



# **Tax reform: what's left on the agenda**

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John Cain Foundation  
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## What problem are we trying to solve?

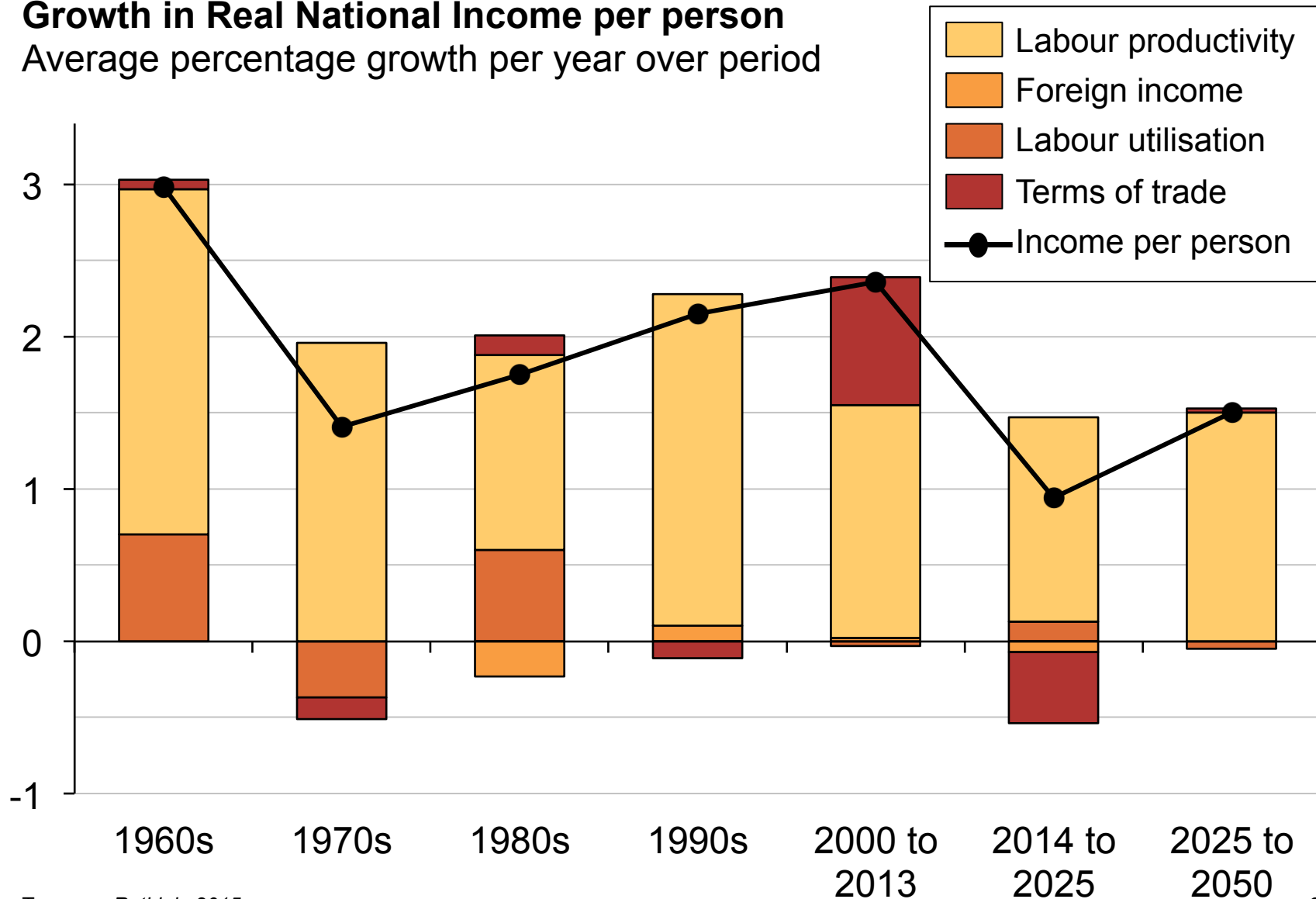
- Economic growth
- Budget repair
- Inequality
- Housing affordability
- Federalism
- In what sequence?

## What are the big rocks?

- Property: stamp duty; Land Tax; property taxes
- Asset taxes
- Superannuation (still)
- Corporate tax: rate; base; international
- Trusts
- Income / consumption taxes

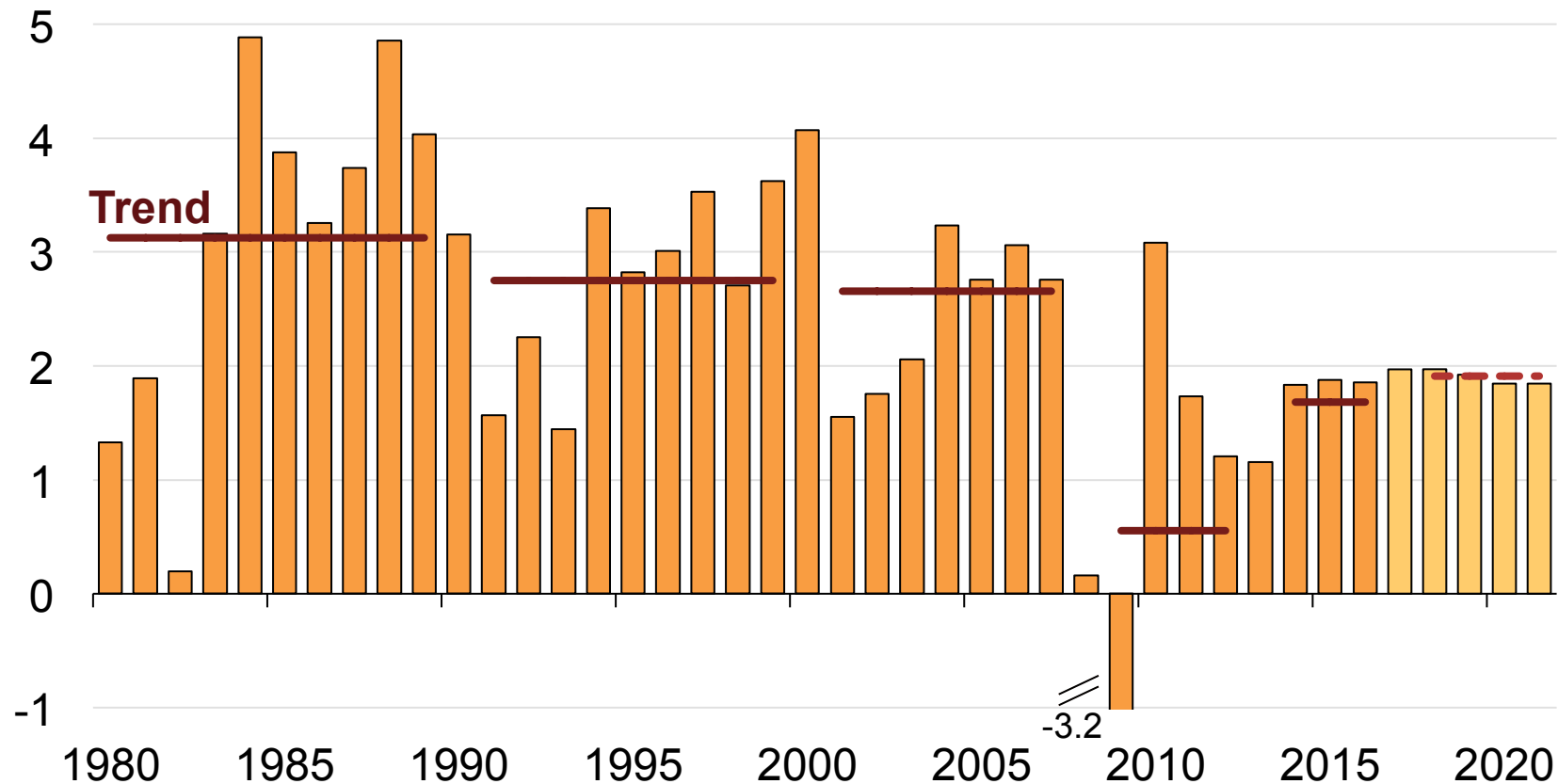
# Australian economic growth is likely to continue to be slower

**Growth in Real National Income per person**  
Average percentage growth per year over period



# Growth in advanced economies has been slowing for a long time

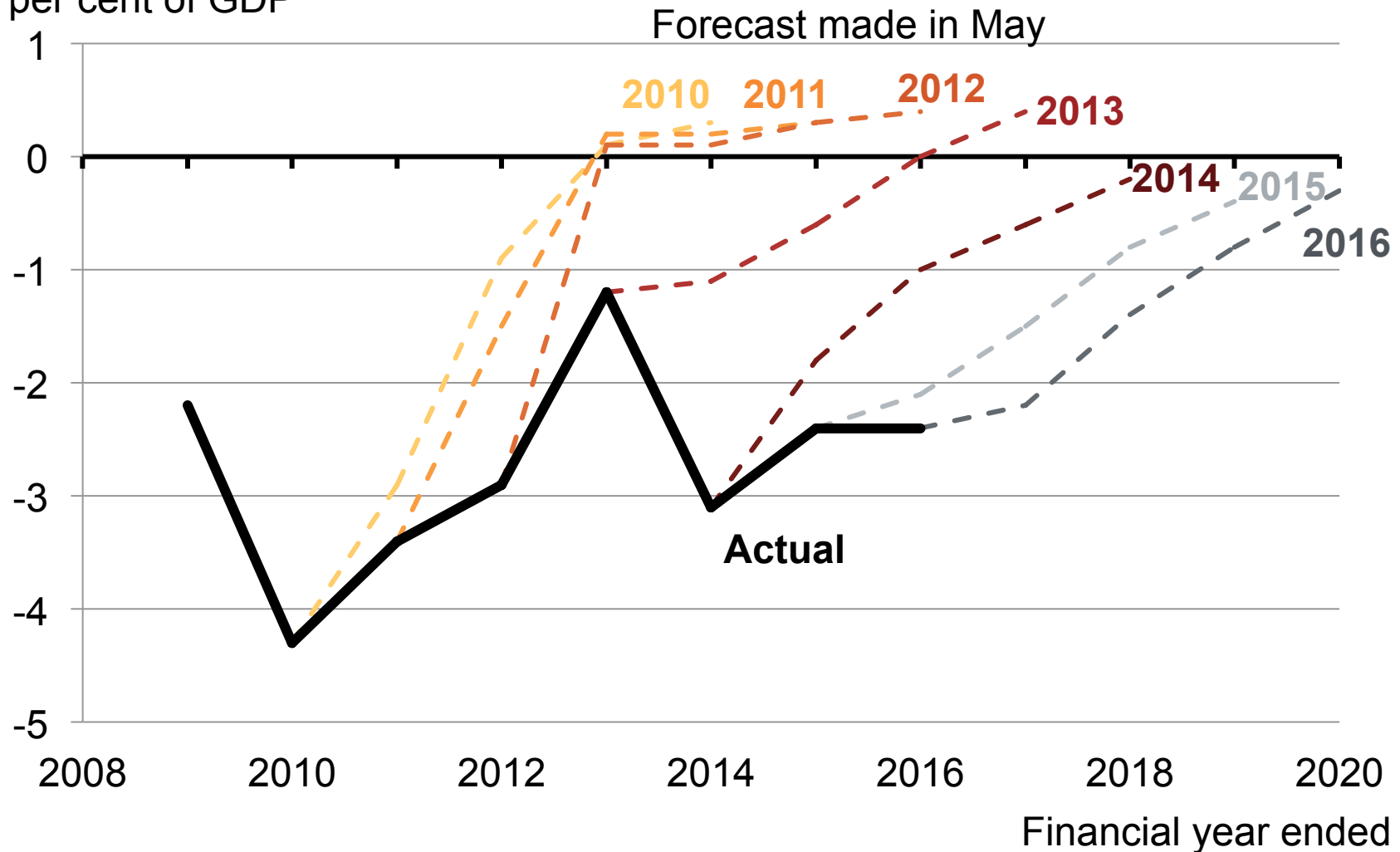
Real GDP growth, advanced economies  
Per cent



