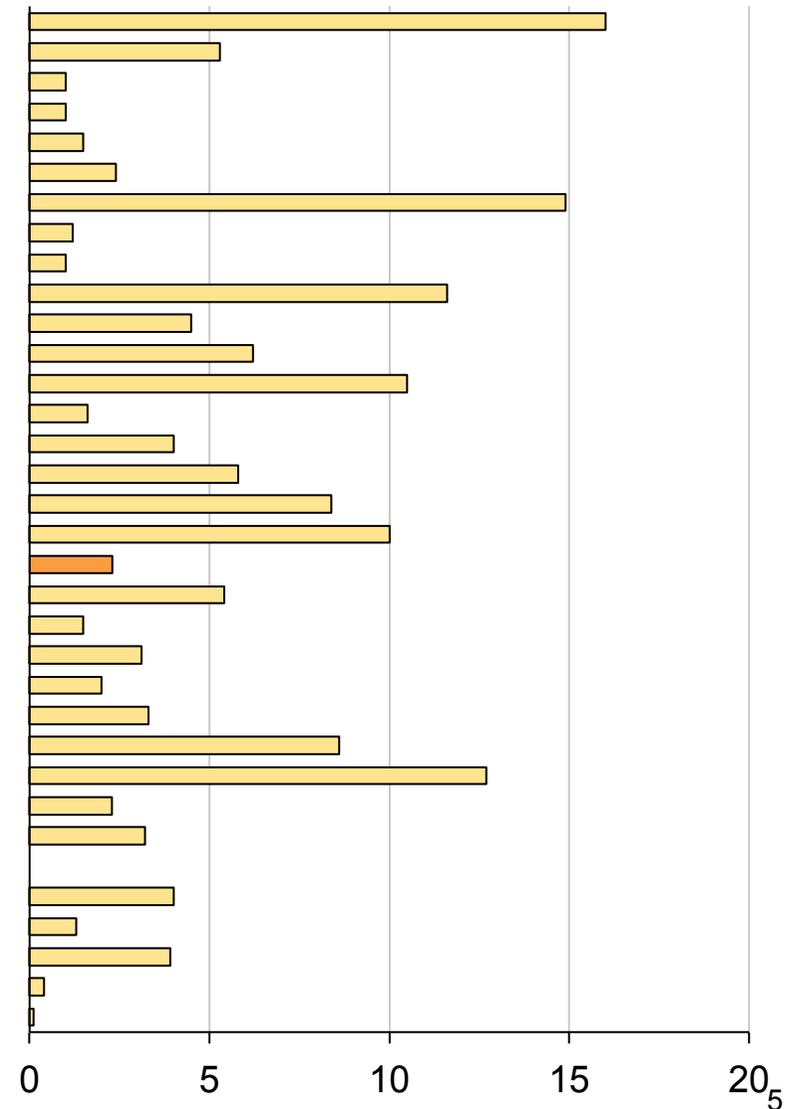


Australia's top marginal tax rate is unremarkable, although the threshold is relatively low

Top marginal tax rate, percent



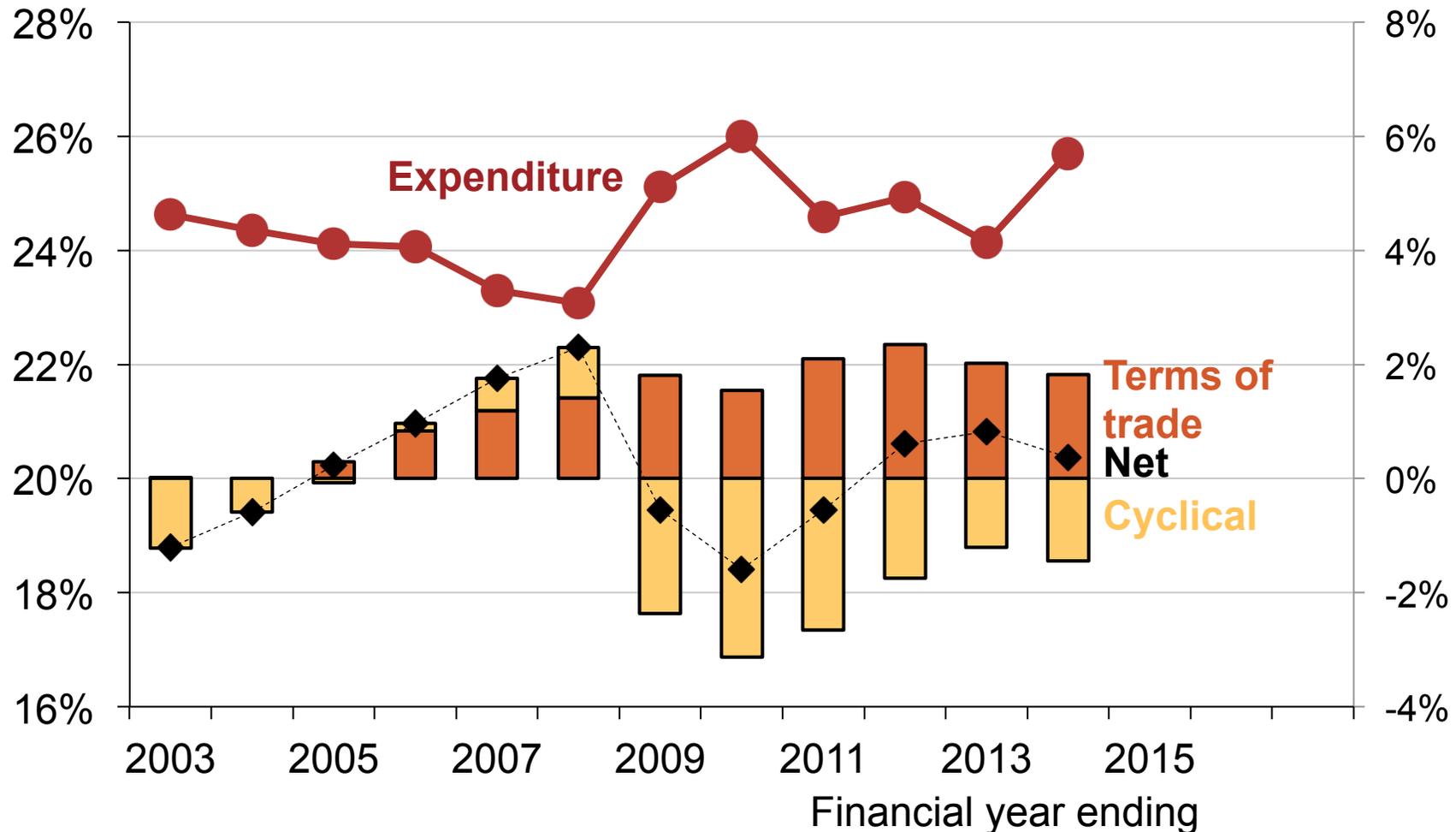
Top marginal threshold, AWE multiple



Source: Treasury, *Re:think*; Grattan analysis

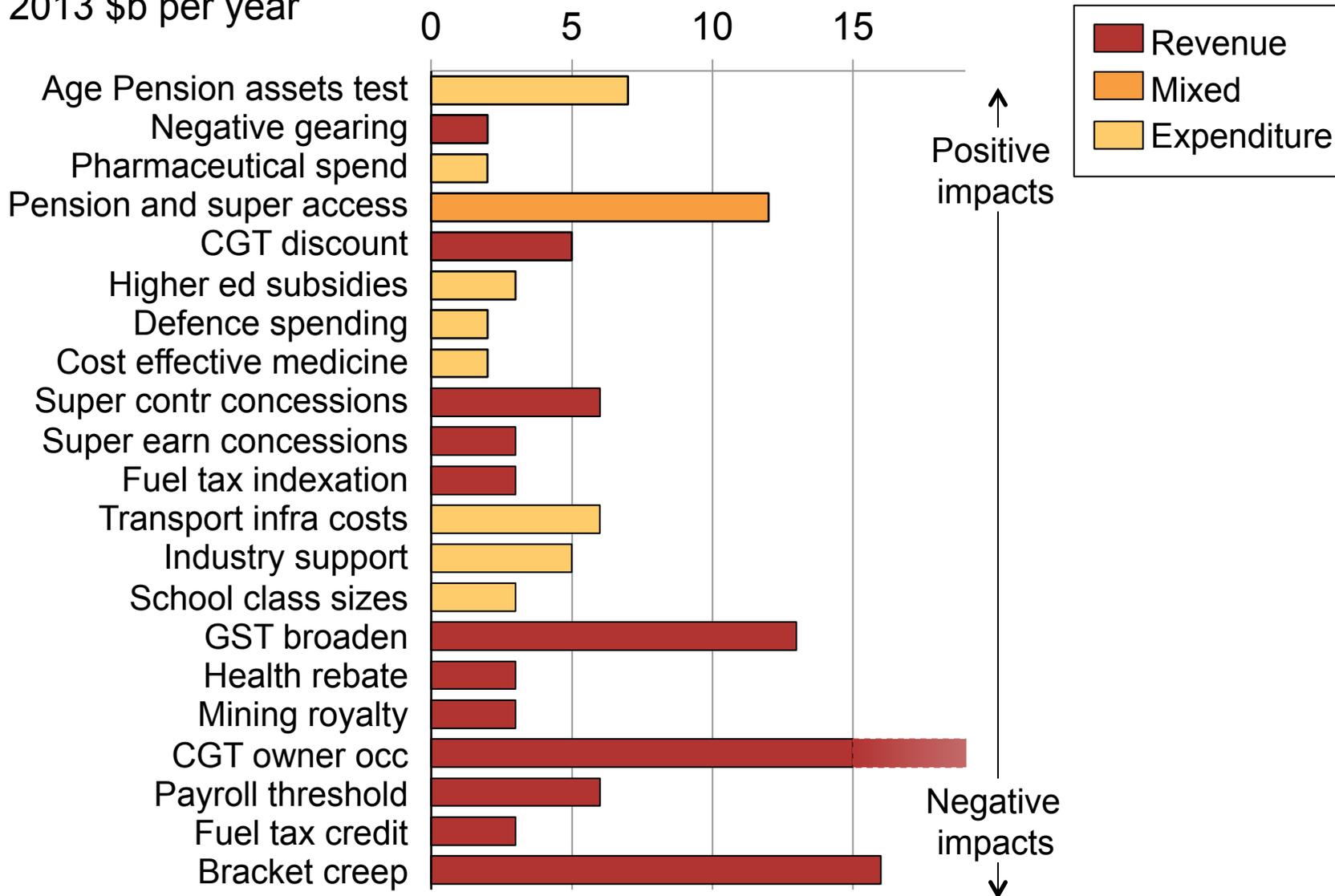
The low point of expenditure in 2008 coincided with boost from mining and business cycle

Commonwealth expenditure, and budget balance impact of terms of trade and business cycle
per cent of nominal GDP



Filling a budget hole of \$40b without revenue increases is implausible

Budgetary impact of budget choices worth at least \$2b/yr
2013 \$b per year



Source: Grattan Institute, *Balancing Budgets*

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A higher or broader GST would be an efficient way to raise revenues and compensation can be effective

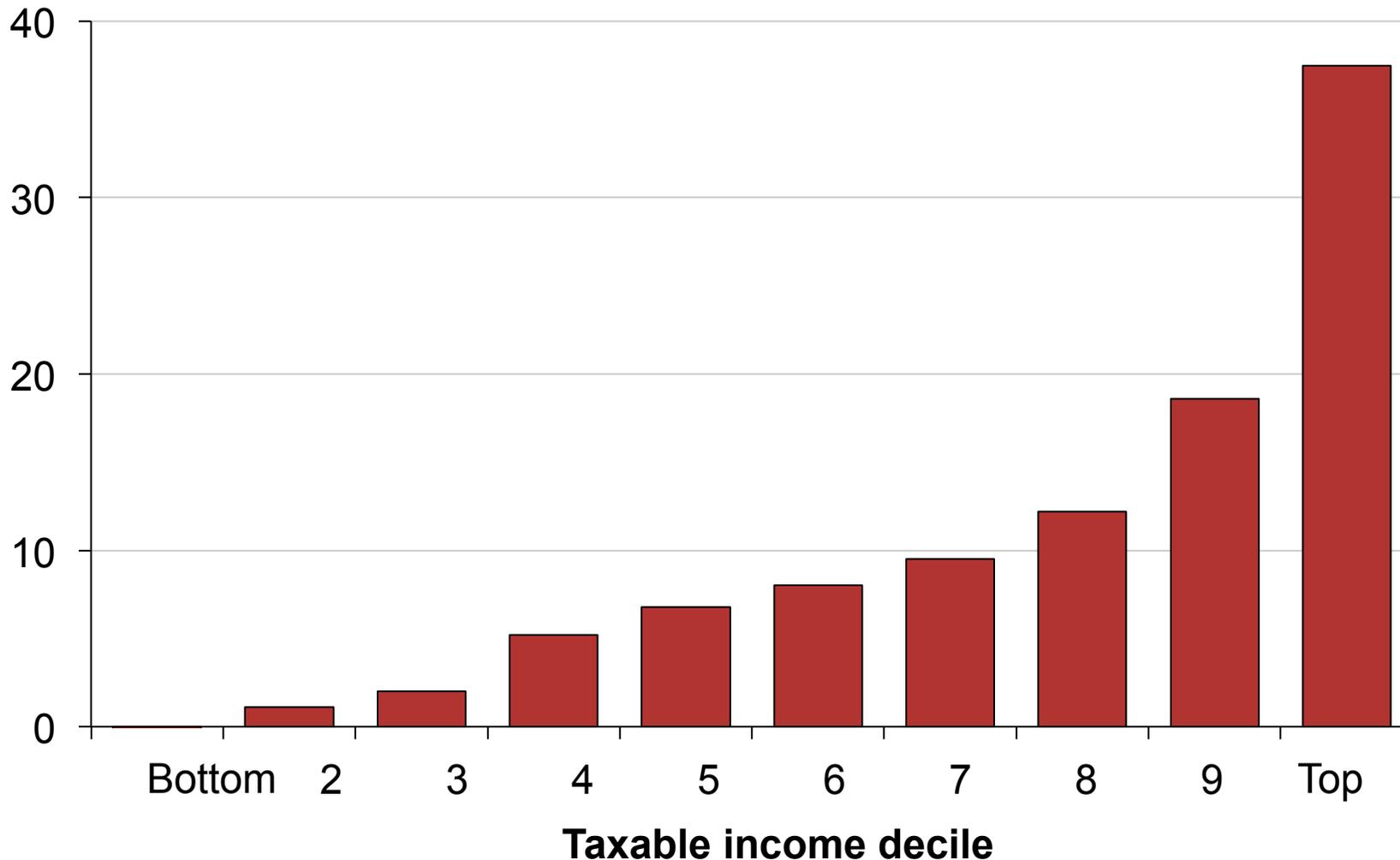
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Broad-based property taxes are efficient and fair

