HOW MUCH DO YOU REALLY PAY?

THE COST OF TAX

Finding the total tax burden for a resident of Victoria, Australia

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LIBERAL DEMOCRATIC PARTY

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INTRODUCTION

This paper looks at both the indirect and direct taxes paid by the average resident of the state of Victoria and aims to calculate the total tax burden. Direct taxes refer to taxes paid by the individual to the Australian Taxation Office. Indirect taxes are taxes paid by a third party, such as a producer, to the Australian Taxation Office, but the cost of the tax is passed to the individual. In general, direct taxes are more progressive, fulfilling the government's aim to redistribute wealth from those earning more to those earning less through government services. Indirect taxes tend to be more regressive. Regressive taxes take a higher percentage from low-income earners and a lower percentage from high-income earners. In contrast, progressive taxes take a lower percentage of income from low-income earners and a higher percentage of income from high-income earners.

Despite the Australian government's intention to create a progressive tax system through taxes on earnings, many indirect taxes have led to a nearly flat tax system. Flat taxes take the same percentage of income from all individuals regardless of income. We found through this analysis that once all the taxes, fees, fines, and the most burdensome regulations are combined, the true tax rate hovers around 50 per cent of total compensation for the majority of incomes. For this paper, total compensation refers to gross incomes plus earnings on investments, including superannuation. Gross income includes taxable income (or a person's salary), the value of fringe benefits, compulsory superannuation contributions, and the payroll tax. Gross income refers to the amount paid by the employer to hire an individual.

We found through this analysis that once all the taxes, fees, fines, and the most burdensome regulations are combined, the true tax rate hovers around 50 per cent of total compensation for the majority of incomes.

Taxes on earnings (income tax, Medicare levy, payroll tax, and fringe benefits tax) and taxes on savings (superannuation taxes and the capital gains tax) are calculated according to income.

However, consumption taxes are calculated based on the purchase made by an individual and are separate to income. To find how much tax an individual must pay as a percentage of income, this paper uses the Australian Bureau of Statistics' Household Expenditure Survey 2015/16 to estimate spending habits according to quintile. This paper uses the percentage of disposable income each income group (lowest income, middle income, high income) spends on different goods, which are taxed at different rates, to extrapolate the tax burden. Where the categories for different goods diverge from specific taxes, we take a simple average using the government's revenue from the tax and the number of earners.

For illustrative purposes, this paper calculates the specific taxes paid by three individual incomes: a full-time minimum wage worker earning $38,300 per annum,[1] an average income worker in Victoria earning $63,442 per annum, and general high-income earner bring in $110,000 per annum.

Taxes on Earnings

The Australian government taxes labour at both state and commonwealth levels. In fact, Australia collects the bulk, 40.3 per cent of total government revenue, from taxes on earnings. Among OECD countries, only Denmark collects a higher percentage of its revenue from individuals' incomes.

This paper looks at what percentage of workers' total compensation goes to providing that revenue.

Some of the subsequent taxes are collected directly from employees, as is the case with income tax and Medicare levy. Others are indirect; they are levied on employers instead of employees and include the state payroll tax and the federal fringe benefits tax (FBT). Businesses tend to offset the cost of a tax by lowering wages or increasing the price of the goods. It does not matter on whom a tax is waged, only who ultimately pays the tax.

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[1] The annual minimum wage calculation assumes 254 work days in the year and a 38 hour work week. The minimum wage as of 1 July 2021 is $19.84 per hour worked.

The table shows the amount and the percentage of their total compensation an individual making each specified income would have to pay for each of the taxes on earnings.

Table 1.0 - Taxes on Earnings for Specific Incomes			
	Minimum Wage *($38,300)*	**Average Wage (Vic)** *($63,442)*	**High Wage** *($110,000)*
Income Tax	$3,988 7.9%	$12,033 14.5%	$28,197 19.7%
Medicare Levy	$766 1.5%	$1,269 1.5%	$2,200 1.5%
Fringe Benefits Tax	$301 0.6%	$301 0.4%	$301 0.2%
Payroll Tax	$1,858 3.7%	$3,077 3.7%	$5,335 3.7%
Total	**$6,913** **13.9%**	**$16,680** **20.1%**	**$36,033** **25.2%**

1.1 INCOME TAX

After South Australia implemented Australia's first income tax in 1884, the other states quickly followed suit in implementing their own income tax systems. Then, in a bid to fund its war effort during WWI, the federal government issued an income tax. Due to problems with double taxation, in 1919, the commonwealth government offered to withdraw the tax. However, some states strongly objected when faced with the prospect of relinquishing commonwealth grants and transfers. From 1915 to 1942, both the state governments and the federal government imposed individual income taxes. In 1942, the federal government passed legislation restricting states from receiving grants should they continue to levy an income tax. Despite some pushback from the states, they were ultimately unable to overturn this legislation.[2]

The individual income tax is mandatory for residents' taxable earnings, gross income minus any applicable deductions. The individual income tax accounts for 37 per cent of total government revenue and 46 per cent of isolated commonwealth revenue; it constitutes the highest of all taxes on

[2] Sam Reinhardt and Lee Steel, "A brief history of Australia's tax system," *The Australian Government Treasury,* September 4, 2006, https://treasury.gov.au/publication/economic-roundup-winter-2006/a-brief-history-of-australias-tax-system#P8_113.

earnings. As a progressive tax model, the individual income tax redistributes wealth by design: the income tax taxes low-income earners at a lower rate and taxes high-income earners at a higher rate.

Australia employs a tax-free threshold of $18,200. For earnings between $18,201 and $45,000, workers must pay a marginal tax rate of 19 per cent; between $45,001 and $120,000, a rate of 32.5 per cent; between $120,001 and $180,000, a rate of 37 per cent, and for incomes over $180,001, a rate of 45 per cent.[3] The highest marginal tax rate does not equal the final percentage of income paid in tax, as each tax rate only applies to income falling within those brackets. For example, a full-time minimum wage worker earns $38,300 per annum.[4] While this worker would fall into the 19 per cent tax bracket, their effective tax rate is actually 10.4 per cent of their total income because the first $18,200 of their income is not taxed.

Table 1.1 - Income Tax Brackets

Taxable income	Tax on this income
$0-$18,820	0%
$18,201-$45,000	19% tax on every dollar over $18,200
$45,001-$120,000	32.5% tax on every dollar over $45,000 plus $5,092
$120,0001-$180,000	37% tax on every dollar over $120,000 plus $29,467
$180,001 and over	45% tax on every dollar over $180,000 plus $51,667

The income tax, unlike most excise taxes, is not automatically indexed to inflation. Due to the effects of inflation, lower real incomes will creep into higher tax brackets over time and are fittingly called 'bracket creep'. For example, for a minimum wage worker to maintain the same standard of living between years, their income must go up and is reflected in regular increases to the minimum wage and reviews of awards. Assuming an inflation rate of 2 per cent, a minimum wage worker will hit the threshold for the 32.5 per cent tax bracket in 11 years. However, in reality, the minimum wage has increased at a rate slightly higher than inflation, meaning it would take less than eight years for a minimum wage earner to hit the next tax threshold — assuming that the average increase in the minimum wage of 2.87 per cent remains constant.

Simply because a worker has not hit the next tax bracket does not mean that they do not pay a higher tax each year. All workers face a tax increase of 0.2 per cent each year until they fall into the

[3] "Individual income tax rates," Australian Taxation Office, last accessed 25 November, 2020 https://www.ato.gov.au/rates/individual-income-tax-rates/

[4] "Minimum Wage Increases Today," Fair work Ombudsman, 1 July, 2020, https://www.fairwork.gov.au/about-us/news-and-media-releases/2020-media-releases/july-2020/20200701-awr-media-release-1-july-2020.

next tax bracket, assuming their circumstance in terms of real buying power does not change.[5] The only way for a progressive tax system to avoid taxing individuals more with each passing year is to index income tax brackets to the Consumer Price Index (CPI). CPI measures the change in the price of a basket of goods and so takes inflation into account. As a result of the current status quo, the average worker spends a higher percentage of their income on tax over time.

> ***The income tax, unlike most excise taxes, is not automatically indexed to inflation. Due to the effects of inflation, lower real incomes will creep into higher tax brackets over time and are fittingly called 'bracket creep'.***

The income tax takes a substantial sum from those earning less than the minimum wage. A minimum-wage worker earning $38,300 a year spends $77 a week on tax. Many argue that the minimum wage is less than a living wage, and yet those workers have to give up money, which could significantly increase their standard of living, to the government. Increasing the tax-free threshold to equal the minimum wage would help those who need the money the most.

Additionally, the minimum wage increases regularly to keep up with increasing costs of living. The income tax thresholds do not change, and as a result, workers pay more real tax each year as their income increases in nominal terms, but not in real buying power.

Finally, while the income tax does give the perception of fairness by taxing those earning more at higher rates, it disincentives further work. The government has created a 'diminishing return to labour', meaning that each additional dollar's worth of effort, a worker gets a progressively less or smaller percentage of that dollar. Like with the Medicare levy, individuals with higher incomes spend a higher dollar amount for the same government services.

[5] Calculated using the Present Value calculation assuming a rate of 2 per cent inflation per annum.

Recommendations 1.1

a) **Index income tax brackets to CPI to avoid annual real tax increases and bracket creep due to inflation.**
b) **Peg the tax-free threshold (now $18,200) to the full-time minimum wage (now $38,300) to avoid burdening those making the least with taxes they cannot afford.**
c) **Replace the progressive income tax with a low flat income tax.**

1.2 MEDICARE LEVY

In 1984, the Hawke government introduced Medicare. Its predecessor, Medibank, was founded to provide a fair and efficient means of health coverage for all Australians.[6] The Medicare levy was initially set at 1 per cent of personal taxable income and exempted the lowest-income earners from paying it. In December 1986, the federal government increased the levy to 1.25 per cent to offset rising medical costs; this simultaneously increased the upper threshold for low-income tax status. In July 1993, additional health spending precipitated an increase to 1.4 per cent. By July 1995, a decline in Medicare levy receipts saw the levy raised to 1.5 per cent. The federal government increased the low-income threshold during both events.[7] A surcharge on the levy was then introduced in July 1996 to fund the National Firearms Agreement's buy-back scheme and Australia's military commitments, not merely to provide healthcare.

