



The Australia 'low taxing country' myth

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Executive summary

- Australia has become one of the highest taxed countries in the world.
- With the imposition of the deficit levy Australia's top rate of personal income tax has increased to up to 50.5 per cent, making it one of the highest marginal income tax rates in the developed world.
- Claims that Australia is a low tax country are undermined by the exclusion of the likes of compulsory superannuation from official OECD statistics.
- Adding in compulsory super and health insurance mandates raises Australia's tax-to-GDP ratio from 26.5 per cent, as reported by the OECD, to 32.2 per cent in 2011.
- Comparing Australia's tax burden to the OECD average is also misleading, given the massive variations in economic size of different countries and our diversifying trading relationship towards the Asia-Pacific region.
- Adjusting the OECD-average tax-to-GDP ratio for economic size and trade reduces it to about 30-31 per cent of GDP, belying the claims that Australia is a low taxer.
- Australia's regime of direct taxes are very highly progressive by international standards, meaning that relatively few taxpayers are paying for the bulk of this tax burden whereas others are much less exposed to the cost of funding government.
- It will especially important that Australia avoids the policy clamour for higher taxation in the future, which would only weaken our economic potential and impair future living standards.

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Introduction

To understand the nature and extent of our economic and financial problems, we need clear and accurate information about the present situation in which we find ourselves.

The need for appropriate information about the Australian tax burden is arguably one of the more pressing issues today - with the Abbott government already having imposed a rise in tobacco excises, a 'deficit levy' and NDIS levy on personal income tax, the return of fuel excise indexation and, now, raising the spectre of a heavier GST burden.

The policy impetus towards higher taxation in Australia regrettably plays into the hands of those groups long urging Australia to accept the 'inevitability' of more taxes to pay for even more public sector spending.

The underlying presumption of recent taxation reviews, most prominently that conducted by former Treasury Secretary Ken Henry, is that the opportunity for expenditure reductions is, at best, minimal and, in the face of fiscal pressures associated with ageing, globalisation and other factors, Australia has little option but to lift tax burdens into the future. In a January 2010 speech Henry opined:

'the tax system needs to be prepared for the probability that, in order to finance the government-provided goods and services demanded by the community, revenue needs will grow strongly in the longer term.'¹

Others have tried to lend support to this line of thinking by asserting that Australia is a 'low taxing country.' These arguments tend to be prosecuted by groups with an interest in promoting a larger public sector in this country:

- the Australian Council of Trade Unions (ACTU) claimed 'Australia is a low tax country, with a tax-to-GDP ratio below almost all other developed countries' ratios. ... Australia has a lower tax-to-GDP ratio than all but five of the 33 countries that are included in the OECD tax statistics.'²
- the Australian Council of Social Services (ACOSS) stated that 'revenue is a problem, we're still one of the lowest taxing countries in the OECD ... despite what the rhetoric is and we need to be strengthening the tax base.'³
- the Australia Institute, in conjunction with the Australia21 group, suggested 'Australia has one of the lowest rates of taxation as a proportion of GDP of all OECD countries. The Australian average has been below the OECD average for the last 30 years.'⁴

¹ Ken Henry, 2010, 'Changing Taxes for Changing Times', Speech to Australasian Tax Teachers Association, 21 January.

² ACTU, 2011, *Myths and Realities: The tax system and attitudes to taxation*, p. 8.

³ 'Low income earners brace for expected budget cuts', 29 April 2014, <http://www.abc.net.au/am/content/2014/s3993869.htm>.

⁴ Bob Douglas, Sharon Friel, Richard Denniss and David Morawetz, 2014, *Advance Australia Fair? What to do about growing inequality in Australia*, p.18.

But is Australia *really* a low tax country? Are Australians simply in error or, worse still, attempting to free ride off other taxpayers when they complain about the pressing burdens of what they describe as ‘high taxes?’

Answering these questions, by statistically assessing the extent of the Australian taxation burden compared against other countries, represents the key objective of this paper.

When comparing ‘like for like’ taxation burdens, accounting for the economic diversity among OECD-member countries and strength of our trading relationships, and considering the competitive global taxing environment in our region and further afield, we find that Australia imposes a burden of taxation at slightly above the OECD average. This puts us, in a broader global perspective, among the top bracket of highest taxing countries in the world.

1. Why published OECD statistics are unhelpful in comparing international tax burdens

1.1 The OECD regards Australia as a 'low taxer'

Groups asserting the case for greater tax burdens on the Australian public invariably cite headline data from annual releases of the OECD's *Revenue Statistics* publication. The commonplace measure of average taxation burden is the amount of tax collected, by all levels of government, expressed as a share of gross domestic product (see Table 1).

Looking at the figures for 2011 (the latest made available by the OECD), it is clear that the Australian tax-to-GDP ratio of 26.5 per cent is considerably lower than the unweighted OECD average of 34.1 per cent. It is on this basis that the claims are usually made that Australia is a 'low tax' country, and we are the fifth-lowest taxing economy behind Mexico (19.7 per cent), Chile (21.2 per cent), United States (24 per cent), and South Korea (25.9 per cent).

