Myths and realities

The tax system & attitudes to taxation

ACTU Working Australia Tax Paper No. 1

Australian Unions
Working for a better life.

ACTU
australian council of trade unions

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August 2011

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Contents

The ACTU

The Australian Council of Trade Unions is the nation's peak body for organised labour, representing Australian workers and their families.

Any inquiries about this report should be directed to the ACTU on (03) 9664 7333, or help@actu.org.au

The Working Australia Papers

The Working Australia Papers are an initiative of the ACTU to give working people a stronger voice about social and economic policy. Although low and middle income Australians ultimately bear the costs of poor policy decisions made in relation to tax, infrastructure, retirement incomes, welfare, and services, their voice is too often absent from national debates about these issues.

This paper has been researched and written by ACTU Research Officer Matt Cowgill.

Working Australia Paper 6/2011
ACTU D 44/2011

The ACTU Tax Papers

Tax is always a hot political topic, but the Government's announcement that it will hold a Tax Forum has helped put the tax debate on the front pages. The tax debate in Australia tends to be one-sided. Well-funded business groups make a self-interested case for cuts to business tax, or regressive personal income tax changes, and are given extensive coverage by the media. Such proposals for "reform" are treated as self-evidently good things, with little evaluation of competing ideas. False or misleading claims about the tax system are sometimes presented as facts.

There is a need to push back against the misleading claims and self-interested demands of the typical participants in the tax debate. As the peak council for working Australians and their unions, the ACTU is in a strong position to provide such balance, by advocating for tax reform in the interests of low- and middle-income people and for Australian society more broadly. After all, around half of all federal tax revenue is raised directly from individuals, with workers also paying GST and other indirect taxes. The tax system affects and belongs to all of us, so it's important that working Australians have a voice on this important topic.

This series of discussion papers represents one part of the ACTU's participation in the tax debate. The papers will examine:

- The facts about the Australian tax system, drawing comparisons over time and with other countries;
- Australians' preferences for their tax system and society;
- The appropriateness of the current cap on taxes as a proportion of GDP, and the challenges that will be encountered by Australian society as the population ages;
- The need for further progressive reform of the personal income tax system that supports and encourages workforce participation;
- The truth about business taxation, and the need to ensure that the tax system supports jobs while requiring corporations to pay their fair share; and
- The ways that loopholes in the tax system mean that ordinary working Australians pay higher taxes than those who can disguise their income through arrangements like sham contracting.

This is the first paper in the series released prior to the Tax Forum.

JEFF LAWRENCE
Secretary, Australian Council of Trade Unions
August 2011

1. Principles for tax reform

The Australian tax system belongs to the whole community, not just to the business sector. Real tax reform is one of the key ways that we can improve Australian society. Tax revenue funds the provision of services and infrastructure that are so important to Australians, and the design of the tax system can also play a key role in shaping and build a fairer, more prosperous Australia.

Real tax reform is reform that is directed towards satisfying Australians' needs and preferences, and that positions Australia well for the future. Real reform ensures that the tax system treats people of similar means equally, without allowing some to exploit loopholes to avoid their obligations ('horizontal equity'). It means a progressive tax system, to ensure that all Australians pay their fair share ('vertical equity'). Real reform will also ensure that the tax system is as simple and efficient as it can be, without sacrificing other aims in the name of simplicity or efficiency.

'Reform' should not imply an unending series of cuts to business tax and tax rates for high-income Australians. It should strengthen, not weaken, governments' ability to provide the high-quality public services and social security that Australians want, need and deserve.

Reforms to the Australian tax system should:

1. Ensure that the tax system raises sufficient revenue to fund the provision of high quality services to the Australian community;
2. Make the system more equitable and progressive, with taxes rising with individuals' ability to pay;
3. Reduce the opportunities for individuals and businesses to avoid their obligations, particularly by disguising their incomes through contracting arrangements, trusts, and private companies;
4. Not reduce the proportion of tax revenue that is paid by business;
5. Ensure that superannuation delivers adequate retirement incomes to working Australians while making sure that tax incentives associated with super are focused on low- and middle-income earners;
6. Further reduce the effective marginal tax rates (EMTRs) that make it hard for low-income Australians to get ahead, and undermine workforce participation;
7. Reduce the distortions in the tax system that reduce the availability of affordable housing;
8. Promote jobs and investment in socially and environmentally useful projects; and
9. Ensure that Australians receive a fair share of the profits obtained by extracting our collectively-owned natural resources, including iron ore and petroleum

2. Introduction

"The tax-transfer system is the principal means of expressing societal choices about equity. The tax-transfer system is a reflection of the kind of society we aspire to be."
– Dr Ken Henry, 2009 ACOSS National Conference

Through taxes and social spending, governments can reshape Australian society. The overall size of tax revenue and government expenditure has a big effect on society, as do the choices governments make about the ways revenue is raised and spent.

This paper sets out some key facts about the tax system, showing that:

- Australia is a low-tax country, with the tax-to-GDP ratio below almost all other developed countries;
- The size of Australian governments' tax revenues have been roughly stable since the mid-1980s;
- Government expenditure in Australia is lower than in almost all other developed countries;
- The 'wedge' between what employers pay and what workers receive as take-home pay is one of the lowest in the developed world; and
- While the personal income tax system is progressive, most other taxes are proportionate or regressive in their impact.

It's important that the debate about taxation occurs in full knowledge of these facts about Australia's tax system. It's also important that public policy choices that governments make take into account the preferences of the Australian people. As Dr Henry suggested, the tax system should reflect "the kind of society we aspire to be".

The question therefore remains: what sort of society do we aspire to be? What do Australians want from their tax system and from their governments? The ACTU has released new research (see Section 5) that shows that Australians favour a progressive tax system, and wish to see government action to reduce inequality. This discussion paper shows that the new research is consistent with a range of findings in other studies of Australians' attitudes to tax and social spending.

Australians aren't clamouring for a reduction in the size of government. Instead, they want value high quality public services, and to some extent are prepared to pay for them. Australians also don't want a flat tax system, in which the well-off pay no greater share of their income in tax than low- and middle-income people. Australians' preferences should be taken into account during the tax debate. The tax system should reflect the kind of society we aspire to be.

3. The big picture: The size of Australian Governments' tax revenue

It can sometimes seem as if the Australian tax debate occurs in a vacuum of facts. Some commentators and business advocates claim or imply that Australia is a high-tax country, or that Australians are bearing an ever-increasing tax "burden". Neither of these claims is true. In order to properly evaluate proposals for tax reform, it is necessary to take a step back and look at where Australia stands relative to our past, and relative to the rest of the world.

3.1 The Australian tax system over time

Since the end of the Second World War, there have been three distinct periods in the size of Australian governments' tax revenue as a proportion of gross domestic product (GDP). After rising sharply in the early 1940s, the tax-to-GDP ratio fell between the end of the war and the early 1960s, with Commonwealth tax revenue reaching a post-war low of 15.7% of GDP in 1962-3.

Taxes as a proportion of GDP then rose steadily, apart from some cyclical swings, until the mid-1980s. In 1986-87, Commonwealth taxes reached what was then a post-war high of 24.6% of GDP, with total taxes accounting for 29.2% of GDP. Since the 1980s, the tax-to-GDP ratio has remained roughly stable, setting aside the economic downturns of the early 1990s and the late 2000s, during which the ratio fell. These three broad phases in the post-war history of the Australian tax system are depicted in Figure 1, below.

In 2006-07, Commonwealth taxes accounted for 25% of GDP, little changed from the 24.6% of twenty years earlier. State taxes as a proportion of the economy had increased by only a tenth of a percentage point, from 4.6% to 4.7%.

The total tax revenue of Australian governments fell as a proportion of GDP in the wake of the global financial crisis (GFC), as unemployment rose and profits briefly fell. Commonwealth taxes fell to around 20.3% of GDP in 2010-11, but this is forecast to rise to rise to around 22.7% in 2012-13, a level just below that inherited by the Labor Government in 2007.[1]

Contrary to the story that some commentators and politicians try to tell, there has been no overall increase in the size of government in the past two and a half decades. Overall, Australia is no more heavily taxed, nor more lightly taxed, than it has been for the past several decades.