Currently, the Medicare levy is 2 per cent of a person's taxable income on top of income tax.[8] Unlike the personal income tax, the Medicare levy is primarily a 'flat tax'. With a few exceptions, most Australian residents pay the same percentage of this tax regardless of earnings. Flat taxes do not attempt to redistribute income from high-income earners to low-income earners like the progressive income tax. Instead, this tax merely aims to pay for a government service: health care. Accordingly, those on lower incomes will not be disadvantaged, and high-income earners essentially subsidise healthcare for those who cannot afford it.

Medicare does differ from an entirely flat tax model as there is a reduction for low-income earners. Those earning less than $22,801 do not have to pay the Medicare levy, and those making between

[6] "Medicare - Background Brief," Parliament of Australia, last modified 29 October, 2004, https://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/Publications_Archive/archive/medicare

[7] Amanda Biggs, "A short history of increases to the Medicare levy," Parliament of Australia, 3 May, 2013, https://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/FlagPost/2013/May/A_short_history_of_increases_to_the_Medicare_levy

[8] "Medicare levy," Australian Taxation Office, last modified November 17, 2020, https://www.ato.gov.au/Individuals/Medicare-levy/

$22,801 and $28,501 pay a discounted levy. The partial levy payable for single low-income earners is calculated with the formula:

$$(Income - 22{,}801) \text{x } 0.1 = \text{Levy}$$

One may also qualify for a levy reduction based on taxable family income if a family's taxable income is equal to or less than $48,092. In such cases, a reduction of $4,416 for each dependent child also applies.[9] Individuals may also be exempted from the levy if they meet specific medical requirements, are a foreign resident or otherwise are not entitled to Medicare benefits.[10]

Besides, if an individual's income is above a certain amount and they, their spouse, or dependent children do not have a suitable amount of private patient hospital cover, they may have to pay a surcharge on healthcare services.[11]

Single people earning between $90,001 and $105,000 and those with dependents earning between $180,001 and $210,000 must pay a 1 per cent surcharge on all medical expenses they incur. Those earning between $105,001 and $140,000 and those with dependents earning between $210,001 and $280,000 must pay a 1.25 per cent surcharge. Those earning higher than $140,001 with dependents earning $280,001 or more must pay a 1.5 per cent surcharge.[12]

According to the political views on fairness, the Medicare levy aims to fund the healthcare system and not redistribute wealth. Those earning higher incomes subsidise the healthcare costs of those earning less. This system does not distort incentives to work. However, the Medicare levy also includes additional surcharges that aim to shift those earning more to private insurance, and they add a progressive element to the tax.

Recommendations 1.2

a) **Remove additional surcharges for those earning higher incomes as they are already contributing higher dollar amounts for the same service as low-income earners and,**
b) **Maintain the 2 per cent flat tax.**

[9] "Medicare levy reduction – family income," Australian Taxation Office, last modified July 1, 2020, https://www.ato.gov.au/Individuals/Medicare-levy/Medicare-levy-reduction-for-low-income-earners/Medicare-levy-reduction---family-income/
[10] "Medicare levy exemption," Australian Taxation Office, last modified July 1, 2020, https://www.ato.gov.au/individuals/medicare-levy/medicare-levy-exemption/
[11] Australian Taxation Office, "Medicare levy."
[12] "Medicare Levy Surcharge," Private Health, last accessed 25 November, 2020, https://privatehealth.gov.au/health_insurance/surcharges_incentives/medicare_levy.htm

1.3 FRINGE BENEFITS TAX (FBT)

If a business provides certain benefits on top of salary to their employees, they must declare them as additional wages for payroll tax purposes and pay the fringe benefits tax.[13]

These fringe benefits are defined by the Fringe Benefits Tax Assessment Act 1986. Generally, they include providing a car, expenses such as housing costs, school fees or paying for meals and entertainment.[14] Exempt fringe benefits or those with little value are not included for payroll tax purposes. Home allowance for those living away from home is also captured as a fringe benefit and does not need to be declared individually. In response to the COVID-19 crisis, the 2020/21 Budget exempted training for employees who were made redundant from the FBT.

Employers must calculate and declare the value of all benefits their employees receive in addition to their salary. The federal government taxes fringe benefits at 47 per cent.

The FBT aims to create a fairer system by requiring employees to declare the full de facto salary they pay their workers and not give workers who receive benefits instead of paying a tax advantage. However, in practice, the FBT is a regressive tax in the sense that it benefits big businesses at the expense of smaller businesses. Businesses must spend valuable time and resources to record and declare their FBT obligations. That time and those resources add up to a set dollar amount expense per employee instead of a percentage. All businesses have similar costs per employee. While large corporations have plenty of resources to put toward compliance, smaller businesses do not. As a result, the FBT makes it more difficult for small businesses to compete with large corporations.

While large corporations have plenty of resources to put toward compliance, smaller businesses do not. As a result, the FBT makes it more difficult for small businesses to compete with large corporations.

[13] "Fringe benefits," State Revenue Office Victoria, accessed 29 November, 2020, https://www.sro.vic.gov.au/fringe-benefits

[14] "Fringe Benefits Tax Assessment Act 1986," Australian Government, accessed 29 November, 2020, https://www.legislation.gov.au/Details/C2018C00327.

Additionally, because large businesses are better equipped to assume the FBT compliance burden, these entities can often offer more benefits, such as training, to their employees. These kinds of benefits attract the best talent to large organisations and away from smaller competitors.
Instead of calculating the average fringe benefits businesses spend on employees and then calculating the tax, this paper used the total government revenue from the FBT to find the average tax. In 2018/19, the commonwealth government collected $3.893 billion in FBT receipts.[15] That year, approximately 13 million people were employed either part-time or full time in Australia.[16] The average employed person in Australia costs their employer $301 per year in FBT. On average, Australians receive $640 in extra benefits on top of their salary each year.

This paper assumes employees bear the FBT burden by relinquishing the benefits they may have otherwise received at discounted rates due to bulk contract negotiations, no less. This is a fair assumption, given that employers would be reasonably expected to simply avoid paying fringe benefits instead of avoiding hiring or increasing prices on goods in order to pay punitive taxes on voluntary benefits.

The FBT impacts an employer's ability to provide benefits to their employees. The government collects comparatively little revenue from the FBT, but the cost of the economy is high. In response to COVID-19, the federal government recognised the FBT impeded employers who wished to provide employee training. Accordingly, the government created a temporary exemption for training. In general, the government should want businesses to invest in human capital instead of taxing them at a punishing rate should they do so.

In general, the government should want businesses to invest in human capital instead of taxing them at a punishing rate should they do so.

The FBT does serve one necessary purpose. It stops employers and employees from using fringe benefits to avoid income taxes—essentially putting together a barter system. Without the FBT,

[15] "Taxation Revenue," Australian Bureau of Statistics, released 28 April, 2020, https://www.abs.gov.au/statistics/economy/government/taxation-revenue-australia/latest-release#taxation-revenue-analysis.
[16] "6202.0 - Labour Force, Australia, Nov 2019," Australian Bureau of Statistics, released 19 December 2019, https://www.abs.gov.au/ausstats/abs@.nsf/Previousproducts/6202.0Main%20Features1Nov%202019?opendocument&tabname=Summary&prodno=6202.0&issue=Nov%202019&num=&view=.

employers could pay workers a percentage of their income through illiquid goods and services and avoid the income tax. However, the current rate for the FBT is well above the income tax for most employees. This high rate is both unnecessary and distortionary. Now, the FBT has disincentivised employers from providing fringe benefits entirely.

Lastly, the FBT imposes a high compliance cost. Employers must spend substantial time and resources recording and compiling fringe benefits in order to pay the tax. Requiring all businesses to provide itemised lists of fringe benefits poses a disproportionate burden on small businesses, and as a result, workers in small businesses often do not receive as many benefits as those working at larger businesses.

Recommendation 1.3

a) **Make the FBT exemption (made in response to the COVID-19 pandemic) for employer-provided trainings permanent,**
b) **Lower the fringe benefits tax to match the income tax, and**
c) **Allow businesses to choose between providing an itemised list of fringe benefits and a standard amount for fringe benefits.**

1.4 PAYROLL TAX

The federal government first introduced a tax on wages paid by employers during WWII to pay child endowments of five shillings per week to the carers of more than one child under the age of 16 years. From 1 July 1941 until 1971, the federal government charged employers a 2.5 per cent tax on wages paid to employees, without any payroll thresholds. However, in 1971, the federal government transferred the power to tax payrolls to the states and territories. Queensland introduced its own Payroll Tax Act, and each of the other states and territories followed suit quickly, introducing their own taxes.

The state of Victoria taxes employers 4.85 per cent of each employee's salary.[17] Currently, employers with an annual payroll of less than $650,000 and a monthly payroll of less than $54,166 do not have to pay the payroll tax.[18] This threshold changes every fiscal year and is often influenced by current economic conditions. For example, many states increased their tax-free threshold in response to the COVID-19 crisis and the subsequent recession. Victoria also provides a lower tax rate for regional employers and employers in bushfire affected areas. Regional employers over the threshold only

[17] "Payroll Tax," State Revenue Office Victoria, last accessed 29 November, 2020, https://www.sro.vic.gov.au/payroll-tax.
[18] Ibid.

need to pay 2.02 per cent[19] of each employee's salary in tax, and businesses in bushfire affected local government areas pay only 1.2125 per cent.[20] The Victorian government plans to further reduce the regional tax rate over the next two years; from 1 July 2021, it will be 1.62 per cent, and from 1 July 2022, it will be 1.2125 per cent.[21]

These cutouts for less wealthy regions of Australia, for businesses experiencing hardship, and for national or state-wide economic downturn imply that payroll taxes harm prosperity and businesses' wellbeing. Researchers have shown that payroll tax cuts make businesses more resilient in recessions, while high payroll taxes hamper businesses ability to survive economic crises.[22] The cost of payroll tax is generally passed from businesses to people in three key ways: lower wages, lower employment, and higher prices for goods and services.