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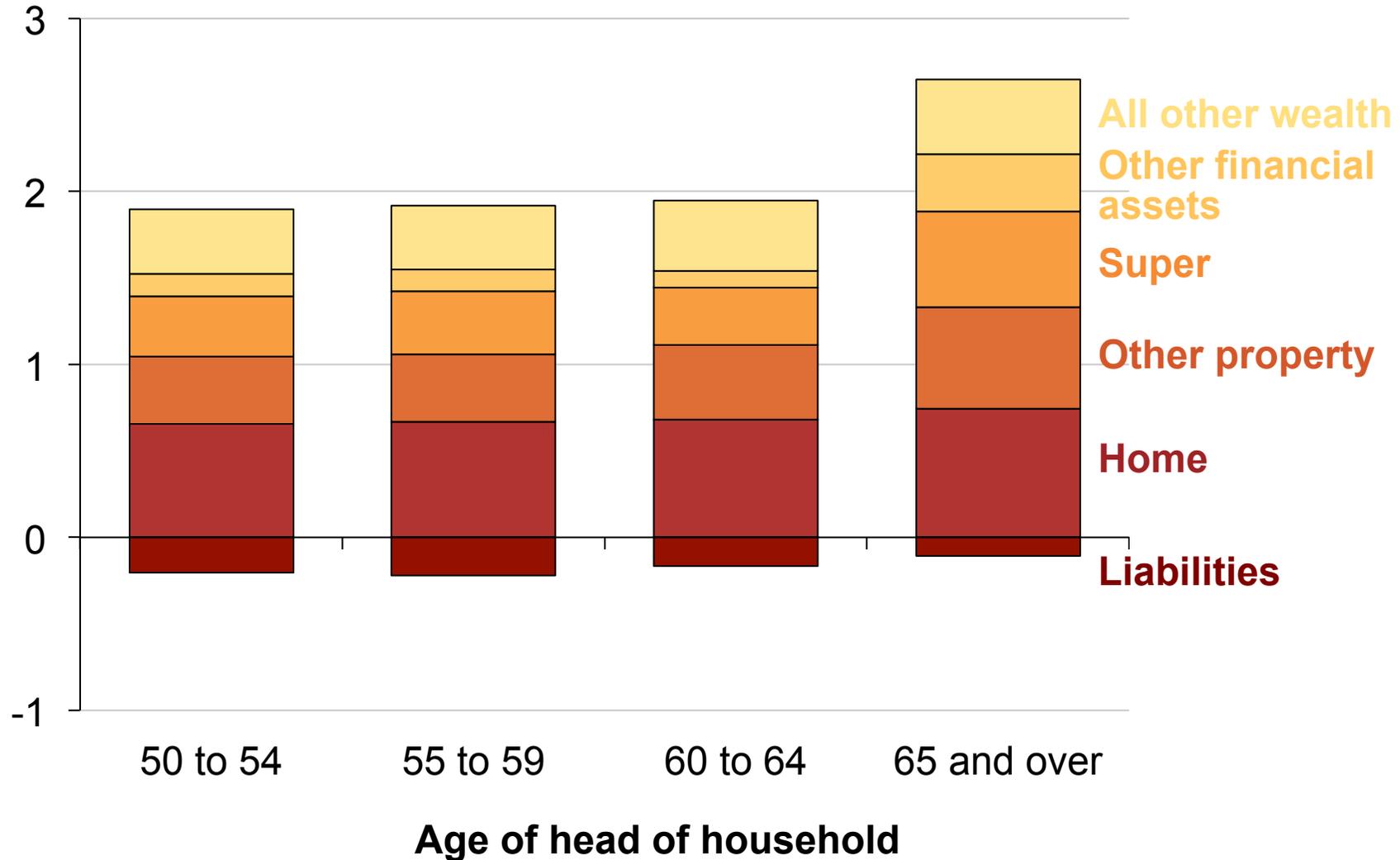
The top 20% of taxpayers receive more than half of the superannuation tax breaks

Share of superannuation tax concessions by income decile
2011-12, per cent



High income earners have usually saved a lot by age 50 – mostly outside super

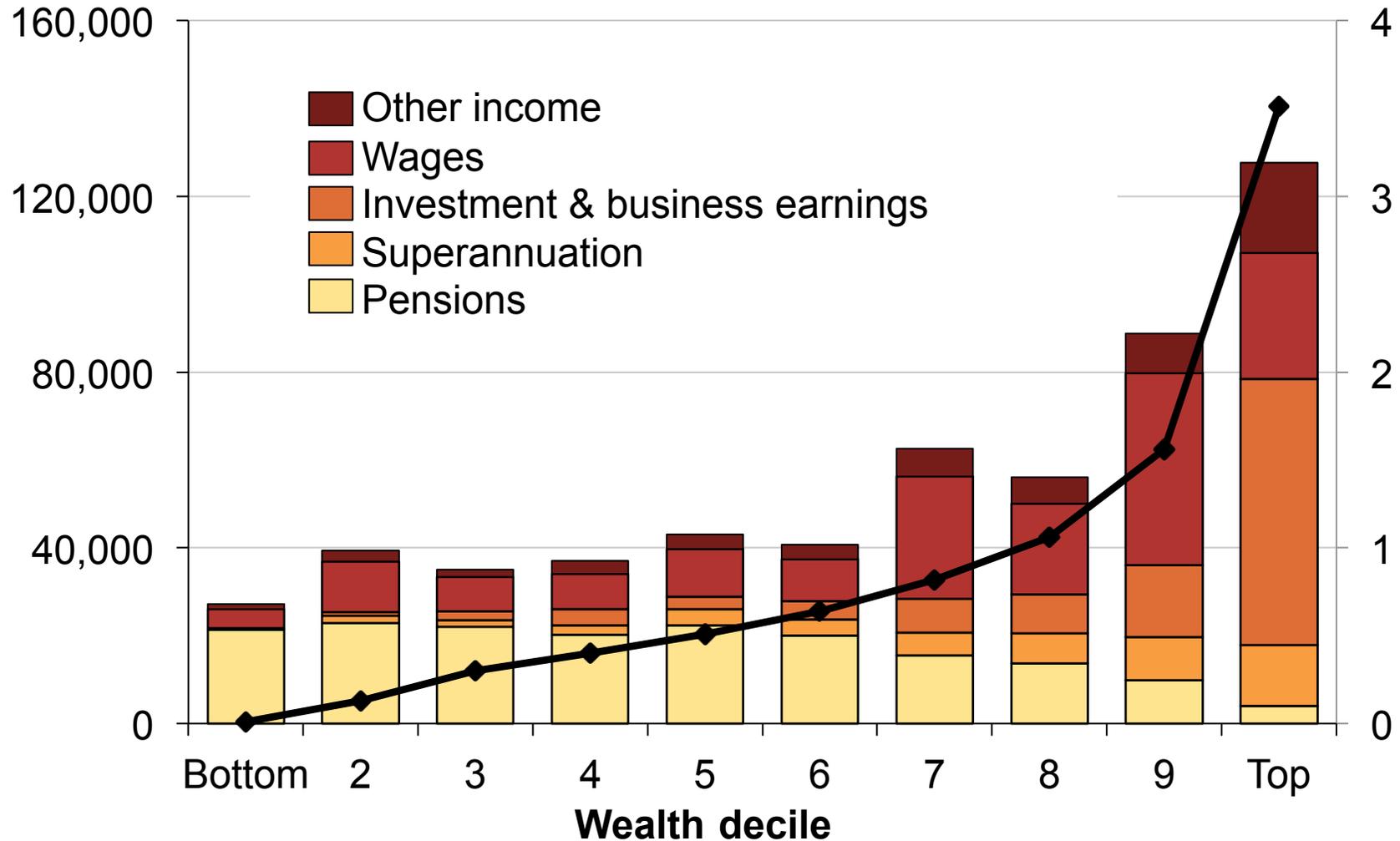
Average wealth per household by age with household incomes above \$100,000
\$2011-12, \$ millions



The most wealthy retirees earn more from superannuation – and even more elsewhere

Annual income, people aged >65
2010\$

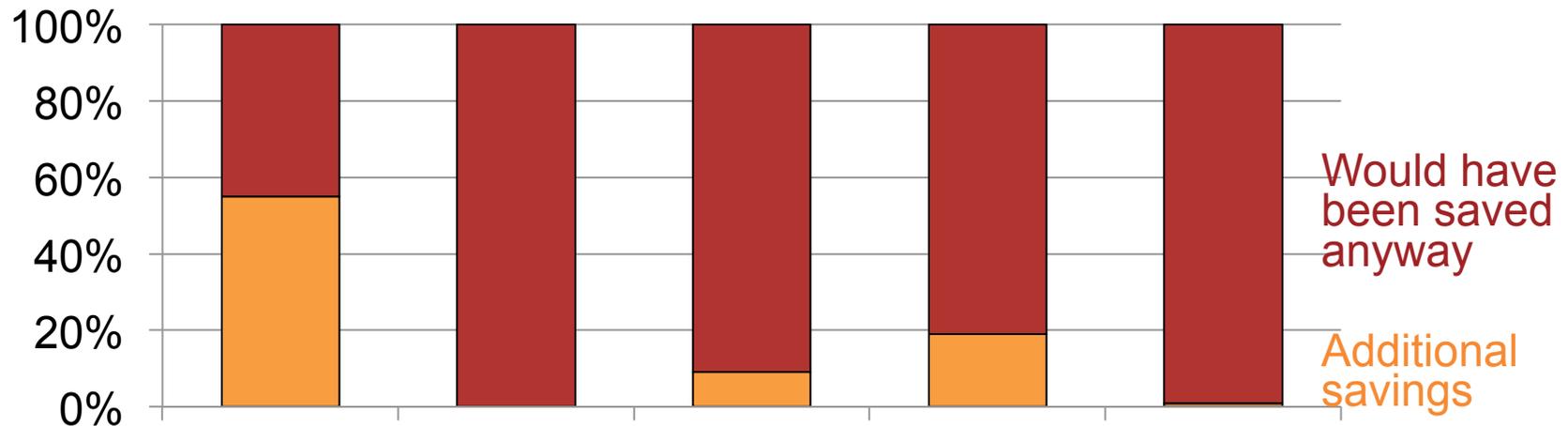
Wealth
2010\$ m



Source: HILDA survey 2009-10; Grattan Institute analysis.

Tax incentives don't increase overall savings rates much

Where do the extra contributions into tax advantaged vehicles come from?