Table 1: Total taxation revenue as percentage of gross domestic product (unadjusted figures), all OECD members

	1965	1975	1985	1995	2000	2007	2009	2010	2011	2012 provisional
Australia	20.7	25.4	27.8	28.2	30.4	29.7	25.8	25.6	26.5	n.a.
Austria ¹	33.9	36.7	40.9	41.4	43.0	41.8	42.4	42.2	42.3	43.2
Belgium	31.1	39.4	44.3	43.5	44.7	43.6	43.1	43.5	44.1	45.3
Canada	25.2	31.4	31.9	34.9	34.9	32.3	31.4	30.6	30.4	30.7
Chile	..	..	..	18.4	18.8	22.8	17.2	19.5	21.2	20.8
Czech Republic	..	..	..	35.9	34.0	35.9	33.8	33.9	34.9	35.5
Denmark ¹	30.0	38.4	46.1	48.8	49.4	48.9	47.8	47.4	47.7	48.0
Estonia	..	..	..	36.3	31.0	31.4	35.3	34.0	32.3	32.5
Finland	30.4	36.6	39.8	45.7	47.2	43.0	42.8	42.5	43.7	44.1
France ¹	34.2	35.5	42.8	42.9	44.4	43.7	42.5	42.9	44.1	45.3
Germany ²	31.6	34.3	36.1	37.2	37.5	36.1	37.4	36.2	36.9	37.6
Greece ¹	18.0	19.6	25.8	29.1	34.3	32.5	30.5	31.6	32.2	33.8
Hungary	..	..	..	41.5	39.3	40.3	39.9	38.0	37.1	38.9
Iceland	26.2	30.0	28.2	31.2	37.2	40.6	33.9	35.2	36.0	37.2
Ireland	24.9	28.4	34.2	32.1	30.9	31.1	27.6	27.4	27.9	28.3
Israel ³	..	..	..	36.6	37.0	36.4	31.3	32.4	32.6	31.6
Italy	25.5	25.4	33.6	39.9	42.0	43.2	43.4	43.0	43.0	44.4
Japan	17.8	20.4	26.7	26.4	26.6	28.5	27.0	27.6	28.6	n.a.
Korea	..	14.9	16.1	20.0	22.6	26.5	25.5	25.1	25.9	26.8
Luxembourg	27.7	32.8	39.5	37.1	39.1	35.6	39.0	37.3	37.0	37.8
Mexico	..	..	15.5	15.2	16.9	17.7	17.4	18.9	19.7	19.6
Netherlands	32.8	40.7	42.4	41.5	39.6	38.7	38.2	38.9	38.6	n.a.
New Zealand	23.6	28.1	30.6	35.9	32.9	34.5	31.1	31.1	31.5	32.9
Norway	29.6	39.2	42.6	40.9	42.6	42.9	42.0	42.6	42.5	42.2
Poland	..	..	..	36.2	32.8	34.8	31.7	31.7	32.3	n.a.
Portugal	15.9	19.1	24.5	29.3	30.9	32.5	30.7	31.2	33.0	32.5
Slovak Republic	..	..	..	40.3	34.1	29.5	29.1	28.3	28.7	28.5
Slovenia	..	..	..	39.0	37.3	37.7	37.0	38.1	37.1	37.4
Spain ¹	14.7	18.4	27.6	32.1	34.3	37.3	30.9	32.5	32.2	32.9
Sweden	33.3	41.3	47.4	47.5	51.4	47.4	46.6	45.4	44.2	44.3
Switzerland	17.5	23.8	25.2	26.9	29.3	27.7	28.7	28.1	28.6	28.2
Turkey	10.6	11.9	11.5	16.8	24.2	24.1	24.6	26.2	27.8	27.7
United Kingdom	30.4	34.9	37.0	33.6	36.4	35.7	34.2	34.9	35.7	35.2
United States	24.7	24.6	24.6	26.7	28.4	26.9	23.3	23.8	24.0	24.3
<i>Unweighted average:</i>										
OECD Total	25.4	29.2	32.4	34.4	35.2	35.0	33.6	33.8	34.1	n.a.

n.a.: Not available.
1. The total tax revenues have been reduced by the amount of any capital transfer that represents uncollected taxes.
2. Unified Germany beginning in 1991.
3. The data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.
4. Secretariat estimate, including expected revenues collected by state and local governments.

Source: OECD, *Revenue Statistics 1965-2012*.

1.2 But we need to include compulsory superannuation and health insurance mandates

However there is a good case to argue that the official statistics provide a misleading basis for interpreting Australia's taxation burden relative to other OECD-member countries. The exclusion of the 'superannuation guarantee' (SG) scheme from the Australian tax-to-GDP ratio estimate presented in Table 1 is a case in point.

Introduced in 1992 by the Keating government, the SG was intended to assist retirement living standards by ensuring Australians would not rely on the Age Pension as their primary source of

retirement income. The government envisaged that 'by the beginning of the next [twenty-first] century, virtually all employees will be accumulating substantial superannuation savings to help fund their retirement income.'⁵

Employers are presently obliged to contribute a minimum percentage of each eligible employee's earnings (9.5 per cent as of 1 July 2014) to a complying superannuation fund. It is also important to note that failure by employers to provide prescribed superannuation benefits for their employees attract financial penalties.⁶

The OECD argues that Australia's SG should be excluded from comparative taxation analysis because of the defined purpose of taxation, which is to provide compulsory unrequited payments to general government.⁷ It is said that our compulsory super payments, by contrast, are made to a private fund chosen by the individual contributor, and the amount eventually payable to the contributor upon retirement depends upon their earnings history, service fees, and other conditions of the selected fund.⁸

But the OECD itself freely acknowledges 'there are difficulties in eliminating voluntary contributions and certain compulsory payments to the private sector' when deciding which social security contributions are to be counted as taxes.⁹ As a result of interest from some member countries, the OECD publishes statistics of the level of 'non-tax compulsory payments' (NTCPs) which the organisation states 'operate in a similar way to taxes in that they serve either to increase the employer's labour costs or to reduce the employee's net take-home pay.'¹⁰

A tax database maintained by the OECD shows the effective labour cost increase associated with the imposition of NTCPs, for employees earning average wages (Figure 1). While the Netherlands is a standout country by way of imposing NTCPs, Australian compulsory superannuation increases labour costs by a considerable margin - by over \$4,700 in US dollar terms (purchasing power parity basis), the third-highest country for which NTCPs are estimated.¹¹

⁵ Hon J. Dawkins, Second Reading Speech, Superannuation Guarantee (Administration) Bill 1992.