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Sweden has experimented with reforms to payroll tax. In 2007, it reduced the payroll tax system and created an estimated 18,100 jobs between 2006 and 2008. Economists found some increases in salary among previously employed workers, but the most considerable impact was from increased jobs, particularly among young workers.[23] Another 2002 study, localised to Northern Sweden, found that wages increased, on average, 0.25 per cent for every 1 per cent drop in the payroll tax.[24]

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[19] "Payroll tax and regional employers," State Revenue Office Victoria, last modifies 6 July, 2020, https://www.sro.vic.gov.au/ptxregional.

[20] "2019-20 Victorian bushfire response," State Revenue Office Victoria, last modified 13 January, 2021, https://www.sro.vic.gov.au/2019-20-victorian-bushfire-response.

[21] State Revenue Office Victoria, "Payroll tax and regional employers."

[22] Benzarti, Youssef, and Jarkko Harju, "Can Payroll Tax Cuts Help Firms During Recessions?" NBER Working Paper w27485 (June 2020).

[23] Daunfeldt, Sven-Olov, Anton Gidehag, and Niklas Rudholm, "How do firms respond to reduced labor costs?" Evidence from the 2007 Swedish payroll tax reform, No. 3. Institute of Retail Economics (Handelns Forskningsinstitut), 2019.

[24] Bennmarker, H., E. Mellander, and B. Öckert, "Do regional payroll tax reductions boost employment?," Labour Economics, 2009, 16 (5), 480–489.

For this paper, we will assume that payroll is derived only from salaries. This will better reflect the average loss to the employee, as some workers lose 100 per cent of their salary due to employers choosing not to hire them due to the payroll tax, while others lose only a few percentage points of their salary. Additionally, calculating the payroll tax's impact on the price of various goods and services falls beyond this paper's scope. The assumption that payroll tax comes entirely from salaries is consistent with work done in other papers, including Timbro, Epicenter and the Tax Foundation's recent comparison of top marginal tax rates across OECD countries.[25]

This paper calculates the marginal payroll tax burden according to the equation as:

$$\frac{PayrollTax}{1 + PayrollTax} = TaxBurden$$

In Victoria, the marginal payroll tax rate as a percentage of salary is 4.63 per cent, assuming employers would otherwise incorporate the payroll tax into worker's compensation. Like the Medicare levy, the payroll tax is a flat tax, charging workers the same percentage tax regardless of income. However, it does differentiate between workers at small businesses who pay less and workers at large businesses who pay more.

The payroll tax is incredibly inefficient because of how much it negatively affects behaviour—it disincentives favourable behaviour such as hiring more workers and paying higher salaries to workers. The state should work to promote job creation and high wages, not impede them.

1.4 Recommendations

a) **Repeal the payroll tax entirely as it reduces both employment and wages.**

[25] Fritzon, Gustav and Jacob Lundberg, "Taxing High Incomes," *Epicenter,* October 2019, http://www.epicenternetwork.eu/publications/taxing-high-incomes/.

Summary

Taxes on earnings make up one of the largest categories of tax paid by Australians. In general, taxes on earnings are progressive, taking a much more significant percentage of total compensation from those in the higher quintiles and much less from those in the lower quintiles. However, even the minimum wage worker earning $38,300 a year loses 13.7 per cent of their total compensation or 18.1 per cent of their taxable income (salary). The amount lost to tax equates to $6,913 in taxes per year or $133 per week. These taxes go up every year as the government fails to adjust the income tax to inflation.

However, even the minimum wage worker earning $38,300 a year loses 13.7 per cent of their total compensation or 18.1 per cent of their taxable income (salary). The amount lost to tax equates to $6,913 in taxes per year or $133 per week.

Of the taxes on earnings (income tax, the Medicare levy, the fringe benefits tax, and the Victorian payroll tax), the income tax is by far the largest, as shown in the breakdown of taxes in Figure 1.1. The FBT imposes a relatively small tax burden on individuals of all incomes. However, the inefficiencies created by the FBT often stop businesses from offering those benefits at all. The FBT opportunity cost is relatively high, but this paper only relates to the taxes' more direct costs.

Figure 1.1 shows the dollar amount of tax paid by individuals based on their taxable income. Note, this is not total compensation as defined in the introduction, but merely the stated salary. The paper uses taxable income instead of total compensation in figures showing dollar figures, as most people refer to their salary and not their total compensation when considering how much they earn.

Figure 1.1 - Amount Paid In Taxes on Earnings According to Income

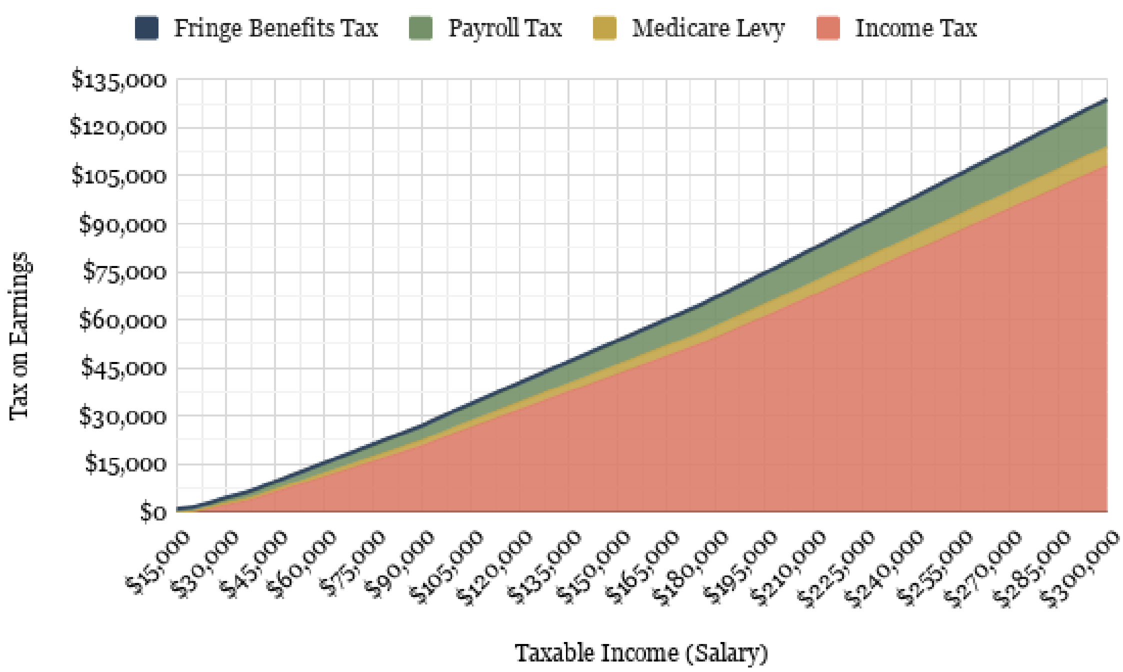
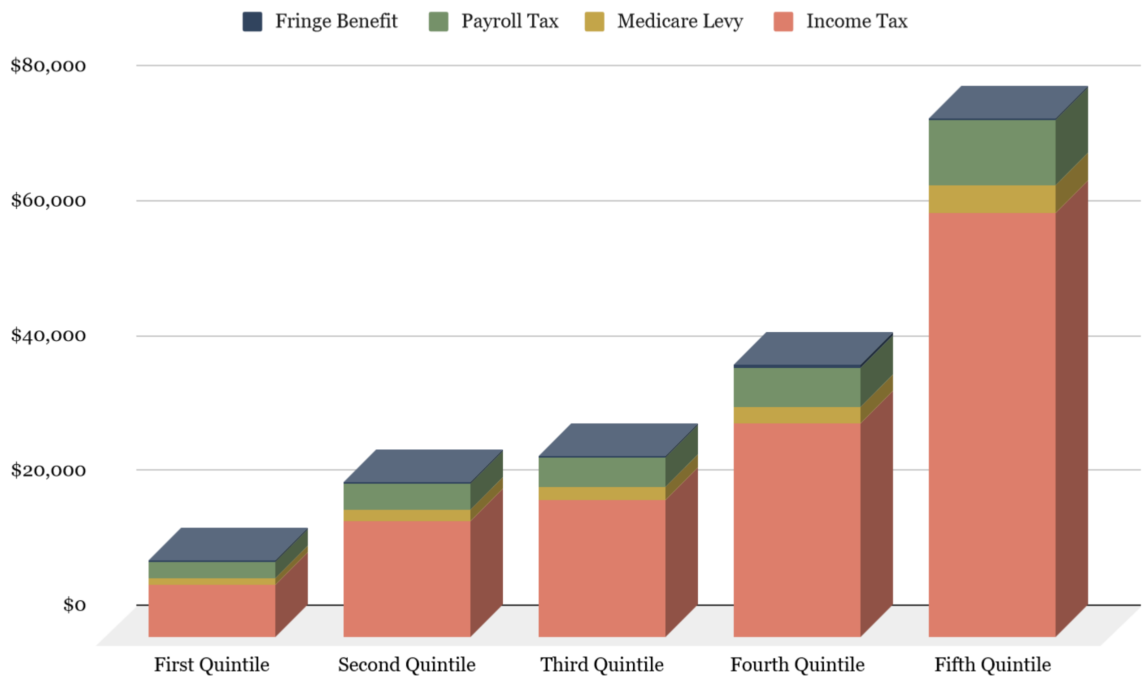


Figure 1.2 shows the average tax paid by individuals in different income quintiles. Those in the fifth quintile spend significantly more on taxes on earnings than those in the other quintiles.