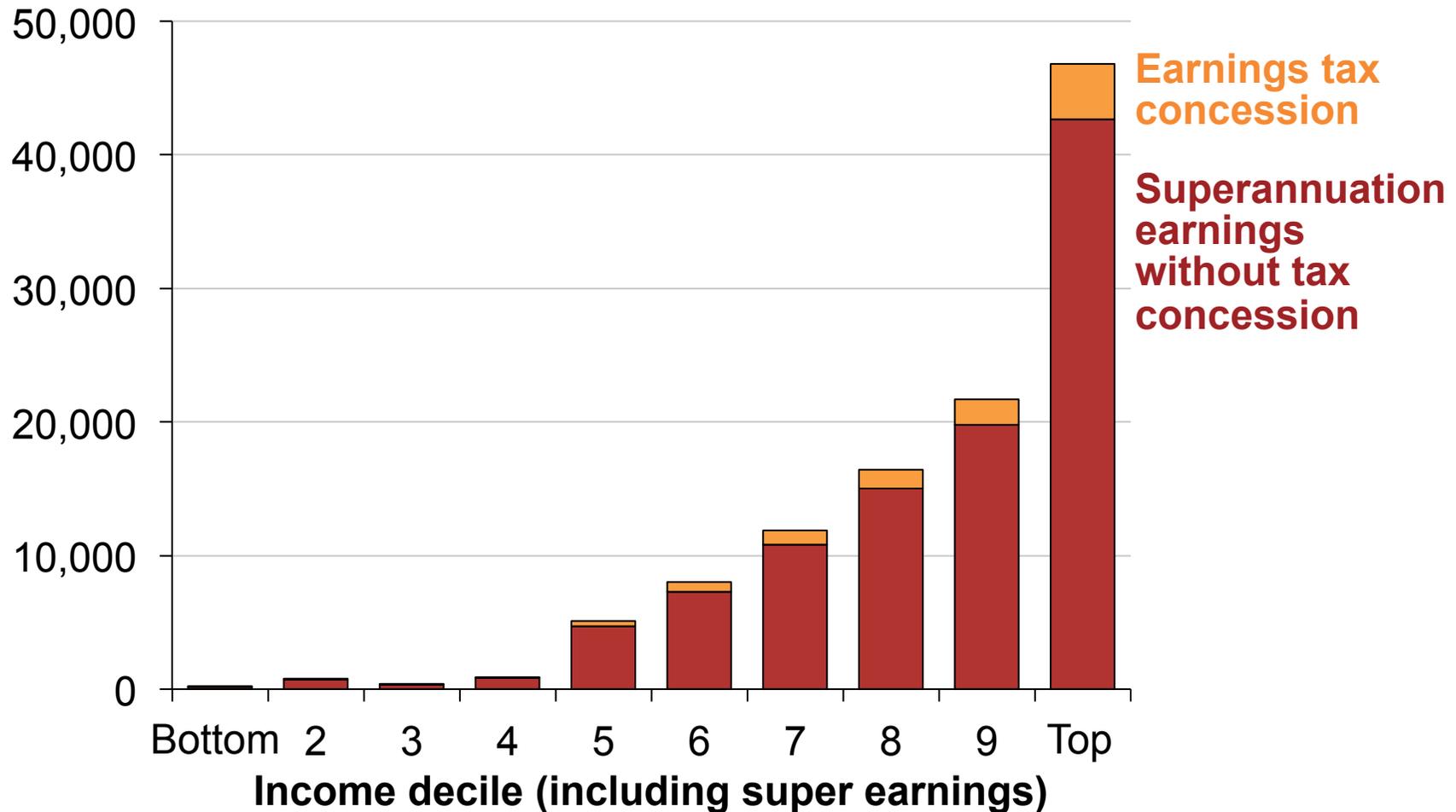
Study	Estimates new savings from tax advantaged vehicles	Estimates new savings from IRAs	Estimates new savings from IRAs by comparing new and existing contributors	Estimates new savings from tax-favoured retirement plans in Spain	Reduction in tax break for higher income earners in Danish retirement accounts
Venti	Estimates new savings from tax advantaged US Individual Retirement Accounts	Estimates new savings from IRAs	Estimates new savings from IRAs by comparing new and existing contributors	Estimates new savings from tax-favoured retirement plans in Spain	Reduction in tax break for higher income earners in Danish retirement accounts
Engen	Biased result - assumes same savings preferences between IRA contributors and non-contributors	More robust than Venti but result sensitive to cut-off points chosen for analysis	Estimates of (short-run) effects on new savings not significantly different to zero	Amongst near retirees that contributed most, almost all contributions reshuffling from other savings	Comprehensive data of all citizens' tax advantaged and other accounts over 14 years
Attanasio					
Ayuso					
Chetty					

Study reliability

Sources: Venti & Wise (1986, 1987, 1988, 1990, 1991). Mid-point of range of estimates reported. Engen, Gale & Scholz (1996), see also Gale and Scholz (1994). Attanasio & DeLeire (2002); Ayuso, Jimeno & Villanueva (2007, 2008); Chetty et al. (2014).

Those on high incomes benefit most from the earnings tax concessions

Superannuation earnings for 60+ year olds in drawdown phase \$2015-16

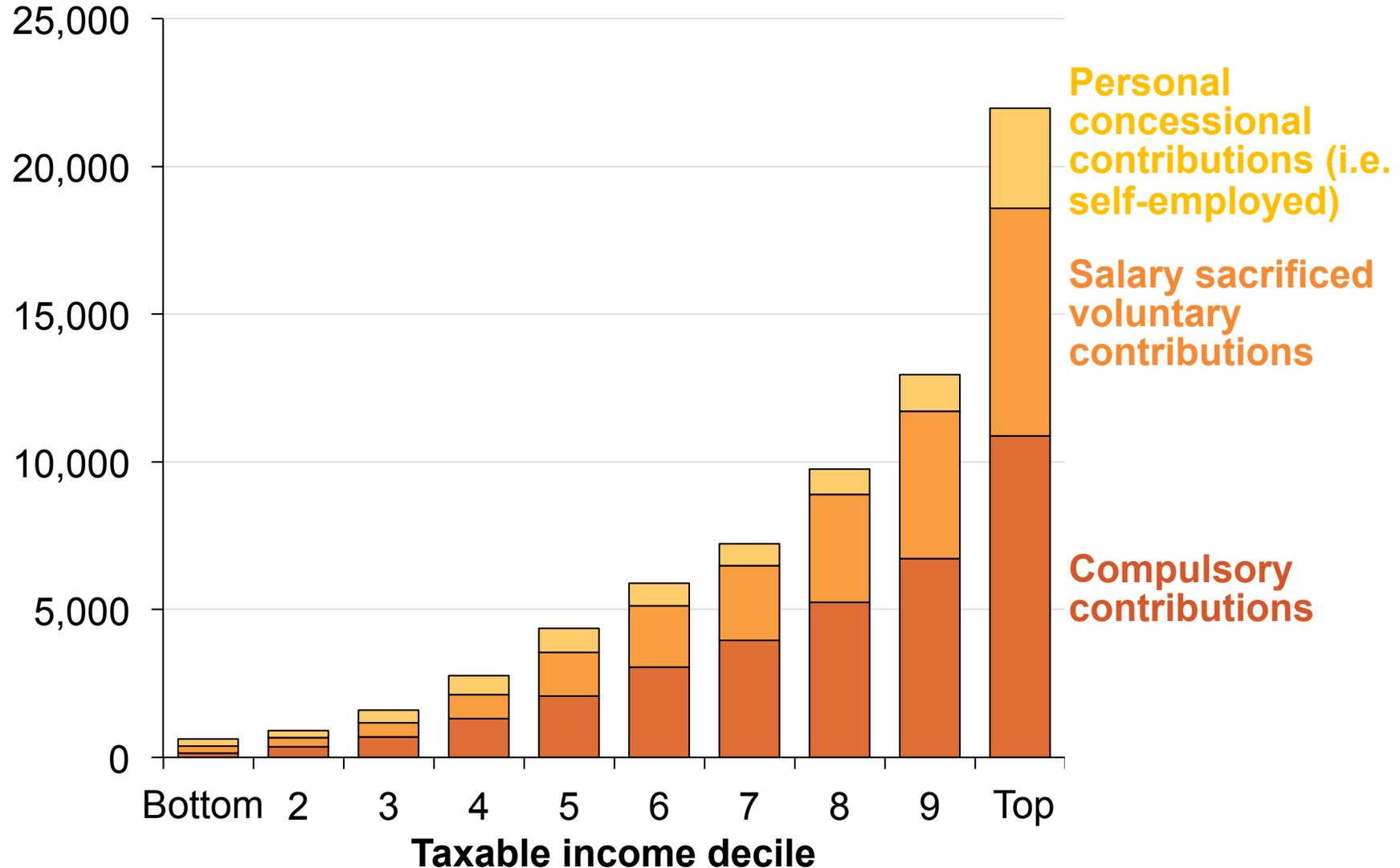


Notes: Assumes a 5 per cent nominal return; 2.5 per cent inflation; 20 per cent of super fund earnings are attributed to capital gains and 80 per cent to other earnings, resulting in an effective tax rate on super earnings of 14 per cent in the drawdown phase.

Source: Grattan Institute analysis of Survey of Income and Housing 2011-12.

People with high incomes contribute significantly more to their super

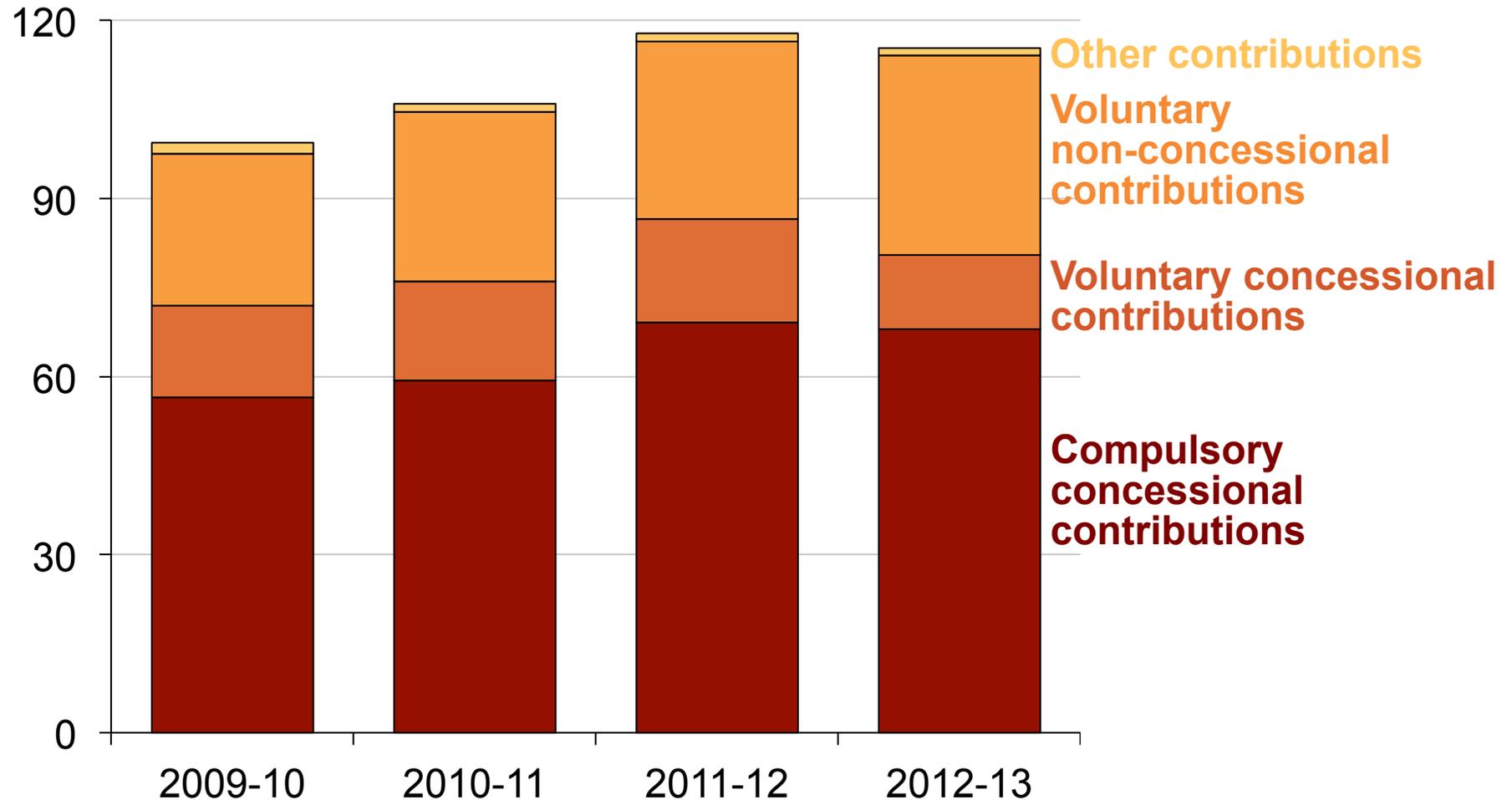
Average contributions for 2012-13 for people over 50



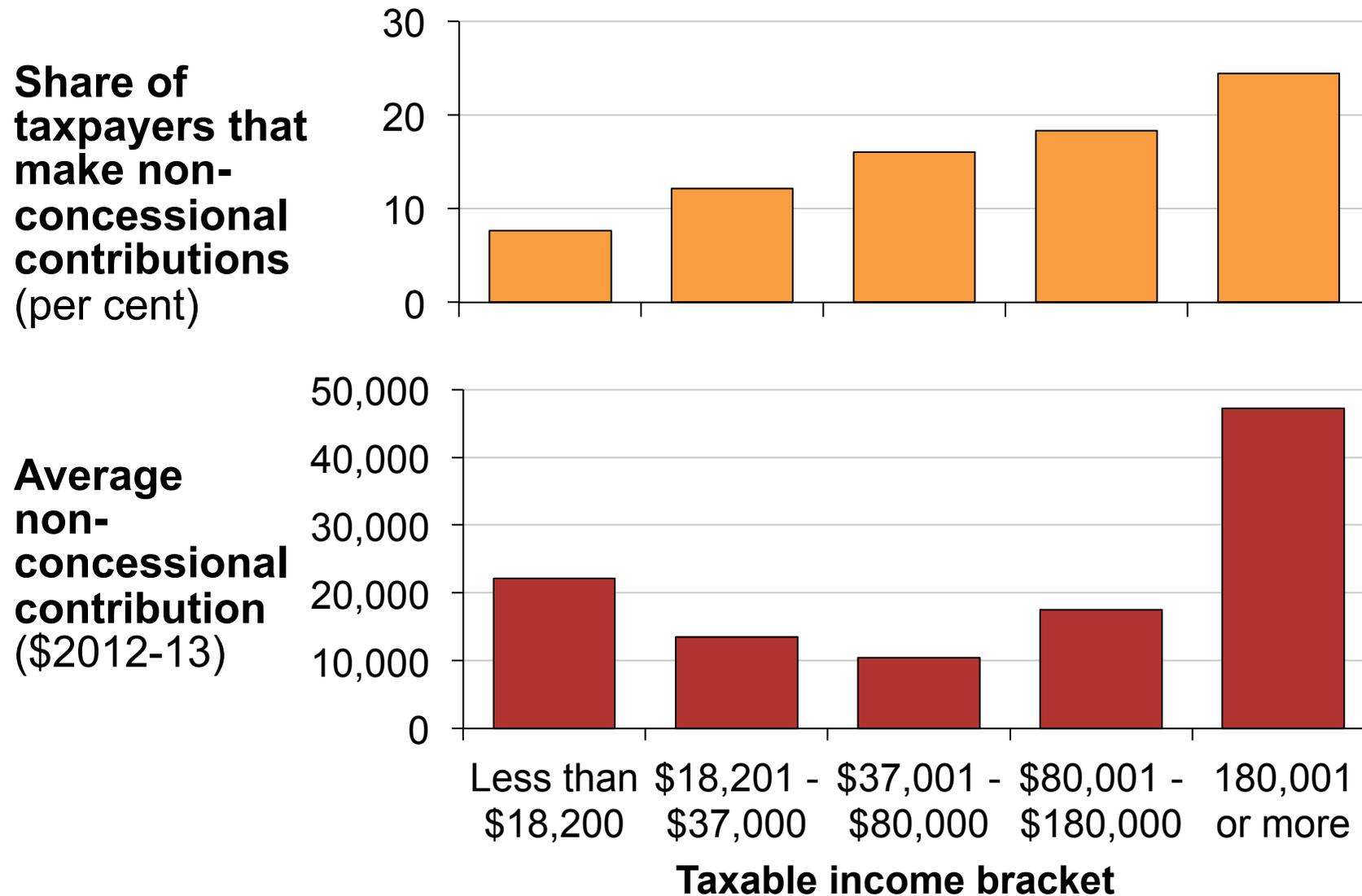
Source: Grattan Institute analysis of ATO Taxation Statistics 2012-13.