Source:IMF

# The planned drift back to surplus isn't happening

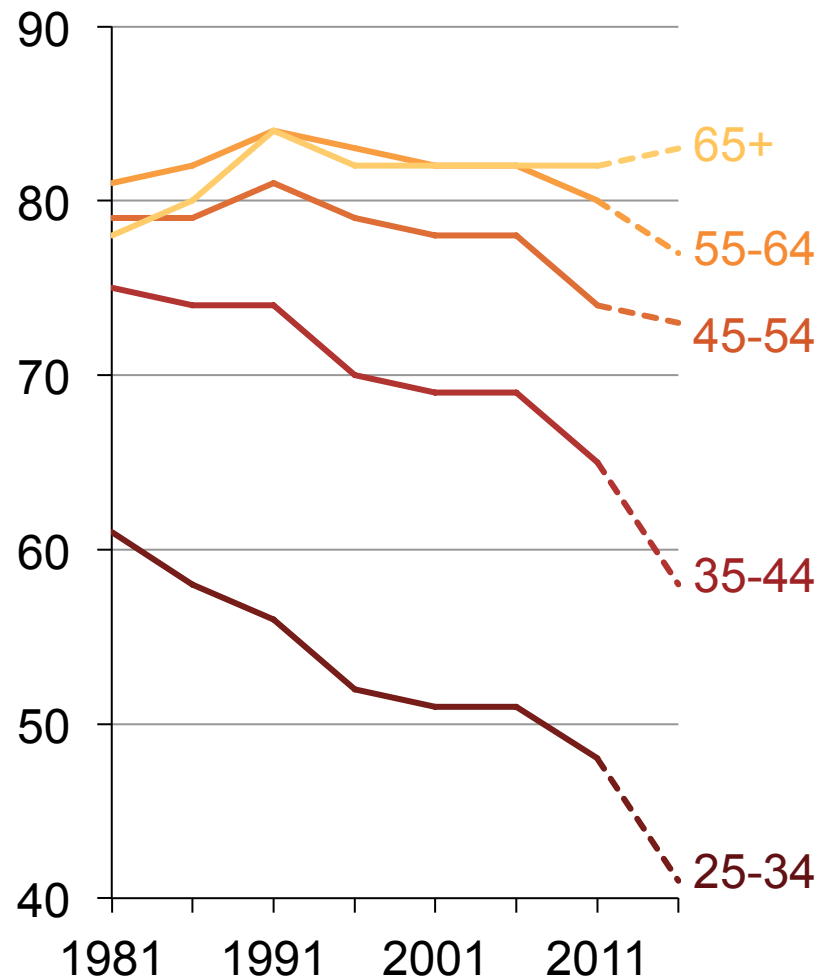
**Actual and forecast Commonwealth underlying cash balance**  
per cent of GDP



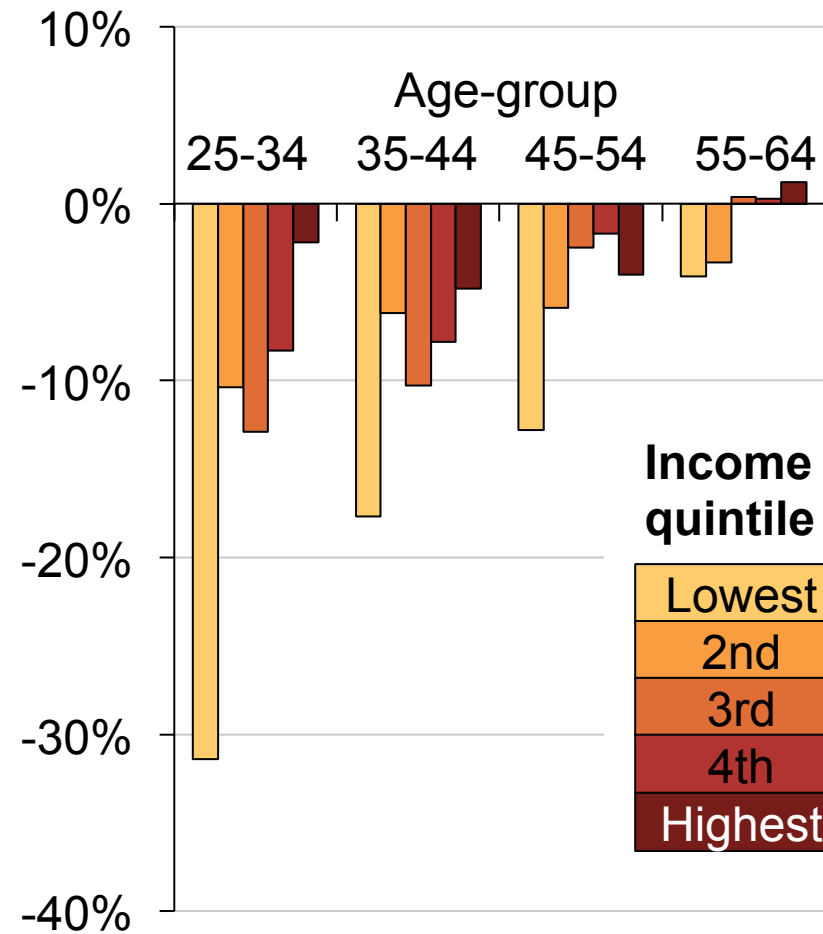
Source: Commonwealth Budget Papers 2016-17; Grattan analysis

# Home ownership is falling for younger ages, particularly low incomes

**Home ownership rate by age**  
Per cent



**Percentage point change in home ownership rates, 1981 to 2011**

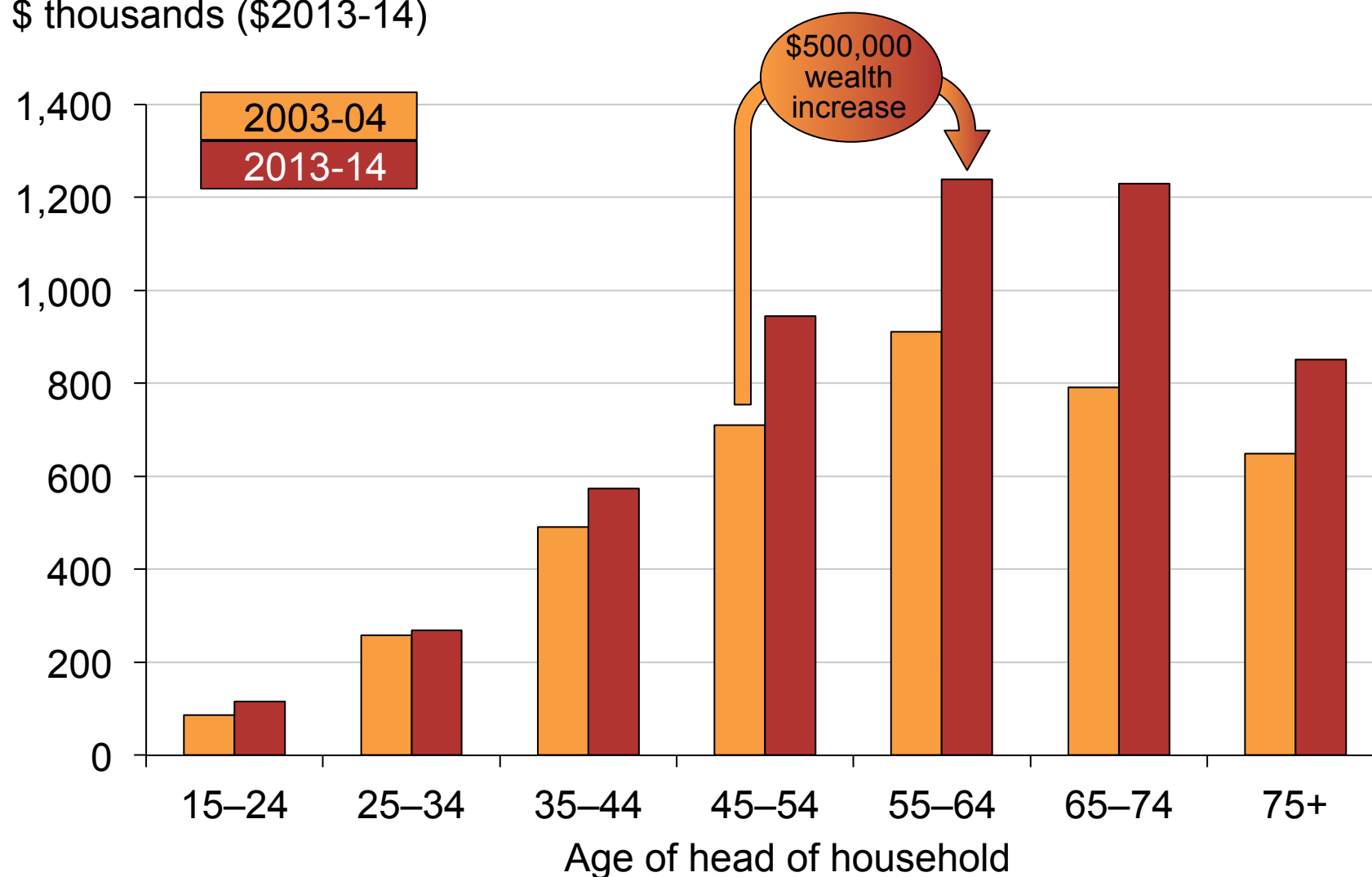


Source: Grattan Institute, *Wealth of Generations*; HILDA 2016

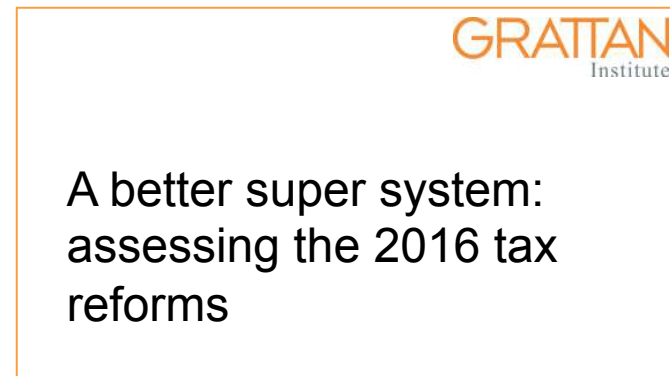
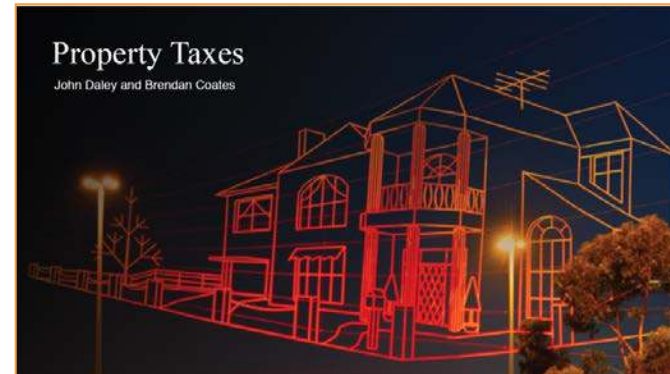
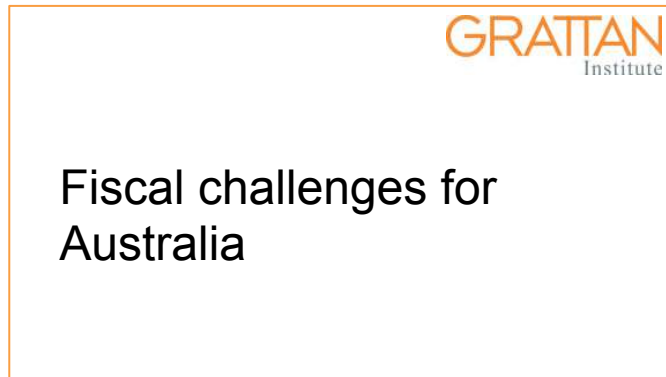
## Wealth is concentrating in older cohorts

### Mean wealth by age of head of household

\$ thousands (\$2013-14)



# Grattan has released a series of reports on budgetary sustainability and revenue repair





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<b>Property tax swap</b>	Distorted housing choices	swap	High wealth	Helps downsizing	Near unanimity
<b>Negative gearing / CGT</b>	Over-invest in housing & overleverage	+\$2b to \$6b	High wealth	Don't exaggerate	Rent impact?
<b>Super</b>		+\$2b to \$8b	Top mainly	Inter-generational	Savings impact?
<b>Corporate (rate)</b>	Foreign investment	-\$12b for 5%	+ Foreign owners		Investment v GNI?
<b>Corporate (internat)</b>	Positive GNI	~ \$1b to \$2b	- Foreign owners		Technical
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<b>HELP</b>		+\$2b	Upper incomes	↓ Deposit accumulation	Not much studied
<b>Income / consumption</b>	Distorted spending	+\$7b	Depends		Work impact?

