Anglicare Australia
in every Community

Submission to the Inquiry into Australia's Taxation System

October 2024

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About Anglicare Australia

Anglicare Australia is a network of independent local, state, national and international organisations that are linked to the Anglican Church and are joined by values of service, innovation, leadership and the Christian faith that every individual has intrinsic value. Our services are delivered in partnership with people, the communities in which they live, and other like-minded organisations in those areas. With a combined income of $2.19 billion, a workforce of over 20,000 staff and 5,600 volunteers, the Network delivers more than 50 service areas in the Australian community. Our services are delivered to over 500,000 people and reach close to 1.17 million Australians in total. In all, Anglicare services reach almost one in every twenty Australians.

As part of its mission the Anglicare Australia Network partners with people, families and communities to provide services and advocacy and build resilience, inclusion and justice. Our first strategic goal charges us with reaching this by influencing social and economic policy across Australia with a strong prophetic voice; informed by research and the practical experience of the Network.

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Introduction

Anglicare Australia welcomes the opportunity to make this submission to the Senate Standing Committee on Economics (the Committee) Inquiry into Australia's Taxation System (the Inquiry). The Inquiry offers a timely opportunity to explore Australia's tax policy settings, and how they may be contributing to a growing wealth divide.

The impacts of our tax policy settings can be profound. A system that is unbalanced can serve to widen the wealth gap, limit opportunities for people from less wealthy backgrounds, and entrench intergenerational poverty. This in turn erodes trust in institutions and undermines social cohesion.

Anglicare Australia's submission draws extensively on our recent *Widening the Gap* report,[i] exploring the changing distribution of wealth over the past two decades and the role that tax settings have played in widening the wealth gap. The data shows that wealth inequality has grown significantly, with the wealthiest Australians now holding 90 times the wealth of those with the least.

These changes are the direct result of tax settings that have supported some to build wealth while making it more difficult for others to get ahead. The biggest contributors to the widening of Australia's wealth inequality gap have been tax concessions that boost superannuation assets for the wealthiest households, and those that promote investment in property.

Anglicare Australia calls on the Committee to support major changes to the way housing investments are taxed to stop the public from underwriting investment profits, and return a greater benefit to the public from these investments. We also call for reforms to improve fairness in the tax treatment of retirement incomes and incomes from financial assets.

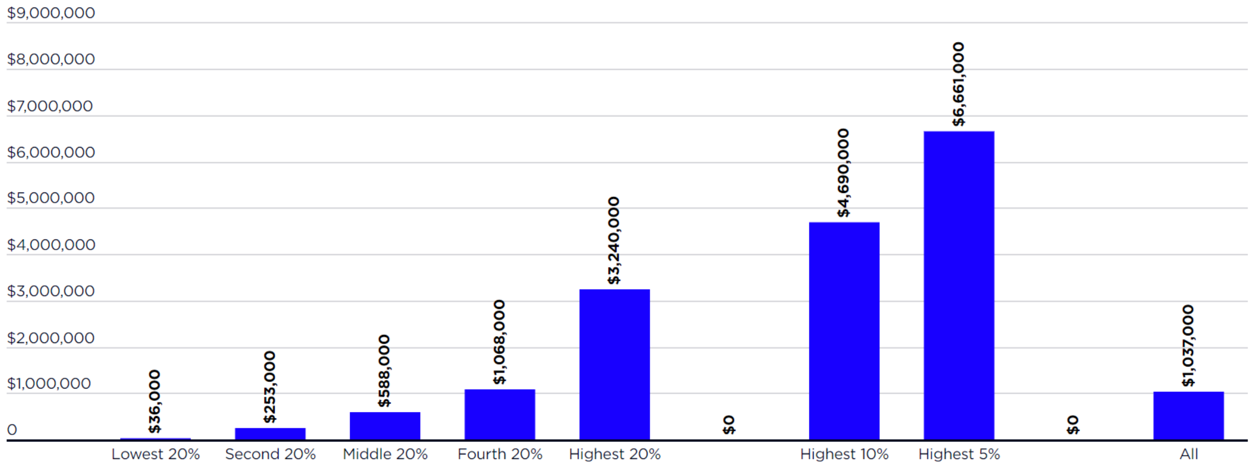
The widening of Australia's wealth inequality gap is not inevitable. This Inquiry has opportunity to show how our systems can be rebalanced to support those who need it most, instead of those who need it least.