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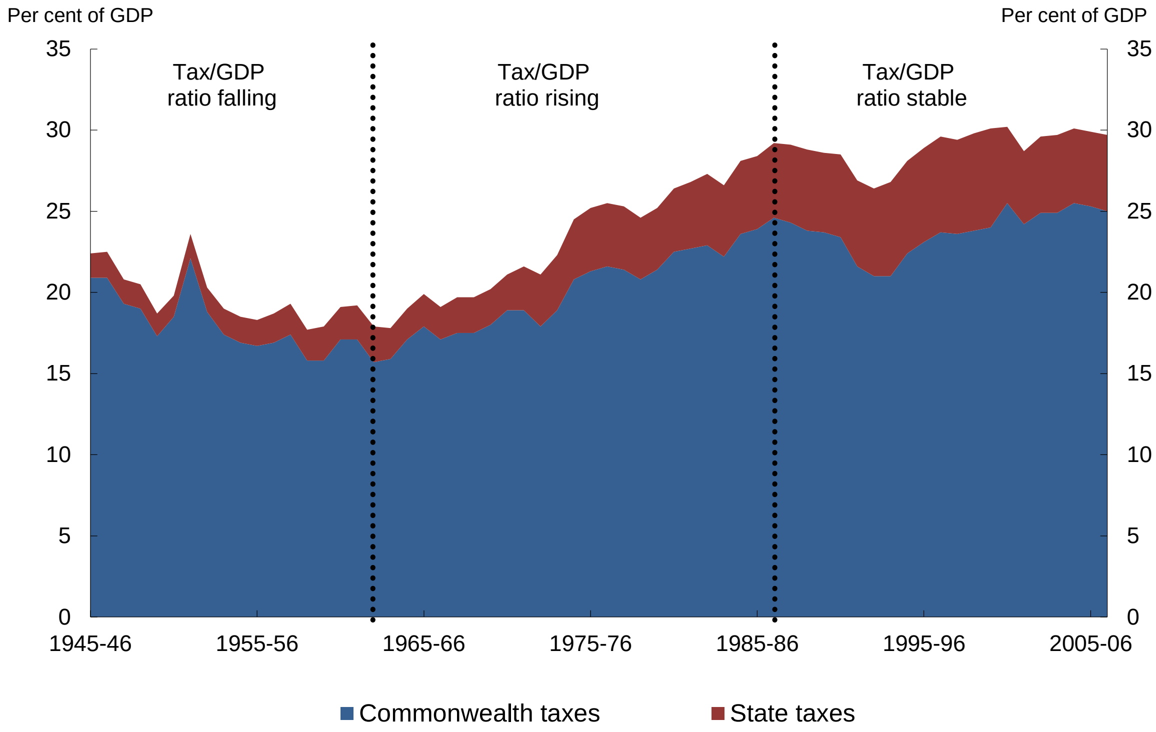
[1] Australian Government 2011, *Budget 2011-12,* Budget Paper No.1, p.3-9.

Figure 1: Tax to GDP ratio since the Second World War



Source: Treasury[2]

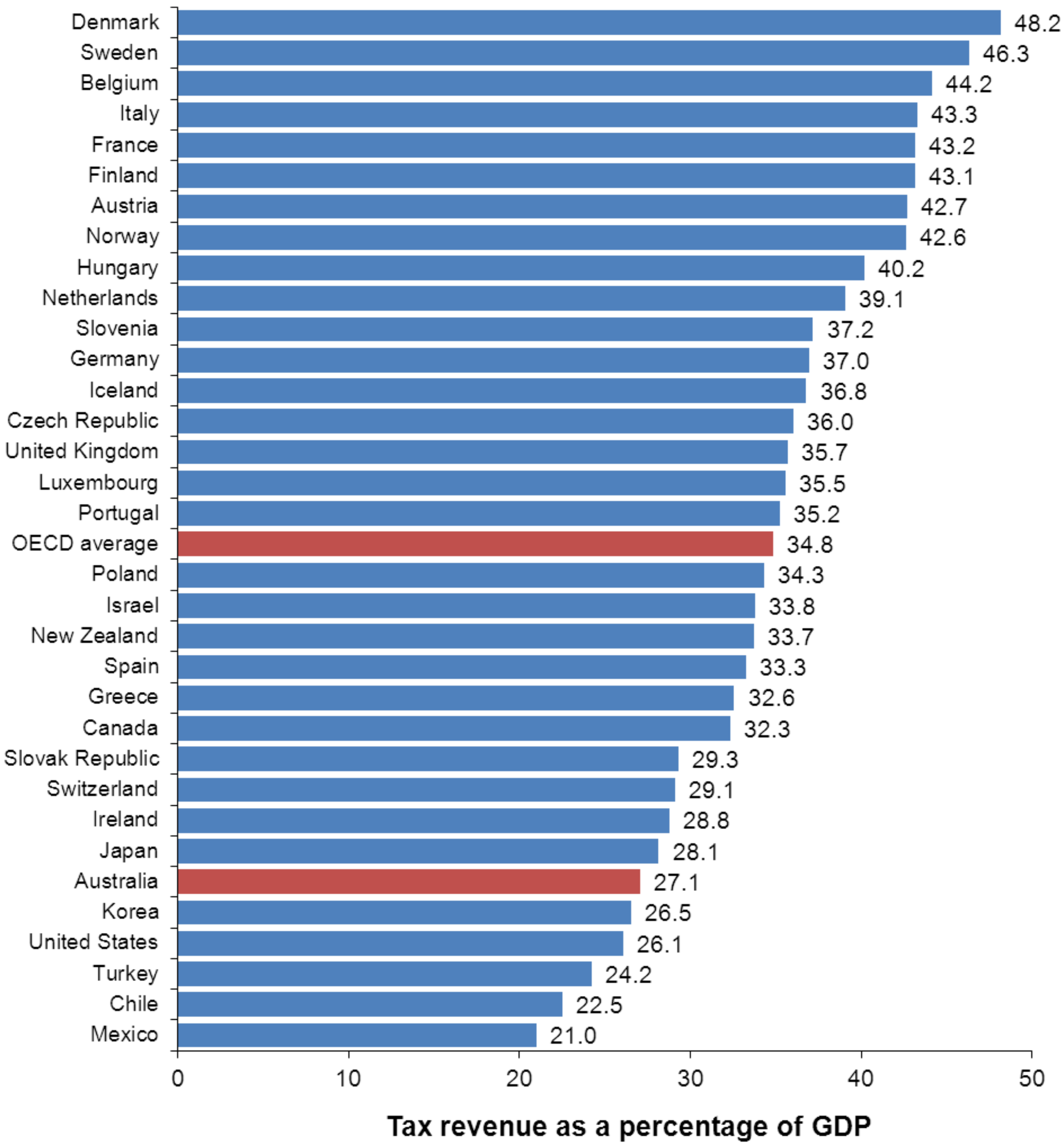
3.2 Australia and the OECD

Australia is a low tax country, with a tax-to-GDP ratio below almost all other developed countries' ratios. In 2008-09, the total taxes of Australian governments, at all levels, accounted for just 27.1 per cent of GDP, significantly below the OECD average of 34.8 per cent. Australia has a lower tax-to-GDP ratio than all but five of the 33 countries that are included in the OECD tax statistics.

Australia is a lower taxing country than almost all of the nations to which we often compare ourselves, including Canada, New Zealand and the UK. Figure 2, below, shows the tax-to-GDP ratios for Australia and other OECD countries for 2008, the last year for which a complete data set is available.[3]

[2] Australian Treasury 2008, *Architecture of Australia's Tax and Transfer System,* Commonwealth of Australia, Canberra.
[3] For most countries, these data are for the 2008 calendar year; for Australia, they are for the 2008-09 fiscal year. This is the standard approach for OECD fiscal data.