⁶ A 'superannuation guarantee charge' (SGC) applies to any shortfall amount, together with 10 per cent per annum interest on the shortfall and a \$20 administration fee per employee per quarter Australian Taxation Office, 2012, *Super: What Employers Need to Know - Introduction for Employers*, p. 18.

⁷ OECD, 2013, *Revenue Statistics 1965-2012*, p. 318.

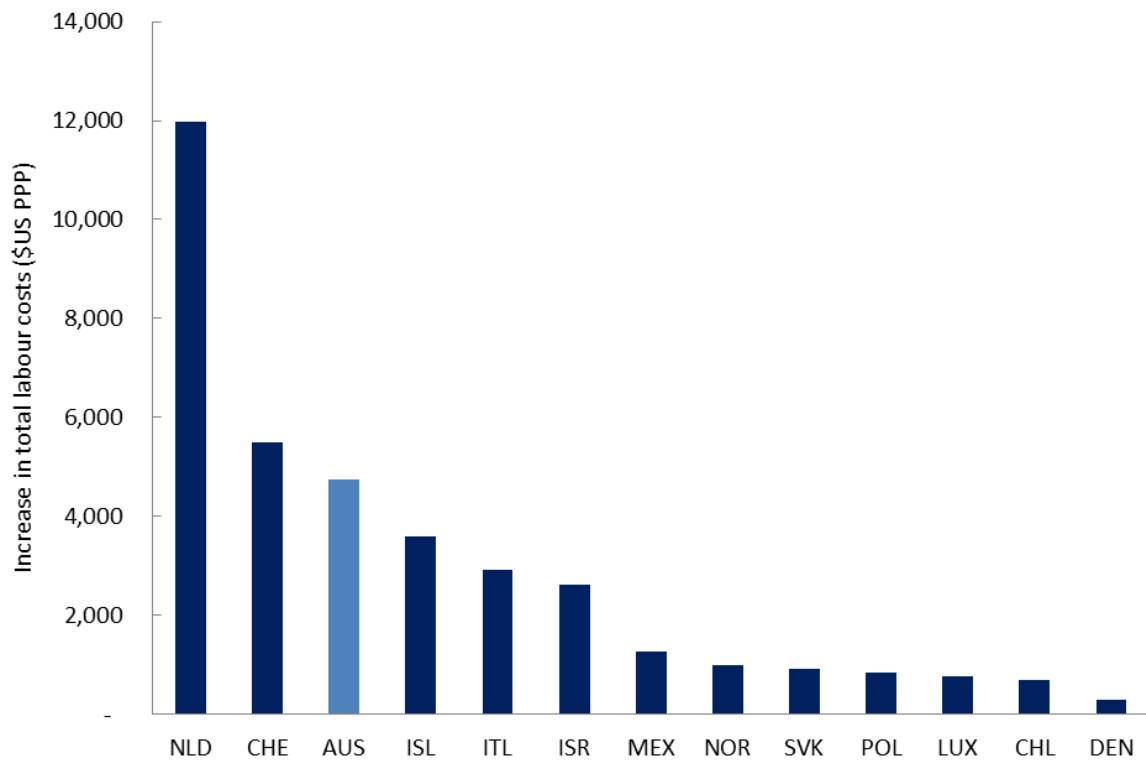
⁸ There are also taxation concessions applicable to contributions made, fund accumulations, and payments to beneficiaries.

⁹ OECD, op. cit., p. 319.

¹⁰ OECD Tax Database, Non-Tax Compulsory Payments, <http://www.oecd.org/tax/tax-policy/tax-database.htm#NTCP>. In a number of OECD countries, NTCPs are imposed in addition to taxes regarded as social security contributions by the OECD.

¹¹ This paper does not add non-Australian NTCP burdens to tax-to-GDP ratio estimates for other OECD countries. However, it is noted that this treatment does not change the relative tax competitiveness position of the countries subject to comparisons.

Figure 1: Increase in total labour costs attributable to non-tax compulsory payments, selected OECD countries, 2013¹²



Estimates in US dollars using purchasing power parity benchmarks. Based on scenario of single employee earning average wage level in each country.

Source: OECD Tax Database.

Whilst the OECD has made its final determination to exclude the Australian SG regime from its estimates of social security contribution burdens, it should also be recognised there is much in common between the SG and social security contributions, particularly those imposed in European countries.

The most obvious similarity is the characteristic of compulsion shared by both the Australian and OECD regimes, even if the mechanisms to effect compulsion vary by country.¹³ Another similarity is that ‘the receipt of social security benefits depends, in most countries, upon appropriate contributions having been made.’¹⁴ For a number of European countries, whose social security contributions are included by the OECD, the levels of contributions made to the pool of revenue are influenced by the salary of the recipients, whereas benefits are usually affected by the duration of time in residence within the given country.

¹² For this and remaining Figures in this paper, official three-letter country abbreviations are used. For further information, see <http://www.worldatlas.com/aatlas/ctycodes.htm>.

¹³ Excluding New Zealand, which do not have a regime of social security contributions nor compulsory superannuation.

¹⁴ OECD, op. cit.