Trends in wealth inequality and implications for the tax system

As Anglicare Australia's recent *Widening the Gap* report has shown, the disparity between the wealthiest Australians and those with the has widened significantly over recent decades. As the distribution of wealth becomes increasingly skewed, it is essential to explore the role of tax settings in shaping economic outcomes and trends.

Data from the Australian Bureau of Statistics (ABS) Australian National Accounts Distribution of Household Income, Consumption and Wealth series shows that wealth is very unevenly distributed (Figure 1).[ii] As of 2019-20, the average wealth of the highest 20 percent of wealth-holders was $3,240,000. This is over five times that of the middle 20 percent, who had a more modest $588,000, and 90 times the wealth of the lowest 20 percent with just $36,000.

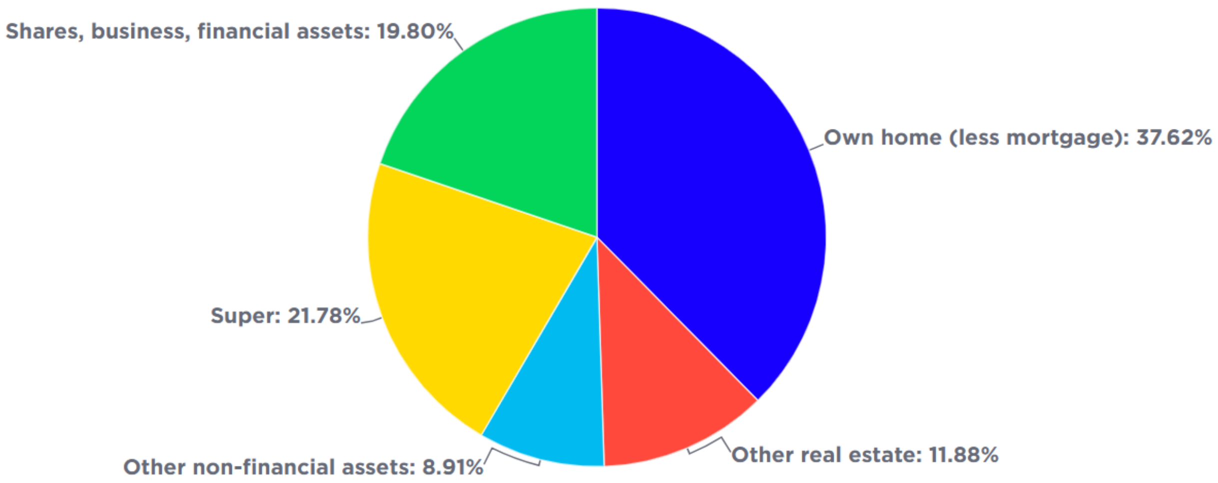
Figure 1. Average household net wealth by wealth group ($000 in 2019-20)



Further data from the ABS Survey of Income and Housing shows that this wealth is overwhelmingly held in housing and superannuation assets (Figure 2).[iii] 38 percent of household wealth is held in owner-occupied housing, twelve percent in investment property, and 22 percent in superannuation. These areas have been subject to major tax policy changes over recent decades, with negative gearing tax concessions formalised in 1987 and Capital Gains Tax discounts introduced in 1999, with the latter widely thought to fuel the uptake of the former.[iv] Australia's system of compulsory superannuation came into effect in 1992, and in the years since, concessions and benefits for those who build high superannuation balances have steadily grown.[v]

A further 20 percent of wealth holdings are in financial assets such as shares, bonds, bank accounts, and trusts. The growth of investment in shares can be traced to the sale of several large public service providers in 1980s and 1990s, which turned ordinary customers of institutions such as the Commonwealth Bank of Australia, NRMA and Telecom (now Telstra) into shareholders.[vi] These shares have since greatly increased in value, giving some households with a stake in Australia's most valuable companies and adding to intergenerational wealth inequities. The tax treatment of trusts, another key component within this category, is also known to be highly favourable. The remaining nine percent of wealth is held in non-financial assets, such as cars and furniture.