Figure 2: Tax revenue to GDP ratios in OECD countries: 2008



Source: OECD[4]

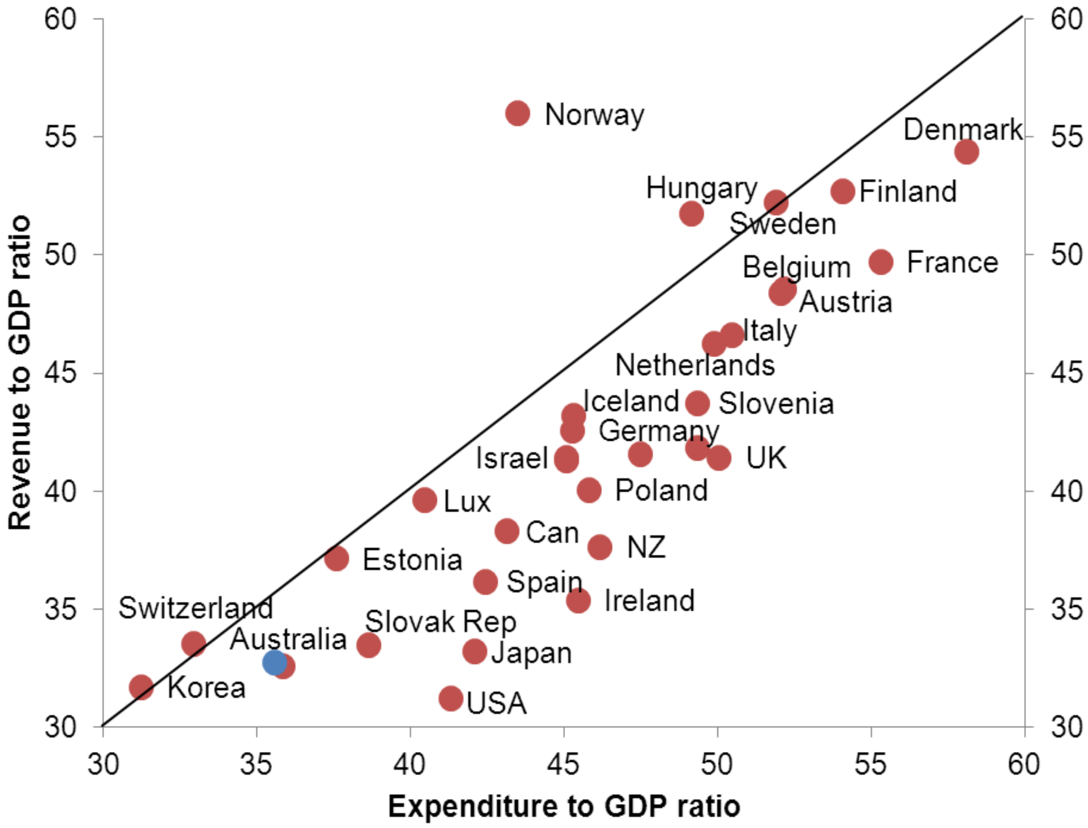
The countries that have smaller tax-to-GDP ratios than Australia generally have rudimentary social support systems, with poor outcomes in areas of public spending like health and education. The USA's low tax-to-GDP ratio masks its higher spending-to-GDP ratio, as it has run large and persistent budget deficits throughout the past decade and has accumulated significant public debt. If you take these things into account, Australian governments' activities as a proportion of the economy appear even smaller than a glance at the tax-to-GDP ratio would suggest.

[4] Organisation for Economic Cooperation and Development 2011, 'Total tax revenue as a proportion of GDP, *OECD.Stat.* Available from: http://dx.doi.org/10.1787/20758510-table2 [Accessed 27 June 2011].

In fact, total government spending is lower in Australia, as a proportion of GDP, than in all other OECD countries bar Switzerland and Korea. Government spending in Australia, including spending by state and local governments, accounts for 35.6% of all economic activity in the country, much lower than many countries to which we often compare ourselves, like the UK (50.1%), New Zealand (46.2%), and Canada (43.1%).[5] Combining the data on spending and revenues gives a sense of the overall size of governments' economic activities as a share of total economic activity. This is presented in Figure 3. Note that in this chart 'revenues' include both tax and non-tax revenue. Australia is shown as a blue dot, near the bottom left of the graph.

The further a country is from the 45-degree line, the further its budget is from balance (in 2011). For example, the USA, which has lower government revenues than Australia, has larger government expenditures as a share of the economy, which it sustains through large fiscal deficits.

Figure 3: Economic size of government – OECD 2011



Source: OECD[6]

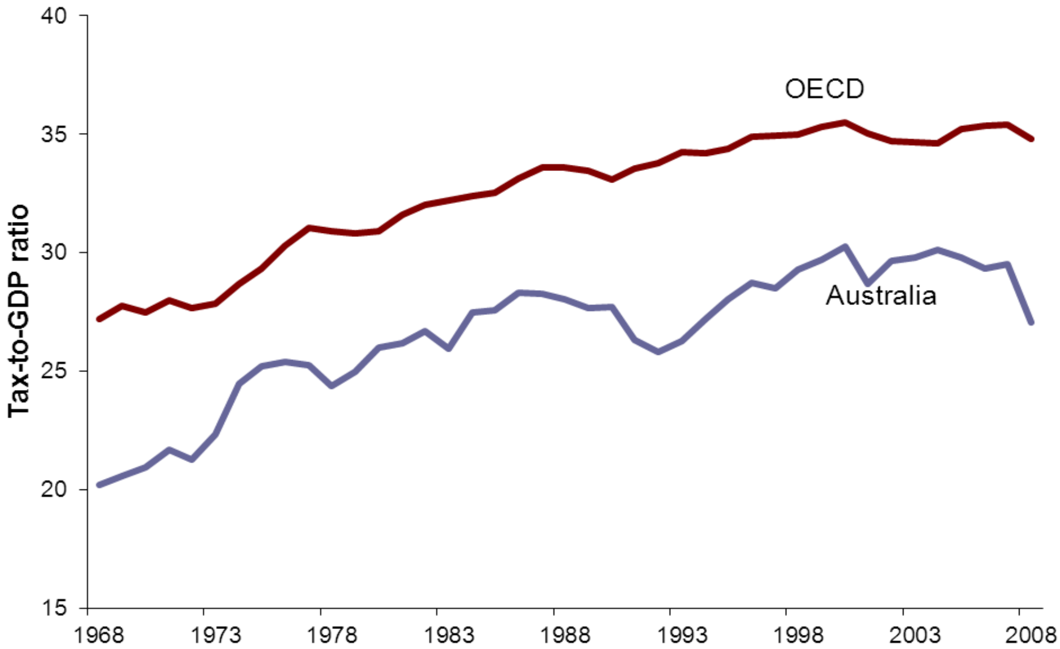
The charts above are intended to tell a simple story, but one that is often wilfully obscured by participants in the tax debate: Australia is a low-tax country. Almost all other developed nations'

[5] OECD 2011, *Economic Outlook,* No. 89, May, pp.365-6. Note that these data, unlike the tax data presented in Figure 2, are for 2011, as up-to-date figures are available on total spending.
[6] OECD 2011, *Economic Outlook,* No. 89, May, pp.365-6. Excel data available online: http://dx.doi.org/10.1787/888932443415 and http://dx.doi.org/10.1787/888932443396. [Accessed 27 July 2011]. Some points are unlabeled, in order to preserve the clarity of the chart.

governments both spend and raise more, as a share of GDP, than Australia's government; most governments both raise and spend more.

Not only is Australia a low tax country, but we've been a low tax country for decades. The gap between our tax-to-GDP ratio and the OECD average has been roughly constant since the mid-1960s.[7] This is shown in Figure 4, which depicts the tax-to-GDP ratio in Australia from 1968-2008, compared with the OECD average.

Figure 4: Tax revenue to GDP ratios in Australia and the OECD: 1968-2008



Source: OECD[8]

Another way to present the inter-country comparison is to examine what would happen to Australia's overall tax revenue if our tax-to-GDP ratio matched those of other comparable countries.

The UK, for example, collected 35.7% of its GDP as tax revenue in 2008, 8.6 percentage points higher than the Australian ratio. If Australia had collected the same proportion of its GDP as tax revenue, an extra $108.1 billion would have been available for public spending. This is more than the entire amount that the Australian federal government spends on health and education put together.

The amount by which Australian tax revenue would have changed in 2008 if our governments' tax revenues had accounted for the same proportion of GDP as in other comparable countries is presented in, Table 1 below.

[7] Australian Treasury 2008, *Architecture of Australia's Tax and Transfer System,* Commonwealth of Australia, Canberra, p.201.
[8] OECD 2011, op cit.