Given the SG represents a political imposition to fulfil a policy objective of providing a retirement income, much like the European social contributions, and since employers are obliged by regulation and the threat of additional charges to meet the objective, it effectively operates as a social security tax. Hence, it is not unreasonable to add the SG as part of the overall Australian tax burden. If anything, the exclusion of SG from the OECD taxation statistics:

‘tends to exaggerate differences between Australia and the countries in which compulsory social security contributions are applied to provide forms of assistance which in our country are funded from tax revenue.’¹⁵

Indeed, a number of Australian economists have endorsed the inclusion of compulsory superannuation for the purpose of making comparisons of Australian tax burdens with other OECD-member countries. These economists have included former Treasury Deputy Secretary Greg Smith,¹⁶ consultant Geoff Carmody,¹⁷ and banker Saul Eslake.¹⁸

It is also notable that an ACTU submission to the Productivity Commission treated Australian super contributions as a ‘additional social security contribution’ for the purposes of comparing labour costs across the OECD.¹⁹

An alternative to obtain a genuine, ‘apples with apples’ comparison of average tax burdens among developed economies would be to remove social security contributions (wherever they may apply) from the calculations entirely. Both options amending the official OECD statistical presentation are to be presented in this paper.

The OECD excludes other impositions imposed by Australian governments, which could also be construed as acting effectively as taxes. This includes the effectively compulsory purchase of private health insurance by individuals, through the threatened application of a Medicare Levy surcharge upon failure to buy insurance policies.

The fiscal implications of treating health insurance mandates in the United States as taxes, or not, proves rather instructive when contemplating the appropriate treatment of Australia’s arrangements.

The Congressional Budget Office (CBO) in 1994 revealed the full, and true, costs of the ‘HillaryCare’ - which entailed an enforced mandate for employers to provide health insurance coverage for their employees - playing a major contribution in politically scuttling the plan. According to the CBD report into the proposed health care mandates:

¹⁵ TaxWatch, 2010, *A Comparative Update on Aspects of the Australian Tax System*, p. 4.

¹⁶ Greg Smith, 2007, *Australia’s Aggregate Tax Burden - Measurement, Interpretation and Prospects*, Australian Tax Research Foundation, Information Series No. 5.

¹⁷ Geoff Carmody, 2014, ‘Why we should worry about our rising tax load’, *The Australian Financial Review*, 27 May.

¹⁸ Saul Eslake, 2011, ‘The Tax Reform Challenge’, Australia Parliamentary Library Lecture, 21 September.

¹⁹ ACTU, 2014, Submission to Productivity Commission Inquiry into Retail Costs, p. 2.

'[c]onsidering the Administration's proposal in its entirety, the Congressional Budget Office concludes that it establishes both a federal entitlement to health benefits and a system of mandatory payments to finance those benefits. In administering the proposed program, regional alliances, corporate alliances, and state single-payer plans (if any) would operate primarily as agents of the federal government. Therefore, CBO believes that the financial transactions of the health alliances should be included in the federal government's accounts and that premium payments should be shown as government receipts rather than as offsets to spending.'²⁰

In other words, as discussed recently, 'if the government forces people to buy a product by law, then those transactions no longer belong to the privacy economy but to the U.S. balance sheet.'²¹

In stark contrast, the modern CBO, which remains obliged, to this day, to scrutinise the implications of federal government policies for the US Budget, has elected not to determine health insurance mandates under 'Obamacare' as taxes, but rather as offsets to government spending in an attempt to artificially reduce the full fiscal burden of the US health care nationalisation measure.

To assist in the elimination of the downward biases to the OECD's reported tax-to-GDP ratio for Australia, this paper treats contributions income received by health insurers as revenue raised under an implicit taxing arrangement encouraging Australians to purchase health insurance policies.

1.3 And the size of OECD economies is not 'like with like'

The unweighted tax-to-GDP ratio for OECD-member countries (34.1 per cent in 2011) makes no allowance for the significant variations in economic size amongst the different countries.²²

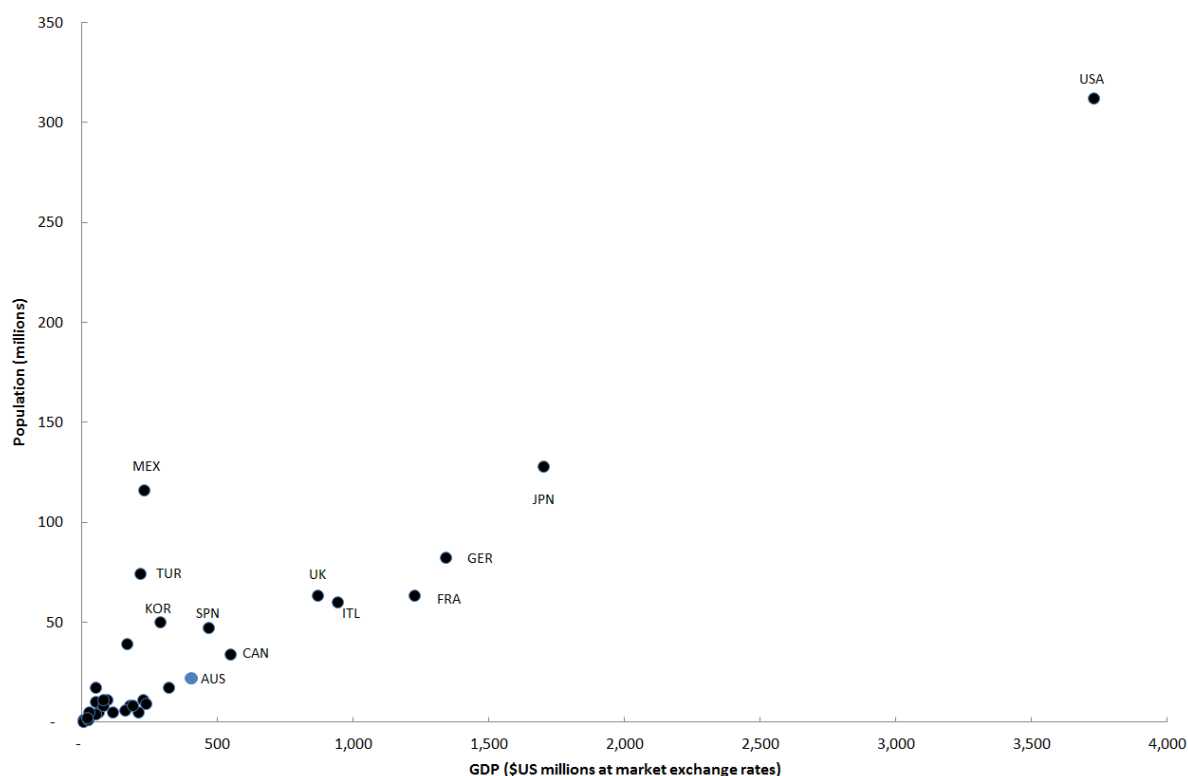
As Figure 2 shows, there is a massive gap in the size of economies comprising the OECD with the United States alone accounting for one-quarter of all income generated by the OECD group. By contrast the smallest economy in the OECD (Iceland) was about 746 times smaller than the US economy in 2011.