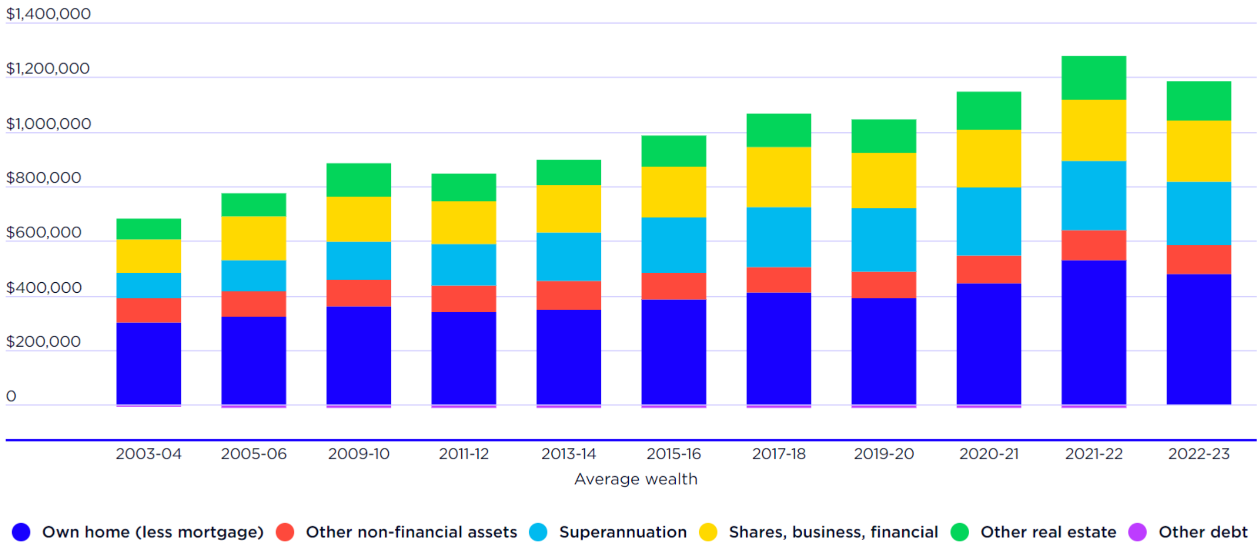
Figure 2. Composition of household wealth (percentage of all wealth in 2019-20)



In exploring the drivers of these trends, the data show that from 2003 to 2022, the overall value of household wealth almost doubled from $676,000 to $1,177,000 (Figure 3).[vii] This increase has been led by growth in the value of superannuation, financial investments, and investment property. In examining the trend data, we see that:

- The average value of household superannuation assets rose by 155 percent from $92,000 to $234,000
- The average value of investment property rose by 99 percent from $74,000 to $147,000
- The average value of shares and other financial assets rose by 76 percent from $125,000 to $220,000
- For the largest asset, owner-occupied housing, there was a 58 percent increase from $302,000 to $479,000.
- For other non-financial assets, there was a 20 percent increase from $88,000 to $106,000.

Figure 3. Trends in average real household wealth by type from 2003-04 to 2022-23



The data shows that the wealth inequality gap in Australia is widening, with a growing divide between the wealthiest cohort of Australians and the bottom four quintiles. This disparity has been growing steadily, fuelled by housing and superannuation policies that disproportionately benefit the already wealthy.

Tax concessions aimed at investors have allowed the wealthy to accumulate more property assets and wealth. Superannuation concessions also offer significant tax breaks on contributions and earnings, primarily benefiting higher-income earners who can contribute more to their retirement hey savings. Anglicare Australia has previously shown that these tax concessions cost the budget more than welfare payments, with more than half of the benefits of these tax concessions going to the wealthiest fifth of households. This compares with about three percent to the bottom fifth of households.[viii]

Areas for tax reform

In tracing our findings to major policy developments, Anglicare Australia has identified four areas for reform. These recommendations are aimed at rebalancing our system, and our national conversation, to reduce inequality and promote economic security for those who need it most. They are also aimed at remedying the role played by Federal Government policy over recent decades, and can be pursued alongside other measures such as wealth and inheritance taxes.