Table 1: Change to revenue if Australia had the same tax-to-GDP ratio as other countries (2008)

	Change in tax-to-GDP ratio (percentage points)	Change to total Australian tax revenue ($AU)
United States	-1.0%	-$12.5 billion
Japan	1.1%	$13.7 billion
Canada	5.3%	$66.1 billion
Spain	6.2%	$77.8 billion
OECD average	7.8%	$97.3 billion
United Kingdom	8.6%	$108.1 billion
Netherlands	12.0%	$151 billion
Austria	15.6%	$196.3 billion
Sweden	19.2%	$241.4 billion

Source: OECD.[9] The countries chosen for comparison are the OECD-9 identified as an appropriate comparator group by TaxWatch.[10]

Australia's tax revenues have remained low, relative to GDP, over recent decades as a result of successive federal governments' decisions to "cap" the size of tax revenue. The wisdom of adopting such a cap, and capping revenue at such a low level, will be considered in a later discussion paper.

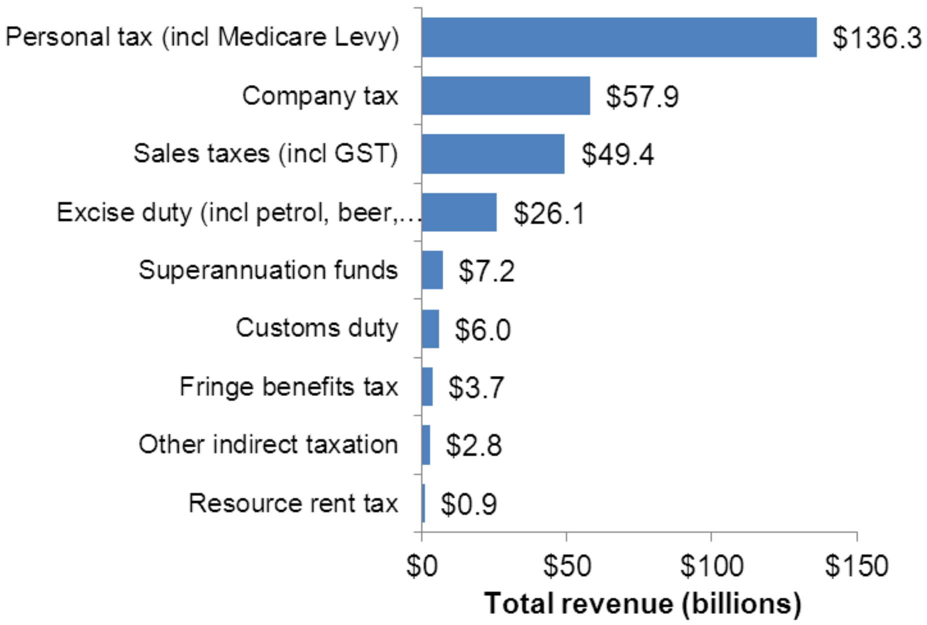
3.3 What gets taxed? The tax mix in Australia

By far the largest source of federal tax revenue in Australia is personal tax, accounting for 47% of federal tax revenue in 2010-11.[11] Company tax accounts for 19.9% of tax revenue, while the GST and other sales taxes raise 17% of federal revenue.[12] The revenue obtained from various forms of federal taxes is shown in Figure 5, below.

Federal tax revenue accounts for the vast majority of tax in Australia, but State and local governments continue to levy a significant number of taxes. The largest of these (by the size of total revenue) is payroll tax, followed by local government rates. Figure 6 shows the largest 10 taxes, which collectively account for around 90 per cent of total revenue. There are around 115 other taxes which together account for around 10 per cent of revenue; about half of this is State revenue.

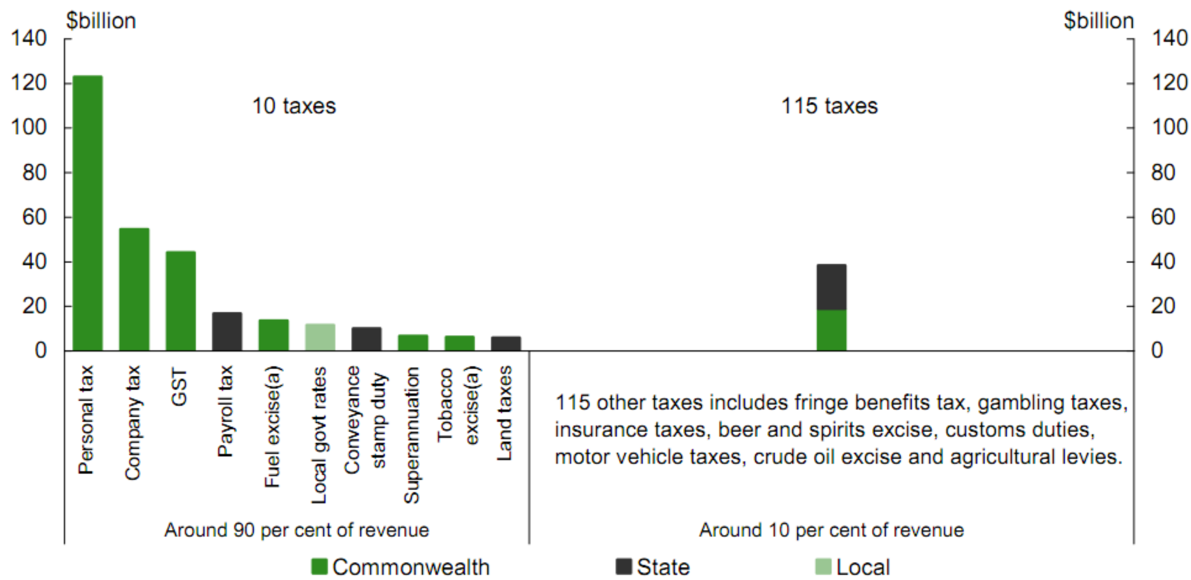
[9] OECD 2011, op cit. GDP for Australian tax year 2008 is taken from OECD 2011, Table 36.
[10] TaxWatch 2010, 'A Comparative Update on Aspects of the Australian Tax System'. Available from: http://www.taxwatch.org.au/facts.asp?id=5 [Accessed 6 July 2011].
[11] Australian Government, 'Budget Paper No. 1: Budget Strategy and Outlook 2011-12', *Budget 2011-12,* Appendix A, Table A1, p.5-35.
[12] Although GST revenue is distributed to the States and territories, it is a federal tax.

Figure 5: Sources of federal tax revenue: 2010-11



Source: Australian Government[13]

Figure 6: Sources of Australian governments' tax revenue: 2009-10



Source: AFTS[14]

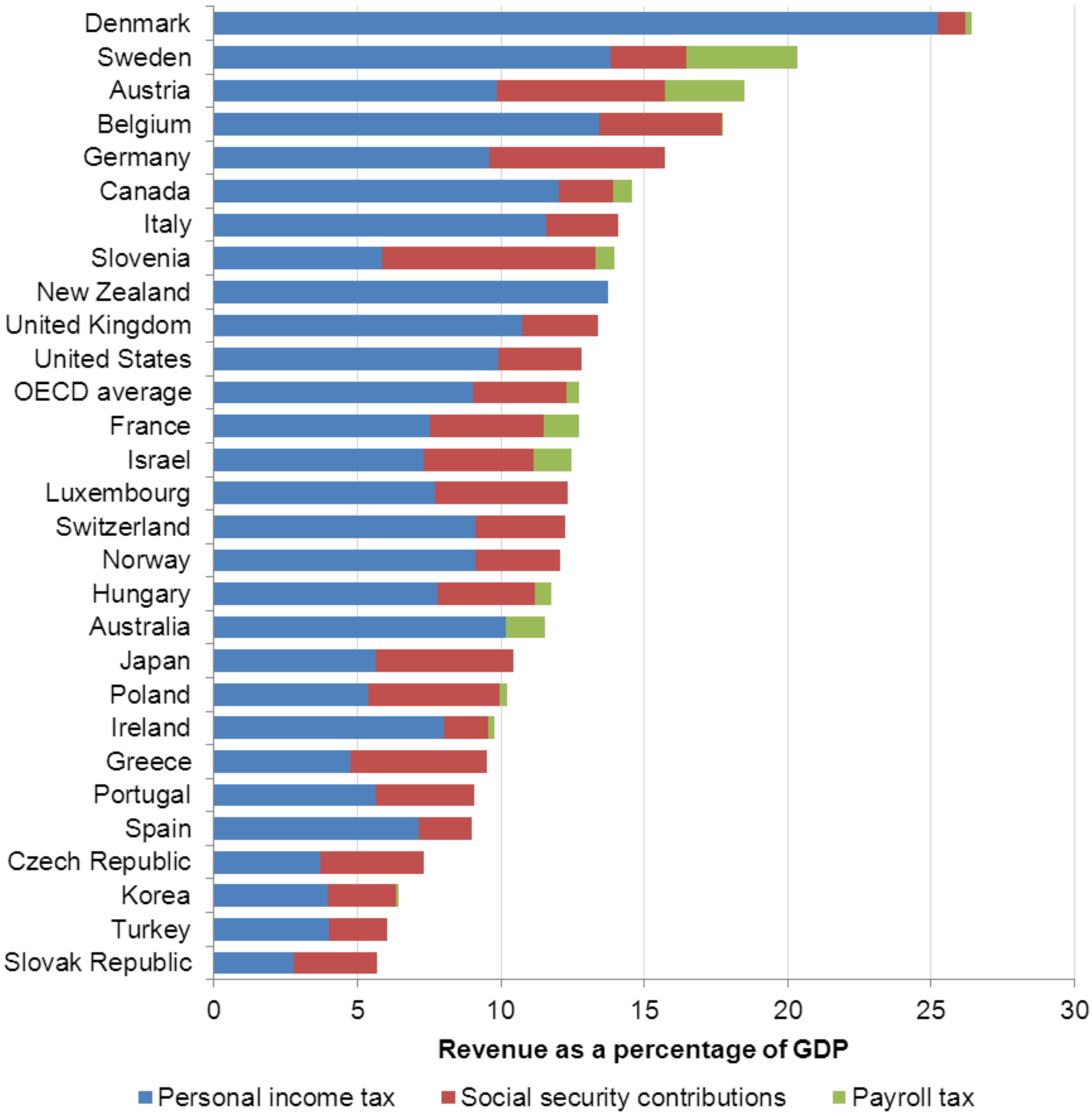
Personal income tax as a proportion of GDP is slightly higher in Australia than the OECD average. However, this simple comparison doesn't take into account other taxes that are borne by individuals, such as social security contributions. Many other OECD countries have compulsory social security contributions, which are counted as taxes by the OECD. When employee social security and payroll

