

# Australian Greens Dissenting Report

## Rationalising inequality: the logic of allowing millionaires to pay no tax

A country's tax system reflects a country's values and sense of equality. Ken Henry explained that:

The fairness of personal income tax is fundamental as an expression of societal values and is a prerequisite for people to be committed to the system and prepared to meet their obligations. There are two core elements to a fair system – a progressive tax rate structure and an appropriate definition of income.<sup>1</sup>

By this measure, Australia is failing. Effective income tax rates are becoming less progressive. And the definition of income – effectively, the subject of this inquiry – is more elastic the more money you earn.

This comes at a time when inequality is on the rise. There are multiple factors contributing to rising inequality, in particular stagnant wages growth and overpriced housing. But the ability of the tax system to act as a check on inequality has diminished. There is no starker evidence of this than the ability of the rich to claim personal income tax deductions far in excess of the cost of doing their job or the cost of any of their expenses that might benefit broader society.

In the 2014-15 tax year 48 people who earned more the \$1 million paid no tax. They were able to claim deductions that reduced their income from \$1 million down to below the tax free threshold of \$18,200.

This is patently absurd. It also appears to be perfectly legal. Yet the Committee's report sees no problem.

Instead, the report hides behind the proposition that individuals should be able to deduct any legitimate expenses. This logic is devoid from reality.

In a tax system based on self-reporting, with a labyrinthine set of available deductions, and where there is no limit on these deductions, rich people spend lots of money paying accountants to reduce the amount of tax they pay.

Table 1 shows that the more money people earn, the more they spend on accountants to reduce their taxable income, an expense which is itself tax deductible. This trend is particularly marked for very high income earners. Individuals earning more than \$1 million spend more than \$8,000 managing their tax affairs to achieve deductions averaging over \$120,000. This is nearly a 15-fold 'return on investment'.

Figure 1 shows the distribution of deductions across income percentiles, and again shows the ability of the very wealthy to reduce the amount of tax they pay. The

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<sup>1</sup> Australia's Future Tax System: Report to Treasurer – Part Two: Detailed Analysis, Vol. 1, December 2009

top 1% of income earners, people earning more than \$326,000 a year, deduct 6 times more than what those earning an average wage of around \$80,000.

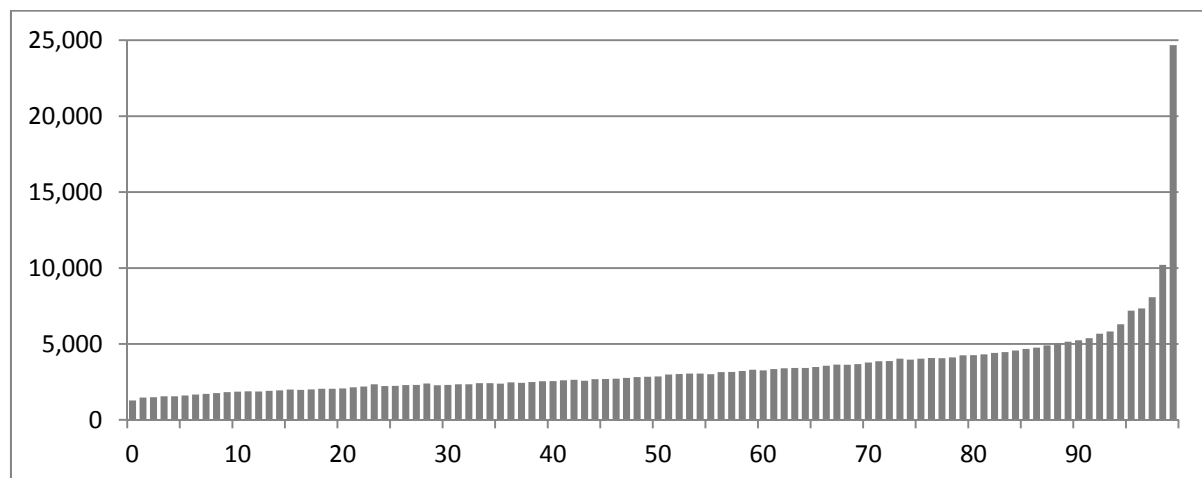
This is not fair. This is a rort.

**Table 1: Cost of managing tax affairs by income band, 2014-15<sup>2</sup>**

Income band	Cost of managing tax affairs
Less than \$0	\$186
\$0	\$64
\$1 to \$6,000	\$142
\$6,001 to \$10,000	\$55
\$10,001 to \$18,200	\$60
\$18,201 to \$25,000	\$80
\$25,001 to \$30,000	\$101
\$30,001 to \$37,000	\$113
\$37,001 to \$40,000	\$121
\$40,001 to \$45,000	\$128
\$45,001 to \$50,000	\$133
\$50,001 to \$55,000	\$141
\$55,001 to \$60,000	\$150
\$60,001 to \$70,000	\$161
\$70,001 to \$80,000	\$175
\$80,001 to \$90,000	\$195
\$90,001 to \$100,000	\$216
\$100,001 to \$150,000	\$277
\$150,001 to \$180,000	\$393
\$180,001 to \$250,000	\$539
\$250,001 to \$500,000	\$1,101
\$500,001 to \$1,000,000	\$2,285
\$1,000,001 or more	\$8,116

<sup>2</sup> ATO Tax Statistics 2014-15: Individuals - Table 10A

**Figure 1: Total deduction by income percentile, 2014-15<sup>3</sup>**



**High income tax guarantee: time for a Buffet rule**

The Buffet Rule is named after Warren Buffet, one of the world’s wealthiest investors who called for an income tax guarantee after discovering that he paid less tax than his secretary.

The Australian Greens believe it is time for a Buffet rule in Australia. Before the last election, the Parliamentary Budget Office (PBO) costed a policy that would put a limit on deductions that the top 1% of income earners can claim. By effectively requiring a minimum 35% on gross income, the PBO estimated that a high income tax guarantee would raise \$7.3 billion over the forward estimates.

A Buffet rule would help address inequality, would help the budget bottom line, and would be step towards restoring Australia’s reputation as place where everyone gets a fair go.

**Recommendation: The amount of deductions available to the top 1% of income earners, by gross personal income, be limited such that they pay the top marginal tax rate for every dollar earned above this threshold.**

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<sup>3</sup> ATO Tax Statistics 2014-15: Individuals – Table 16: Percentile distribution of taxable individuals, by percentile distribution on taxable income and gender