Figure 1.2 - Amount Paid in Taxes on Earnings According to Income Quintile



While the income tax is the largest of the taxes on earnings, the payroll tax and the fringe benefits tax significantly impact those with lower incomes. Figure 1.3 shows the breakdown of the taxes on earnings into the percentage of the tax burden for each tax (income tax, Medicare levy, payroll tax, and FBT). As income increases, the income tax takes up a larger percentage of the tax burden while taxes such as payroll tax become less relevant, and the FBT becomes almost non-existent as a percentage. The FBT and payroll tax make up a much larger percentage of the tax burden for taxes on earnings for those earning less than $60,000. The median wage in Australia is only $49,200. As a result, eliminating the payroll tax and FBT tax would reduce taxes on earnings for most Victorians by over 25 per cent.

Figure 1.3 - Percentage Of Tax Burden For Each Tax On Earnings

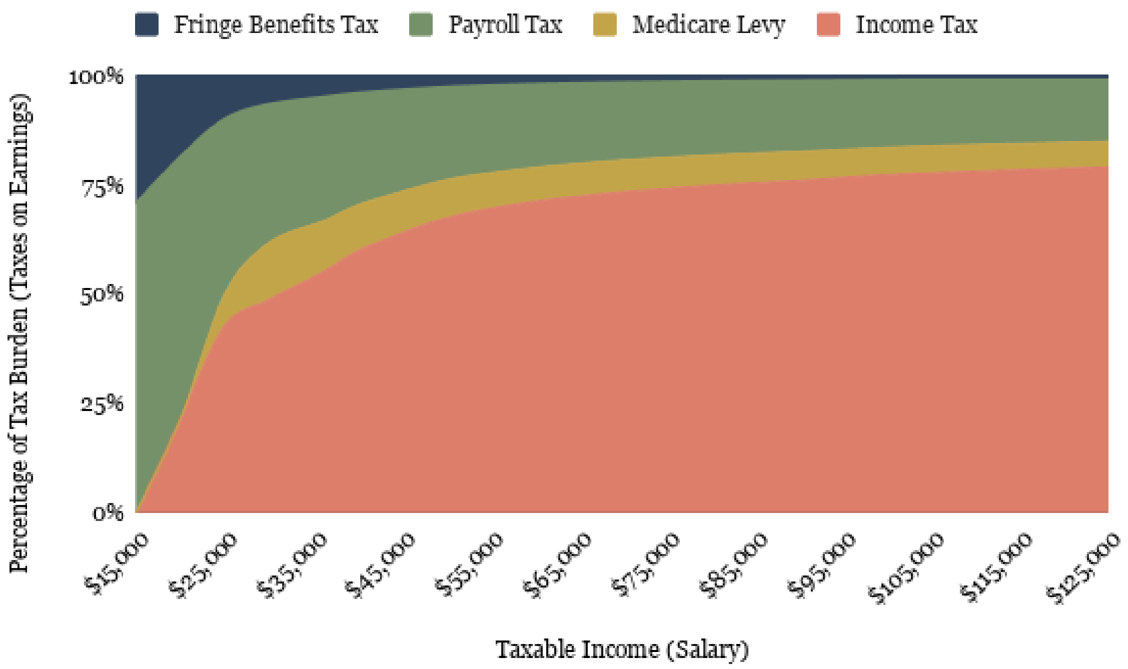


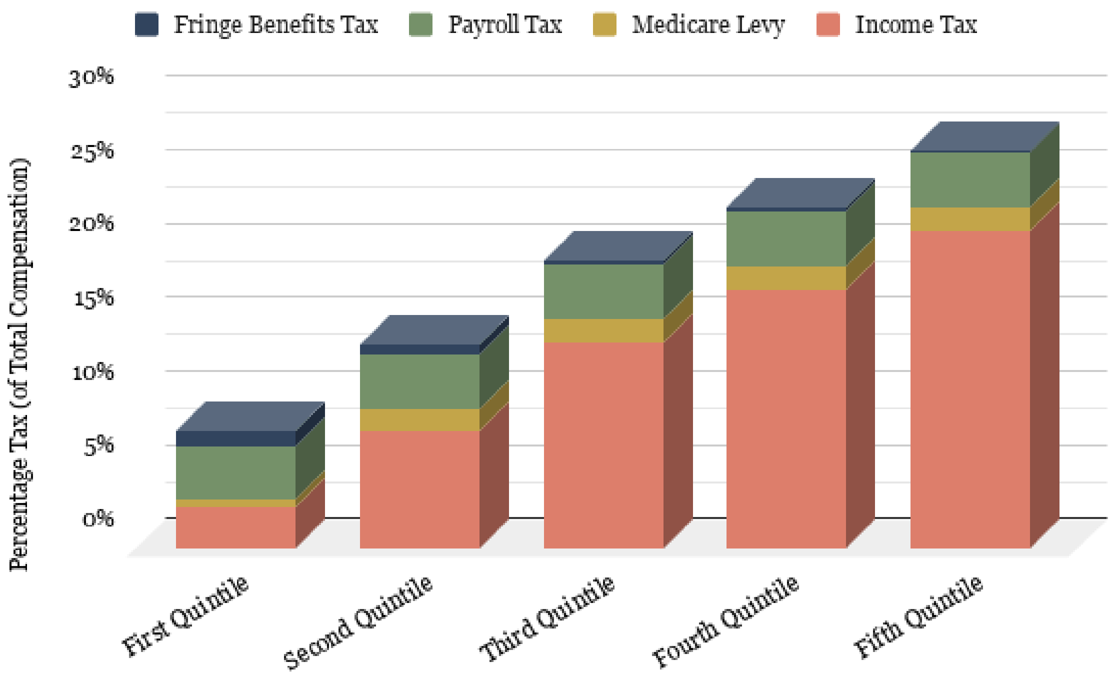
Figure 1.4 shows tax on earnings as a percentage of total compensation and includes a breakdown for each specific tax according to income quintile.

The total tax as a percentage of total compensation is calculated:

$$\frac{IndividualIncomeTax + MedicareLevy + FringeBenefitsTax + PayrollTax}{TaxableIncome + FringeBenefits + PayrollTax + Superannuation + InterestEarned} x100$$

For those in the first quintile, taxes on earnings equate to 8.0 per cent of total compensation; 13.7 per cent for the second quintile; 19.6 for the third quintile; 23 per cent for the fourth quintile; and 27 per cent for those in the highest quintile. For those in the first quintile, the income tax makes up less than half of the total tax burden for taxes on earnings. The higher the income quintile, the greater the proportion of income tax to other taxes on earnings becomes.

Figure 1.4 - Percentage Tax on Earnings According to Income Quintile



These values only include the initial taxes on earnings. The Australian government also taxes a worker's remaining salary at different rates depending on how they spend their money. In conclusion, taxes on earnings impose a heavy burden on those earning higher incomes. However, certain taxes waged on earnings impact those earning less. The FBT and the payroll tax hurt those at the bottom while hardly changing the tax burden for those earning the most.

Consumption Taxes

While the Australian government collects the bulk of its revenue from income taxes, Australians continue to pay taxes on their remaining income depending on how they chose to save or spend it. Consumption taxes are taxes on goods and services. These taxes take the form of sales taxes, excise taxes, and tariffs.

Using the Australian Bureau of Statistics (ABS) Household Expenditure Survey, we looked at spending tendencies for different incomes: adjusted lowest income, middle income, and high income. The study showed the percentage of disposable income each group spent on different categories of items. Disposable income is the money left over after an individual pays their income taxes. The study uses equivalised income, taking into account different demographic considerations, such as household size.[26]

Table 2.0 - Weekly Equivalised Disposable Income 2017/18[27]

Income Quintile	Lower threshold	Upper Threshold
First Quintile	$201	$527
Second Quintile	$575	$754
Third Quintile	$800	$1,008
Fourth Quintile	$1,070	$1,360
Fifth Quintile	$1,471	$2,926

We categorised the first and second quintiles as the lowest income, the third and fourth quintiles as middle income, with the fifth as high income. These figures fit approximately with the figures given in the survey. The survey only gives us general tendencies, and each individual will have a different budget. As such, some generalisation across years, and for people on the borders of these categories, are acceptable. For the purposes of this paper, we are applying spending habits for the low-income individuals to the first two quintiles, middle-income spending habits to the third and fourth quintiles, and higher-income spending habits to the fifth quintile, and outliers at higher income levels.

[26] "Household Expenditure Survey," Australian Bureau of Statistics, last updated 12 July 2020, https://www.abs.gov.au/statistics/economy/finance/household-income-and-wealth-australia/latest-release
[27] "Household Income and Wealth, Australia: Summary of Results, 2017–18," Australian Bureau of Statistics, released 12 July, 2019, https://www.abs.gov.au/statistics/economy/finance/household-income-and-wealth-australia/latest-release.

The savings rate for net disposable income in 2019 is 2.8 per cent. In general, those in the first and second quintiles save less than those in the higher income quintiles. However, for simplicity, we applied this savings rate across all incomes and assumed workers consumed the rest of their disposable income. Additionally, those in the first quintile tend to spend more than they earn. Examples include students borrowing money for education and only working a part-time job, or an individual accessing loans to get through hard times.

Table 2.1 shows the general spending habits of Australians according to their income.

Table 2.1 - Itemised Spending as a Percentage of Equivalised Disposable Income

Item	Average Amount (Weekly)	Average	Low Income	Middle income	High Income
Current housing costs	$279	19.6%	23.4%	19.7%	18.0%
Food and non-alcoholic beverages	$237	16.6%	12.5%	14.2%	15.7%
Transport	$207	14.5%	19.1%	17.6%	14.3%
Recreation	$172	12.1%	9.0%	11.8%	13.4%
Misc. goods and services	$97	6.8%	5.4%	5.9%	8.4%
Medical care and health expenses	$82	5.8%	5.8%	5.6%	5.7%
Household furnishings and equipment	$58	4.1%	3.8%	3.8%	4.6%
Communication	$47	3.3%	2.2%	2.7%	3.9%
Household services and operation	$45	3.1%	3.0%	3.5%	3.2%
Education	$44	3.1%	2.5%	3.0%	3.1%
Clothing and footwear	$44	3.1%	4.0%	3.5%	2.6%
Domestic fuel and power	$41	2.9%	1.5%	2.4%	2.4%
Alcoholic beverages	$32	2.2%	4.5%	2.9%	2.1%
Personal care	$29	2.0%	1.9%	1.9%	2.0%
Tobacco products	$13	0.9%	1.5%	1.2%	0.4%
Total	***$1,425***	***100.1%***	***100.1%***	***99.7%***	***99.8%***

The above figures are simply averages. Consumption of discretionary goods such as tobacco varies greatly throughout the population, with a small minority consuming the vast bulk of available products. As a result, the given aggregate figures reflect far lower expenditures than what the actual consumers pay, as the inclusion of those that spend nothing on tobacco products shifts the average down.