## An overview of tax reform (page 2)

	<b>Economy</b>	<b>Budget</b>	<b>Inequality</b>	<b>Housing</b>	<b>Consensus</b>
<b>Resource rents</b>	Distorted investment	future	High wealth & foreign		Design issues
<b>Inheritance taxes</b>	Avoidance industry	+\$8b	Upper incomes	Skips a generation	Unfashionable
<b>Financial transactions</b>	Distorted transactions	?	High wealth		Very unfashionable
<b>Buffet tax</b>	Distorted work	?	High income		More relevant where more holes in tax system

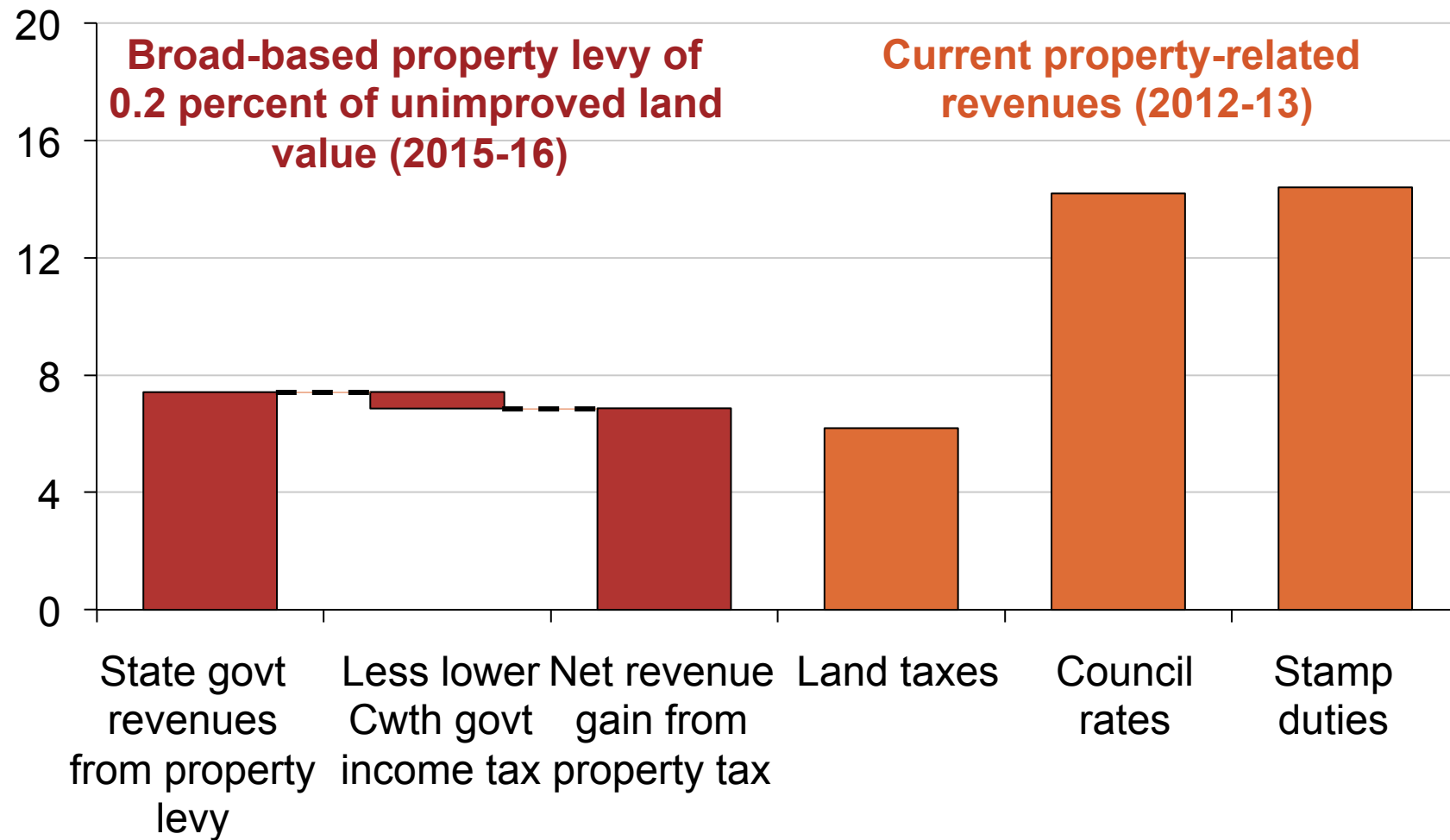
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# Property taxes could be a material revenue source even at lower rates

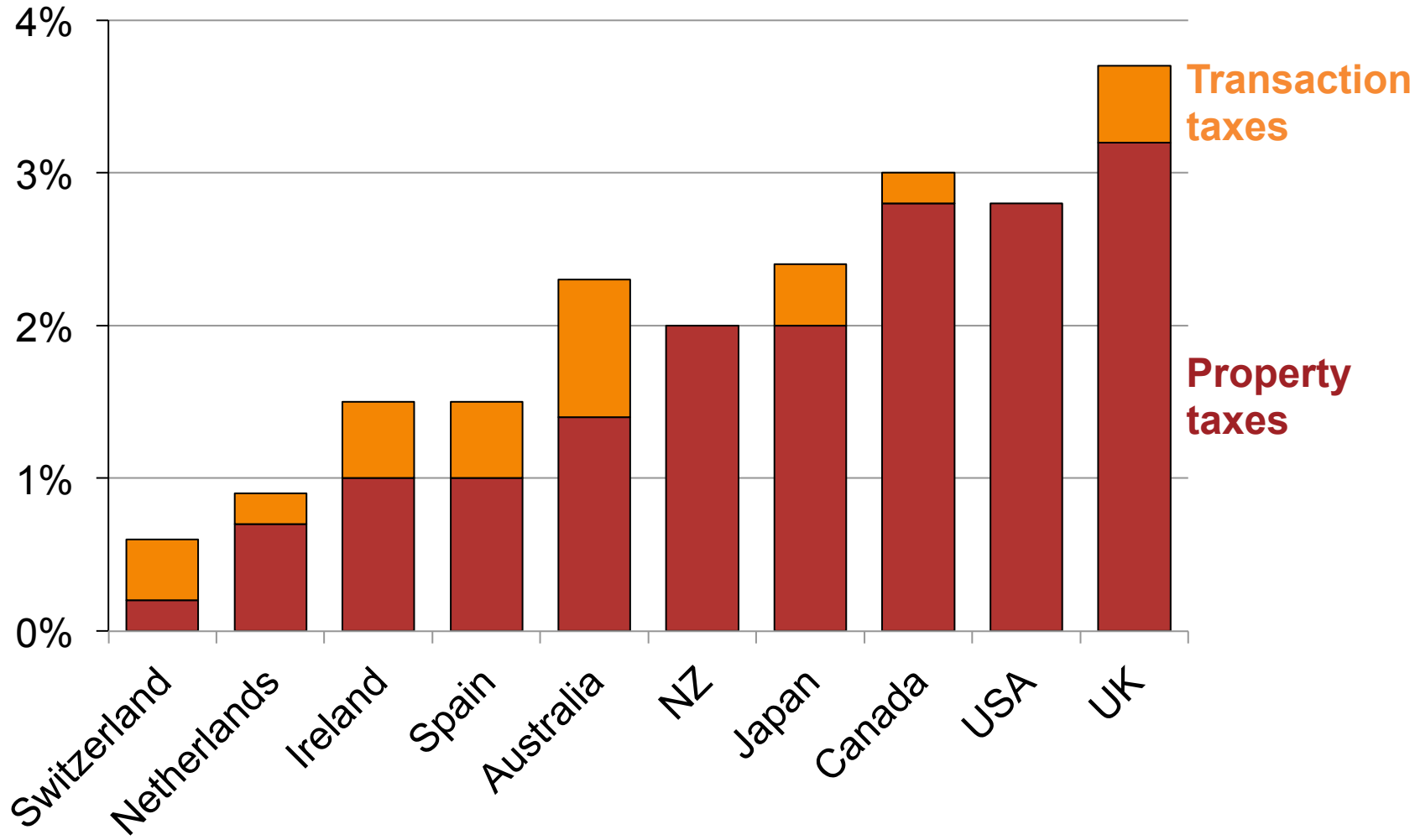
## State tax revenues

Forecast (2015-16) and actual (2012-13), \$ billion



# Australia has lower property tax revenues than some comparable countries

Taxes on property and transactions, per cent of GDP



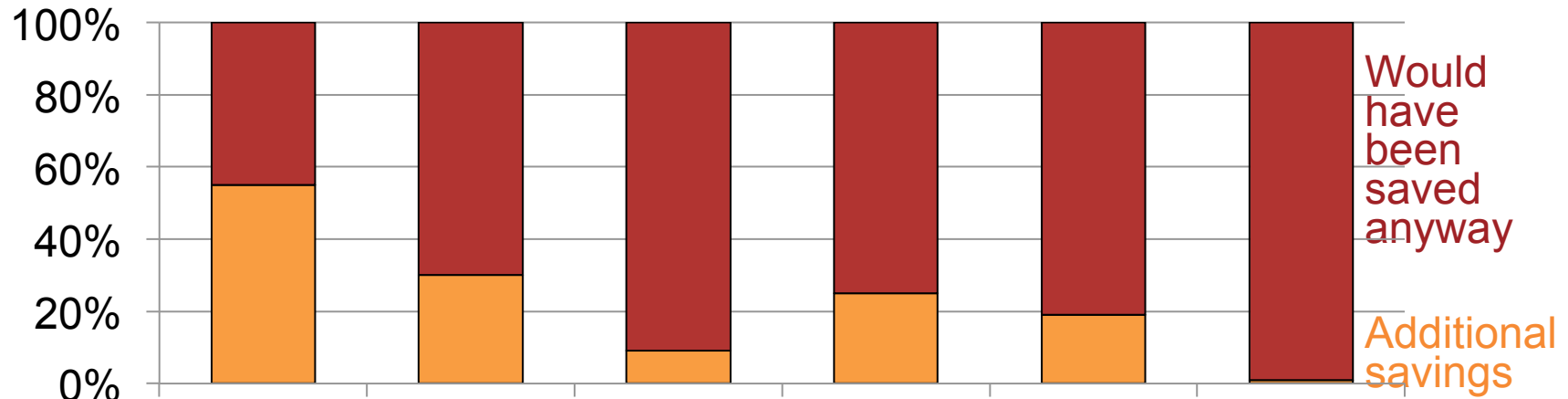
Source: OECD (2014), Revenue statistics, updating Grattan Institute, Property taxes

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# Tax incentives don't increase overall savings rates much