[13] Australian Government, 'Budget Paper No. 1: Budget Strategy and Outlook 2011-12', *Budget 2011-12,* Appendix A, Table A1, p.5-35.

[14] Australia's Future Tax System Review 2010, *Report to the Treasurer,* Part One, Australian Government, Canberra, p.12.

taxes are taken into account, it's clear that Australian taxes on personal incomes are slightly below average.

Figure 7: Taxes on personal incomes: 2008



Source: OECD[15]

The chart above includes payroll tax, even though these taxes are not directly levied on individuals. If payroll tax is omitted, the level of tax on personal incomes in Australia falls below Japan.

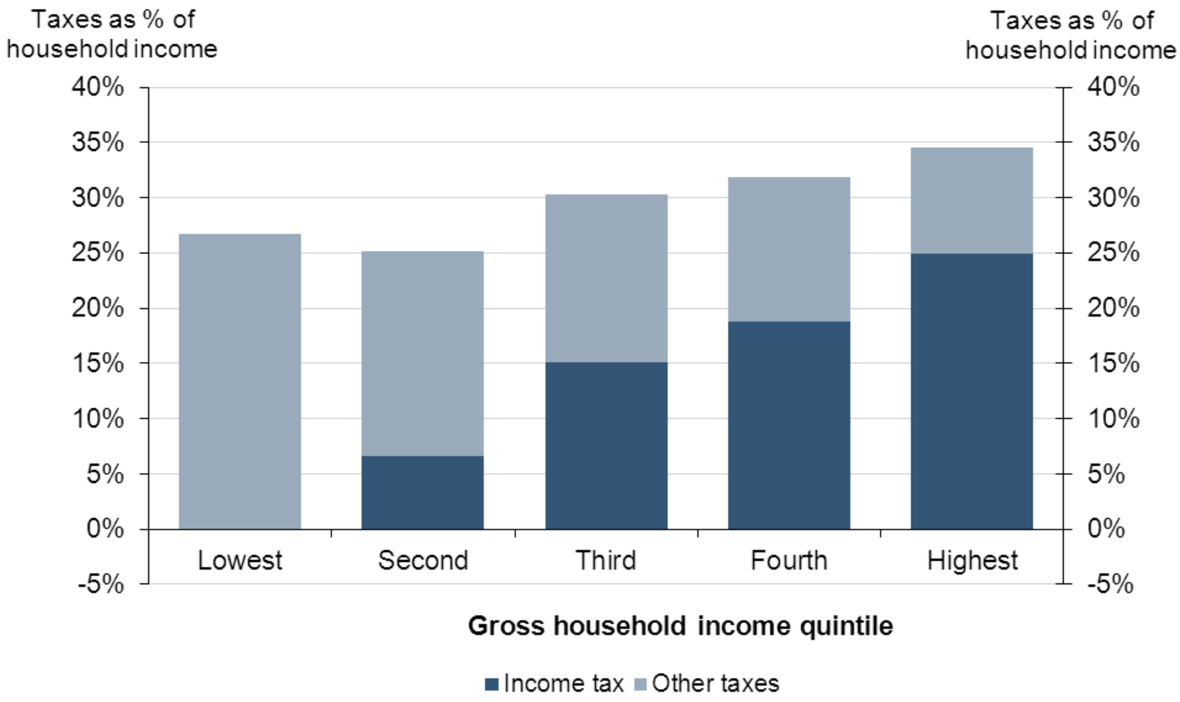
3.4 Who pays what? Taxes as a proportion of incomes

The personal income tax is the main source of progressivity in the tax system; many other taxes are proportional or regressive. The overall Australian tax system is only weakly progressive as a result.

[15] OECD 2010, *Revenue Statistics,* Tables 10, 16, and 20.

Households in the top 20% of the income distribution pay an average of 34.5% of their incomes in taxes; households in the bottom 20% pay 26.7%.[16]

Figure 8: Taxes as a proportion of income, by quintile (2003-04)



Source: ABS 6357.0

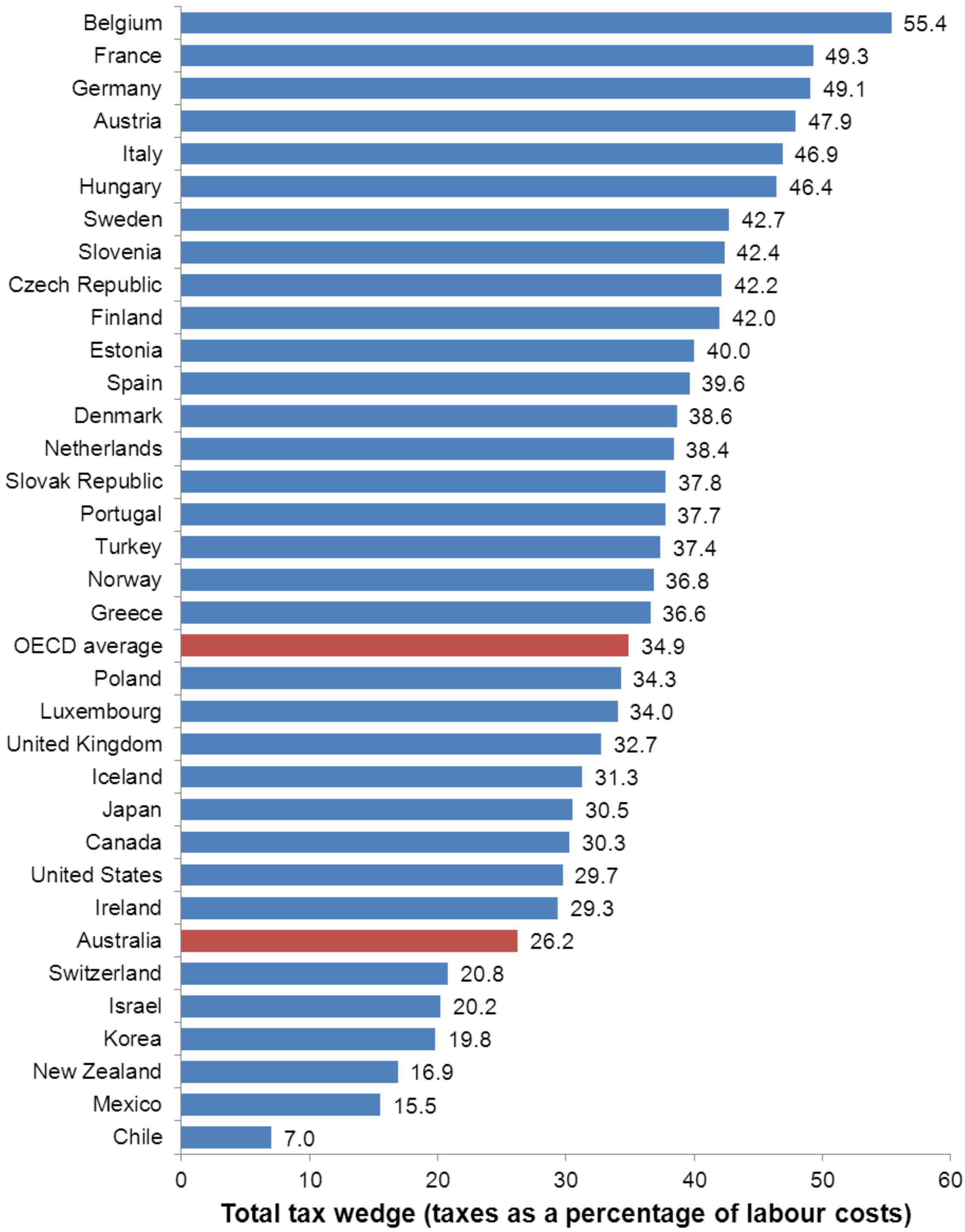
If more tax revenue is raised through consumption taxes or other indirect taxes, and less through personal income tax, it's likely that the overall system would become less progressive, or even become regressive. The personal income tax system must be strongly progressive, and must raise a significant portion of total tax revenue, if the system is to remain equitable. The role of the personal income tax system will be considered in more detail in a later discussion paper.