Additionally, some categories for taxes don't easily align with the categories for expenditures. In those cases, this paper uses different expenditure data or resorts to using broader averages. For example, we used state and federal tax revenues and the number of employed Australians and Victorians to calculate rough averages. The averages assume earners are the same individuals paying the bulk of the taxes. For example, non-working dependents such as children or a stay-at-home spouse may consume products and pay tax, but because another employed person subsidises them, we assume that the person is the one paying the tax. There is an exception for retired individuals who still consume but are not employed and live off either their pension or savings. Therefore, whenever possible, this paper attempts to find the spending habits for each group and estimates the tax from there.

Due to the economic downturn precipitated by COVID-19, both revenue collection and spending by the government have changed dramatically. As such, current revenue and spending figures do not necessarily represent the normal tax burden under favourable economic conditions. For example, with few people travelling, individuals are spending less on fuel and, by extension, the fuel excise. Instead, the paper uses 2018/19 figures and revenues wherever possible.

First, we address general consumption taxes, followed by taxes on transportation and taxes on housing. General consumption refers to most expenditures except on housing and transportation. General consumption includes the Goods and Services Tax (GST), insurance taxes, customs duties, and 'sin' taxes (alcohol excise, tobacco excise, and gambling taxes). Because transportation and housing make up the largest expenditures for the average Australian and have so many taxes associated with them, this paper addresses them separately from general consumption. On average, Australians spend 14.5 per cent of their available income on transportation and 19.6 per cent on housing. The transportation section includes the additional costs associated with purchasing a vehicle; the luxury car tax, registration, compulsory third party insurance, licensing and associated fees, fuel taxes, tolls, and traffic and parking fees. The housing section includes the impacts of planning, stamp duty, land taxes, and council rates.

By evaluating consumption taxes, this paper aims to provide a more complete picture of the total tax burden on Australians. Even after-tax income cannot be considered tax free because of consumption taxes. Although these taxes are indirect, they greatly reduce the amount of real income in terms of the amount of utility in each dollar available to Australians. Table 2.2 shows the amount an individual making each specified income would have to pay for each of the taxes on consumption, and the percentage of total compensation.

Table 2.2 - Taxes on Consumption for Specific Incomes

	Minimum Wage *($38,300)*	**Avg Wage (Vic)** *($63,442)*	**High Wage** *($110,000)*
GST	$2,880 5.7%	$4,190 5.1%	$4,717 3.3%
Insurance Taxes	$413 0.8%	$413 0.5%	$413 0.3%
Customs Duties	$1,231 2.4%	$1,231 1.6%	$1,231 0.9%
Alcohol Excise Taxes	$306 0.6%	$294 0.4%	$337 0.2%
Tobacco Excise Tax	$321 0.6%	$382 0.5%	$202 0.1%
Gambling Tax	$370 0.7%	$370 0.4%	$370 0.3%
Luxury Car Tax*	—	—	—
Motor Vehicle Duty	$278 0.6%	$278 0.3%	$278 0.2%
Registration Charge and Vehicle Transfer Fees	$1,191 2.4%	$1,191 1.4%	$1,191 0.8%
Fuel Tax	$650 1.3%	$817 1.0%	$682 0.4%
Tolls	$2,610 5.2%	$2,610 3.1%	$2,610 1.8%
Traffic and Parking Fines	$218 0.4%	$218 0.3%	$218 0.2%
The Impact of Planning	$4,669 9.3%	$5,959 7.2%	$6,842 4.8%
Stamp Duty	$1,910 3.8%	$1,910 2.3%	$1,910 1.3%
Land Tax	$1,198 2.4%	$1,198 1.4%	$1,198 0.8%
Council Rates	$1,488 3.0%	$1,488 1.8%	$1,488 1.0%
Total	**$19,734** **39.2%**	**$22,549** **27.2%**	**$23,687** **16.5%**

2.1 GENERAL CONSUMPTION

2.1.1 GOODS AND SERVICES TAX (GST)

The Howard government introduced the Goods and Services Tax (GST) on 1 July 2000 as a replacement for the Wholesale Sales Tax (WST) regime that taxed each item differently. Policymakers at the time claimed it would also replace several inefficient state and federal government taxes, including, but not limited to, the debits tax, conveyancing duties on business property, accommodation taxes, banking taxes and stamp duty. The federal and state governments failed to work together to repeal or reduce many of these taxes, but the federal government did successfully reduce the federal income tax.

GST is a 10 per cent broad value-added tax on almost all goods and services consumed in Australia, with a few exceptions.[28] Policymakers have exempted certain items, generally necessities, from GST. These include most basic food items; some educational courses, course materials, and related excursions or field trips; some medical, health, and care services; some menstrual products (from 1 January 2019); some medical aids and appliances; some medicines; some childcare services; some religious services and charitable activities; supplies of accommodation and meals to residents of retirement villages by certain operators; cars for disabled individuals to use, when certain requirements are met; water, sewerage and drainage; international transport and related matters; precious metals; sales through duty-free shops; grants of land by the government; farmland; international mail; exports; sales of businesses as going concerns; some telecommunications supplies; and eligible emissions units.[29] Some items, which ordinarily fall under the GST, avoid the tax because the business selling the product is too small. Enterprises earning less than $75,000 or $150,000 (if a non-profit) do not need to register for GST.[30] GST may also be reclaimed by registered businesses when buying goods or services for their business. The government attempts to ensure they do not tax goods and services at every step in the supply chain.[31]

The federal government distributes GST revenue back to states, reducing the states' dependence on federal transfers from other revenue streams. The commonwealth government collected

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28 "*GST,*" Australian Taxation Office, September 3, 2018, https://www.ato.gov.au/business/gst/.
29 "*GST Free Sales,*" Australian Taxation Office, October 27, 2020, https://www.ato.gov.au/business/gst/when-to-charge-gst-(and-when-not-to)/gst-free-sales/.
30 "*How GST Works*," Australian Taxation Office, December 7, 2018, https://www.ato.gov.au/Business/GST/How-GST-works/.
31 "*Taxable Sales,*" Australian Taxation Office, September 6, 2017, https://www.ato.gov.au/business/gst/when-to-charge-gst-(and-when-not-to)/taxable-sales/.

$65.147 billion in GST in 2018/19, $60.263 billion in 2019/20 and expects to collect $59.981 billion in 2020/2021.[32] The year 2020 was an outlier as the COVID-19 pandemic led to a significant worldwide drop in demand for products. As a result, 2018/19 provides a more accurate picture of Australian buying habits. GST adds up to, on average, $5029 per Australian worker per annum.

When collecting GST, the federal government taxes businesses, not individuals. However, companies typically include GST in the prices of the goods they sell. As a result, the Australian people indirectly pay the GST.

A low-income worker, earning a salary of $25,000 a year, will spend approximately $3,193 a year, or 9.7 per cent of their total compensation on GST. That is 12.7 per cent of this worker's taxable income.

Unlike the income tax, GST is regressive. Those with a lower income spend a higher percentage of their earnings on GST than those making less. However, those earning less tend to spend less in dollar terms on GST because they consume less. Those earning a larger income tend to save a higher percentage of their earnings and avoid paying a higher percentage tax on the GST. The Australian Council for Social Service commissioned a study in 2015 on the distributional impact of the GST. Using the 2015/16 budget, they identified the share of disposable household income each quintile spent on GST. They found that the first quintile spent 13.4 per cent of their equivalised household disposable income on GST, the second quintile 8.5 per cent, the third quintile 8.3 per cent, the fourth quintile 7.2 per cent, and the highest income quintile 5.9 per cent.[33] On average, workers spend 7.4 per cent of their disposable income on GST. While real income changes from year to year, we expect little variance between spending habits for each quintile between years.

[32] "Budget Paper No. 1: Budget Strategy and Outlook," Budget 2020-2021, Department of the Treasury, last accessed 28 November, 2020, https://budget.gov.au/2020-21/content/bp1/download/bp1_bs5.pdf.

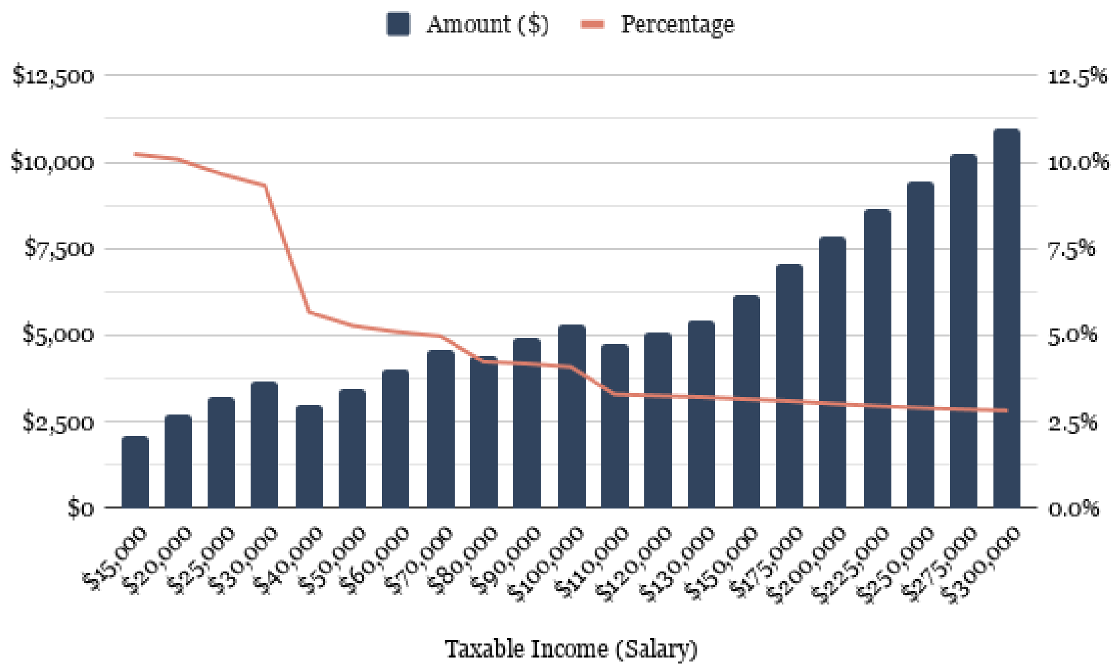
[33] Phillips, Ben, and Matt Taylor, "*The Distributional Impact of the GST*," Technical Report 29, National Centre for Social and Economic Modelling (NATSEM), 2015.