Non-concessional contributions are almost one third of all contributions

Total contributions to all super funds, by contribution type
\$b (nominal)

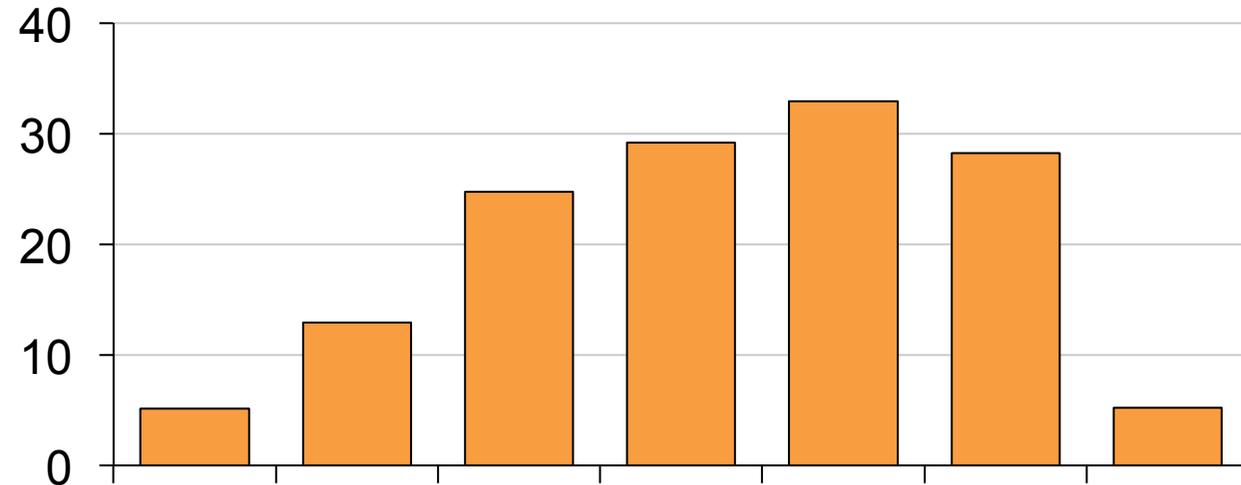


High income earners are more likely to make non-concessional contributions

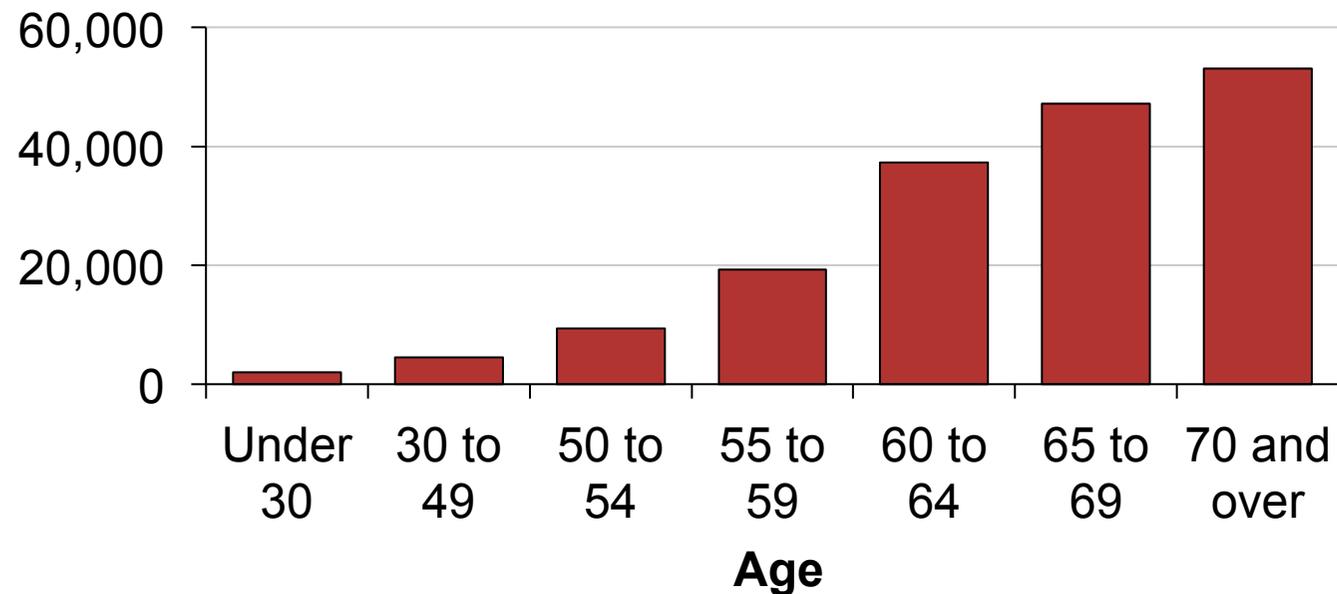


Retirees make large average non-concessional contributions

Share of taxpayers that make non-concessional contributions (per cent)



Average non-concessional contribution (\$2012-13)



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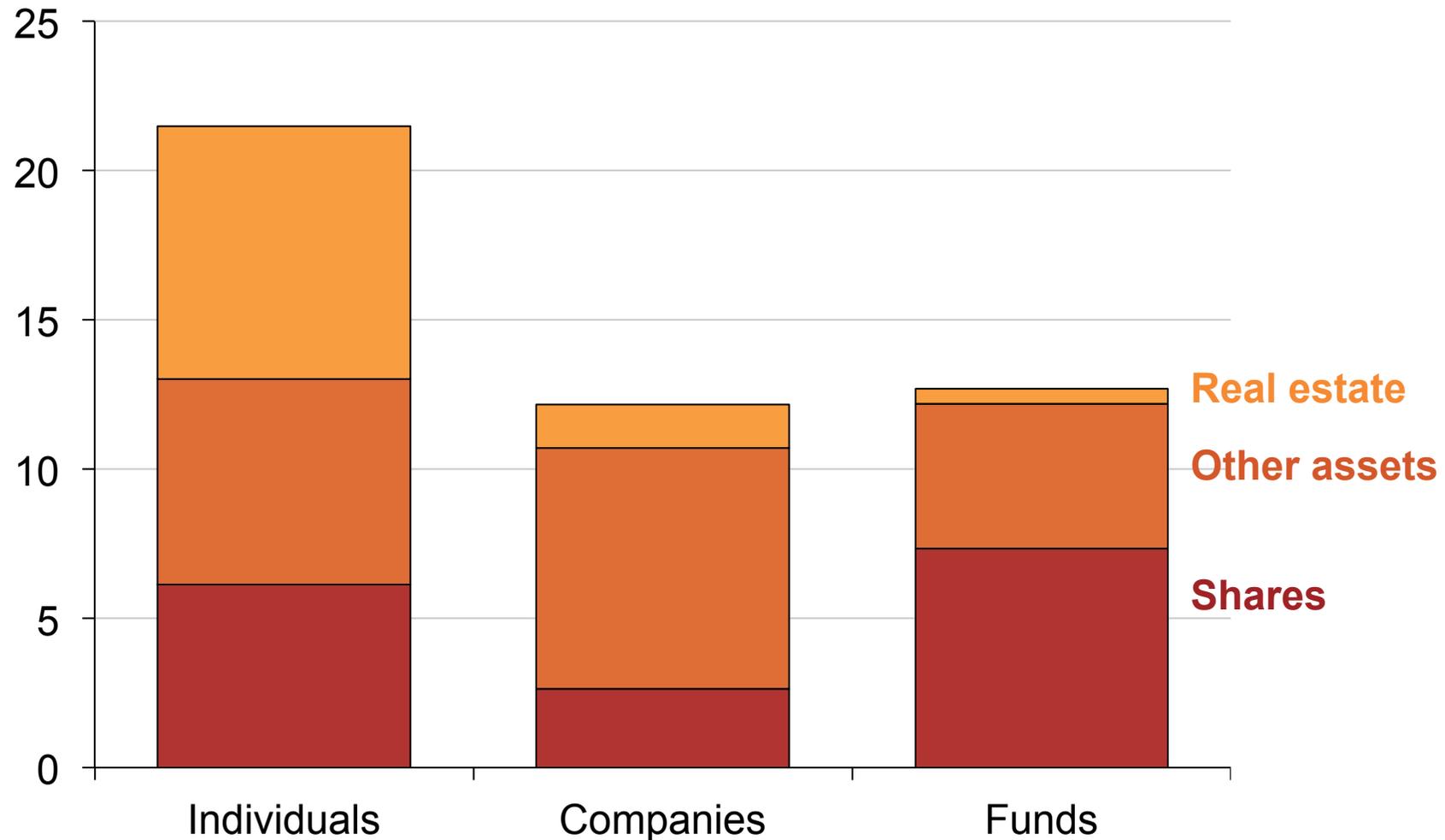
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Broad-based property taxes are efficient and fair

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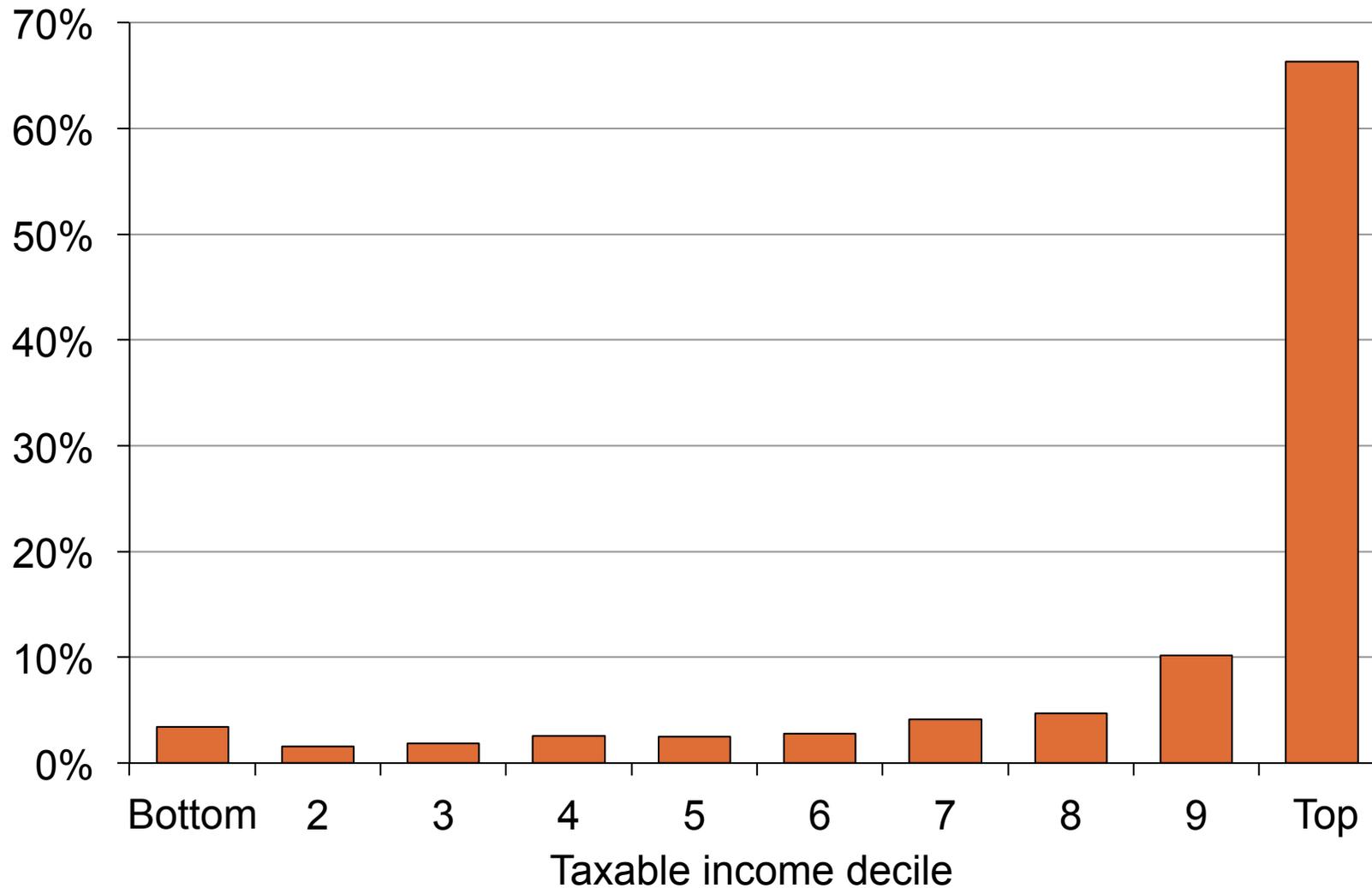
Capital gains are disproportionately earned by individuals, on real estate