Reforming taxes on housing investments

Australia's growing levels of wealth inequality have both fed and been exacerbated by our housing affordability crisis, which impacts people on lower incomes who rent their homes. A major cause is a tax system which privileges speculative investment in housing and other assets that increase in value over more productive investments.[ix] Over the past two decades, negative gearing and Capital Gains Tax concessions have played a key role in shaping these economic inequalities and fuelling housing costs.[x]

Capital Gains Tax is levied on the profit made from selling an asset, such as real estate. Since 1999, there has been a 50 percent discount on Capital Gains Tax for assets held for over a year, effectively halving the tax rate on long-term investments.[xi] The Capital Gains Tax discount disproportionately benefits wealthy individuals who can afford to hold assets long enough to realize substantial capital gains. This discount significantly benefits those with substantial investment portfolios, as it reduces the tax they pay on income from profits.[xii] This further entrenches wealth inequality by providing Government support for the wealthy to grow their assets.

The introduction of the Capital Gains Tax discount has also fuelled the uptake of negative gearing tax deductions.[xiii] Negative gearing is a tax strategy where property investors can deduct the cost of owning an investment property including interest on loans, maintenance, and other expenses from their taxable income. This allows investors to offset property losses against their other income, reducing their overall tax burden. This practice predominantly benefits high-income earners, who are more likely to invest in property and use negative gearing to lower their tax liabilities. These concessions have combined to make it more attractive to invest in property.

As with the Capital Gains Tax discount, the primary beneficiaries of negative gearing tax deductions are typically wealthy individuals who can afford to invest in multiple properties. This tax advantage increases their wealth while offering little benefit to lower-income earners, thereby exacerbating inequality.[xiv] The tax concessions disproportionately favour those who already have substantial resources, widening the economic divide between the wealthy and the rest of the population.

By providing incentives for property investment, both of these concessions drive up property prices. Investors, driven by potential tax savings, contribute to increased demand for real estate, which in turn inflates housing prices.[xv] By providing financial support to investors who can outbid owner-occupiers, these concessions have made home ownership increasingly inaccessible for first-time buyers and lower-income Australians.

Anglicare Australia has previously shown that more than half of the foregone revenue from negative gearing goes to the top 20 percent, while just 6.2 percent goes to the bottom quintile.[xvi] Similarly, more than 80 percent of the savings from the capital gains tax concession go to the wealthiest quintile, and just two percent to the bottom 20 percent.[xvii] Not only would reforming these concessions address growing wealth inequality, but it would end a major transfer of public support to the wealthiest Australians.

Recommendation: Taxing housing investments equitably
Anglicare Australia proposes phasing in a regime of tax reform to tax housing investments more fairly and equitably.

As part of these reforms, the Capital Gains Tax discount would be incrementally reduced over the next ten years. This incremental approach would guard against concerns about the impact of the reform on housing markets.

Negative gearing should be used target investment in social and affordable housing. The current negative gearing arrangements should be phased out for new investors and limited to those who invest in social housing.

These tax reforms should be accompanied by a reset of policy settings which provide inequitable benefits to those with existing wealth and assets. There are several options for review and reform which could raise revenue and promote equality. For example incentives to downsize, introduced in the 2017 Federal Budget, could be abolished. In practice these simply deliver a tax break for high income earners with high marginal tax rates earning income from property sales.

Promoting fairness in retirement

Security in retirement depends on pensions that prevent poverty and fair superannuation that cushions the loss of income from employment. On both of these measures, Australia's tax system is failing to deliver fair outcomes. The tax treatment of superannuation is too generous for people with high incomes and inequitable for people on low incomes. This entrenches inequality in retirement and reduces the funding available for quality aged care and income support. Notably, tax concessions for superannuation cost $48 billion in 2023, almost as much as Age Pensions at $55 billion.[xviii]

People on low and modest incomes receive little or no support from tax concessions for superannuation contributions. A worker earning $30,000 annually receives no tax support for employer contributions while another worker on $200,000 annually saves 32 cents in tax per dollar contributed. This is a result of the way their marginal tax rates interact with the flat 15 percent tax on employer contributions.[xix] People earning less than around $30,000 annually generally receive no tax benefit from super contributions, since their incomes are too low to pay income tax and the Low Income Superannuation Tax Offset merely offsets the 15 percent tax deducted from their employer contributions.[xx] In all, Anglicare Australia has found that 58 percent of the cost of these concessions benefits the wealthiest 20 percent of Australians, with 0 percent benefiting the bottom 20 percent.[xxi]

Anglicare Australia believes the flat 15 percent superannuation contributions tax should be replaced with a refundable rebate that provides the same or greater support for each dollar of contributions for people with low incomes as that provided to middle- and high-income-earners.