A low-income worker, earning a salary of $25,000 a year, will spend approximately $3,193 a year, or 9.7 per cent of their total compensation on GST. That is 12.7 per cent of this worker's taxable income.

A minimum-wage worker earning $38,300 would spend less on GST than an individual making $25,000 because they fall into the second quintile. A full-time minimum wage worker would spend less of their disposable income, resulting in a GST of $2,880 or 5.7 per cent of their total compensation. Both individuals likely do not have much income remaining to save after spending their income on basic necessities. However, our first quintile worker earning $25,000 spends, on average, 13.4 per cent of their disposable income on a tax, only 10 per cent of the value of purchases. This finding indicates that individuals in the first quintile spend more money than they possess after paying their taxes on earnings and borrowing to make purchases. In general, workers in the second and third quintiles spend less than they have in disposable income, meaning they pay less than 10 per cent of their earnings on the GST.

Figure 2.0 shows the regressive nature of the GST. While individuals earning more spend more in terms of dollar amounts in GST, those making less spend much higher percentages of their total compensation on the GST.

Figure 2.0 - GST Amount Paid and Percentage Tax Compared



While GST is regressive, it is not the most regressive of Australia's sales taxes. Additionally, the GST, because it applies broadly across most purchases, does not distort the market and create perverse incentives.

The simplicity of the GST makes compliance easy for businesses of all sizes. Complex tax systems benefit large companies at the expense of smaller firms that do not have the resources to devote to compliance. Additionally, corporations can use the complexity to lobby for loopholes that allow them to receive tax breaks and out-compete other businesses. While much better than previous taxes, the GST still has many loopholes that could be removed to create a fairer market.

Additional revenue from closed loopholes could be used to remove double taxation without harming the government's bottom line. For example, GST removing the cost of customs duties from GST calculations on imported goods.

Recommendations 2.1.1

a. **Re-evaluate cutouts and loopholes that allow specific industries to avoid paying GST and consider removing them to improve efficiency.**
b. **Remove areas where GST is issued on other taxes.**

2.1.2 CUSTOMS DUTIES

Even before federation, tariffs and import duties played a massive role in state and federal revenue-raising. States even issued tariffs on each other. Victoria was historically the most protectionist state. Thus, Sydney is considered a global city, while Melbourne does not have the same international sway today. After federation, the states established free trade amongst each other and restricted themselves to only issuing tariffs as a commonwealth on foreign countries. The major parties were comprised of the Free Trade Party, the Protectionist Party, and the Labour Party. For the better part of the twentieth century, Australia issued increasingly high tariffs, some of which were over 40 per cent.

After 2000, the Australian government reduced customs duties to 15 per cent, then 10 per cent in 2005, and finally 5 per cent in 2010. Now tariffs are used more as an attempt to protect specific domestic industries and less to raise revenue.

From the consumer's perspective, Customs duties act like broad-based sales taxes similar to the GST, and specific tariffs like the luxury car tax (LCT) act like higher excise taxes. However, unlike domestic sales taxes, the impact of tariffs on consumers is harder to calculate, and the Australian government has less power over how its citizens are taxed.

The classification of the goods and other factors, including exemptions, concessions and the existence of preference schemes (for example, free trade agreements), determine the amount payable for an item.[34]

Australia has active trade agreements with New Zealand, Singapore, the United States, Thailand, Chile, Brunei, Burma, Malaysia, the Philippines, Vietnam, Laos, Cambodia, Indonesia, Malaysia, South Korea, Japan, China, Hong Kong, Peru, Mexico and Canada in the Trans-Pacific Partnership.

When consumers (both individuals and businesses) import goods into Australia, the consumer must pay according to the product's value plus 5 per cent of that value for the customs duty. The customs duty does not apply to transport fees and insurance fees. Then the consumer must pay GST on the full value of the imported goods, that is, the goods' value plus the customs duty, transport fees, and insurance fees.

However, goods with a declared value of $1000 or less and that arrive by mail are not subject to customs duties, taxes or charges at the border—unless they are alcoholic beverages. That said, the federal government still collects GST on these goods when they are sold or when the consumer makes an online purchase of an overseas good.[35]

All goods imported into Australia by sea, air, or post with a customs value that exceeds $1000 must be cleared by submitting a completed import declaration and paying the duty, GST, and other taxes and charges that apply.

While calculating the effect of any tariff on real incomes can be complicated, this paper uses a simple average cost per worker. We assume the full cost is passed on to working Australians and not borne by international companies. Additionally, this paper does not consider retaliatory tariffs issued by other countries, costing our business owners and trickling through the economy in the form of higher-priced goods and lower salaries.

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[34] "How is the amount of customs duty calculated?" Worldwide Customs and Forwarding Agents, last accessed 29 November, 2020, https://www.wwcf.com.au/import-tax-import-duty-australia/

[35] "Importing by post or mail," Australian Border Force, last updated 10 February, 2021, https://www.abf.gov.au/buying-online/importing-by-post-or-mail

In 2018/19, the federal government collected $15.94 billion in revenue from customs duties. Undoubtedly, COVID-19 will distort government revenues from customs duties as the pandemic has distorted the trade environment. The average cost of the customs duty per Australian worker was $1,231 that year. This cost, while high, is much less than 50 per cent of the average GST. This provides a good indicator as the customs duty is issued on many of the same types of goods as GST but at half the rate.

For further comparison in the United States, the recent tariffs issued on foreign manufactured goods by President Donald Trump saw a $1,300 decrease in real household income for Americans.[36]

Customs duties cannot be dismissed from any taxation analysis as they are Australia's second-largest tax on general consumption. Like other consumption taxes, customs duties are regressive, increasing the price by a set amount that consumers must pay regardless of income. Unlike the GST, customs duties more broadly impact products, meaning essential goods such as foods and educational materials are indiscriminately taxed.

The cost of the import duty should be removed from the calculation for GST. GST should only be issued on the value of the good or service, not any taxes or fees on top of that value. Additionally, as consumers already must pay the customs duties on products they import from abroad, these goods should receive a discounted GST rate. Businesses often rely on intermediate goods from abroad, and the double taxation through GST and customs duties leaves many Australian companies worse off.

Recommendations 2.1.2

a) **Remove the cost of the import duty from the calculation for GST to avoid taxing a tax.**
b) **For imported goods, allow businesses to pay a reduced GST of 5 per cent as they already must pay the import duties.**
c) **Negotiate further free trade agreements with our allies to benefit Australian consumers by providing cheaper foreign goods and benefiting Australian businesses dependent on intermediary goods from abroad.**

[36] "Escalating U.S. Tariffs: Affected Trade," Congressional Research Service (Report IN10971), updated 29 January, 2020, https://fas.org/sgp/crs/row/IN10971.pdf.

2.1.3 INSURANCE TAXES

Victoria levies insurance duties on non-life (general) insurance purchases and stamp duties on compulsory third party taxes. This includes insurance on Victorian properties, their contents, and other possible risks to property or assets an individual might wish to mitigate in Victorian.[37] The insurance tax disincentivises desirable behaviour: purchasing insurance. Many Australians are underinsured or uninsured.[38] As a result, when misfortune strikes, many Australians are left destitute or must rely on taxpayer dollars to help them through a personal crisis.

When taking out general insurance, the insurer is charged a 10 per cent duty, and like most consumption taxes, that tax burden is shared. A portion, if not all of the tax the life insurance policies, is passed onto the customer in the premium paid, as stated by the Victorian State Revenue Office. On the flip side, if a customer takes out international insurance, the customer is responsible for paying the 10 per cent duty.

The 10 per cent duty on the premium is inclusive of any commission and GST.[39] This means not only is the consumer paying tax on the value of the insurance they are receiving, but they are also paying tax on the value of another tax, the GST. Consumers must also pay tax on compulsory third party insurance.

The 10 per cent duty on the premium is inclusive of any commission and GST. This means not only is the consumer paying tax on the value of the insurance they are receiving, but they are also paying tax on the value of another tax, the GST.

Other insurance types are more complex, such as the fire services levy. For the fire-services levy, to determine the appropriate recovery on various insurance products, insurers provide their

[37] Ibid
[38] Driver, Tania, Mark Brimble, Brett Freudenberg, and Katherine Helen Mary Hunt, "Insurance Literacy in Australia: Not Knowing the Value of Personal Insurance," Financial Planning Research Journal 4, no. 1 (2018): 53-75.
[39] "Insurance," State Revenue Office Victoria, last modified November 9, 2020, https://www.sro.vic.gov.au/insurance.

contribution to the levy in advance. This makes the process complicated and liable to inaccuracy as insurers must forecast the market when applying tax to the premiums.[40]

The life insurance policies, because of the length of time they are held ideally, collect investment earnings. Providers must then pay the company income tax rate on all investment earnings from assets that support ordinary life insurance policies.