Taxable net capital gains 2012-13, \$billion



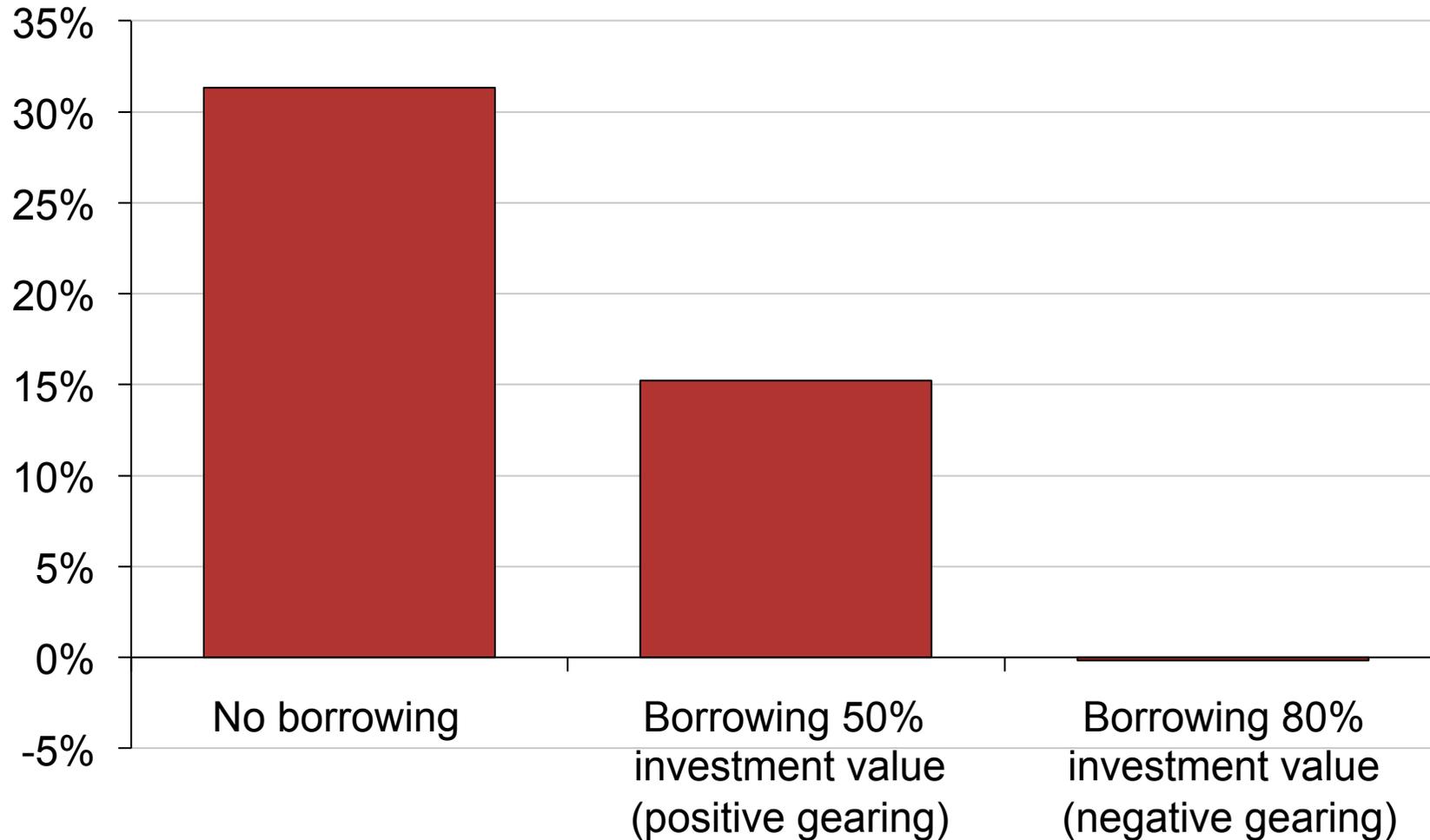
Most capital gains are made by the top 10 per cent of income earners

Percentage of net capital gains for each income decile (2012-13)



CGT discount contributes to very low tax rates for geared investments

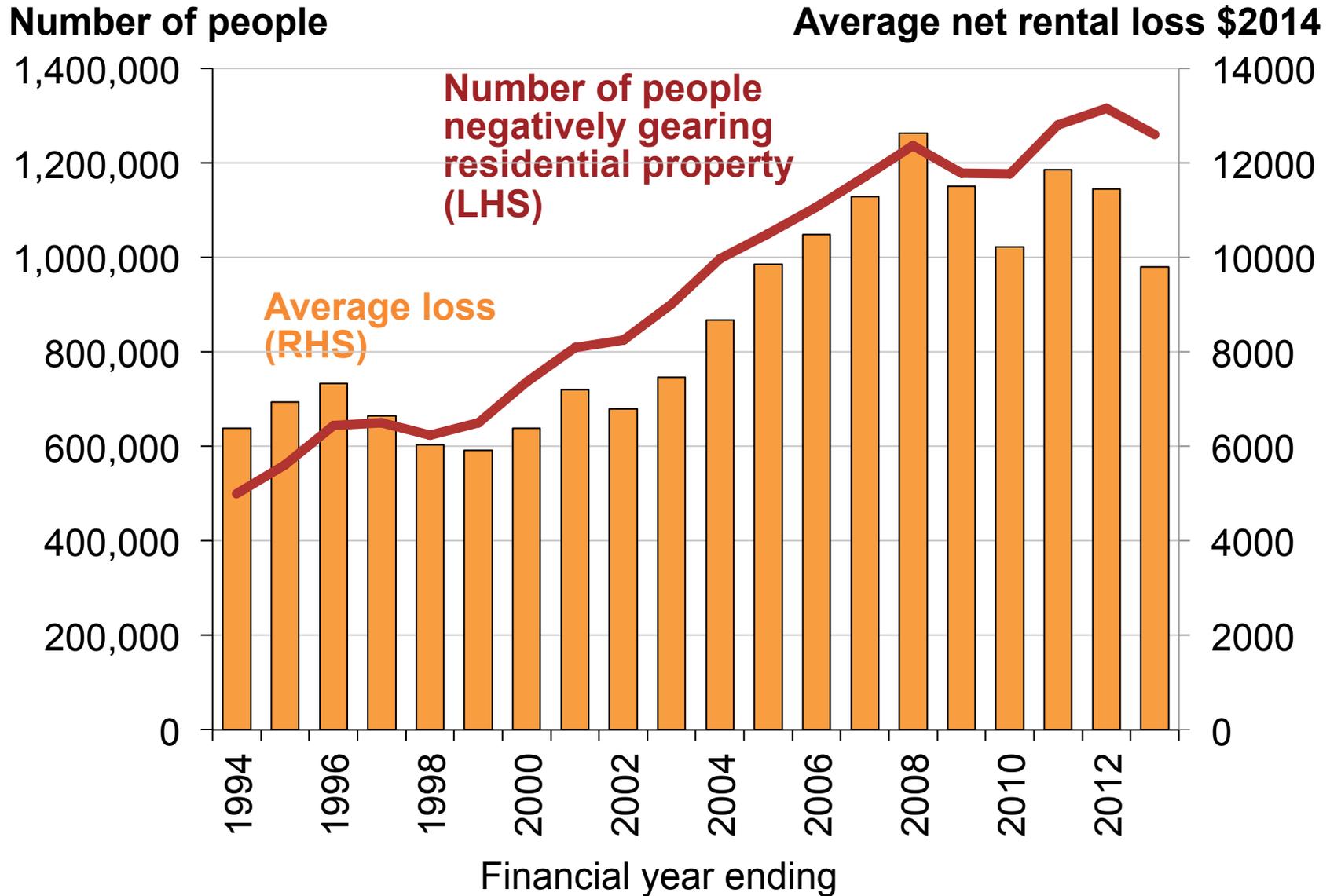
Real effective marginal tax rate on investments



Notes: Assumes a 6 per cent nominal return, 2.5 per cent inflation. 50 per cent of the return is attributed to capital gain and 50 per cent to rental income. All investment income is taxed at the top 45c tax rate. The property is held for seven years and then sold.

Source: Grattan analysis

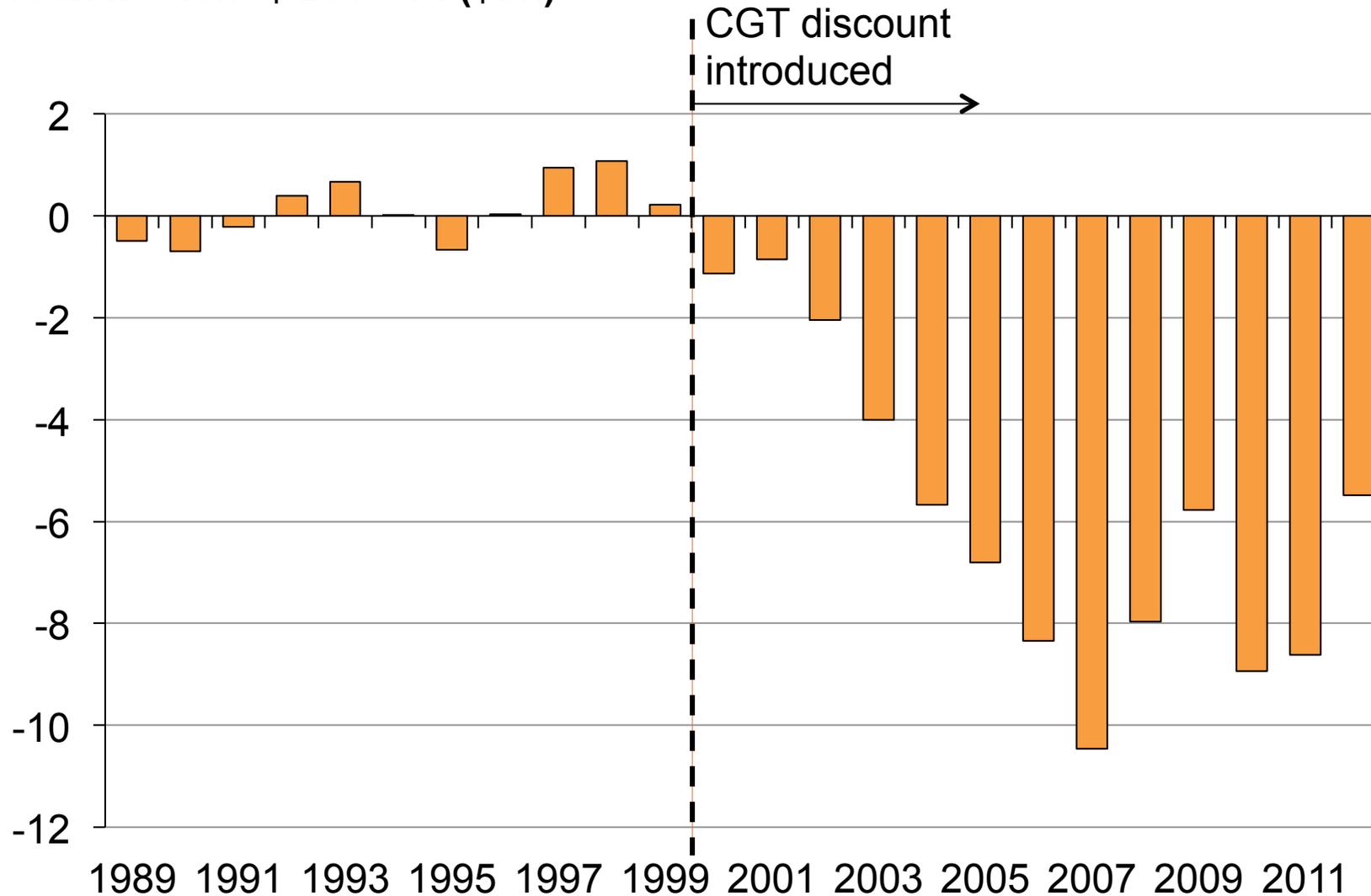
More landlords are negatively gearing and average losses are growing



Source: Grattan Institute analysis of ATO Taxation Statistics 2012-13.