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



<p><b>Venti</b> Estimates new savings from tax advantaged US retirement savings plans (IRAs/401ks)</p> <p>Biased result - imperfect controls for savings preferences between contributors and non-contributors</p>	<p><b>Engen</b> Estimates new savings from 401ks across earnings groups. Estimates range 0-30%.</p> <p>New savings come from low income participants. Those on high incomes mainly "reshuffle"</p>	<p><b>Attanasio</b> Estimates new savings from IRAs by comparing consumption new and existing contributors</p> <p>Almost all savings in IRAs come from tax benefit or money "reshuffled" from taxable savings vehicles</p>	<p><b>Benjamin</b> Estimates new savings from 401ks. Better controls for savings propensity across households.</p> <p>Finds those that save the most in 401ks mainly would have saved anyway</p>	<p><b>Ayuso</b> Estimates new savings from tax-favoured retirement plans in Spain</p> <p>Amongst near retirees that contributed most, almost all contributions reshuffling from other savings</p>	<p><b>Chetty</b> Change in savings after reduction in tax break for high income earners in Danish retirement accounts.</p> <p>Most savers "passive" do not respond tax rates. Active savers, save anyway, just choose most tax effective vehicle</p>
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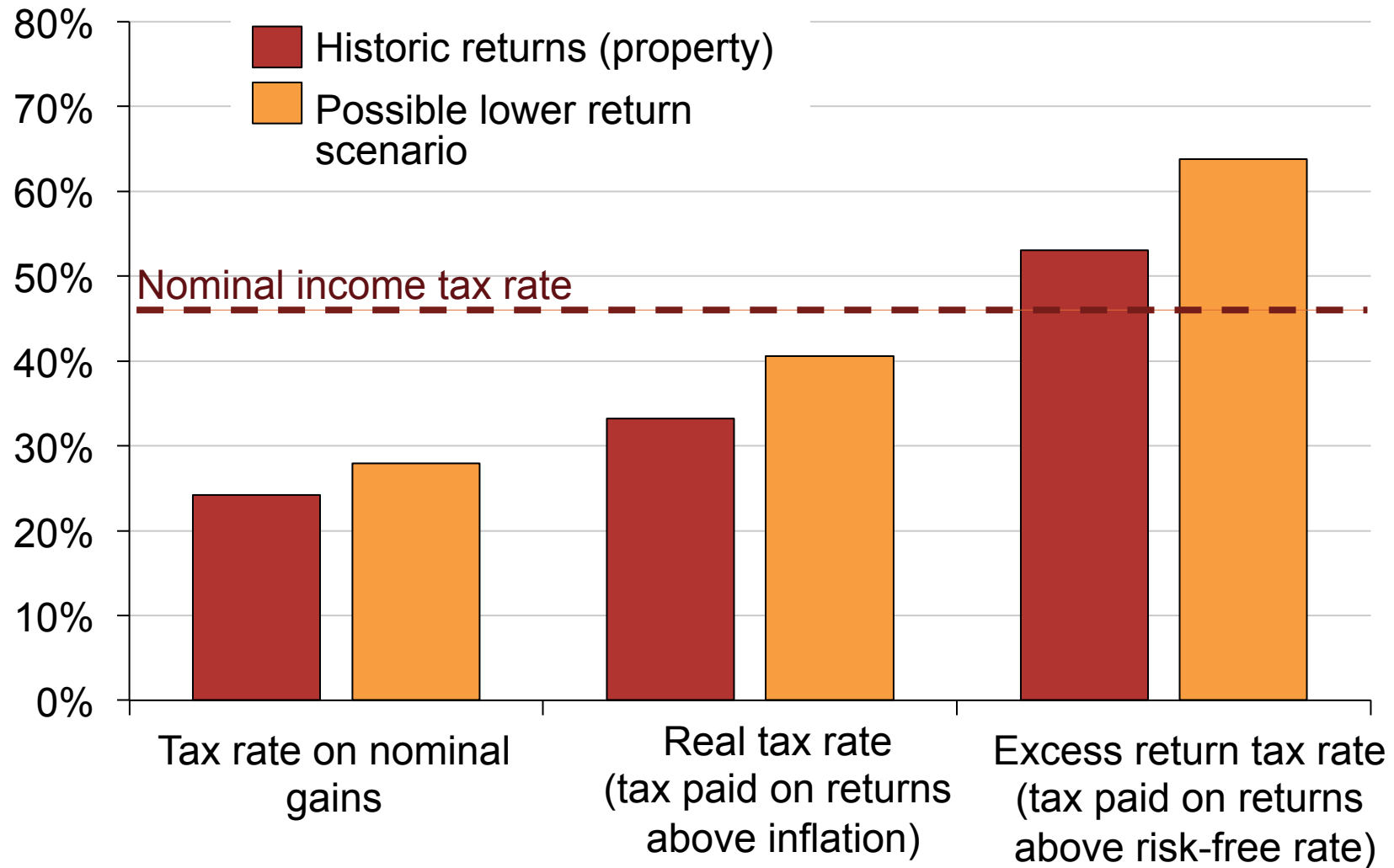
Study reliability

Notes: Additional savings is new savings from reduced consumption and/or increased labour effort. Of course, if taxes on savings are lower, the ultimate value of those savings will be higher. For Venti we report the mid-point estimate for new savings across a number of studies. For others, we report the maximum estimate for new savings.



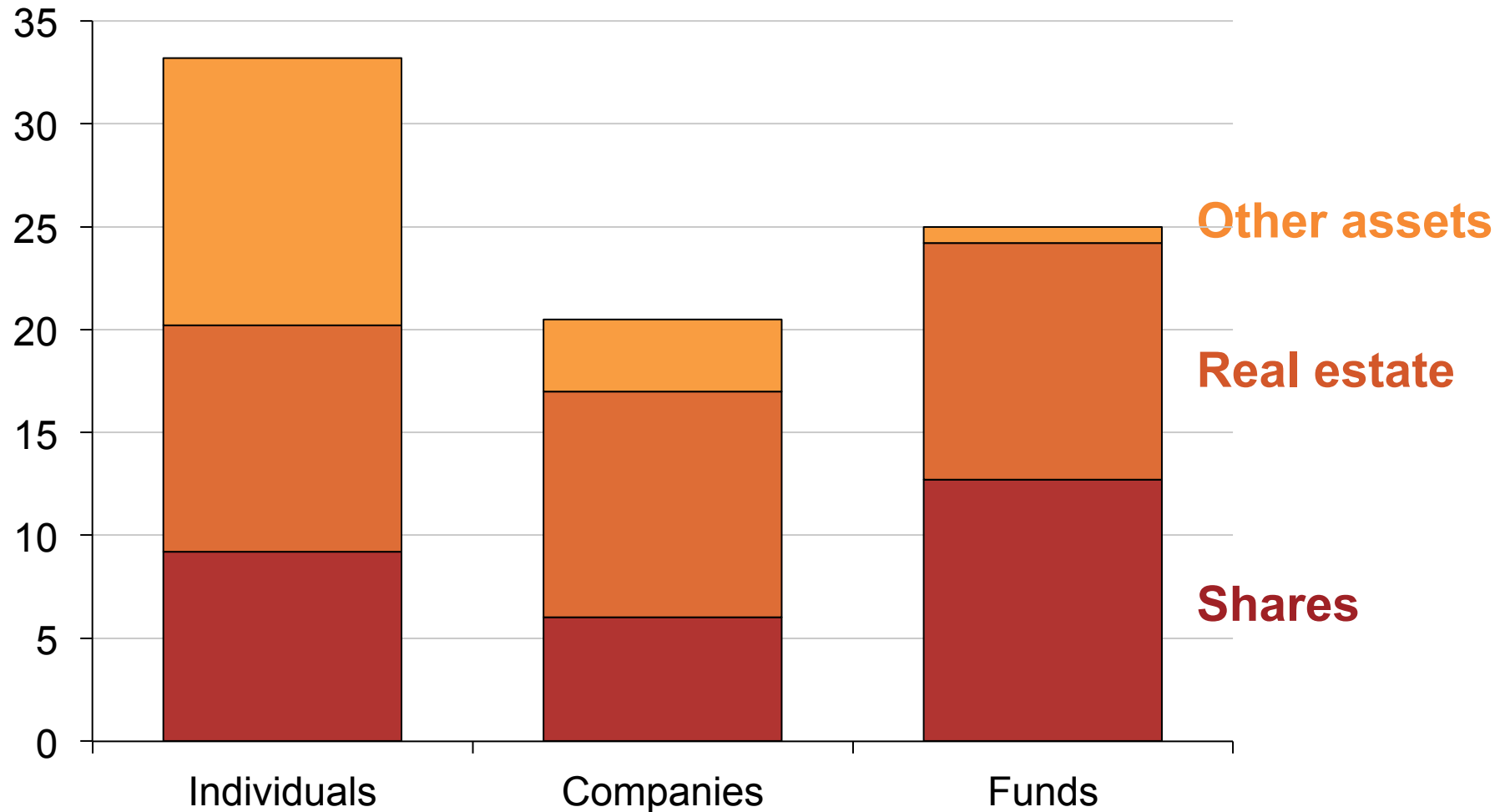
# Even excess returns have only been taxed marginally above nominal income tax rates

## Tax rate



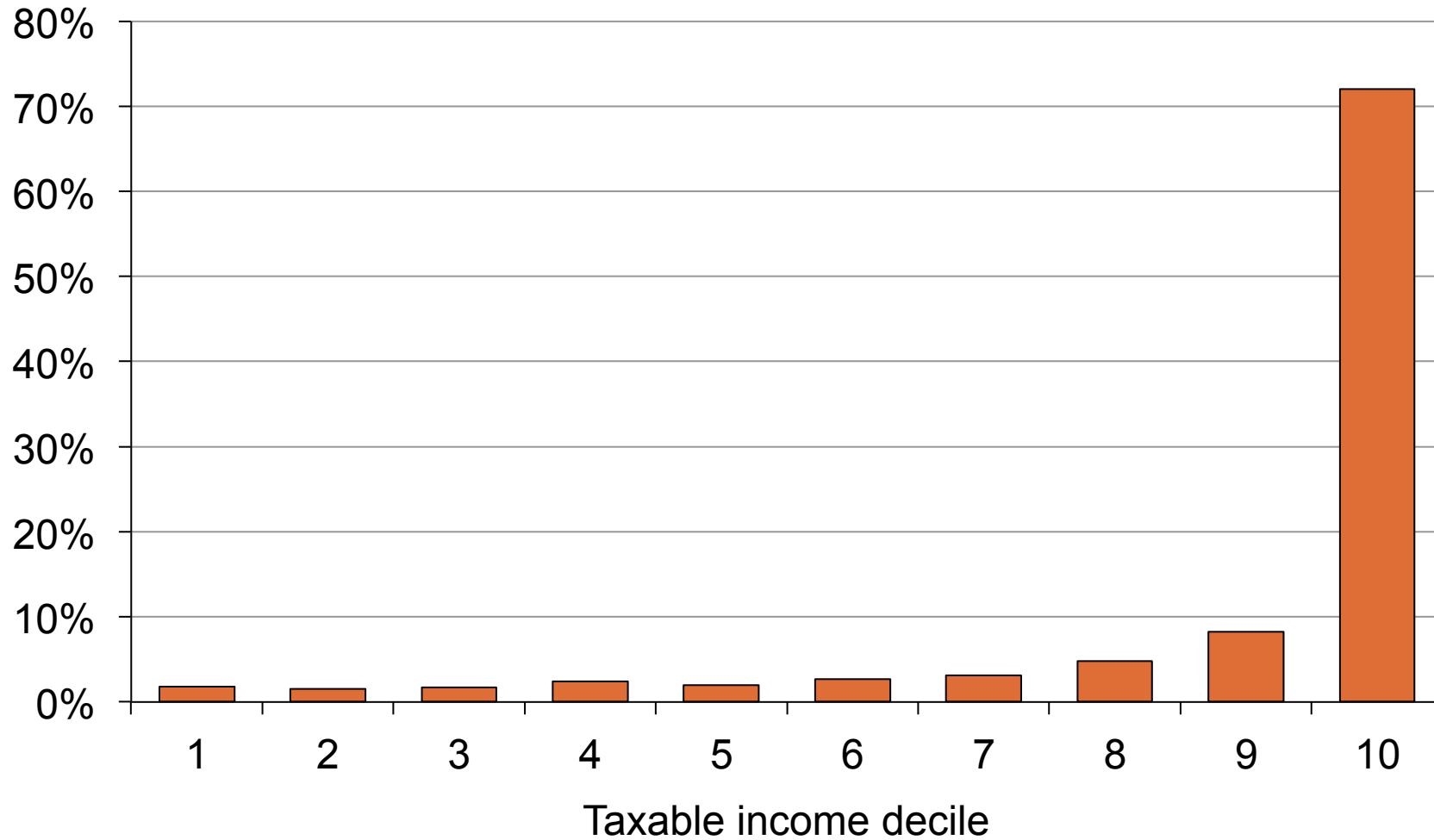
# The majority of capital gains are earned by individuals through real estate and shares