Accumulated earnings paid to policyholders are tax-free if the policy is cancelled or matures after being held for ten years. If the policy is cancelled or matures after being held for eight years or less, policyholders are charged at marginal tax rates. On occasion, accumulated earnings are taxed, a 30 per cent tax offset is applied to prevent double taxation.[41]

Different tax rates are applied for life insurance and term insurance, whereby specific insurance products and specific tax arrangements for the insurance industry are imposed on by the state government. For example, in NSW, Victoria, and Tasmania, insurance companies have to aid in funding fire brigades. These additional costs are usually passed on to the cost of insurance premiums.

The Victorian government collected $1.299 billion in revenue from insurance taxes in 2017/18 and $1.373 billion in 2018/19.[42] The Victorian Department of Treasury and Finance predicts a continued and gradual increase in revenues from insurance taxes over the next five years.

Dividing the total government revenue by the number of employed Victorians results in a tax take of $399 per worker in 2017/18 and $413 per worker in 2018/19.

Australians do not buy sufficient insurance. Currently, the Victorian government is disincentivising residents from purchasing a product that would reduce societal externalities (for example, an individual facing a financial crisis and relying on Centrelink) by making the insurance more expensive.

Insurance taxes should be removed entirely to prompt more people to buy the necessary insurance to protect themselves and their families from a crisis.

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[40] "Australia's future tax system: Report to the Treasurer," Commonwealth of Australia, ACT, December 2009, https://treasury.gov.au/sites/default/files/2019-10/afts_final_report_part_2_vol_2_consolidated.pdf.
[41] Ibid
[42] "Major categories of taxation revenue," Australian Bureau of Statistics, accessed 12/4/2020 https://www.abs.gov.au/statistics/economy/government/taxation-revenue-australia/latest-release

Recommendation 2.1.3

a) **Remove the cost of insurance taxes from the calculation for GST to avoid taxing a tax.**
b) **Consider removing insurance taxes entirely and instead simply charge GST on the products offered by insurance providers and tax all profits according to corporate tax. This would reduce the disincentive to purchase insurance.**

2.2 SIN TAXES

'Sin' taxes, unlike other consumption taxes, attempt to change behaviour and raise revenue. These taxes include the alcohol excise tax, the tobacco excise tax, and gambling taxes. These taxes aim to reduce society's externalities by changing individual behaviour, whether that is smoking cigarettes and causing second-hand smoke or burdening the healthcare system with preventable alcohol-related illnesses.

The total revenue from all excise and customs duties is expected to reach $41.68 billion in 2020/21.[43] 'Sin Taxes' and excises more generally impact people because of their choices and do not consider an individual's ability to pay. As a result, people with lower incomes tend to spend a much higher percentage of their income on these taxes.

2.2.1 ALCOHOL EXCISE TAX

Alcohol has some adverse effects on society, known as externalities. For example, many people associate alcohol with increased violence levels, lower productivity, abuse, short lives, and other negative behaviours. However, alcohol also provides much utility to its users and society in general. People enjoy consuming alcohol, and venues that serve it provide a setting for connections, both professionally and personally. As such, the optimal amount of alcohol in society is not zero, but policymakers demonstrate a belief that the market-driven supply of alcohol left untaxed is too high. The alcohol excise tax attempts to reduce the amount of alcohol consumed in Australia and consequently reduce the harms associated with alcohol.

The alcohol excise tax is one of Australia's most complicated federal taxes. It varies according to type of alcohol, alcohol percentage, and how certain beverages are packaged. Wine and cider are taxed as a percentage of the price, while spirits and beer are taxed according to alcohol content.

[43] Department of the Treasury, "Budget Paper No. 1: Budget Strategy and Outlook".

In 1983, the federal government introduced the biannual indexation of all excise rates at the Consumer Price Index (CPI), which it is still carrying out.[44] As a result, Australia has one of the highest alcohol taxes in the world. Australia boasts the fourth-highest beer tax globally, falling just behind Norway, Japan, and Finland. Australia beer drinkers pay 17 times more tax than Germany, 15 times more than Spain, seven times more than the US, six times more than Canada, 4.5 times more than France and Italy, and nearly twice that of our neighbours in New Zealand.[45] Wine drinkers in Australia pay less tax than beer drinkers, and those who enjoy spirits pay much more.

For the 2020/21 financial year, the tax revenue on alcohol (alcohol excise, duties, and wine equalisation tax) is expected to reach $7.23 billion.[46] Unlike other goods, alcohol consumption has likely increased during the COVID-19 pandemic.

Wine

In 1974, wine was taxed on its value under the wholesale sales tax (WST), reaching a high of 41 per cent in 2000. Eventually, the WST was replaced with the Wine Equalisation Tax (WET),[47] a flat rate of 29 per cent tax on the wholesale value of wine. However, fortified wine with more than 22 per cent alcohol content is subject to the standard alcohol excise and not WET.

The ATO recommends taking the retail price, dividing it by two, and then paying the 29 per cent tax on 50 per cent of the retail value of the wine.[48] This approach means that the tax adds up to 14.5 per cent of what the customer pays. Generally, retailers mark up the price of wine more for cheaper wines and less for expensive wines.[49] This means that those buying a lower value wine pay a lower percentage tax than those purchasing an expensive wine, yet ultimately overpay for the product due to the vendor's tax considerations.

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[44] "Excise Duty Rates for Alcohol," Australian Taxation Office, September 15, 2020, https://www.ato.gov.au/business/excise-on-alcohol/lodging,-paying-and-rates---excisable-alcohol/excise-duty-rates-for-alcohol/

[45] "Beer and Taxes," Brewers Association, accessed 14 December, 2020, https://www.brewers.org.au/beer-the-facts/beer-and-taxes/.

[46] Andy Young, "Government Forecasting Lower Alcohol Tax Revenue," The Shout, 16 October, 2020, https://www.theshout.com.au/news/government-forecasting-lower-alcohol-tax-revenue/.

[47] WET rebate introduced, where wine producers could be reimbursed the full WET tax up to a cap. $290k cap in 2004, $500k in 2006, currently $350k (2018).

[48] Australian Taxation Office, "

[49] "Liquor Cost Guide for Bars: How to price drinks," Barback, accessed 10 December 2020, https://www.getbackbar.com/liquor-cost-bars-restaurants.

Liquor

The ATO splits liquor or non-wine beverages with an alcohol content of more than 10 per cent into two categories: brandy and all other beverages (i.e., gin, vodka, rum, etc.). Brandy, unlike other high alcohol content beverages, is derived from grapes. In 1979, the Australian government reduced that tax on Brandy to support local grape production. Brandy has enjoyed this tax cutout ever since.

Brandy is taxed at a rate of $81.89 per litre of alcohol, while other spirits with an alcohol content of more than 10 per cent are taxed at $87.68 per litre of alcohol.[50] Other alcoholic beverages with less than 10 per cent alcohol content are levied at a rate of $87.68 per litre of alcohol.[51]

For one litre of bottled liquor or spirits with an alcohol percentage of 40 per cent, the consumer pays $34.06 on the alcohol excise tax. On average, a litre of alcohol costs $86.46, meaning for the average expenditure on liquor, the consumer spends 39.4 per cent on the alcohol excise tax. The consumer must also pay an additional 10 per cent on GST.

Pre-mixed alcoholic beverages, commonly referred to as 'alcopops', contain a lower percentage of alcohol per litre. As a result, the tax for a litre of full strength (5 per cent alcohol) alcopops is $3.38. For a litre of alcopop, the consumer pays $15.82 on average, meaning the tax on expenditure is 21.3 per cent.

Taxing based on alcohol percentage instead of value fails to take into account how the alcohol is consumed. In general, people drinking spirits either mix their alcohol with another non-alcoholic beverage such as soda water or soft drink or consume the beverage in much smaller quantities. Rather than taxing on the percentage of pure alcohol consumed, the alcohol excise tax charges Australians based on what kind of beverage they prefer. For example, the individual consuming a vodka cruiser only pays 21.3 per cent tax plus GST on their drink, while the person who drinks vodka with orange juice pays 39.4 per cent plus GST for consuming the same amount of pure alcohol.

Beer

In 1988, a uniform excise tax was re-established on beer with an alcohol content of more than 1.5 per cent.[52] After introducing GST in 2000, tax rates on beer were raised to make up for the 37 per

[50] Australian Taxation Office, "Excise Duty Rates for Alcohol."
[51] Ibid.
[52] More than 1.5 per cent alcohol content

cent WST. Varying tax rates were levied on low-strength beer, mid-strength beer and high-strength beer.[53]

The tax on beer is the most complex of the taxes on alcohol. Currently, beer excise rates are dependent on the alcohol content and the size of the container being sold. Whether the alcohol is stored in a container less than 8 litres or a container 8 to 48 litres (inclusive), designed not to be pressurised/pumped, determines the tax rate. For this paper's purpose, we refer to beer stored in this manner as 'packaged beer'. If the beer is contained in an 8 to 48-litre container designed to be pressurised, this paper refers to it as 'keg beer'. Packaged beer is taxed at a higher rate than keg beer. Practically, this means if a consumer drinks their beer from a glass at a pub, they pay less tax than the person consuming their beer from a bottle or a can.

The tax also changes depending on the strength of the beer. Similar to the income tax, each percentage acts as a threshold to reach the next bracket. However, unlike the income tax, once a beer falls into the next alcohol percentage threshold, the new tax rate applies to every litre of pure alcohol, not just that above the threshold.