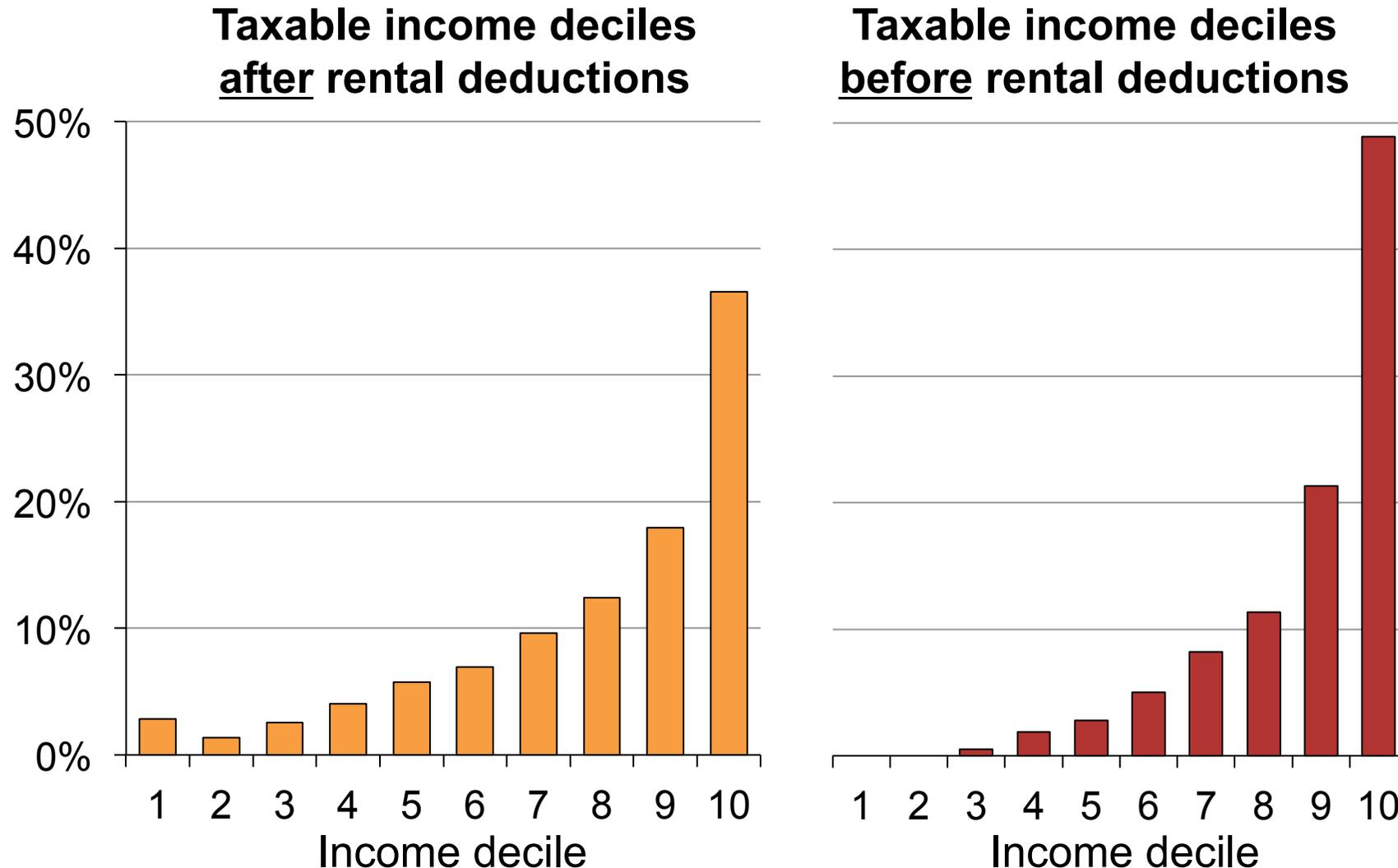
Collective losses became large after the CGT discount was introduced

Total net rent \$ 2013-14 (\$bn)



High income earners get biggest benefit from negative gearing

Percentage of the total tax benefits from rental losses by income decile



Source: Grattan Institute analysis of ATO Taxation Statistics 2012-13.

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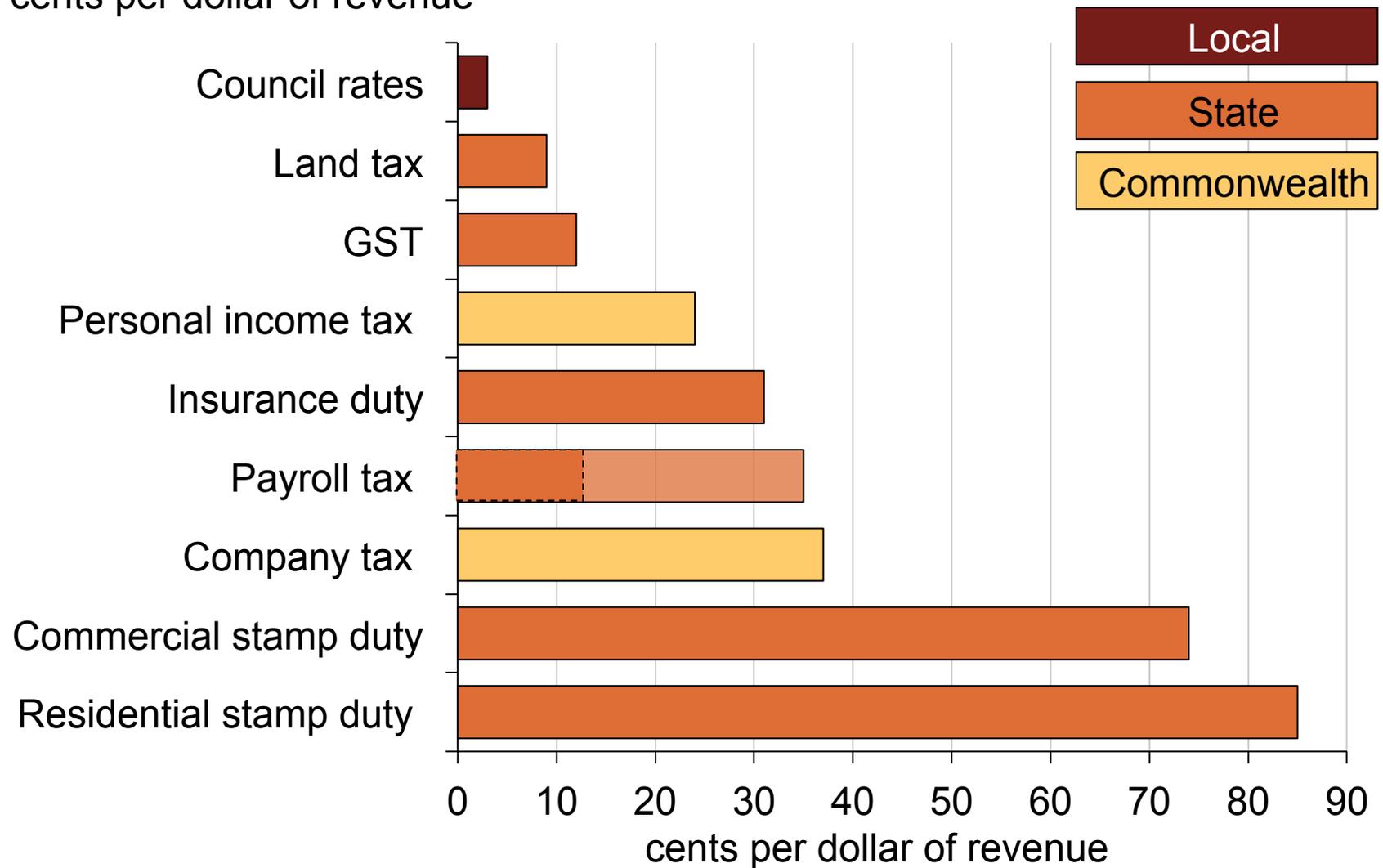
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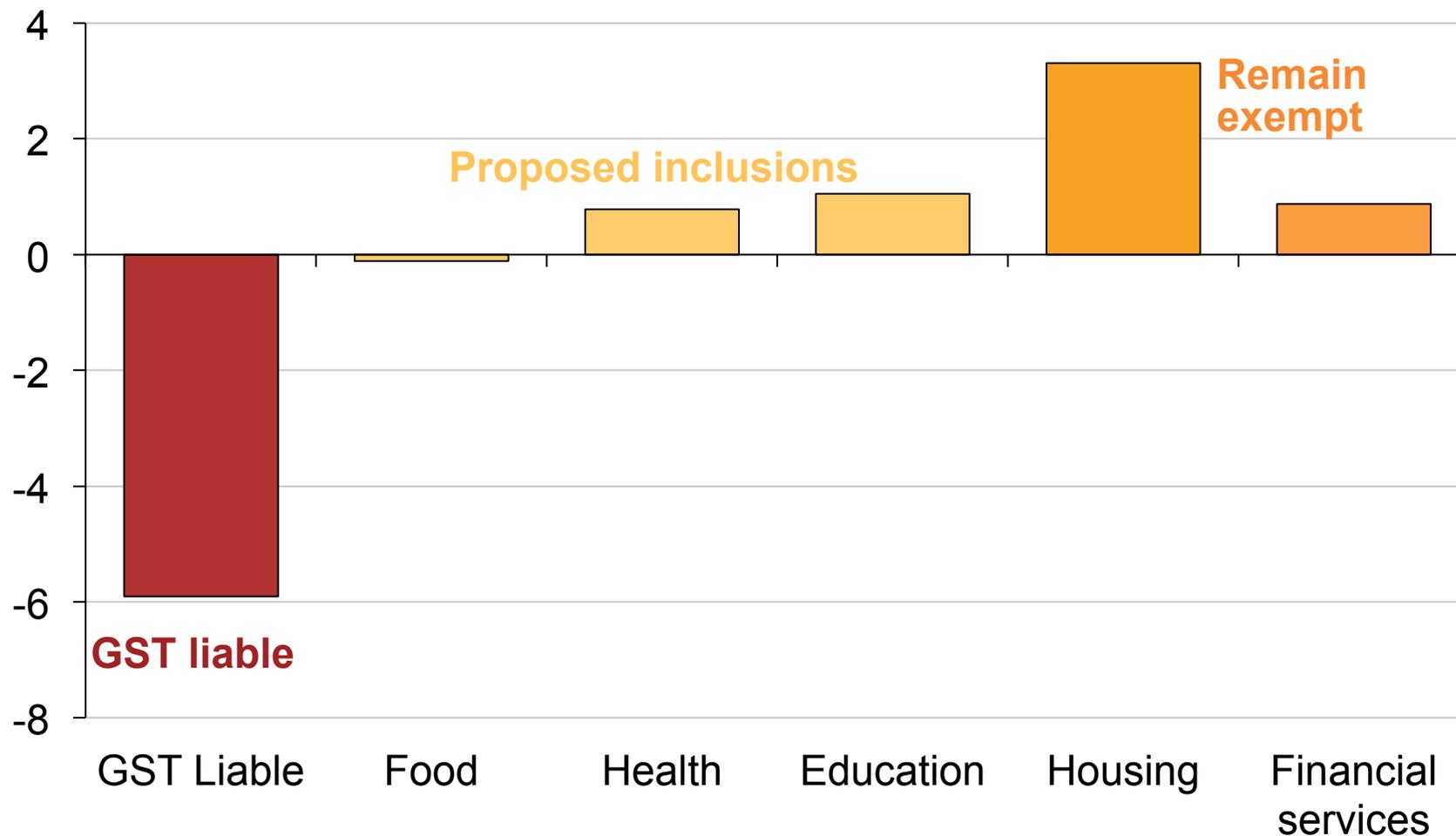
Taxes and property and GST are the most efficient taxes

Loss of economic activity for each \$ increase in the tax cents per dollar of revenue



Consumers are spending less on goods and services liable for GST

Change in use of household disposable income 2004-05 to 2013-14
Percentage point change