[16] ABS 2007, *Government Benefits, Taxes and Household Income, Australia, 2003-04,* Cat. No. 6537.0, Table 9.

3.5 Taxing work: the gap between what employers pay & what workers receive

It has been noted above that Australia is a low-tax country that taxes incomes relatively lightly. A result of this is that the "tax wedge", the difference between what employers pay for labour and what workers receive as take home pay, is lower in Australia than in most other developed countries.

Figure 9: Tax wedges in the OECD (2008)



Source: OECD[17]

[17] OECD 2010, *Taxing Wages 2009-10,* Table 0.1.

3.6 Explaining Australian distinctiveness

Part of the reason for Australia's low tax-to-GDP ratio is the nature of our social security system. Our system of pensions and allowances is highly progressive; it is means tested far more tightly than other countries' systems, so that social security spending is targeted at the poorest. We have the lowest level of 'middle class welfare' of any OECD country.[18] Although the system is progressive, it is also "particularly ungenerous" to payment recipients.[19]

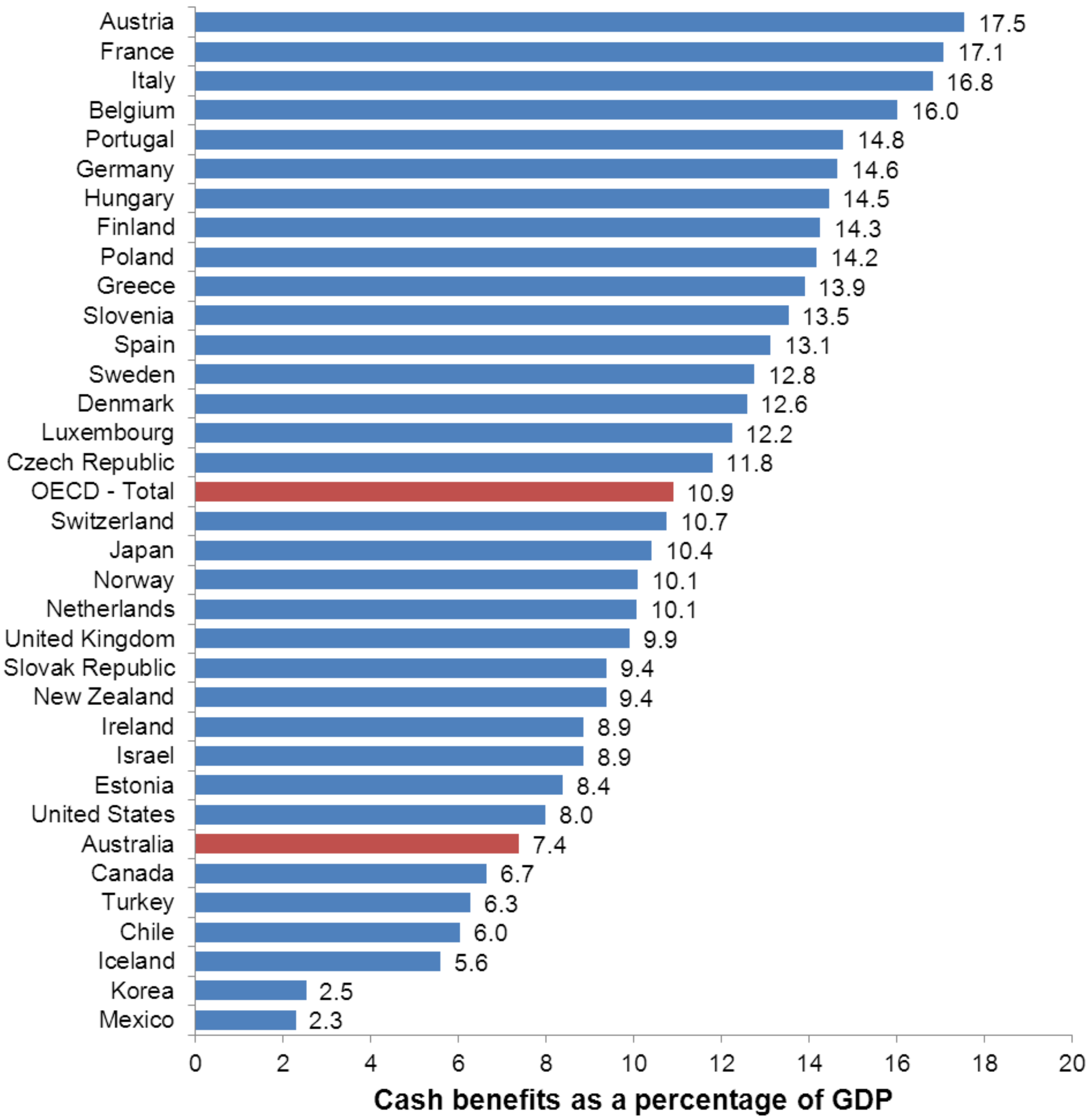
Australia spends around 7.4% of GDP on cash benefits, much lower than the OECD average of 10.9%, and lower even than the figure in the United States. Other countries such as New Zealand and the United Kingdom spend more on cash benefits than does Australia, as a proportion of GDP. This is shown in Figure 10. The notion that Australia is a generous welfare state is a pernicious myth that distorts the tax debate.

Australia is a low-tax country, with a tax system that has become less progressive and a benefits system that is relatively miserly. There is some evidence that Australians would like to see these facts change: to increase social spending and increase the progressivity of the tax system. This evidence is examined below.

[18] Whiteford, P. 2011, 'How fair is Australia's welfare state?' in *Inside Story,* 7 July. Available online: http://inside.org.au/how-fair-is-australia%E2%80%99s-welfare-state/ [Accessed 7 July 2011].

[19] Whiteford, P. 2010, 'The Australian Tax-Transfer System: Architecture and Outcomes', *The Economic Record,* vol. 86, no. 275, pp.538-544.

Figure 10: Cash benefits as a proportion of GDP: 2007



Source: OECD[20]

[20] OECD, *Social Expenditure Database.*

4. Australians' attitudes to taxation

The ACTU has commissioned an important new study by Professor David Neal and Dr Cassandra Govan of Empirica Research, Professor Mike Norton (Harvard University) and Professor Dan Ariely (Duke University). The study built on earlier work in the US by Norton and Ariely by examining Australians' perceptions of wealth inequality and public policy issues.