²⁰ Congressional Budget Office, 1994, *An Analysis of the Administration's Health Proposal*, p. 44.

²¹ 'Jonathan Gruber's 'Stupid' Budget Tricks', *The Wall Street Journal*, 14 November 2014.

²² Peter Burn, 2004, *How Highly Taxed Are We? The Level and Composition of Taxation in Australia and the OECD*, Centre for Independent Studies, Policy Monograph No. 67.

Figure 2: Economic and population sizes of OECD-member economies, 2011



Source: OECD statistics online.

Variations in economic size not only have obvious implications for the capacity of countries to collect taxation revenues but, if left unaccounted for, pose interpretative difficulties when making international comparisons of tax burden. The US (with a tax-to-GDP ratio of 24.0 per cent) is of much greater economic significance than Iceland (tax-to-GDP ratio of 36.0 per cent), but an unweighted average will treat those economies as equivalent.

An alternative to an unweighted measure of average OECD-member tax burdens is to weight the raw taxation data by the relative size of different economies, with the weights set by the proportion of individual country GDP to the GDP of all OECD countries. This would give us a weighted OECD-average tax burden figure giving the greatest weights to levels of taxation in the largest economies.²³

1.4 Australia trades less with other OECD economies, and more with non-OECD economies

Another problem with comparing Australia's tax burden with the unweighted OECD-member average is that the OECD itself only comprises 34 countries (among the 193 United Nations member states in 2011), and that our trade is biased toward certain countries within the OECD group and increasingly with non-OECD countries, such as China, India, Thailand, Singapore and Malaysia.

²³ Burn, *Ibid.*, p. 4.

By way of example, OECD member country South Korea - with a tax-to-GDP ratio of 25.9 per cent, only 0.6 percentage points lower than Australia - accounted for only six per cent of Australia's total trade in goods and services. Contrasting this, China - an emerging, middle-income economy - had a tax-to-GDP ratio of about 11 per cent²⁴ but accounted for about 20 per cent of total trade with Australia.²⁵

To address the difficulty with interpreting OECD taxation statistics against the background of our diversifying trade patterns, this paper also offers a reweighting of the unweighted average OECD-member tax burden but, this time, applying weights of the relative shares of Australian goods and services trades with OECD countries based on the Australian trade weighted index (TWI).²⁶

1.5 Finally, we need to contemplate taxation burdens in non-OECD economies

Consistent with the adjustments to taxation burden measurements proposed above, Australian policymakers need to be aware that most fast-growing economies of East Asia have a tax-to-GDP ratio of no more than 15-20 per cent.

Although Australians have different expectations of the array of goods and services to be financed and provided by governments, through the taxpaying population, our ability to attract mobile capital and skilled labour will depend, in no small part, upon Australia's ability to maintain a reasonably competitive tax regime.

2. Not so low after all: Australia's aggregate taxation burden

2.1 Tax burden including social security contributions (and Australian compulsory superannuation)

Figure 3 presents information on the tax burden for Australia and the OECD, after making the various adjustments described above.

We include employer contributions to superannuation (4.7 per cent of GDP in 2011) and health insurer contributions income (1.0 per cent of GDP in 2011) to the officially reported Australian taxation burden estimate (26.5 per cent).²⁷ This consequently raises our tax-to-GDP ratio considerably, from 26.5 per cent to 32.2 per cent.

²⁴ World Bank tax revenue (percentage of GDP) statistics for 2011.

²⁵ Department of Foreign Affairs and Trade, 2012, *Composition of Trade Australia 2011-12*, p. 40.