Realised capital gains 2013-14, \$ billions



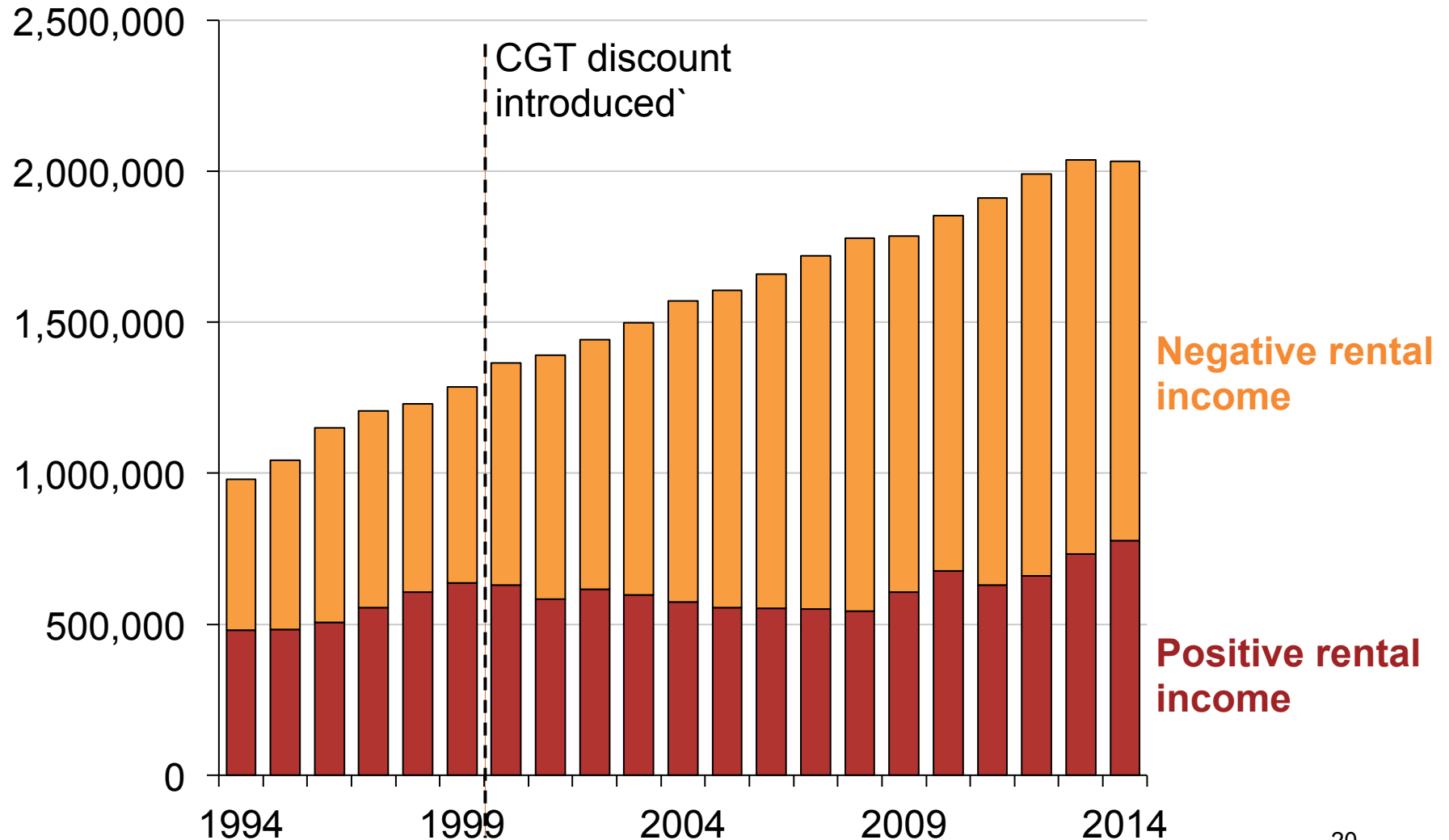
# High income earners receive the most in capital gains

Proportion of net capital gains by income decile, 2013-14



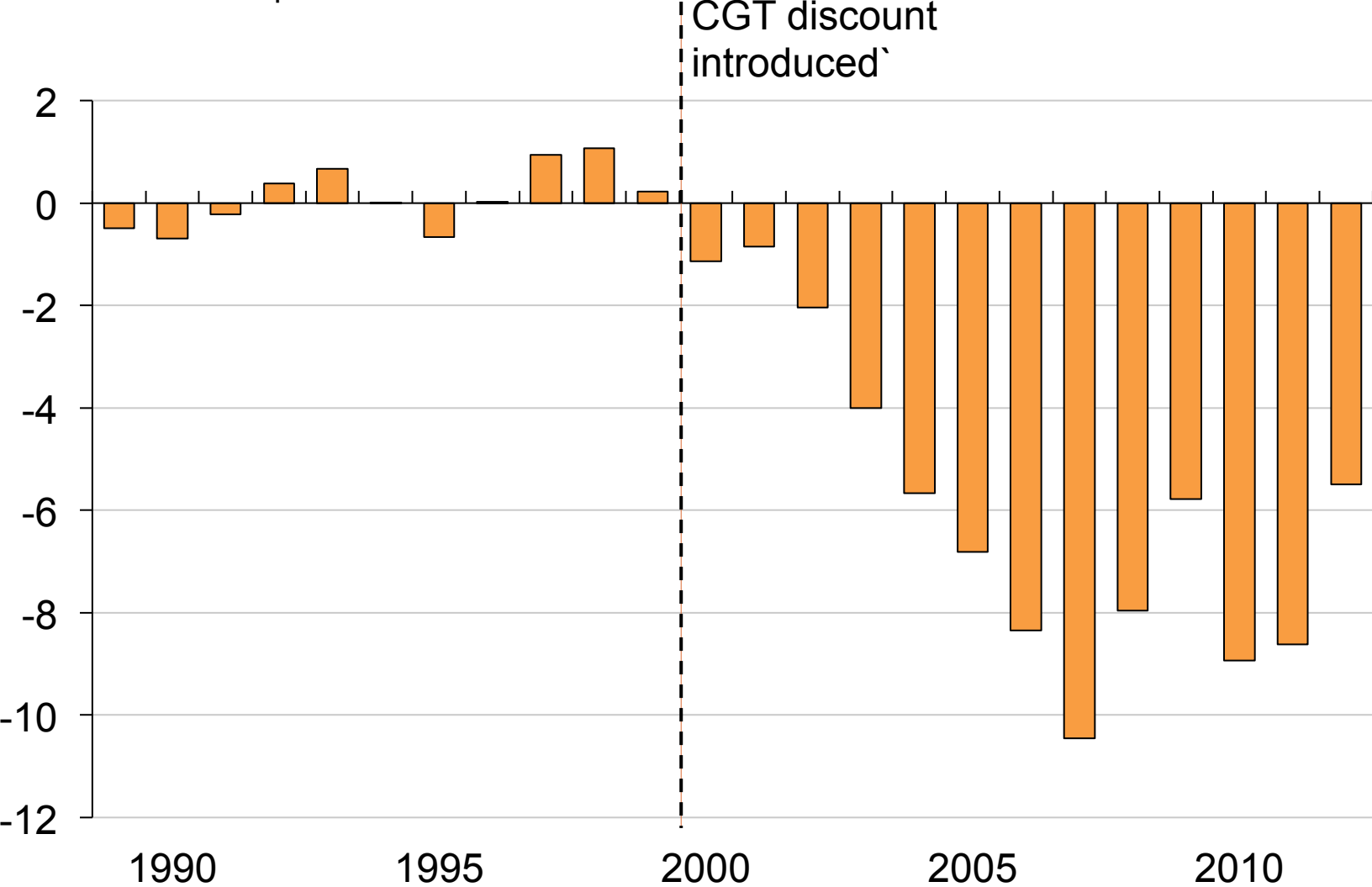
# Since 2000, most additional investment property owners are negatively geared

Number of taxpayers, (2013-14)



# CGT discount and negative gearing are increasing leverage

Total net rent \$2013b

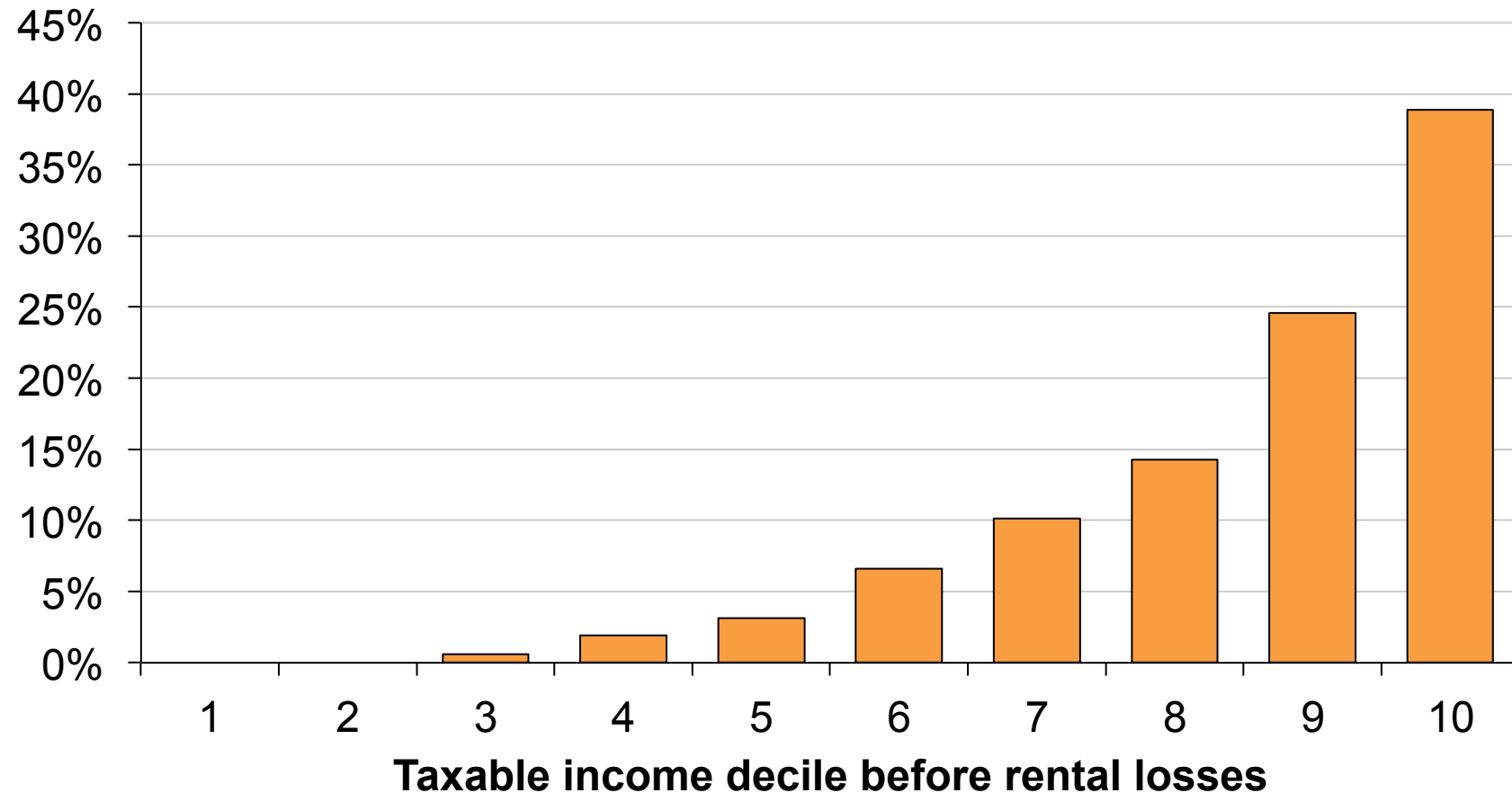


Source: Grattan Institute, *Hot property*

# Even if rental losses are offset against other investments, reforms are still progressive

## Tax benefits from offsetting rental losses against salary income

Proportion of tax benefits of negative gearing from deductions against salary income, 2013-14



Notes: Tax benefits are the reduction in tax paid because of rental losses. Non-salary income is all other income such as investment earnings and business income. Income tax includes the Medicare levy, but not the Seniors and Pensioners Tax Offset.

