



RESEARCH NOTE

Number 21, 29 March 1995
ISSN 1323-5664

Income Tax on Average Earnings, 1966-67 to 1993-94

Introduction

This note illustrates how the taxation system has affected two types of income earners (or taxpayers) since the introduction of decimal currency. The aim is to examine what portions of annual income are paid in tax and how the two types of income earners compare.

Both groups comprise an individual income earner, on male average annual total earnings, with the first group being a single person without any deductions (ie with no dependants) and the second group being a family with deductions for a non-income-earning spouse and two dependent children. The family group also has family allowance deducted from the tax paid.

Taxation System

The income tax system has undergone many changes over the period of this analysis:

- concessional deductions were replaced in 1975-76 by tax rebates;
- items that can be rebated or deducted have been introduced, deleted or modified;
- additional levies (at a flat percentage of tax at the general rates) were in existence from 1966-67 to 1971-72;
- general tax scales have been amended 20 times; and,
- the Medicare Levy (a percentage of taxable income) has been in place since 1 February 1984.

Average Earnings

Average earnings are often criticised for being higher than the "average" employed person earns, but this measure is not supposed to be what the average person earns but rather the aver-

age of the earnings of persons (employees).

An important consideration in using average earnings is that it gives a consistent time series, thus eliminating potential distortions in using a combination of earnings series derived from different sources.

Male average total earnings is at such a level that, apart from family allowance, no other social security benefits can be claimed. This especially enables comparisons to be made more easily and clearly.

Results

The table overleaf shows:

- tax as a proportion of income has increased over time for both groups, with that for the single person increasing from 15.5% to 23.7% and for the family increasing from 5.9% to 16.0%;
- the increase has been much greater for the family than for the single person. The family is now paying nearly $2\frac{3}{4}$ times the proportion of income in tax than in 1966-67, while the single person is paying $1\frac{1}{2}$ times;
- in 1988-89, the peak year for tax (as a proportion of income), the family paid $3\frac{1}{3}$ times the percentage in 1966-67 compared with $1\frac{2}{3}$ times for the single person.
- the marginal tax rate has generally increased over the period: the family's from 22.1 cents in the dollar to 36.9 cents, the single person's from 27.8 cents to 36.9 cents. For both types the rate peaked at 47 cents in 1984-85 and 1985-86;
- the proportion of the family's tax to the single person's tax increased from 38% in 1966-67, peaked at over 75% in 1988-89

and had dropped back to 67% by 1993-94.

Conclusions

The gradual increase in tax as a proportion of income has predominantly been due to bracket creep whereby increases in income either move the income earner into a higher marginal tax bracket (ie the rate at which any extra income is taxed) or move a greater amount of income into the marginal tax bracket. This has had a more dramatic effect (see 1983-84 to 1984-85) as the number of tax brackets has decreased.

Until 1973-74 there were 29 brackets, these reduced to 14 in 1974-75, 7 in 1975-76 and 4 from February 1978. Since that time the number of brackets has varied, up to a maximum of 6.

The family group has also been affected by the long periods when the family allowance and the dependent spouse rebate (or similar concessional deductions) remained unchanged. This was especially so from 1967-68 to 1971-72 and from 1983-84 to 1988-89.

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