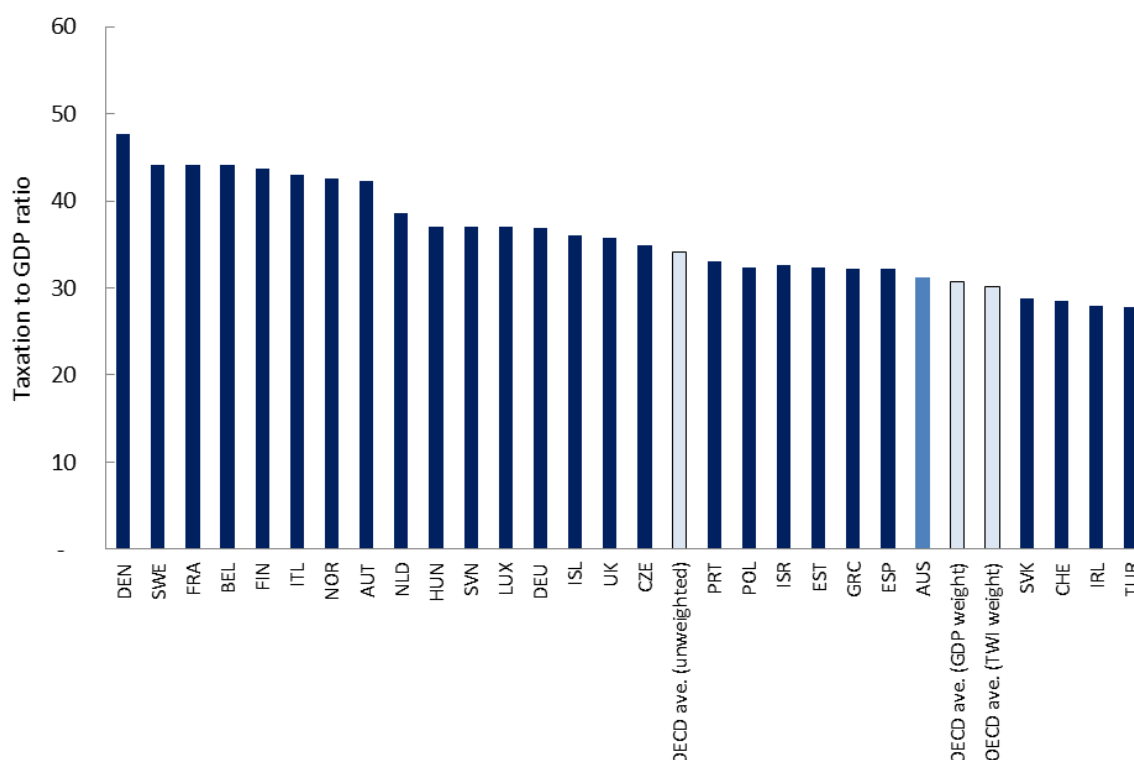
²⁶ Ibid.

²⁷ It is not clear to what extent Australians would contribute some of their income towards superannuation, in the absence of compulsion which now applies. In the absence of a definitive account of the counterfactual

The level of tax burden imposed by Australian governments compares unfavourably to the OECD-member average tax burden, once the latter is weighted either for economic size or for the strength of Australian trading relationships.

The GDP-weighted tax-to-GDP ratio for OECD member countries was 30.7 per cent in 2011, whilst the OECD-member tax-to-GDP ratio (TWI basis) was 30.1 per cent. In other words, the more representative estimate of Australian tax burden was between one-half to a full percentage point of GDP greater than the reweighted OECD-member average figures.

Figure 3: Total taxation revenue as percentage of gross domestic product (adjusted figures), all OECD members, 2011



Source: OECD, *Revenue Statistics 1965-2012*; IPA estimates.

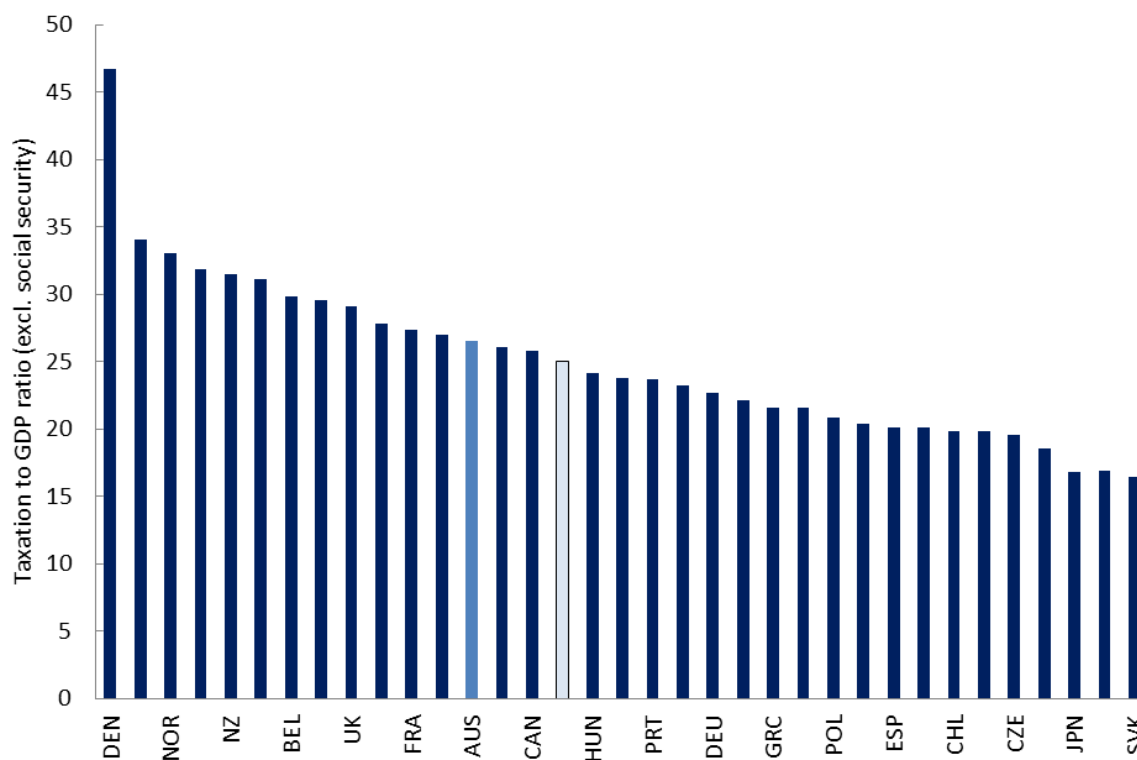
2.2 Tax burden excluding social security contributions

In its *Revenue Statistics* publication, the OECD presents a table of the tax-to-GDP ratios of member countries which excludes social security contributions accruing to social security funds. This represents another way of providing advanced-economy tax comparisons with more of an ‘apples with apples’ style of consistency.

which would apply, the judgment was made to add all of the employer contributions to SG to the adjusted Australian taxation burden estimate. Similar considerations apply with regard to the health insurance mandate.

