

**First National Tax Reform Symposium
Convened by the Community Tax Forum**

SOME COMPARATIVE PERSPECTIVES ON THE AUSTRALIAN TAX SYSTEM

- **An Overview of Tax Revenue**
- **Taxes based on Incomes**
- **Taxes based on Assets**
- **Taxes and Public Opinion**

TaxWatch

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Introduction

This Background Paper has been prepared by TaxWatch for the First National Tax Reform Symposium. It provides some broad perspectives on comparisons between tax systems in Australia and other OECD countries. It is extracted from a larger Information paper by TaxWatch entitled *Aspects of the Australian Tax System: A Preliminary Outline*.

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

The Convenor of TaxWatch is Prof Julian Disney and the Research Coordinator is Peter Mellor. It is based at the University of New South Wales and Monash University. The Academic Advisory Panel comprises Prof Chris Evans (University of NSW), Prof John Freebairn (University of Melbourne), Prof Rick Krever (Monash University), Ian McAuley (University of Canberra), Cameron Rider (Allens Arthur Robinson), Rosanna Scutella (University of Melbourne) and Julie Smith (Australian National University). While their advice is invaluable, they are not responsible, of course, for the final content of TaxWatch publications.

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GENERAL ENQUIRIES
www.taxwatch.org.au
(02) 9804 0631

MEDIA ENQUIRIES
Julian Disney
jdisney@bigpond.net.au
0417-663-509

1. AN OVERVIEW OF TAX REVENUE

Australia's overall level of tax revenue was 30.6% of GDP in 2006-7 which is the latest year covered by the OECD's authoritative international revenue statistics. This level of revenue ranked in the lowest-third of the OECD's 30 countries and also in the lowest-third of the OECD-9 (a selection of nine countries which often enables more detailed and appropriate comparisons than with the full OECD)¹.

Table 1 below summarises Australia's comparative rankings for broad categories of tax revenue. They should be seen as approximations only, because differing circumstances in countries and legitimate differences of opinion about definitions make precise comparisons impossible. Australia's revenue levels in 2006-7 were substantially below the midpoint of OECD countries for each category of tax, except for asset ownership and transfer where our position was a little higher due partly to our unusual system of local council rates. They were also in the lowest-third of the OECD-9 countries, except in relation to assets.

TABLE 1

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

* See Tables 4 and 5 below and accompanying text. Relevant data is available for only 27 OECD countries. The impacts of taking superannuation into account are summarised later in the text.
Source: Calculated from OECD, *Revenue Statistics* (2008), Table 6, 10, 12, 16, 18, 20.

The OECD correctly excludes our compulsory superannuation contributions from its tax tables but in doing so it can tend to exaggerate differences between Australia and other countries². If, say, 50% of the contributions were added to our total tax revenue it would rise by about 1.5% of GDP. This would lift our overall ranking amongst all OECD countries by about two places but we would still be in the lowest-third and we would remain seventh amongst the OECD-9. Impacts on particular categories of revenue are outlined later.

Australia's comparative level of tax revenue can also be described by calculating the extent to which it would rise or fall if it was at the same level relative to GDP as applies in other OECD countries. Table 2 below shows that our tax revenue in 2006-7 could have increased by about \$55-65bn (ie, about 15-20%) before reaching the averages for the OECD-9 or all OECD countries. The only OECD-9 countries with lower tax revenue were US and Japan, each of which was running high budget deficits and government debt.

TABLE 2

	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 are about \$15bn lower.
Source: Calculated from OECD *Revenue Statistics* (2008), Tables 1 and 36.

2. TAXES BASED ON INCOMES

Table 3 shows that Australia's revenue from taxes based on personal and corporate incomes is just under 20% of GDP, which is lower than all but six of the 30 OECD countries and is the lowest in the OECD-9. This category (sometimes called "direct" taxation) includes personal and corporate income tax, social security contributions and payroll taxes. A little under 65% of our total tax revenue is raised in this way, which is in the middle of the full OECD range but less than most OECD-9 countries (including the US and Japan).

TABLE 3

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%.
 Source: Calculated from OECD, *Revenue Statistics* (2008), Table 6.

Individuals

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. 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 our compulsory superannuation contributions, although they are correctly not classified by the OECD as taxes.

Table 4 illustrates one possible approach, 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. 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.

TABLE 4

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.
 ** For impacts of including compulsory superannuation contributions, see text.
 Source: Calculated from OECD, *Revenue Statistics* (2008), Tables 10, 16, 20.



A number of other methods for taking these various taxes and superannuation contributions into account are shown in the TaxWatch paper, *Aspects of the Australian Tax System: A Preliminary Outline*. 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.