The study is based on survey research conducted in March 2011 with a representative sample of 1,000 Australian adults. Quota sampling ensured that sample demographics matched the Australian population defined by the latest Census data. Results were also segmented by political affiliation and personal wealth. Respondents were asked to think of Australian households as split up into five quintiles, ranging from the wealthiest quintile to the poorest quintile. Each of the five groups was described as including 20% of Australian households. Respondents were then asked four separate questions:

- To estimate what percentage of the total wealth of Australian households was actually owned by each of the five groups;
- To tell us how they think wealth ideally should be distributed across the five quintiles;
- To make a choice between three unlabelled pie charts: representing (a) the actual wealth distribution of Australian households (b) the ideal distribution of wealth from the US study and (c) a hypothetical "fully equal" society; and
- To make a choice between two unlabelled pie charts representing (a) the actual wealth distribution of Australian households (b) the wealth distribution of the United States.

The study found that Australia is much more unequal than people think it is and Australians strongly favour a more equal wealth distribution. Regardless of their personal wealth, respondents in the study favoured Australia becoming more equal than they perceive it to be, and much more equal than it actually is.

A white paper was released in May 2011, *Australian Attitudes Towards Wealth Inequality and the Minimum Wage,* which contained some of the findings of this study. This white paper also showed that 63% of respondents supported government action to reduce wealth inequality, with only 13% opposed. Regardless of political affiliation, Australians favour government action to reduce wealth inequality. The second paper arising from this study has been released along with this discussion paper. The paper includes information about Australians' attitudes to taxation. Respondents were asked to estimate the level of taxation at five income levels. They were also asked what they believed the level of taxation should ideally be at those levels. The study finds that

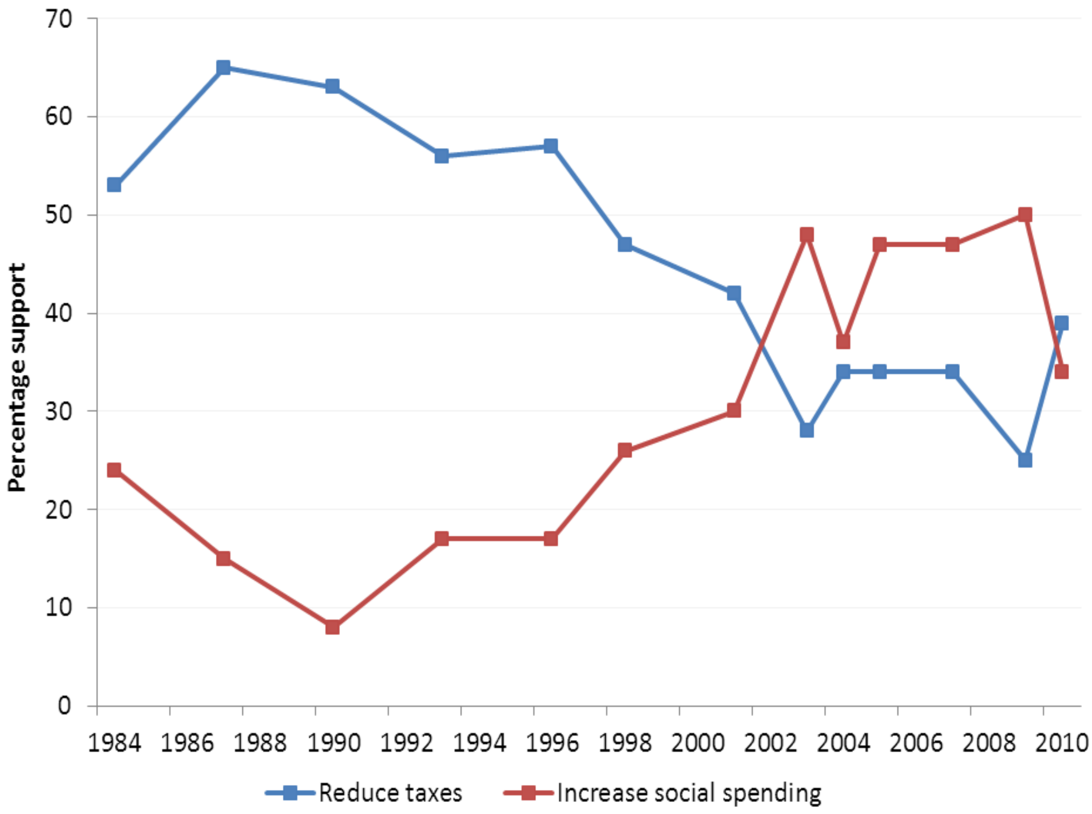
- "people consistently overestimate the tax paid within each level of taxable income";
- "people's ideal tax judgements... match the actual tax rates fairly closely";
- the ideal tax rate for high-income individuals is *higher* than the actual rate. This is not true for other income levels.

The key findings of the study are that Australians favour action to reduce inequality and favour a progressive tax system. These findings are consistent with a range of research on attitudes to tax and social spending.

4.1 Changing preferences: tax cuts vs. social spending

Australia is a low-tax country, and our tax-to-GDP ratio has remained stable since the mid-1980s. Yet surveys have repeatedly shown that many Australians favour social spending over tax cuts, and favour a more progressive tax system. Figure 11, below, collates the results of various surveys that asked Australians about their preferences for tax cuts or social spending.

Figure 11: Australians' preference for tax cuts and social spending



Source: Various surveys[21]

The proportion of Australians who express a preference for increasing social spending has risen strongly since the early 1990s, while the proportion of Australians who prefer tax reductions has fallen. At the very least, this should dispel the notion that Australians are inherently hostile to the idea of increased social spending, funded by taxation.

The notion that Australians' support for tax cuts has been declining, and support for social spending increasing, is consistent across a number of surveys. Of course, it's possible that some respondents profess to desire more social spending, yet bridle at the prospect of paying for it. However, there is no apparent reason why this difference between Australians' revealed and stated preferences should have been greater in 2010 than in the early 1990s.

Wilson and Breausch note that "during the 1980s and 1990s, Australian overwhelmingly favoured tax cuts. Quite understandably, Australia's two major political forces concentrated their fiscal and political energies on meeting the tax relief demand of the Australian public."[22] However, attitudes have changed as the desire for tax cuts has been satisfied. There is a danger that participants in public policy debate continue to behave as if the Australian public regards tax cuts as the priority for government.

The public debate about tax is still conducted as if we were stuck in the early 1990s, with a relatively high top marginal tax rate that applies at less than double average earnings, and an Australian public that strongly prefers tax cuts to social spending. Neither of these conditions continues to hold.

The preference for social spending over tax cuts cuts across class and politics; it is present both among people who identify as middle class, and those who identify as working class; or as Liberal-National voters, or as Labor voters, though in varying degrees.[23]

Of course, there remains — and will always remain — some Australians who support tax cuts even if it means reducing social spending (see Wilson 2006).24 However, it appears that this constituency has shrunk. The preference for social spending over tax cuts is not a niche opinion, it is mainstream.

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21 Data for 1984-2005 derived from National Social Science Survey 1984, 1990; Australian Election Study 1987, 1993, 1996, 1998, 2001, 2004; and the Australian Survey of Social Attitudes 2003, 2005, cited in Wilson, S. and Meagher, G., 2007 'Howard's Welfare State: How Popular is the New Policy Agenda', in Denemark, D.,Meagher, G., Wilson, S., Western, M., and Phillips, T. (eds.), *Australian Social Attitudes 2: Citizenship, Work and Aspirations*, UNSW Press, Sydney, pp.262-285.. Data for 2007 and 2010 derived from Australian Election Study, cited in McAllister, I. and Pietsch, J. 2011, *Trends in Australian Political Opinion: Results from the Australian Election Study 1987-2010,* Australian National Institute for Public Policy. Data for 2009 derived from the Australian Survey of Social Attitudes.

22 Wilson and Breusch 2004, 'After the tax revolt: Why Medicare matter more to middle Australia than lower taxes' in *Australian Journal of Social Issues,* vol. 39, no.2.