According to Figure 4, Australia had a relatively greater tax burden than the OECD average when social security contributions are taken out of the picture. In 2011 the Australian tax-to-GDP ratio was 26.5 per cent, compared to the (unweighted) average for OECD member countries of 25 per cent.

Figure 4: Total taxation revenue as percentage of gross domestic product (excluding social security contributions), all OECD members, 2011



Australian estimate excludes health insurance mandate.

Source: OECD, Revenue Statistics 1965-2012.

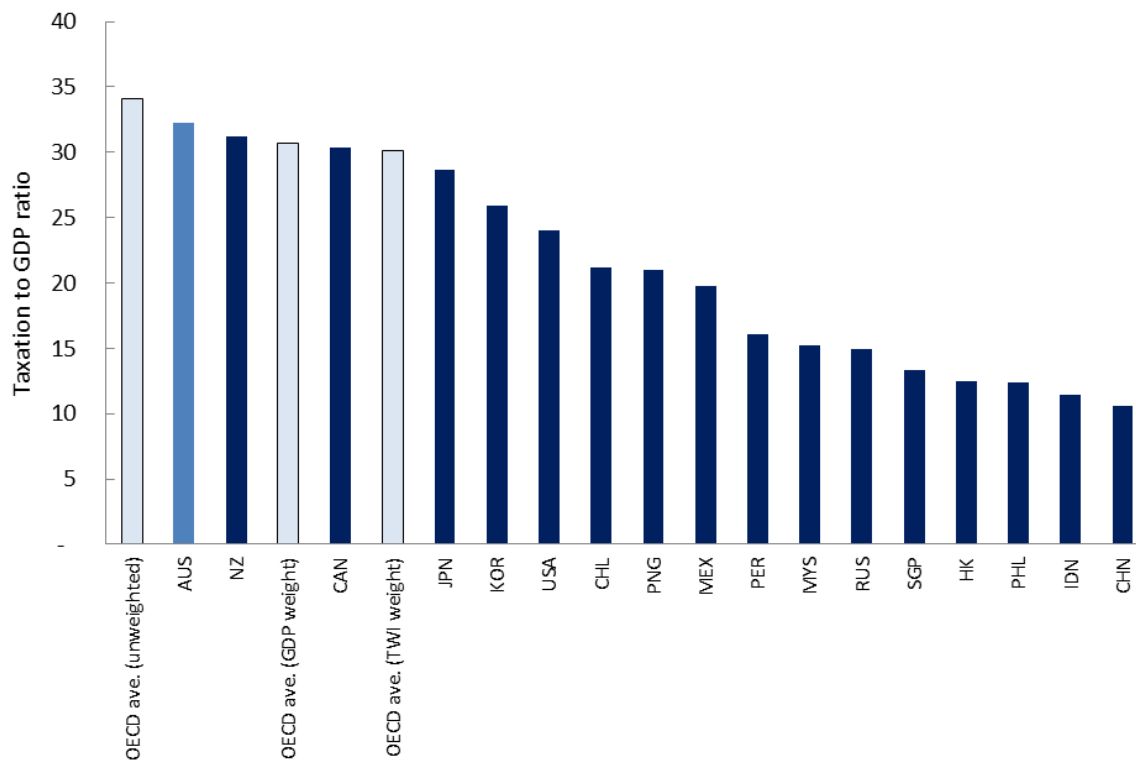
2.3 Tax burden compared with upper and middle income Asian and Pacific countries

Given the trend towards greater international economic integration, it is important for Australian tax policymakers to bear in mind that decisions to set taxes has significant implications for our ability to maintain valuable mobile resources, and to foster home-grown entrepreneurship and innovation. Therefore, it is appropriate to consider the relative burden of Australia's taxation compared with countries in our region.

Figure 5 compares the Australian tax-to-GDP ratio (including compulsory superannuation and health insurance) against the OECD as well as for APEC member countries. Australia maintains close trading relationships within the APEC region and, indeed, maintains free trade agreements with many member countries. It is also notable that two APEC members (Hong Kong and Singapore) are the most economically free jurisdictions in the world, competing against Australia for regional shares of capital and skilled workers.

Australia maintains a relatively high tax-to-GDP ratio in comparison with other APEC member countries. Indeed, some Asian APEC members impose tax burdens, as a percentage of GDP, at about half the level of that of Australia.

Figure 5: Total taxation revenue as percentage of gross domestic product (adjusted figures), all APEC members, 2011



Australian figure includes compulsory superannuation and health insurance mandate. All figures are for 2011, with the exception of Hong Kong (2009), Indonesia (2009) and Papua New Guinea (2002). Data for Brunei Darussalam, Taiwan and Vietnam are unavailable.

Source: OECD, Revenue Statistics 1965-2012; World Bank data.

As an aside, it should be noted that the information presented previously does not include the ratio of Australian general government spending to GDP (36.3 per cent in 2011). This indicator is important because, as Sinclair Davidson has noted, it is 'arguably a better indicator of the tax burden than the tax ratio. Expenditure must be financed from current tax revenue, debt (which can be viewed as deferred taxation) or the sale of assets.'²⁸

Whilst the share of spending to the economy is smaller in Australia than in most other OECD countries, Australia nonetheless has a relatively large and costly public sector from a global perspective.