Corporations

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.

Table 5 below illustrates one possible approach, 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. Inclusion of superannuation to an appropriate degree could raise these rankings in the order of two and three places respectively.

A number of other methods for taking these various taxes and superannuation contributions into account are shown in the TaxWatch paper, *Aspects of the Australian Tax System: A Preliminary Outline*. 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).

TABLE 5

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.
 ** For impacts of including superannuation, see text.
 Source: Calculated from OECD, *Revenue Statistics* (2008), Tables 12, 18, 20.

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.

Tax rates on work income

Table 6 shows marginal and average work income tax rates for different relative wage levels in Australia over recent decades. The marginal rate is the highest payable on any of the person's income and the average rate is calculated across all of their income. The table shows that marginal rates have fallen for each of the categories, except those on 75% of average earnings. By contrast, average tax rates have fallen considerably for higher-earners but remained stable for lower-earners. Most people in paid work (including part-timers) earn below 80% of average earnings.

TABLE 6

<u>% OF AVERAGE WAGES</u>	<u>MARGINAL TAX RATES</u>				<u>AVERAGE TAX RATES</u>			
	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 (official estimates).
 Source: ABS, *Average Weekly Earnings Australia*, cat 6302.0, Table 1; tax scales from www.ato.gov.au; estimated July 2009 wages from Australian Treasury, *Mid-Year Economic and Fiscal Outlook 2008-9*, Table 3.2.

3. TAXES BASED ON ASSETS

Table 7 shows that overall revenue raised in Australia from taxes on asset ownership and transfer is 2.8% of GDP which ranks fifth in the OECD-9. It is ninth in the full OECD. Countries above us include the UK, US and Canada. As can be seen, taxes in this category usually comprise a very small proportion of total tax revenues. Our relatively high ranking is due principally to stamp duties on asset transfers and to council rates (which pay for services such as rubbish removal that in many other countries are charged for separately and not counted as taxes). Unlike Australia, most OECD countries have broad-based taxes on asset ownership or transfer (eg, "wealth" or "inheritance" taxes) which have considerable economic impact but do not collect much revenue.

TABLE 7

	<u>REVENUE FROM ASSET TAXES AS PERCENTAGE OF GDP</u>						<u>TOTAL AND RANKING</u>
	<u>ASSET OWNERSHIP</u>			<u>ASSET TRANSFER</u>			
	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.

4. TAXES AND PUBLIC OPINION

Table 8 below summarises some reputable surveys of relative public support for tax cuts and additional expenditure. It suggests a generally low level of support in recent years for cutting taxes in preference to increasing some forms of government expenditure. The Australian Election Study asked respondents to choose between "reducing taxes or spending more on social services". AC Nielsen asked in 2004 and 2005 whether the Commonwealth Budget surplus should be used for an "income tax cut" or "more spending on services" and in 2006 whether "reducing taxes" or "increasing spending on services and infrastructure" should be the highest priority.

TABLE 8

	<u>YEAR</u>	<u>PERCENTAGE OF SUPPORT</u>		
		<u>Tax Cuts</u>	<u>More Spending</u>	
<i>Australian Election Study</i>	1987	67%	15%	("Social spending")
	1993	58%	18%	
	1998	47%	25%	
	2001	42%	30%	
	2004	36%	37%	
	2007	34%	47%	
<i>AC Nielsen</i>	2004	22%	75%	("Services")
	2005	29%	68%	
	2006	29%	68%	("Services/infrastructure")

Sources: Wilson (2003); Leigh (2006); AES (2008), p66.

NOTES

¹ 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 other measure adjusts for their respective shares in the overall total of GDPs. The first 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. This paper uses the unweighted average for the full OECD and also an unweighted average of a selected sub-group of OECD countries. The latter approach has been adopted by the Australian Treasury to compare Australia with nine other countries in what it calls the "OECD-10". This paper uses an "OECD-9" comprising Australia, Austria, Canada, Japan, Netherlands, Spain, Sweden, the UK and US. By comparison with the OECD-10, this group includes Austria and Sweden in place of Ireland, NZ and Switzerland. While still somewhat skewed towards the low-tax end of the OECD spectrum, it is less so than the OECD-10 and includes fewer countries that have much smaller populations than Australia.

² The exclusion of compulsory superannuation contributions is justified because, unlike 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. The social security contributions levied in most OECD countries correspond much more closely to taxation and are counted as such by the OECD. But as these types of contributions are partly to provide retirement income, complete exclusion of our superannuation contributions can tend to give a misleading impression of comparative levels of taxation.