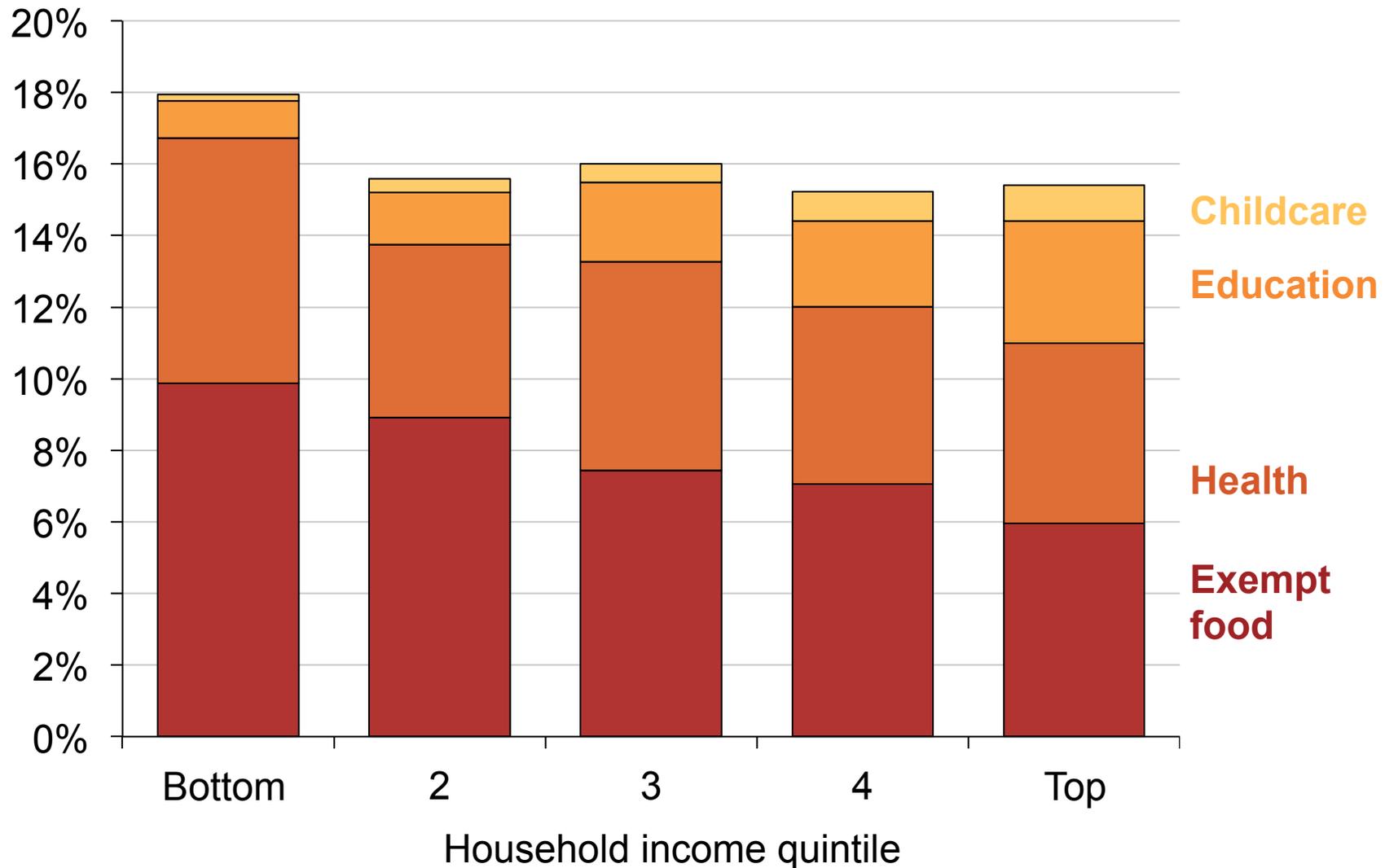


Notes: Some food and financial services are subject to GST. These individual products/services are not separately identified in the data so are not included in the GST liable category.

Source: Grattan Institute analysis of ABS National Accounts

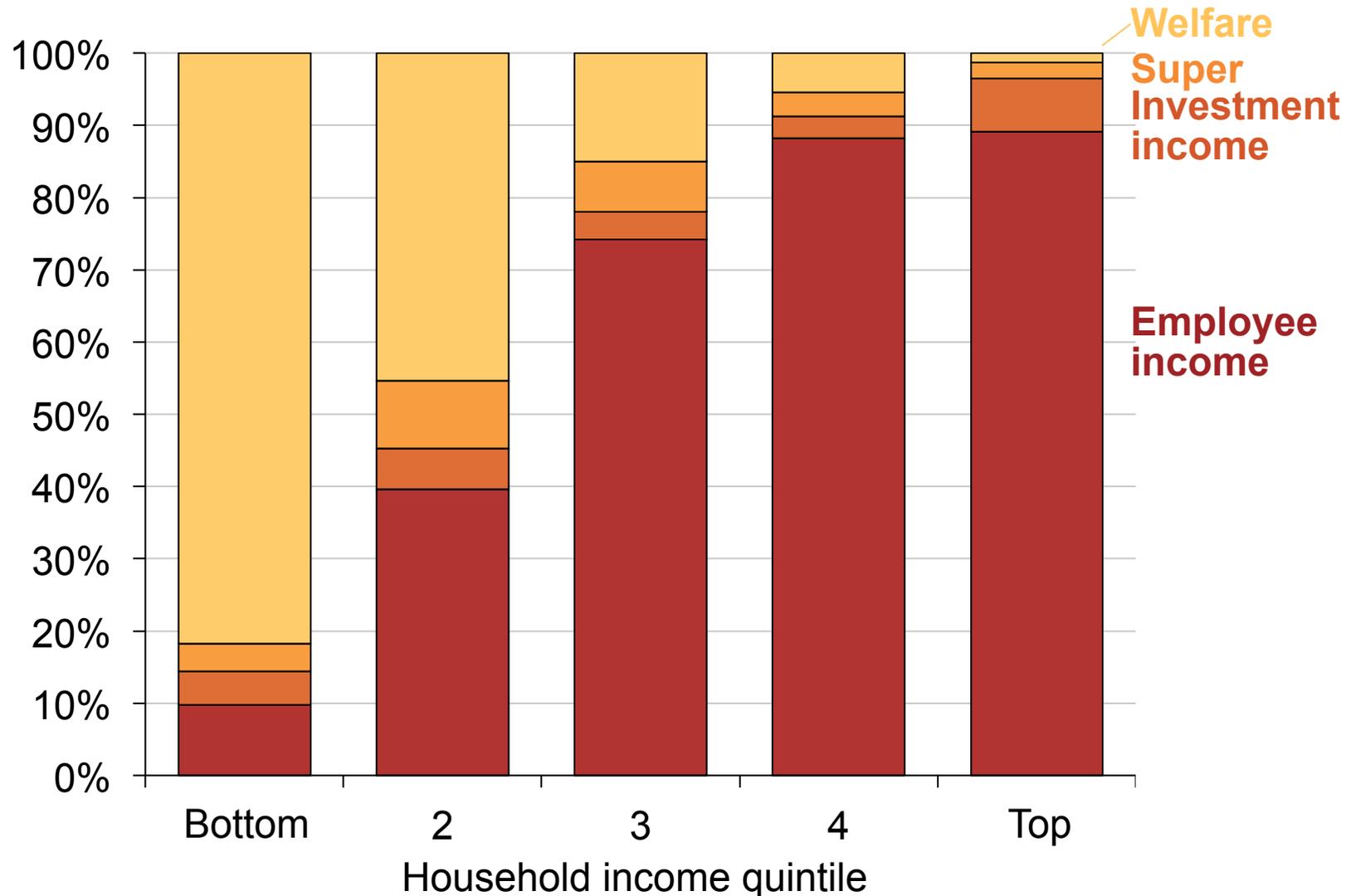
Low income earners spend proportionately more on exempt goods

Per cent of spending, 2009-10



Most direct way to compensate the poorest households is through welfare payments

Sources of income, per cent of total income



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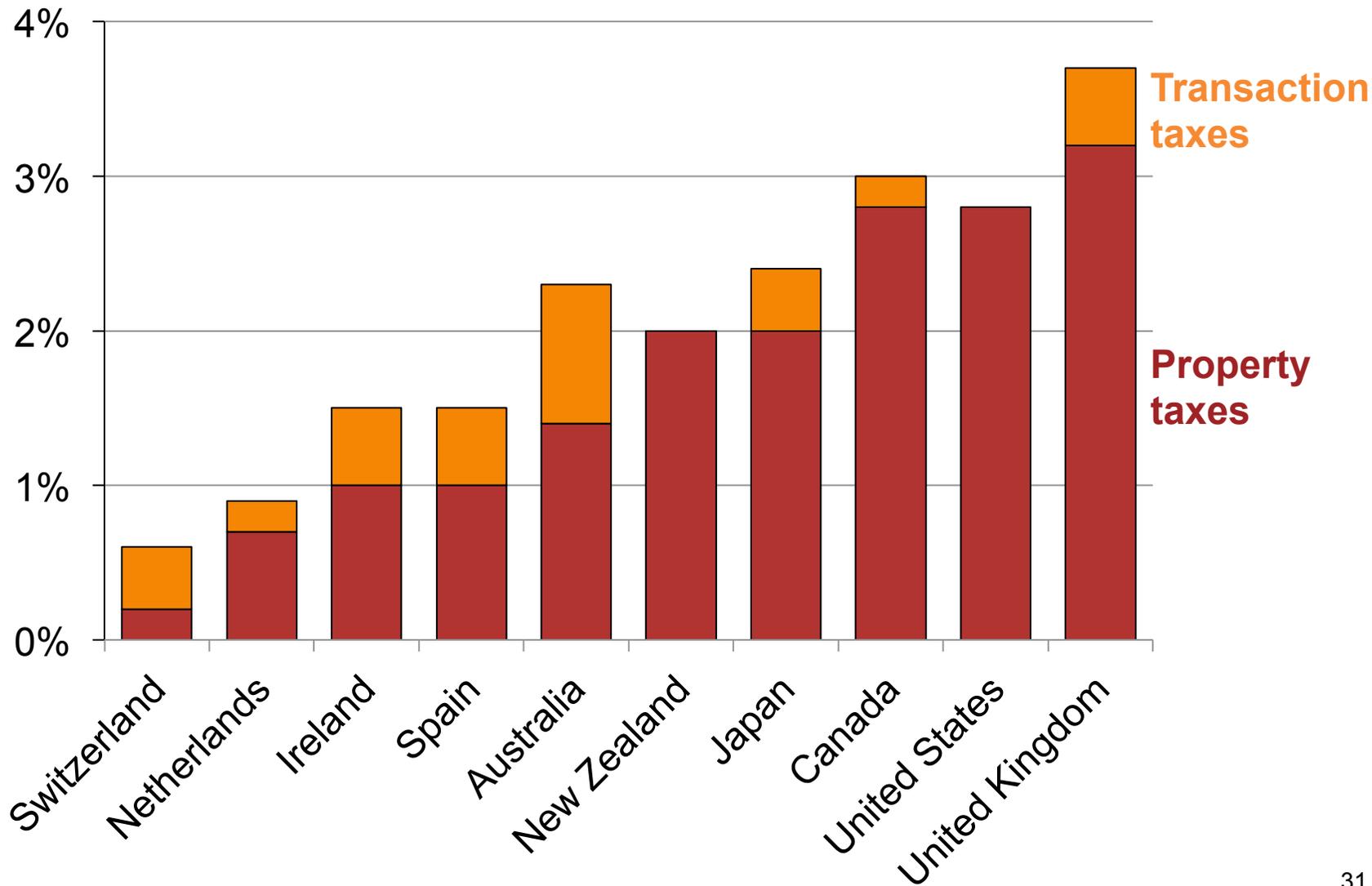
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Australia has lower property tax revenues than in comparable countries

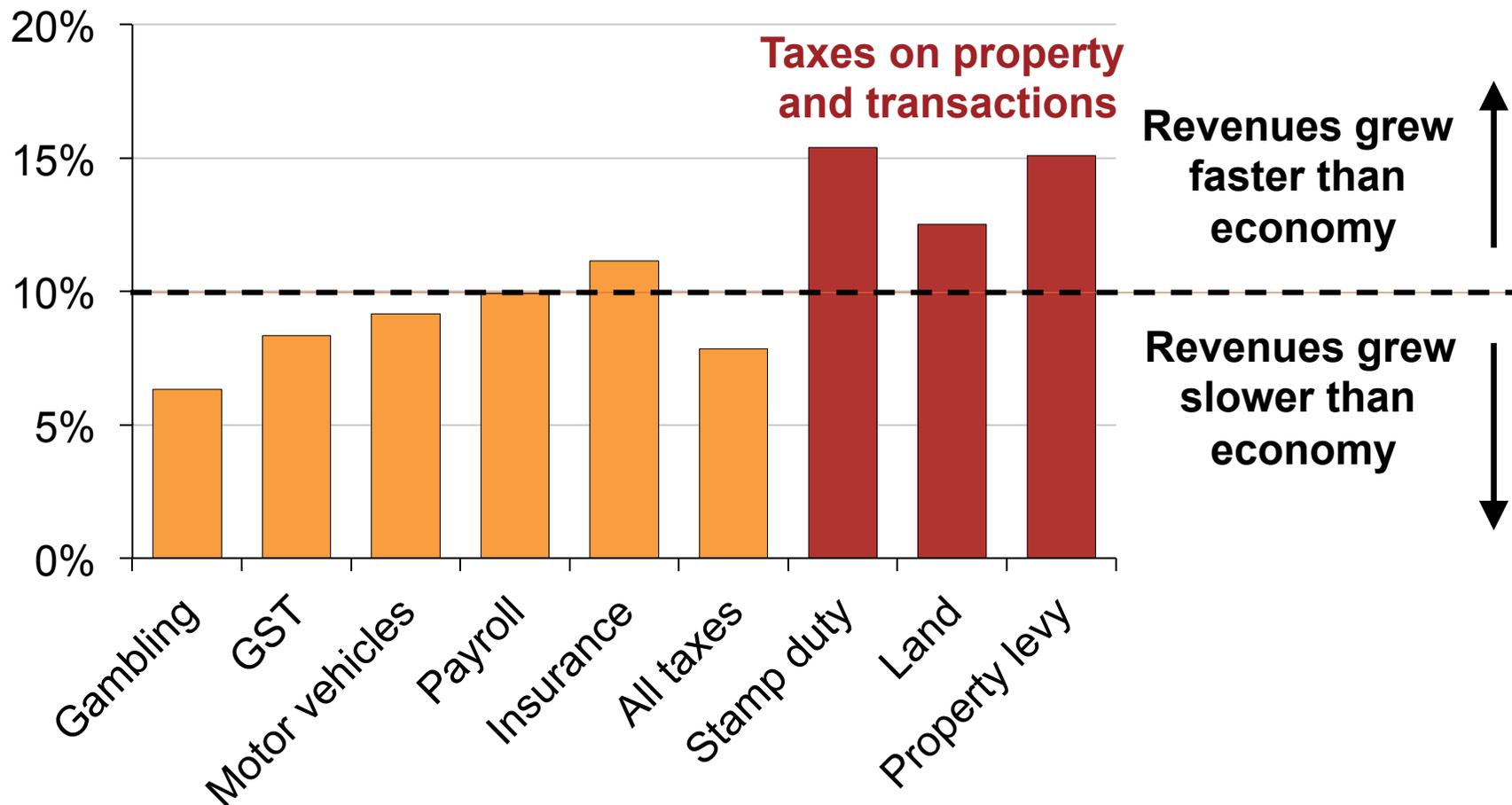
Taxes on property and transactions, per cent of GDP



Source: OECD (2014), Revenue statistics.