The rebate should be fully funded by taxing contributions at each person's marginal tax rate and lowering the annual cap on concessional contributions from $25,000 to $15,000, reducing tax concessions for people with high incomes. There should be no concessions for 'catch-up contributions' above the annual cap. This proposal is more generous for compulsory contributions for middle-income- earners than the present 15 percent tax rate, meaning most middle-income-earners would be financially better off.

Recommendation: Fairer tax treatment of superannuation
Anglicare Australia recommends implementing fairer and simpler tax concessions for superannuation contributions. All tax concessions for superannuation contributions, including the 15 percent employer contributions tax rate, deductions for contributions, and rebates for contributions by low-income earners and for spouses, should be replaced by an annual refundable rebate paid into the fund, capped at a contribution level sufficient to support an acceptable retirement income for a typical worker.

The annual non-concessional contributions cap should be reduced to three times the concessional cap, and people should no longer be able to make up to three years' contributions within the cap in a single year. The exception to the general prohibition on direct borrowing by super funds for limited recourse borrowing by self-managed funds should be removed.

Reforming the tax treatment of investments and shares

Our findings show that holdings in shares, trusts and other financial assets have grown over the last twenty years. While this can be a symptom of wealth inequality, with people who accumulate wealth choosing to build and reinvest it, it can also be a driver of inequality. Australia's tax settings allow for many of these financial assets to be used strategically to minimise tax obligations, meaning that the public underwrites this wealth accumulation without receiving a share of the benefit. For example, some high-income earners use franking credits from dividend payments to offset their tax liabilities. Wealthy individuals also employ tax-efficient investment structures, such as family trusts, which allow for income splitting and concessional tax rates.

In theory, dividend imputation exists to ensure that payments to shareholders are not subject to double taxation. Imputation credits were introduced in 1987 to prevent tax being paid twice on company profits and dividends. These credits allowed shareholders to reduce their income tax when companies paid them dividends on their shares.[xxii]

People who earn income from paid work typically use imputation credits to offset their personal income tax liabilities. This means that they use imputation credits to pay less tax, but don't receive a cash refund. This system was later changed to give cash refunds to people who don't pay any income tax. Since 2000, individuals and superannuation funds have been able to claim cash refunds for any excess imputation credits. Recipients of these cash refunds are typically wealthier retirees who aren't paying income tax.[xxiii] These are people who typically own their own home and have other tax-free superannuation assets.

Australia is the only country with a fully refundable dividend imputation system. Refundable tax credits are an anomaly in the Australian tax system, as most tax concessions in Australia are non-refundable tax offsets.

Anglicare Australia calls on the Committee to support reforming dividend imputation to end tax loopholes that benefit wealthy Australians, ending the practice of paying cash refunds for people who have managed to reduce their tax rate to zero and pay no income tax.

Recommendation: Ending cash refunds for high-wealth investors
Anglicare Australia recommends reforming dividend imputation to end tax loopholes that benefit wealthy Australians, ending the practice of paying cash refunds for people who have managed to reduce their tax rate to zero and pay no income tax.

Curb personal tax avoidance through private trusts and companies

Australia has a two-class tax system where some people have the financial means to access generous deductions and subsidies to lower their tax, and others do not. Trusts can be legitimately used by individuals and businesses for several reasons, including asset protection. However, discretionary trusts also have attractive tax advantages and are used by high-wealth households to minimise their tax obligations.

Private trusts, especially discretionary trusts, are used to avoid income tax by splitting income with a family member, delaying or avoiding payment of Capital Gains Tax, and by passing on the benefits of investment tax breaks from the trust to its beneficiaries.[xxiv] Research from Anglicare Australia has previously estimated that the foregone revenue from discretionary trusts is entirely received by the wealthiest 20 percent of Australians, although the lack of transparency around these arrangements means that it is difficult to calculate precisely the lost tax revenue from discretionary trusts based on available data.[xxv]

Although the policy intention is that any income that is not taxed in the hands of beneficiaries is instead taxed in the hands of the trust, this is not consistently applied. Private trusts and companies are also used to evade tax and launder money by shifting funds through complex chains of entities or to 'tax havens' such as Panama, Bermuda, or Switzerland.