²⁸ Sinclair Davidson, 2005, *Personal Income Tax in New Zealand: Who Pays and is Progressive Taxation Justified?*, New Zealand Business Roundtable, p. 2.

3. Australia’s heavy reliance on high direct taxes leads to fewer taxpayers doing the heavy lifting

When assessing Australia’s tax burden in an internationally comparative perspective, it is also important to consider national variations in the taxation structure. The more intensive use of some tax bases, rather than others, can have an important influence on production and consumption decisions made domestically, as well as affect the mobility of capital and labour.

Using official OECD statistics to compare the composition of taxes internationally is complicated by the existence of social security contributions. In addition to the issues surrounding the treatment of Australia’s compulsory superannuation scheme, the fact is that the social security contributions quantified by the OECD are levied on either an income or payroll tax base.

These bases are already separately identified in the relevant OECD published statistics, so an approach is taken here to apportion social security contributions back to their underlying income tax or payroll tax base.²⁹ These adjustments are reflected in Figure 6, comparing the structure of Australian (including compulsory superannuation and health insurance) and OECD average (weighted on a GDP basis) taxes.

Figure 6: Composition of taxation, Australia and OECD (adjusted figures), 2011



Australia compulsory superannuation added to payroll tax base estimate; health insurance mandate added to goods and services tax base estimate.

Source: OECD, Revenue Statistics 1965-2012.

²⁹ The methodology employed to incorporate social security contributions to an income or payroll tax base is outlined in Peter Burn, op. cit.

What is most notable about the Australian taxation regime is its relatively strong reliance upon income taxes, being about 40 per cent higher than the GDP-weighted average of OECD members. With the inclusion of health insurance into the Australian goods and services taxing base, and as a result of the imposition of a GST since 2000, the Australian tax-to-GDP ratio for goods and services is estimated as being slightly higher than the OECD average.

On the other hand, even with the inclusion of Australia's SG in the payroll tax base we, conversely, rely less upon payroll taxes than does the OECD as a whole.

In the most recent federal budget, released in May 2014, policy changes were announced with the effect of increasing the income tax rate borne by higher income earners. The most significant announcement was the introduction of a 'Temporary Budget Repair Levy' of two per cent on individuals' taxable income exceeding \$180,000. This measure implies that the top rate of personal income tax imposed in Australia is up to 50.5 per cent for those earning more than \$180,000, comprising the following elements:

- Income tax: 45 per cent.
- Temporary Budget Repair Levy: 2 per cent.
- Medicare Levy: 1.5 per cent.
- NDIS Levy: 0.5 per cent.
- Medicare Levy Surcharge (for those without adequate private health insurance): 1.5 per cent.

A recent analysis of top marginal tax rates internationally suggests that Australia is now in the top ten of highest income taxing countries in the world (Table 2).

Table 2: Top ten highest marginal tax rates for individuals

Country	Tax rate
Aruba	58.95
Sweden	57.00
Denmark	55.56
Netherlands/Spain	52.00
Finland	51.25
Japan	50.84
Austria/Belgium/Israel	50.00
Australia/Curacao	49.00
Ireland/Portugal	48.00
Norway	47.20

Sample of 136 countries. Excluding Medicare Levy Surcharge.

Source: Nassim Khadem, 2014, 'Top rate of 49pc would make Australia 8th-highest tax nation in OECD', The Australian Financial Review, 5 May.

Higher marginal tax rates tend to act as a drag upon economic activity, including through the deterrence effect upon labourers to work additional hours in favour of more leisure time. These adverse effects of high levels of taxation become accentuated in the presence of globalisation, as

labourers become more sensitive to international differences in tax rates which could affect their take-home pay levels.

The hefty reliance upon income taxation, with high and uncompetitive marginal rates, contributes significantly to the overall progressivity of the Australian tax system. The top ten per cent of Australian income earners received about 29 per cent of total income, but paid 37 per cent of total direct taxation. Based on the ratio of these two numbers, Australia has the second most progressive direct tax system in the OECD, only behind the United States.³⁰

The implications of this very high level of progressivity, by international standards, are profound from the perspective of ensuring the costs of government remain reasonable for the taxpaying public.

If it is the case, as in Australia, that relatively few taxpayers are responsible for paying the bulk of direct taxes (which, in turn, make up the bulk of Australian taxation) this implies that lower and middle income earners, in particular, would tend to be less responsive to changes in public sector costs. Other things being equal, there is also the risk that tax progressivity ensures that the less wealthy may discount the importance of taxation cuts, as a fiscal and economic competitiveness reform strategy.

³⁰ Adam Creighton, 2013, 'Rich are paying their fair share, and then some', The Australian, 2 February.

Conclusion

The pro-tax lobby may argue that Australia is a low tax economy, but this is only true when compared with a group of high tax economies in continental Europe and, even then, several applications of Australian tax laws compelling people to expend their monies in certain ways also need to be contemplated when making international comparisons.

One must also consider that comparisons with unweighted OECD tax averages do not allowance for differences in the size and economic significance of different member countries which Australia is often compared with.

In reality, when comparing Australia against a larger sample of economies, and applying weights to OECD data, it becomes clear that this country is a high taxing one, especially for this East Asian region, if not the remainder of the world, against which we increasingly compete.

The Australian tax system remains skewed towards direct taxation, mainly accounted for by personal income taxation set at high top marginal rates. The highly progressive nature of our regime of direct taxes means that relatively few Australians are doing the heavy lifting on tax, so leading many of the other Australians less sensitive to the spiralling costs of maintaining our large government.