23 Wilson and Breusch 2004, op cit., p.105

24 Wilson 2006, 'Not my taxes! Explaining tax resistance and its implications for Australia's welfare state"

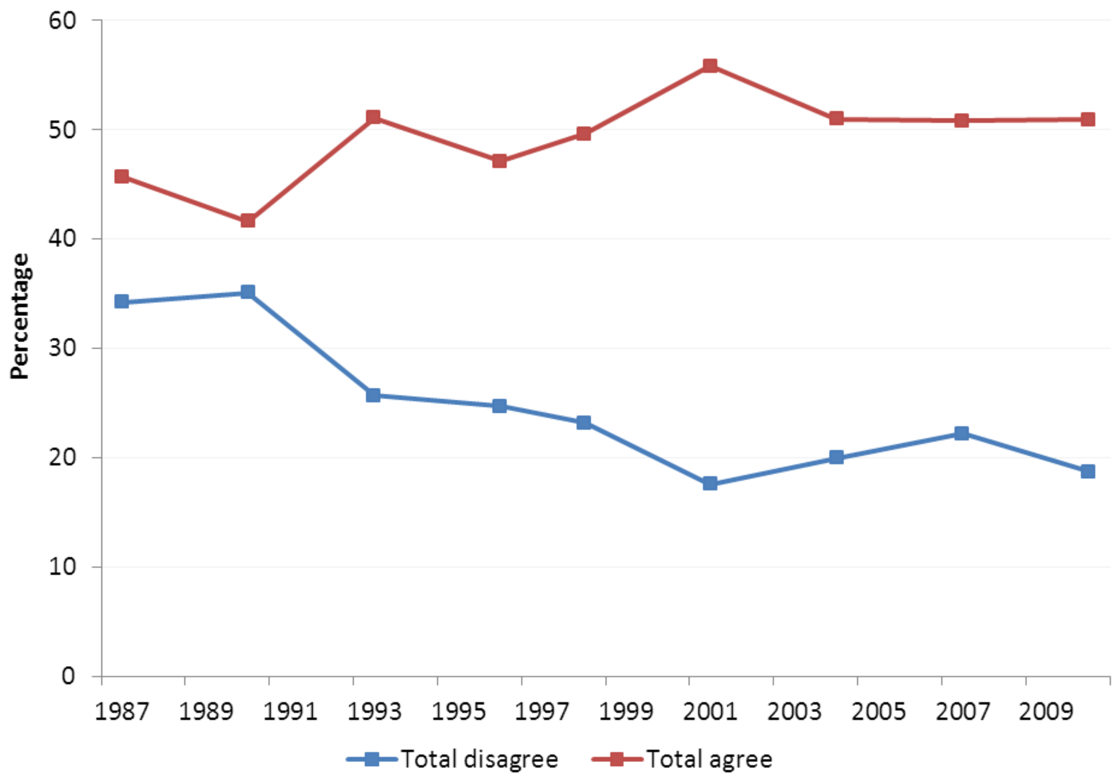
Australians wanted tax cuts in the early 1990s, and they got them (particularly at the top and very bottom of the income distribution). Society's preferences have changed; Australians' desire for tax cuts has softened over time, as shown in Figure 11.

Other studies give a finer-grained sense of Australians' attitudes towards tax issues. These are examined below.

4.2 What sort of tax system do Australians want?

Australians want to see income and wealth redistributed towards ordinary working people. The proportion of people who agree with this aim has increased over time. This is the finding of the Australian Election Study, conducted by academics from the Australian National University.

Figure 12: Proportion who agree that "income and wealth should be redistributed towards ordinary working people": 1987 to 2010



Source: Australian Election Study[25]

To achieve this redistribution towards ordinary working people, a range of research suggests that Australians favour a progressive tax system.

Researchers from the Centre for Tax System Integrity at the Australian National University have conducted a series of surveys into Australians' attitudes to a range of taxation issues. In their *How Fair, How Effective* survey, the researchers asked respondents about the tax cuts announced by the Howard

25 McAllister, I. and Pietsch, J. 2011, *Trends in Australian Political Opinion: Results from the Australian Election Study 1987-2010,* Australian National Institute for Public Policy.

Government in its 2005 budget. Approximately sixty per cent of respondents indicated that the Government should have spent more on social services and infrastructure rather than cutting taxes, while only 27.7% favoured tax cuts over spending.[26] Only 26.9% of people were in favour of paying less tax if it means receiving a more restricted range of goods and services from government.

Respondents were also asked to rate their satisfaction with the fairness of the Australian tax system on a seven point scale, with 1 indicating a complete lack of satisfaction, 7 indicating complete satisfaction, and 4 being a neutral midpoint. Around 62% of Australians responded that they were less than satisfied with the fairness of the system, while only 16.4% indicated that they were more satisfied than not.

Respondents were also asked if they were in favour of particular changes to policy. The results are summarised below:

Table 2: Attitudes to tax cuts for poor and rich

	In favour (%)	Not in favour (%)
Cutting income tax for the poor	81.9	7.5
Cutting income tax for the rich	16.3	71.1

Source: Braithwaite and Reinhart (2005)

In another survey, respondents were asked whether particular occupational groups pay their fair share of tax. The responses were on a seven point scale, but here have been collapsed to three categories[27].

Table 3: Attitudes to fairness of taxes for particular occupations

	Less than their fair share	Fair share	More than their fair share
Owner-managers of large companies	72.5	14.3	13.1
Senior judges and barristers	70.8	18	11.2
Chief executives of large corporations	79.2	9.7	11.2
Unskilled factory workers	6.3	33.3	60.4
Trades people	18.1	36.2	45.8
Farm labourers	9.2	34	56.7

Source: Braithwaite and Reinhart (2005)

26 Braithwaite, V. & Reinhart, M. 2005, *Preliminary Findings and Codebook: How Fair, How Effective Survey,* Working Paper 84, Centre for Tax System Integrity, Australian National University, Canberra, p.26. Available online: http://ctsi.anu.edu.au/publications/WP/84HFHE.pdf [Accessed 26/10/10].
27 Wenzel, M. & Murphy, T. 2002, *The What's Fair and What's Unfair Survey about Justice Issues in the Australian Tax Context,* Centre for Tax System Integrity, Australian National University, Canberra. Available online: http://ctsi.anu.edu.au/research/justice.codebook.pdf [Accessed 26/10/10].

These findings suggest that Australians believe that low and middle income earners pay their fair share, or more than their fair share, while high income earners do not.
A survey conducted by Per Capita confirms other research regarding Australians' attitudes to the progressivity of the tax system. They found that 95% of respondents believe that low-income earners and middle-income earners are taxed too much, while only 16% believe that high income earners pay too much tax.[28] According to Gregory and Hetherington:

> *These sentiments hold across age groups, income brackets, education levels and political party preference. Perhaps the most surprising feature of these findings is that even high income earners believe that the high income bracket and big businesses do not pay enough tax.*

These findings are unsurprising, as 82% of respondents in *the Australian Survey of Social Attitudes 2005* ('AuSSA') agreed that the gap between high incomes and low incomes is too large.[29] It is clear that Australians favour a tax system that is equitable, progressive, and raises adequate funds to deliver high-quality public services.

The desire for a more progressive tax system has been found by a range of researchers. Wilson, Spies-Butcher and Stebbing (2009) report the results of questions in the AuSSA 2005, in which respondents were asked to rank their priorities for tax policy.

Respondents were presented with a choice of four tax options and asked to choose their first priority and their second priority. The four options were:

- To give low-income workers a tax break so they keep more of their earnings (target tax);
- To reduce the amount of tax paid by all Australians (reduce tax);
- To prevent tax evasion and people cheating the tax system (enforce tax); and
- To collect enough taxes to improve public education and health services like Medicare that are available to all Australians (welfare tax).

Forty-two per cent of respondents chose the 'target tax' option as their first priority, the most commonly chosen response. Wilson, et al, suggest that this finding is consistent with the "traditional 'welfare objective' inherent in progressive taxation and the comparatively light taxation of poor Australians".[30] In other words, Australians' values remain oriented towards a progressive and redistributive tax system.

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28 Gregory and Hetherington 2010, *Per Capita Tax Survey: Public attitudes towards taxation and government expenditure.* Available online: http://www.percapita.org.au/01_cms/details.asp?ID=261 [Accessed 8 July 2011].
29 Wilson & Meagher 2007 op cit.
30 Wilson, et al. 2009, op cit, p.515

5. Conclusion

A tax system that accords with Australians' preferences will be progressive, redistributive, and raise adequate revenue to deliver high-quality public services. While there is no apparent appetite to become a high-tax country, it's still unclear that Australia's current tax system and the overall size of tax revenue truly reflects the society we aspire to be, as Dr Henry put it. Tax reform should move Australia towards the sort of society Australians want it to be: fairer, with more equal opportunities and high-quality public services.

Myths and realities

The tax system & attitudes to taxation

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