Source: ATO, Grattan analysis, updating Grattan Institute, *Hot property*

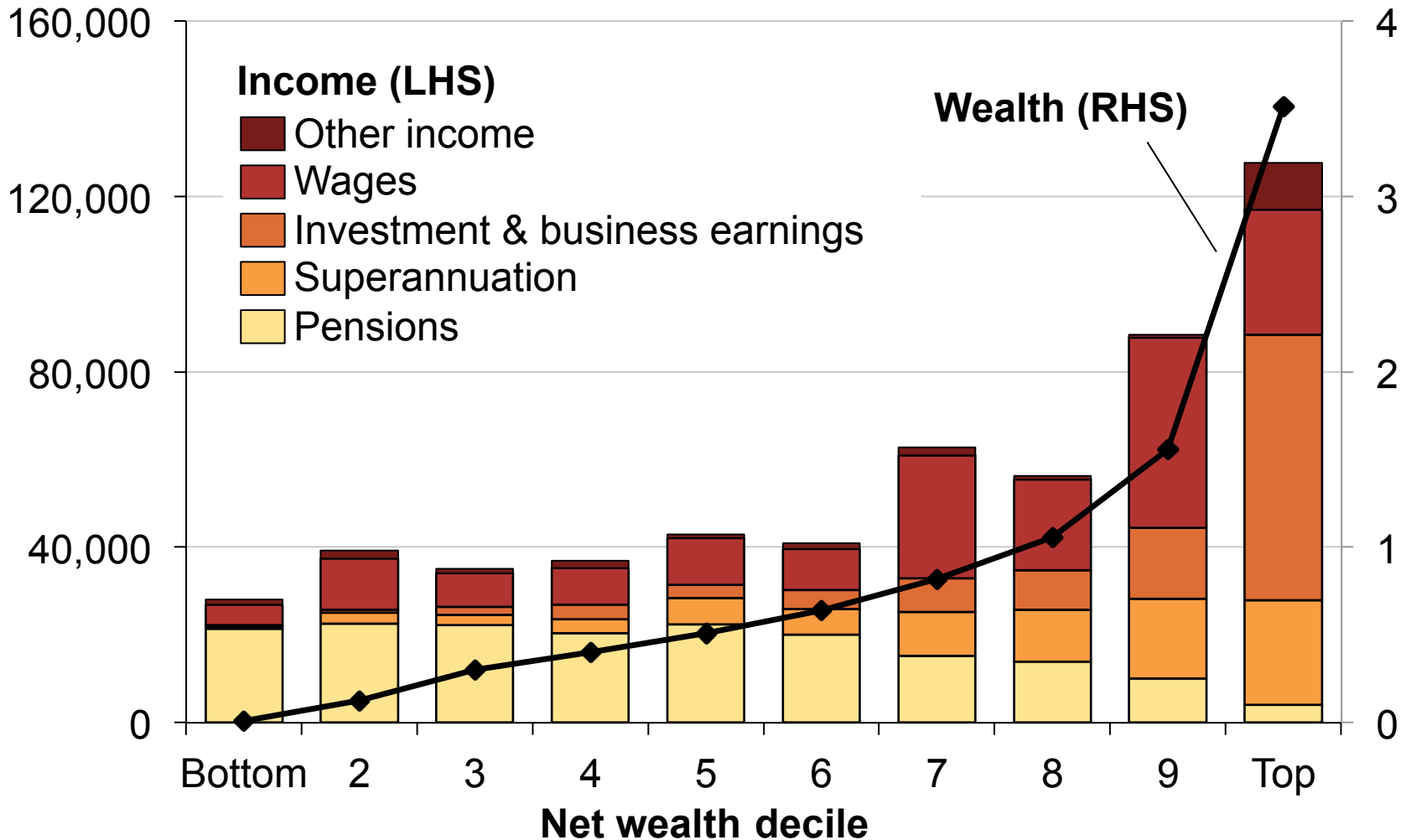
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# The top 20% of income earners aren't relying on the pension – or on super

Annual income, people aged >65  
2010\$

Wealth  
2010\$ m

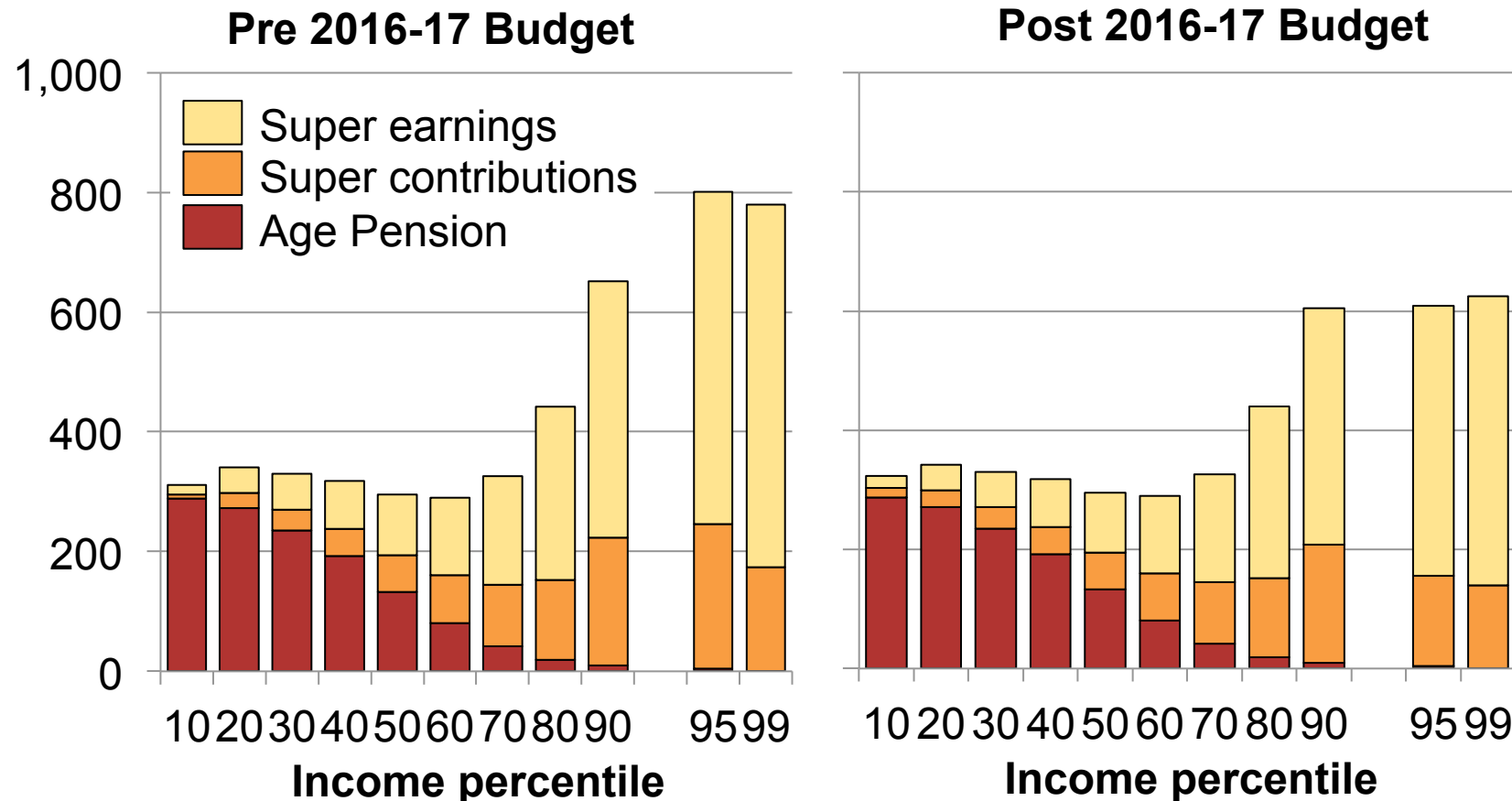


Notes: 'Superannuation' includes other private pensions, which account for only a small share of income across all households.  
Source: *Super tax targeting*, p.28



# While a step in the right direction, super changes don't go far enough

## Net present value of lifetime government support for retirement \$2016 thousands

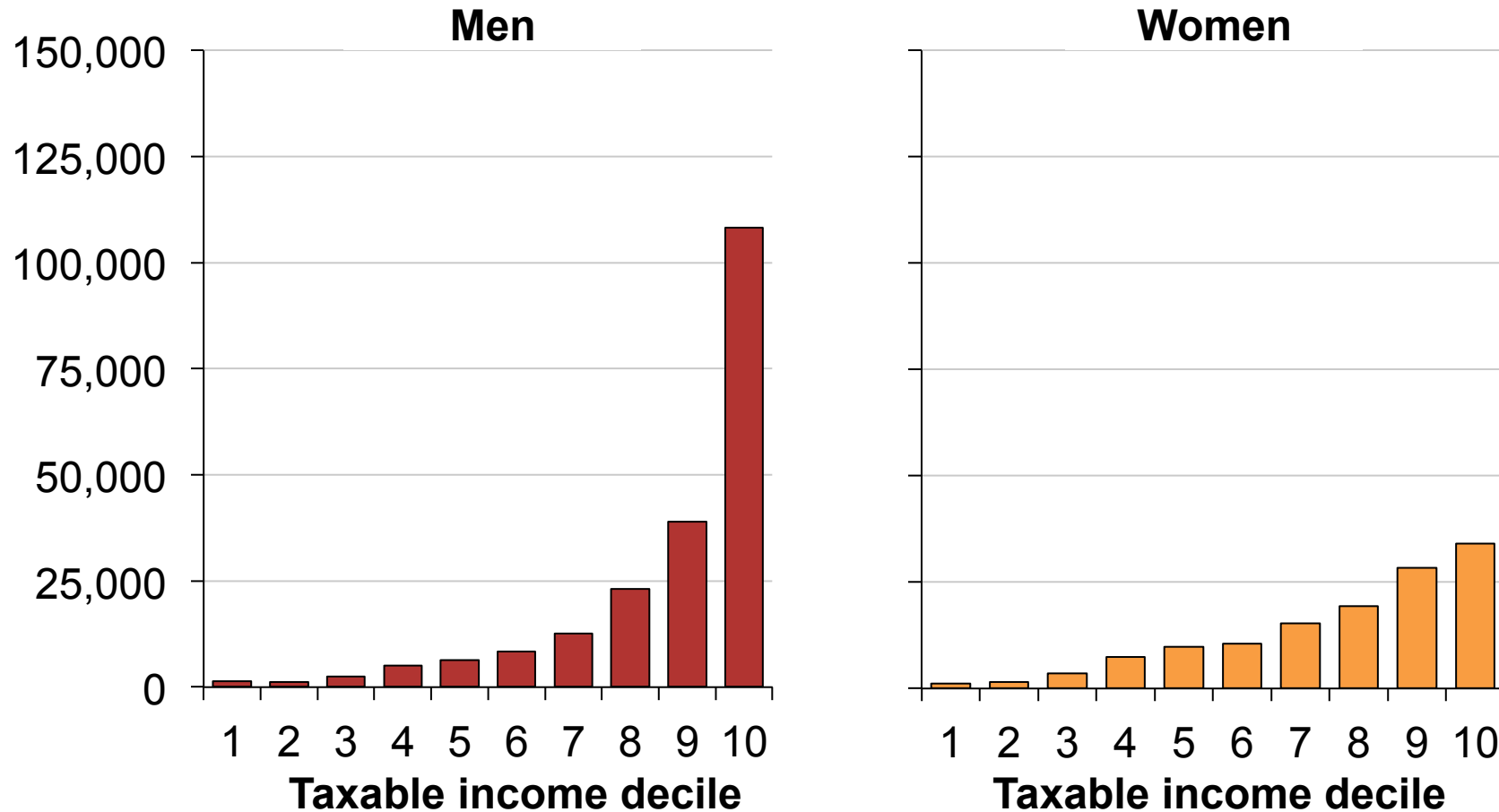


Source: 2016-17 Budget factsheet.