One way to curb tax avoidance through discretionary trusts is to apply Capital Gains Tax to untaxed or concessionally taxed income of private discretionary trusts when it is distributed to beneficiaries. Currently, these distributions do not attract Capital Gains Tax, including where capital gains are realised through asset revaluations within the trust. This would bring the tax treatment of discretionary trusts into alignment with fixed trusts, and help to curb tax avoidance. Anglicare Australia's proposed changes would apply to private express trusts, including fixed and discretionary trusts.

Private companies are also widely used to avoid tax, often in conjunction with discretionary trusts. These arrangements take advantage of the gap between the top marginal rate of personal income tax and the company tax rate. The use of 'cashbox companies' to avoid personal income tax by retaining income in a private company should be curbed by taxing retained earnings in private companies at the top marginal personal tax rate. This tax treatment would also apply to private trusts taxed as companies.

This approach is well-targeted to address tax minimisation through income splitting and would only apply to discretionary trusts. It would exclude special disability trusts, deceased estates, farm trusts, and charitable and philanthropic trusts.

Recommendation: Closing tax loopholes for trusts and companies
Anglicare Australia recommends applying Capital Gains Tax to untaxed and preferentially-taxed distributions to the beneficiaries of closely-held discretionary trusts, including distributions arising from asset revaluations.

Anglicare Australia further recommends that the income retained in private companies, apart from a reinvestment allowance for companies engaged in active business, be taxed at the top marginal rate of personal income tax plus Medicare Levy.

Conclusion

Inequality has been growing across Australia for years, challenging our notions of being an egalitarian country. This Inquiry represents a timely opportunity to shed light on why, and to explore how Australia's tax system exacerbates these trends.

Instead of using policy levers to promote opportunity and reduce inequality, Australian governments have created a system that supports the wealthiest Australians to further build their wealth and minimise their taxable income. Increasingly, Governments have chosen to redistribute concessions and tax breaks to those who need it the least. These decisions have supported some to build wealth while making it more difficult for others to get by. The biggest contributors to the widening of Australia's wealth inequality gap have been tax settings that boost superannuation assets for the wealthiest households, and those that promote investment in property.

The consequences of Australia's widening wealth gap, and the tax settings that have fuelled it, are wide-ranging. When resources and power are concentrated in fewer hands, cycles of poverty can become entrenched for people at the bottom. As more Australians lose confidence in these systems, communities become more polarised and social cohesion is diminished.

Australia has the opportunity to address these issues by rebalancing our systems. Anglicare Australia calls on the Committee to support major changes to the way housing investments are taxed, reforms to improve fairness in retirement incomes, fairer treatment of incomes from financial assets, and economic security for people on low incomes.

Our hope is that the findings from Inquiry address Australia's growing divide by supporting tax structures that promote equity, foster genuine opportunity for all Australians, and create a more inclusive economy that benefits the whole community.

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[i] Anglicare Australia (2024) Widening the Gap. Australia Fair series.

[ii] Ibid.

[iii] Ibid.

[iv] The Australia Institute (2015) Top Gears: How negative gearing and the capital gains tax discount benefit the top 10 percent and drive up house prices.

[v] Parliamentary Library of Australia (2014) Major superannuation and retirement income changes in Australia: a chronology.

[vi] ASX (2014) The Australian Share Ownership Study.

[vii] Ibid.

[viii] Anglicare Australia (2023) A Costly Choice: Tax cuts, concessions, and widening inequality.

[ix] Everybody's Home (2024) Written Off: The high cost of Australia's unfair tax system.

[x] Ibid.

[xi] Op cit: The Australia Institute (2015).

[xii] Op cit: Anglicare Australia (2023).

[xiii] Ibid.

[xiv] Op cit: Anglicare Australia (2023).

[xv] Op cit: Everybody's Home (2024).

[xvi] Op cit: Anglicare Australia (2023).

[xvii] Ibid.

[xviii] Ibid.

[xix] Based on advice from the Australian Taxation Office.

[xx] Ibid.

[xxi] Op cit: Anglicare Australia (2023).

[xxii] Parliamentary Budget Office (2024) Dividend imputation and franking credits.

[xxiii] Ibid.

[xxiv] Op cit: Anglicare Australia (2023).

[xxv] Ibid.