Taxes on land have been the growth taxes over the last decade

Change in tax collection relative to 10% increase in GSP
2001 to 2014

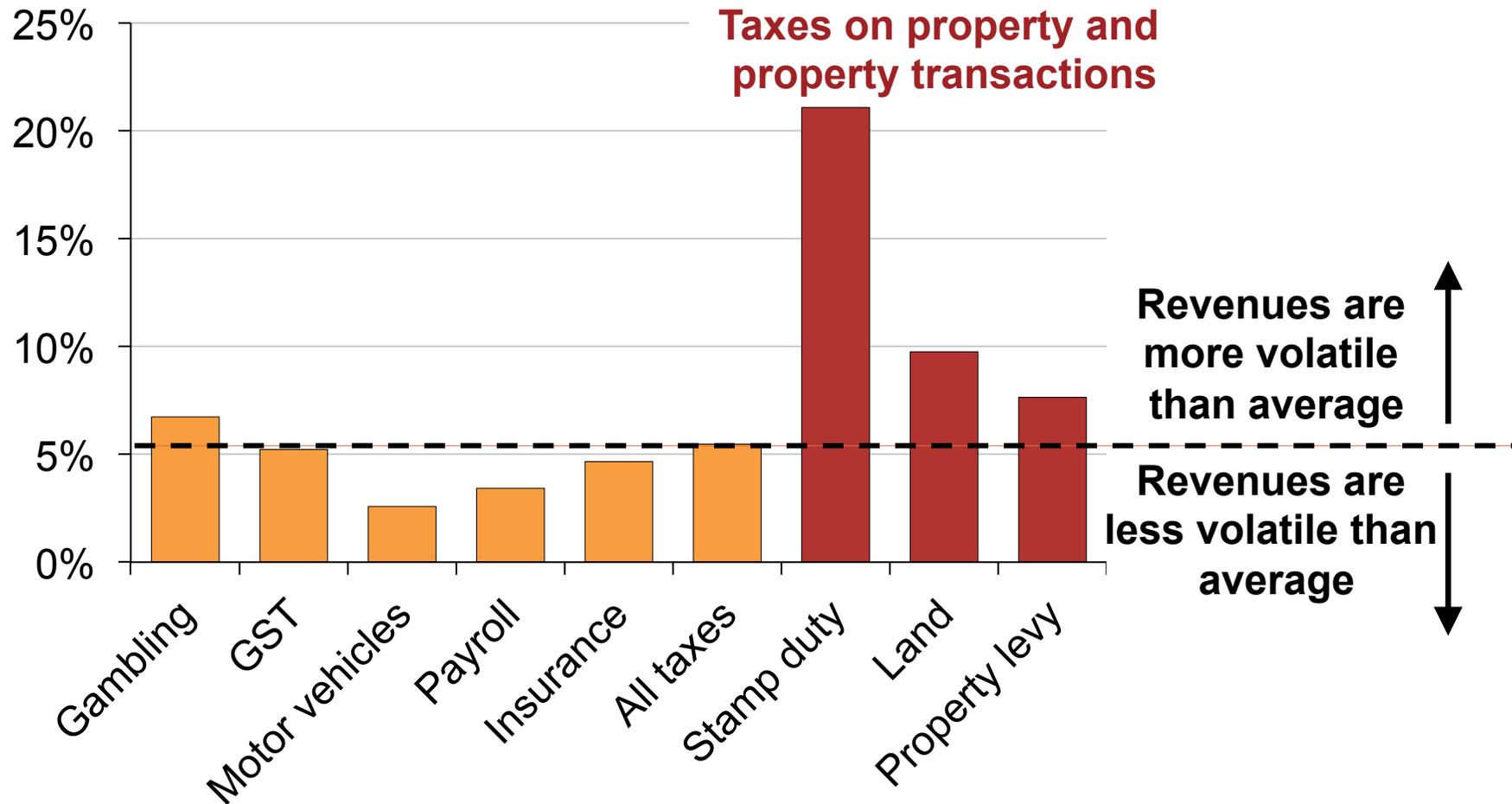


Note: 'Property levy' shows the revenues that would have been raised with a broad-based property levy of 0.2 per cent applied to unimproved land values had it been in place since 1990-91; GST is for the period since its introduction in 2000-01 to 2013-14.

Source: Grattan analysis of ABS Taxation Revenue, various years.

Broad based property tax generates more stable revenues than stamp duties

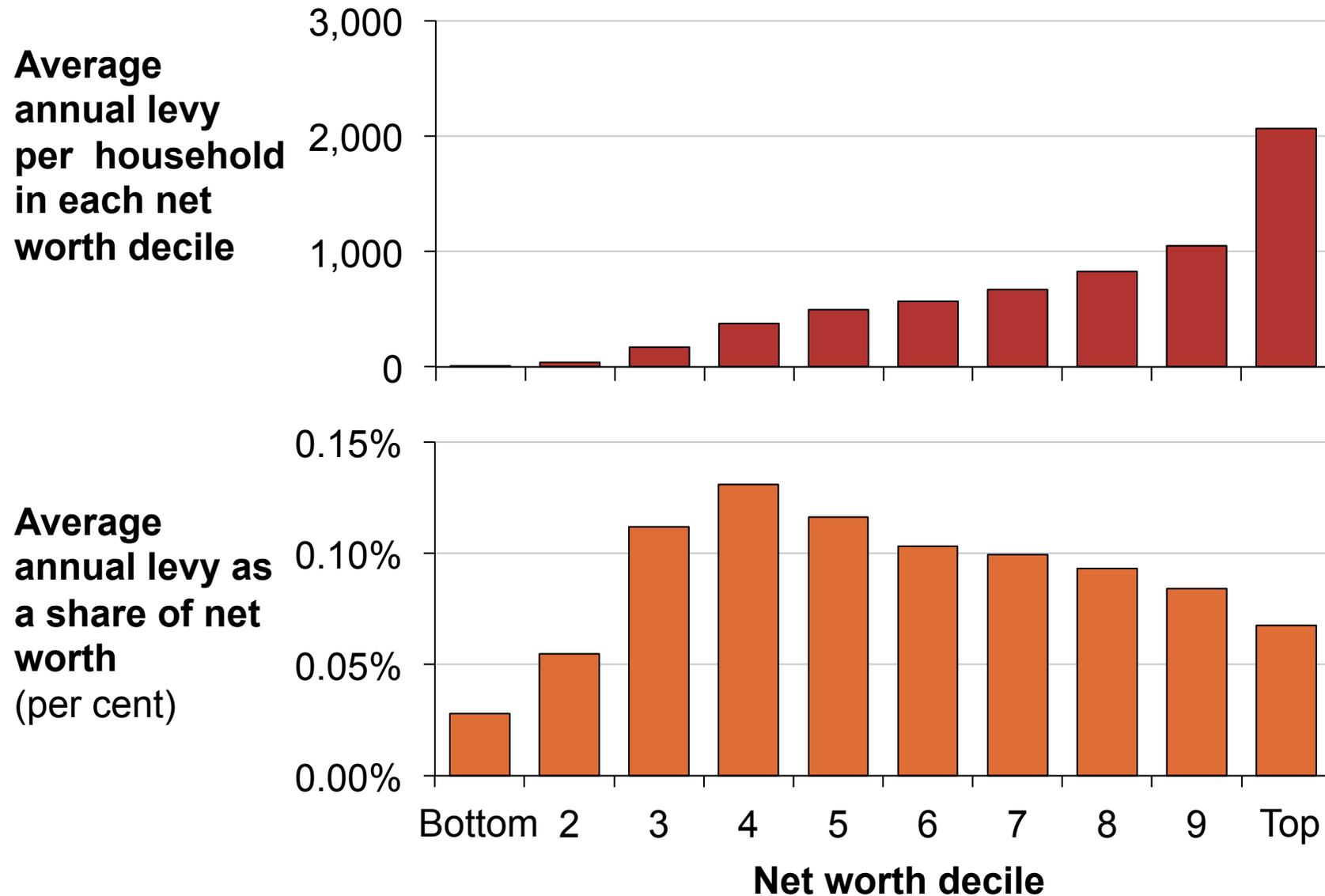
Standard deviation between annual revenue growth and long run average growth for all states, (1990-91 to 2013-14), per cent



Note: Property levy' shows the revenues that would have been raised with a broad-based property levy of 0.2 per cent applied to unimproved land values had it been in place since 1990-91; GST is for the period 2000-01 to 2013-14 only, but displays similar volatility compared to state taxes assessed over this shorter period.

Source: Grattan analysis of ABS Taxation Revenue, various years.

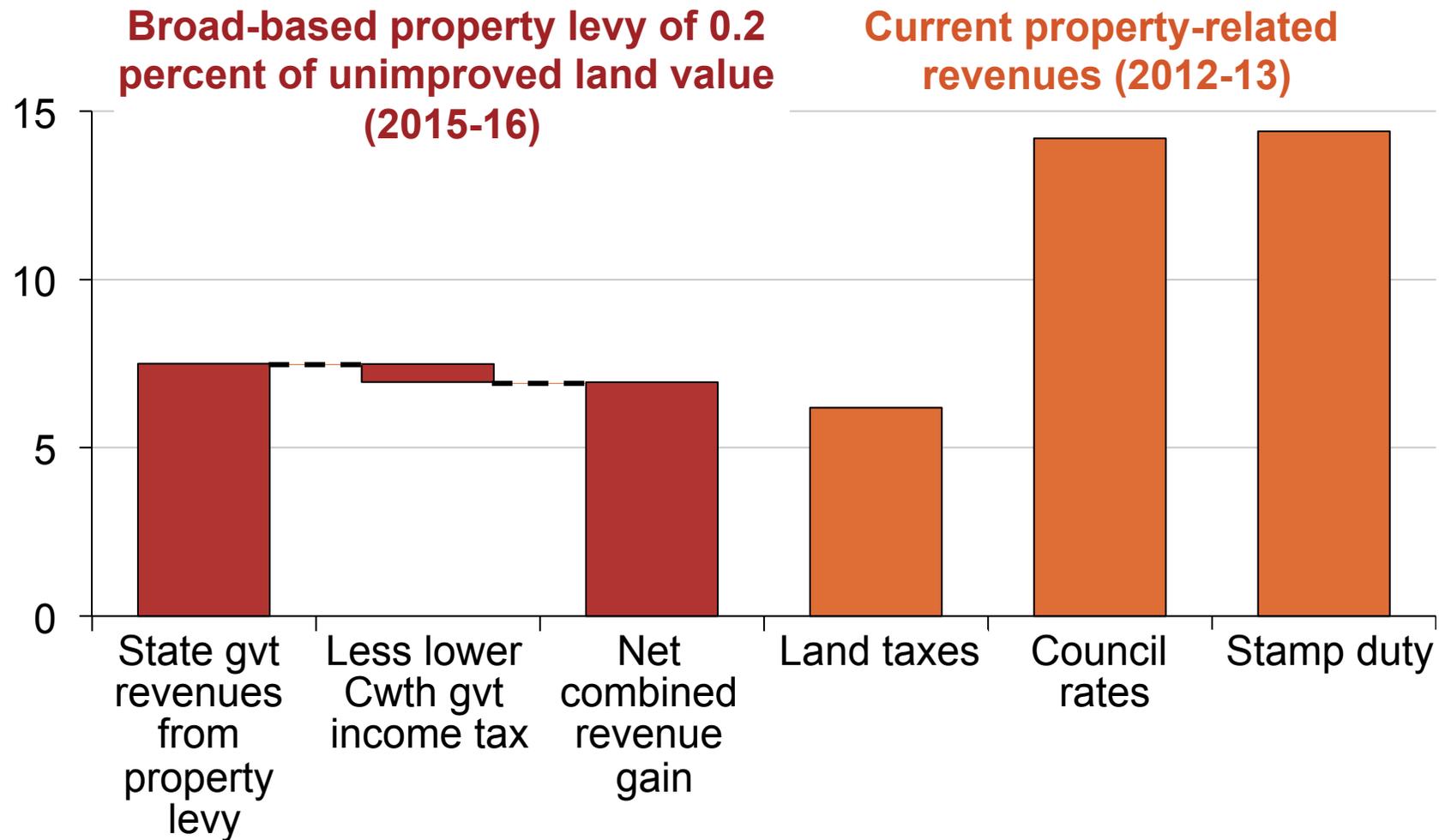
Households with low wealth would not pay much for a property levy



Source: Grattan analysis of ABS Survey of Income and Housing 2011-12

A property-based levy could generate significant revenues from a modest rate

Forecast annual levy revenue and 2013-14 actual collections
\$ billions



Notes: Property levy revenue forecasts are for 2015-16, whereas land tax, council rates, and stamp duty revenues reflect 2013-14 collections.
Source: ABS National Accounts 2013-14; ABS Taxation Revenue 2013-14; Grattan analysis.