Note: Individuals are assumed to commence work in 2016 at age 30 and work until age 70, with a predicted life expectancy of 92. Accumulated superannuation benefits are invested in an account based pension and individuals are assumed to draw down their assets at the current age based minimum drawdown rates. The level of tax assistance and Age Pension entitlements are discounted by 5 per cent per annum to give a net present value in 2016 dollars. Annual incomes are calculated for each percentile based on the distribution of 25 earners at each single year of age. Assumes no non-concessional contributions

# Pre-tax contribution limits still focus on high income men

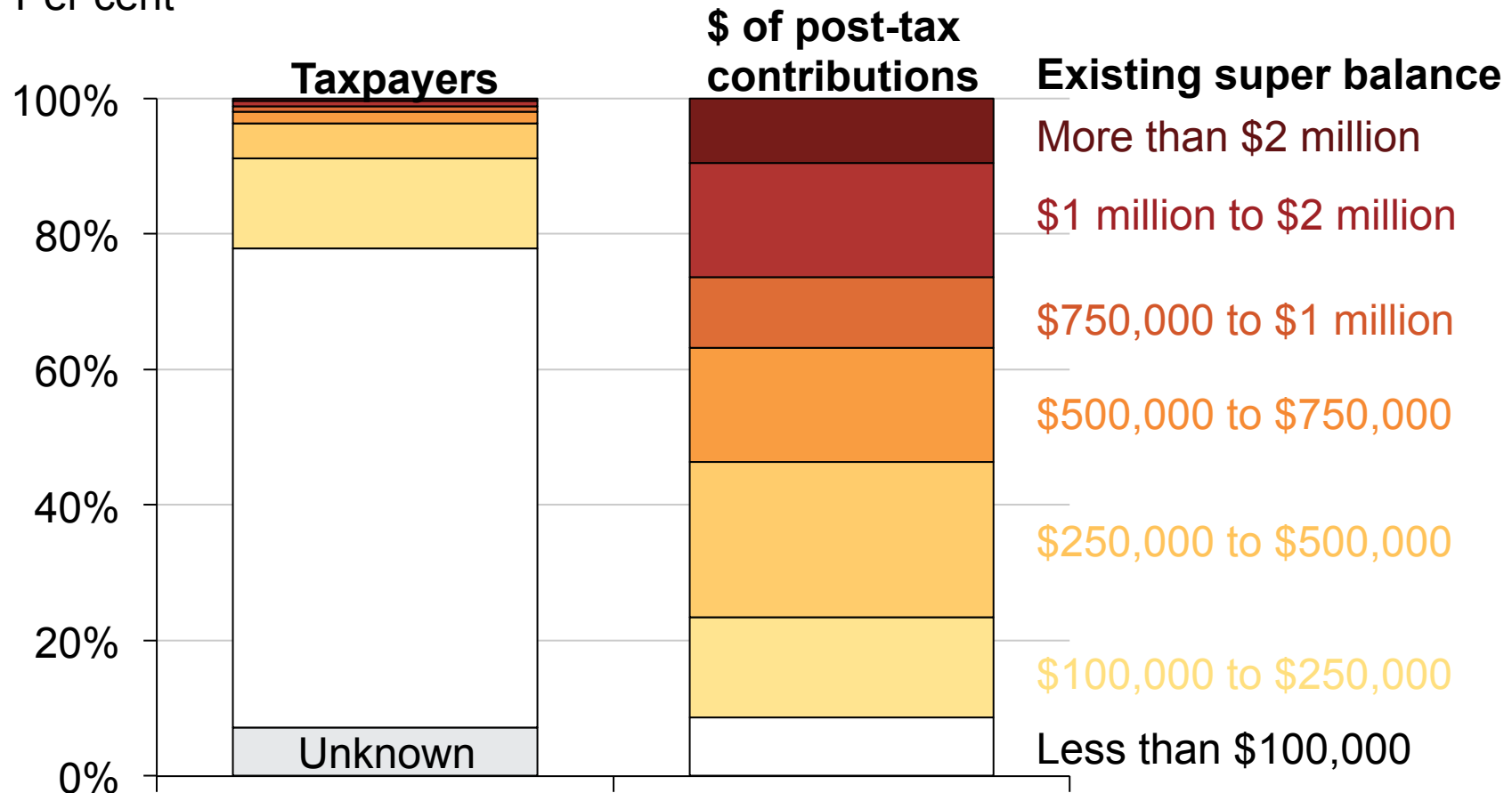
Number of taxpayers in each income decile with super balances of less than \$500,000 making pre-tax contributions of at least \$25,000, 2013-14



Notes: Pre-tax superannuation contributions and taxpayer account balances are reported in the 2013-14 ATO sample file  
Source: Grattan Institute, *A better super system*

# Post-tax voluntary contributions primarily benefit the wealthy

**Share of taxpayers and post-tax contributions by existing super balance**  
Per cent

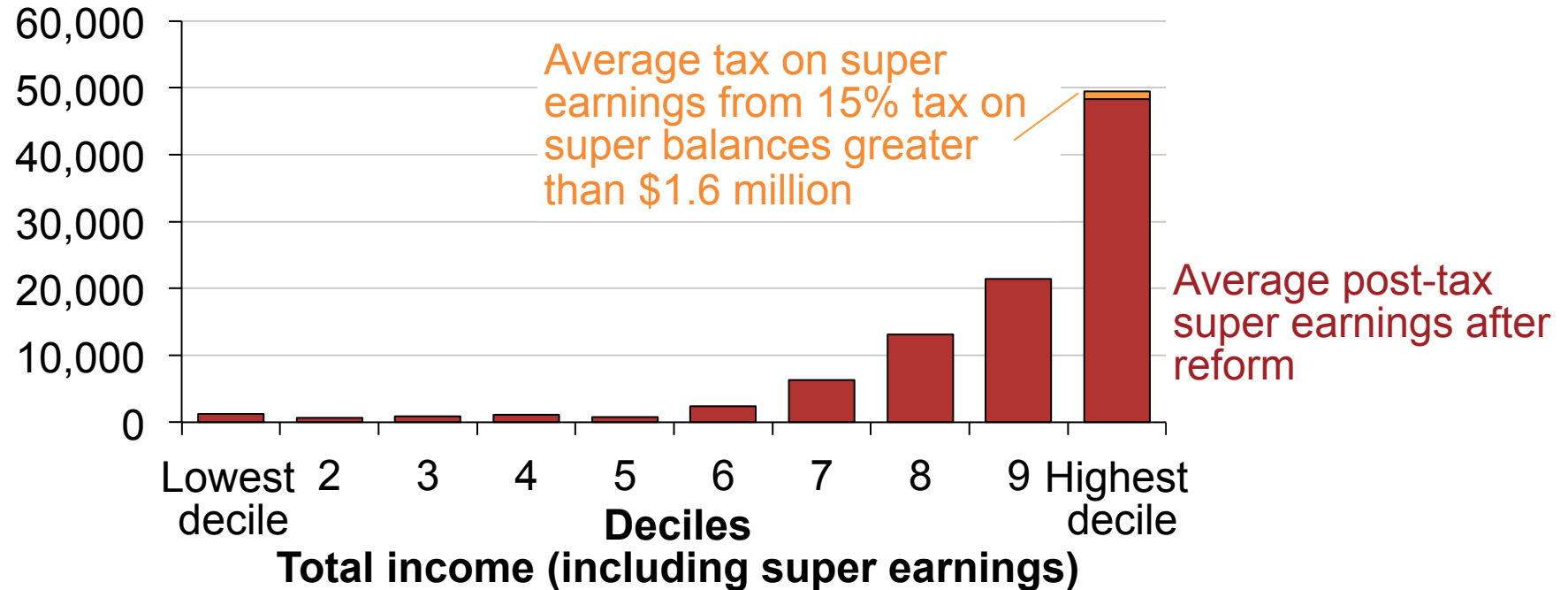


Notes: Excludes those taxpayers and post-tax contributions where the ATO is unable to identify their account balances. The statistics for the 2012–13 income year were sourced from 2013 individual income tax returns processed by 31 October 2014 and member contributions statements received before 29 October 2015. The super fund balance is the sum of all member account balance values reported for a single individual where the Member Contributions Statement had a Tax File Number. Age is as at 30 June 2013 and is based on the date of birth reported by the individual on their income tax return. Where this date of birth is not populated ATO registration information is used.

Source: *Super tax targeting*, p.55

# Taxes on earnings in retirement could be higher

## Superannuation earnings for 60+ year olds in drawdown phase \$2017-18



**Total income (including super earnings)**

Income bracket	0	\$13k	\$18k	\$19k	\$21k	\$24k	\$27k	\$34k	\$49k	\$86k
	\$14k	\$18k	\$19k	\$22k	\$24k	\$27k	\$34k	\$49k	\$86k	+
<b>Average super balance</b>	\$22k	\$12k	\$16k	\$21k	\$15k	\$45k	\$121k	\$253k	\$405k	\$916k

Notes: Total income includes estimated earnings on super account balances but excludes withdrawals; around 70 per cent of those with super balances aged over 60 are in the drawdown phase, and therefore benefit from tax-free super earnings. The impact of super earnings tax in the benefits phase is calculated on the basis that taxing earnings would lead to a net increase in the effective tax rate on super earnings of 14 per cent, from a small negative effective tax rate (given refundable imputation credits and the capital gains tax discount), to an effective tax rate of between 8 and 10 per cent. Individual super account balances from the ABS Survey of Income and Housing 2011-12 are inflated to reflect the total value of Australian superannuation fund assets as of March 2016, while maintaining the same distribution of super account balances by age and income reported in the ABS Survey of Income and Housing 2011-12.

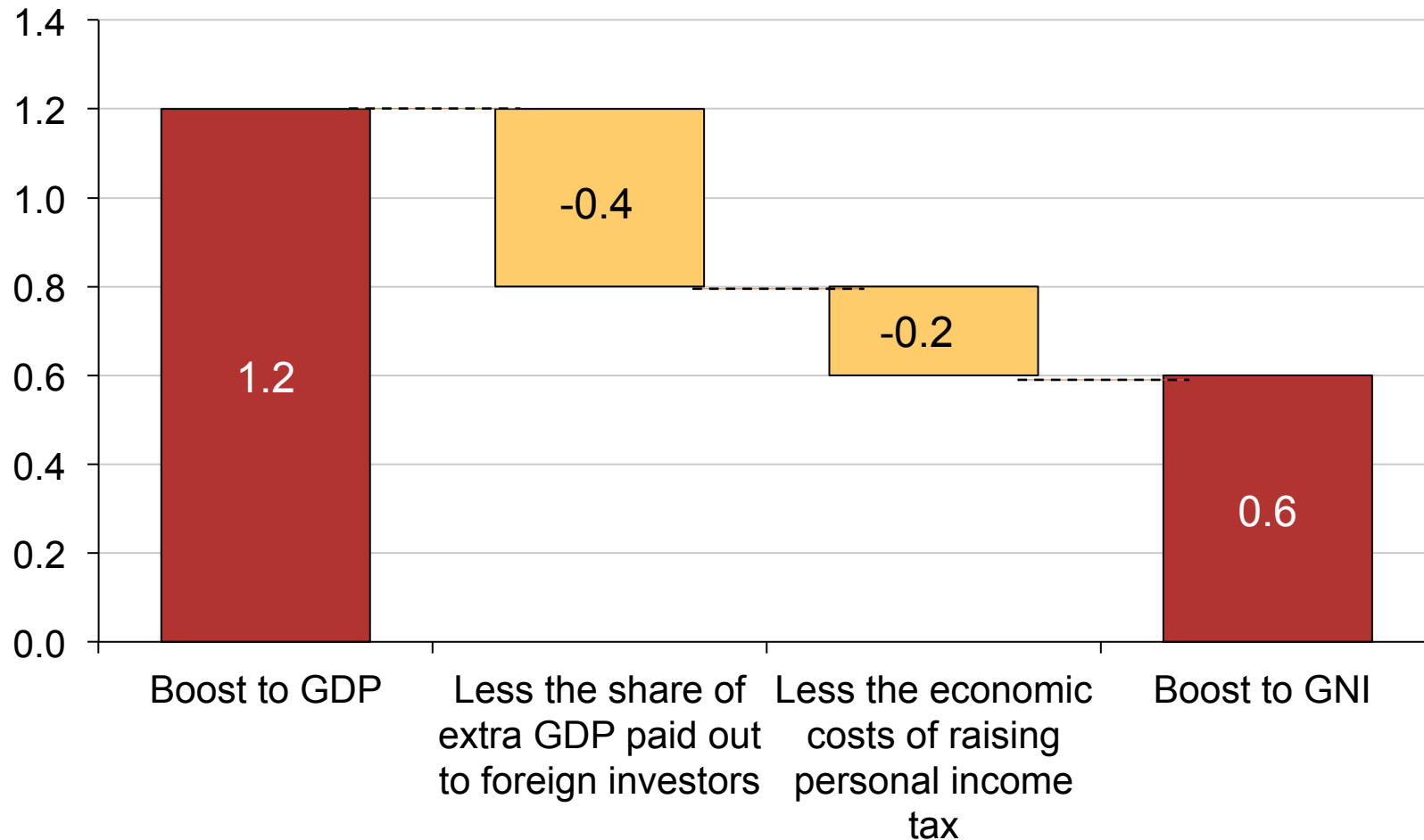
Source: Grattan Institute, *A better super system*

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# The company tax cuts are likely to boost incomes by no more than 0.6 per cent

Expected long-term boost to GDP and GNI from a cut in the company tax rate from 30 per cent to 25 per cent, Per cent of GDP and GNI



Note: The above chart uses results from the Treasury analysis of the 2016-17 Budget changes. It compares the increase to GDP under the scenario where the company tax cut is funded by a hypothetical, non-distorting tax and the increase to GNI where the cut is funded by an increase to a flat personal income tax.

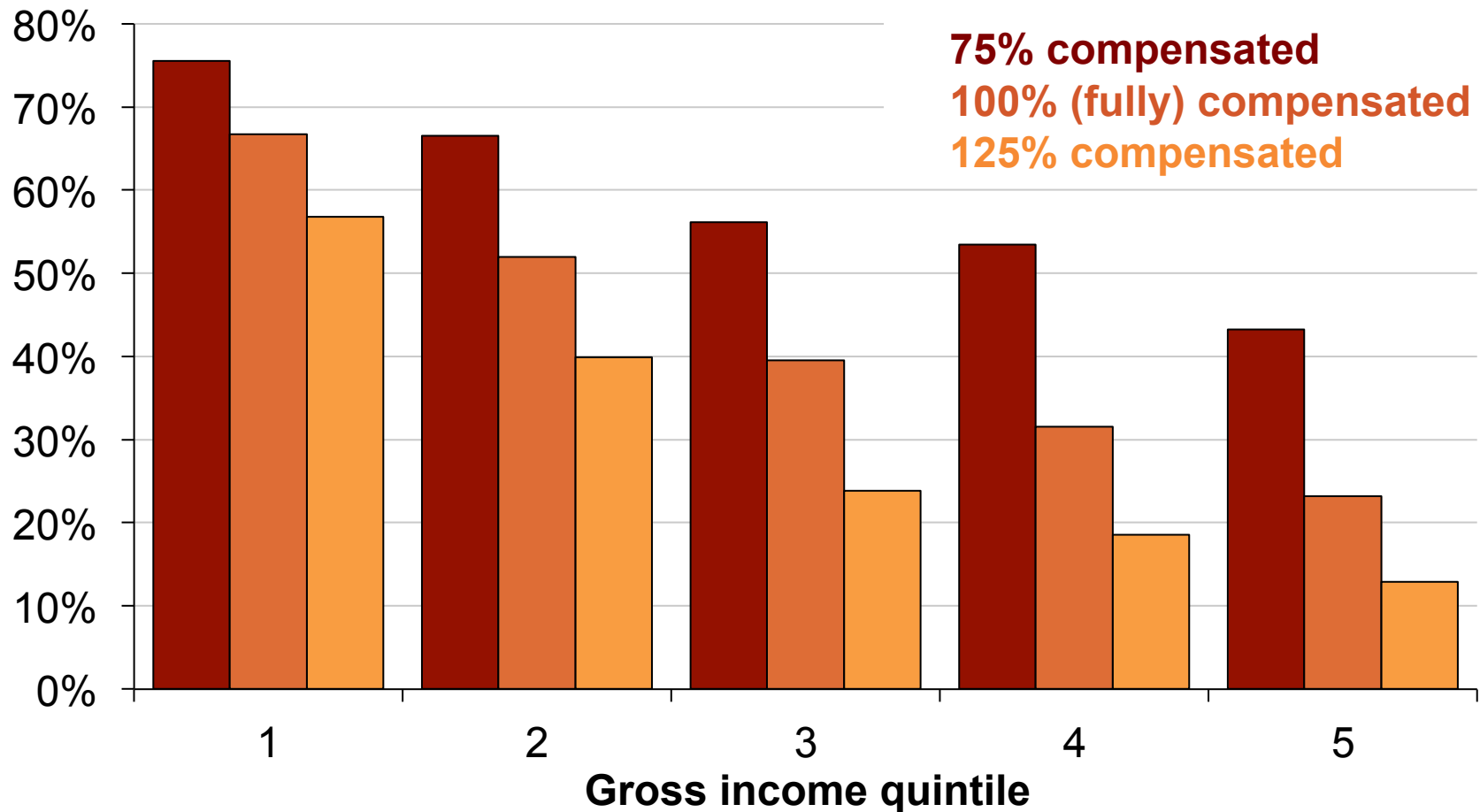
Source: Treasury (2016), *Economy-wide modelling for the 2016-17 Budget*, Table 3; Grattan analysis.

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# GST reform package could improve incomes for most in the bottom half

Percentage of each quintile at least compensated by the amount shown after higher GST, higher welfare payments and tax cuts



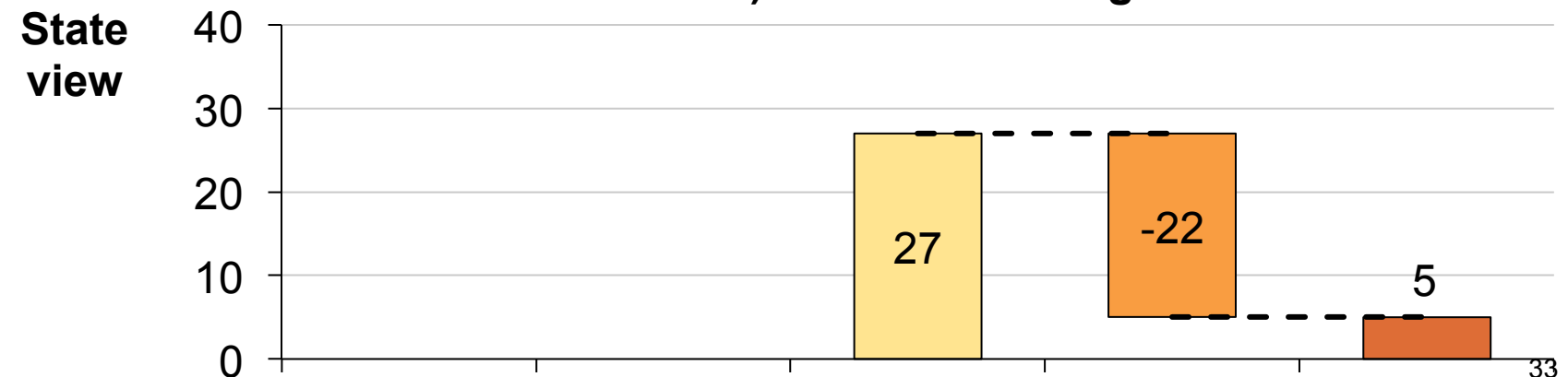
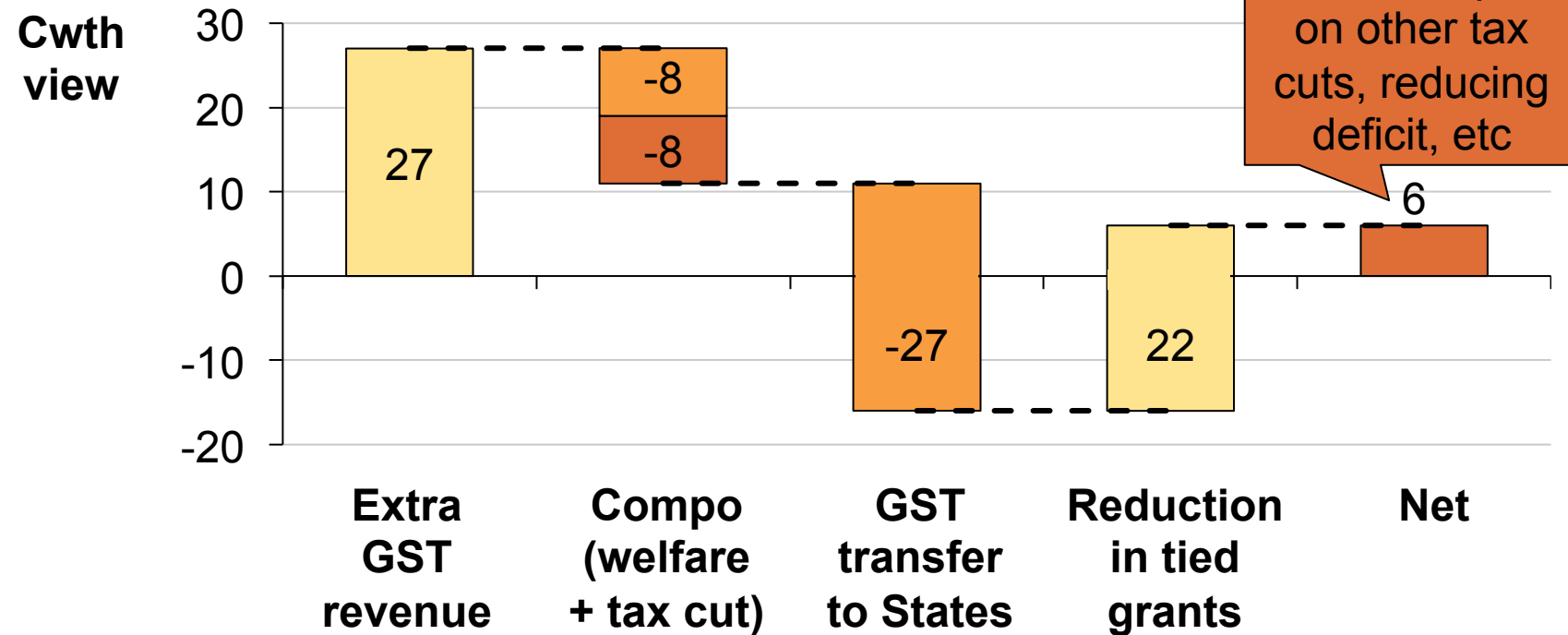
Note: Assumes that 30 per cent of the additional revenue from increasing the GST to 15 per cent is spent on higher welfare payments and 30 per cent is spent on tax cuts of approximately 2pp for tax brackets under \$80k.

Source: Grattan Institute, A GST reform package



# A GST reform package can be progressive, and attractive

Budgetary changes, 2014-15, \$billion/yr



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