Table 2.3 - Beer Tax According to Type and Strength[54]

Strength	Type of Beer	
	Packaged Beer	**Keg Beer**
Low alcohol (2.7%)	$44.45 per litre of alcohol	$8.89 per litre of alcohol
Mid Strength (3.5%)	$51.77 per litre of alcohol	$27.84 per litre of alcohol
Regular Strength (4.8%)	$51.77 per litre of alcohol	$36.47 per litre of alcohol

Prices for beer also vary depending on where beer is consumed. Beer prices tend to be higher at on-licenced premises such as pubs and restaurants. Customers pay not only for the beer but for the opportunity to occupy that space while enjoying their beer. As a result, the percentage tax on the beer changes depending on where beer is consumed. On average, packaged beer consumed at a licensed venue costs $16.36 per litre, packaged beer purchased at an off-licence venue and consumed elsewhere costs $7.27 per litre, and keg beer (which we assumed for the purposes of

[53] "Alcohol Taxation in Australia," Parliament of Australia, Parliamentary Budget Office, https://www.aph.gov.au/-/media/05_About_Parliament/54_Parliamentary_Depts/548_Parliamentary_Budget_Office/Reports/2015-16/03_2015_Alcohol_taxation_in_Australia/Alcohol_taxation_in_Australia_-_MsWord.DOCX?la=en&hash=9500B88843B31681F90803BD4F3FF5F7479133DA

[54] Australian Taxation Office, "Excise Duty Rates for Alcohol,"

this paper is consumed at on-licence venues) costs $14.55 per litre.[55] Due to lack of data, this paper assumes the same alcohol prices for mid-strength and low alcohol beer, even though anecdotally, we can assume they are priced lower than a regular strength beer. This means that the percentage tax on those beers is estimated at slightly less-than reality.

Table 2.4 - Beer Tax per Litre and Percentage Tax

Type of Beer	Packaged Beer (on-licence)	Packaged Beer (off-licence)	Keg Beer (assumed on-licence)
Regular Strength	$1.89 11.6%	$1.89 26.0%	$1.33 9.1%
Mid Strength	$1.22 7.4%	$1.22 16.7%	$0.65 4.5%
Low Alcohol	$0.69 4.2%	$0.69 9.4%	$0.14 0.9%

In order to calculate the mean expenditure on alcohol tax per Australian according to their income, this paper considers:

1. How much each income quintile spends on alcohol as a percentage of their income,
2. The breakdown of types of alcohol consumed,
3. The proportion of alcohol consumed at on-licence or off-licence venues,
4. The average cost of each type of alcohol,
5. The different tax rates for each type of alcohol.

In general, lower-income individuals spend a higher percentage of their income on alcohol than those in higher-income quintiles. According to the Australian Bureau of Statistics, those in the lowest income category (the first and second quintiles adjusted to exclude the bottom 2 per cent of Australians) spend 4.5 per cent of their disposable income on alcoholic beverages, middle-income earners spend 2.9 per cent of their disposable income on alcoholic beverages, and the highest income earners spend 2.1 per cent of their disposable income on alcoholic beverages. On average, Australians spend 2.2 per cent of their disposable income on alcohol.[56] However, these figures consider all Australians, including the reportedly 23.3 per cent who abstain from

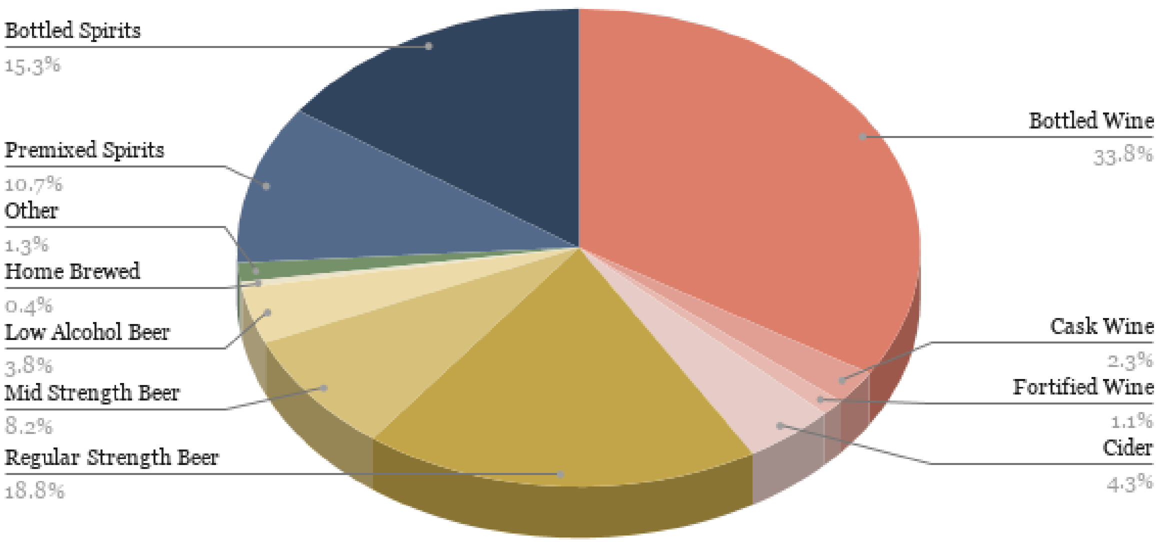
[55] "Economic contribution of the Australian brewing industry 2017-2018: From producers to consumers," Acil Allen Consulting, published May 2019, https://www.acilallen.com.au/projects/economic-modelling-and-analysis/economic-contribution-of-the-australian-brewing-industry-2017-2018.

[56] Australian Bureau of Statistics, "Household Expenditure Survey, Australia: Summary of Results,"

drinking. If these figures included only those who consume alcohol, the percentages would be much higher.

According to the National Drug Strategy Household Survey 2019, the main types of alcoholic beverages recent drinkers reported consuming are wine and cider (41.5 per cent), beer (31.2 per cent), spirits (26 per cent) and other alcoholic beverages (1.3 per cent). Figure 2.1 shows the breakdown of alcohol consumption by a specific beverage type. In order to calculate the proportion of tax paid across the population, this paper assumes the majority of fortified wine is less than 22 per cent alcohol and so are taxed under WET and not the alcohol excise tax.

Figure 2.1 - Breakdown Of Alcohol Consumption By Beverage Type



The Brewer Association estimated that 23 per cent of domestic beer consumed in Australia was on tap at pubs.[57] This paper extrapolates that percentage to all beer. Additionally, because the price varies between alcohol purchased in a licensed venue and purchased for consumption elsewhere, the percentage of the price that goes to tax differs depending on where the alcohol is consumed. According to the Nation Drug Strategy Household Survey 2019, 63.4 per cent of recent drinkers over the age of 14 report purchasing alcohol to drink elsewhere.[58] We applied this same statistic to beer consumption as there is little evidence showing that individuals

[57] Acil Allen Consulting, "Economic contribution of the Australian brewing industry 2017-2018: From producers to consumers."

[58] "National Drug Strategy Household Survey 2019," Australian Institute of Health and Welfare, 16 July, 2020, https://www.aihw.gov.au/reports/illicit-use-of-drugs/national-drug-strategy-household-survey-2019/data.

substantially change their drinking preferences when at the pub versus in their own homes. While some people do purchase kegs of beer to consume off-premises, that is not the norm. So, we assume the 63.4 per cent of beers consumed at home were packaged. We further assume that the unaccounted-for beers are packaged beers consumed at the pub.

For beer, the average prices come from the Brewers Association's calculation. For spirits and other alcoholic beverages, we calculated the averages by collecting a sample of beverage prices. For bottled spirits and pre-mixed drinks, we assume that the consumer purchased the beverages at an off-licence venue because of a lack of data on the percentage of each beverage consumed at home versus at the pub.

Table 2.5 provides the necessary information to calculate the average alcohol tax as a percentage of the amount spent on alcohol. For beers and spirits, tax is calculated according to the total litres of pure alcohol (LAL).

For beer, LAL is calculated:

$$LitresOfBeverage * (AlcoholStrength - 1.15\%) = LAL$$

For spirits, LAL is calculated:

$$LitresOfBeverage * AlcoholStrength = LAL$$

Table 2.5 shows the LAL for one litre of a beverage and multiplies it by the tax rate to find the tax per litre of a beverage. Then, using the average retail price per litre, we are able to calculate the average percentage tax per expenditure on an alcoholic beverage, even if the tax for that beverage is based on alcohol content and not price.

The equation to calculate the tax as a percentage of the price is:

$$\frac{LAL * TaxRate}{RetailPrice} = PercentageTax$$

By taking the sum of the proportion of the population that consumed each type of beverage according to the National Drug Strategy Household Survey 2019 multiplied by the percentage tax, we can find the average tax across all beverage types. There are 17 categories of alcoholic beverages taxed at different rates. These categories take into account beverage type, strength, packaging, and location.

$$\sum_{i=1}^{n} x_i * p(x_i)$$

$$n = NumberOfTaxableCategories$$
$$i = CategoryOfAlcoholicBeverage$$
$$x_i = PercentageTax$$
$$p(x_i) = ProbabilityOfConsumption$$

Table 2.5 - Alcohol Tax According to Beverage, Strength, Packaging, and Location Consumed

Beverage	Strength	Packaging	Location	Tax rate/L (alcohol)	LAL	Tax/L (Bev.)	Retail price/L	Tax/$
Wine and Cider	Cask wine			29% of wholesale value	*Wine and cider are taxed according to price, not alcohol percentage			14.5%
	Bottled wine							14.5%
	Cider							14.5%
	Fortified wine, sherry, etc							14.5%
Beer	Regular strength	Keg Beer	—	$51.77	0.0365	$1.89	$16.36	11.6%
		Pkg. Beer	On licence	$51.77	0.0365	$1.89	$7.27	26.0%
			Off licence	$36.47	0.0365	$1.33	$14.55	9.1%
	Mid strength	Keg Beer	—	$51.77	0.0235	$1.22	$16.36	7.4%
		Pkg. Beer	On licence	$51.77	0.0235	$1.22	$7.27	16.7%
			Off licence	$27.84	0.0235	$0.65	$14.55	4.5%
	Low alcohol	Keg Beer		$44.45	0.0155	$0.69	$16.36	4.2%
		Pkg. Beer	On licence	$44.45	0.0155	$0.69	$7.27	9.5%
			Off licence	$8.81	0.0155	$0.14	$14.55	0.9%
	Home brewed	Keg Beer	—	—	—	—	—	0.0%
Spirits and Liquors	Full Strength	Premixed	—	$87.68	0.0385	$3.38	$15.82	21.3%
	High Strength		On licence	$87.68	0.0585	$5.13	$15.82	32.4%
		Bottled	On licence	$86.90	0.3885	$33.76	$86.46	39.0%

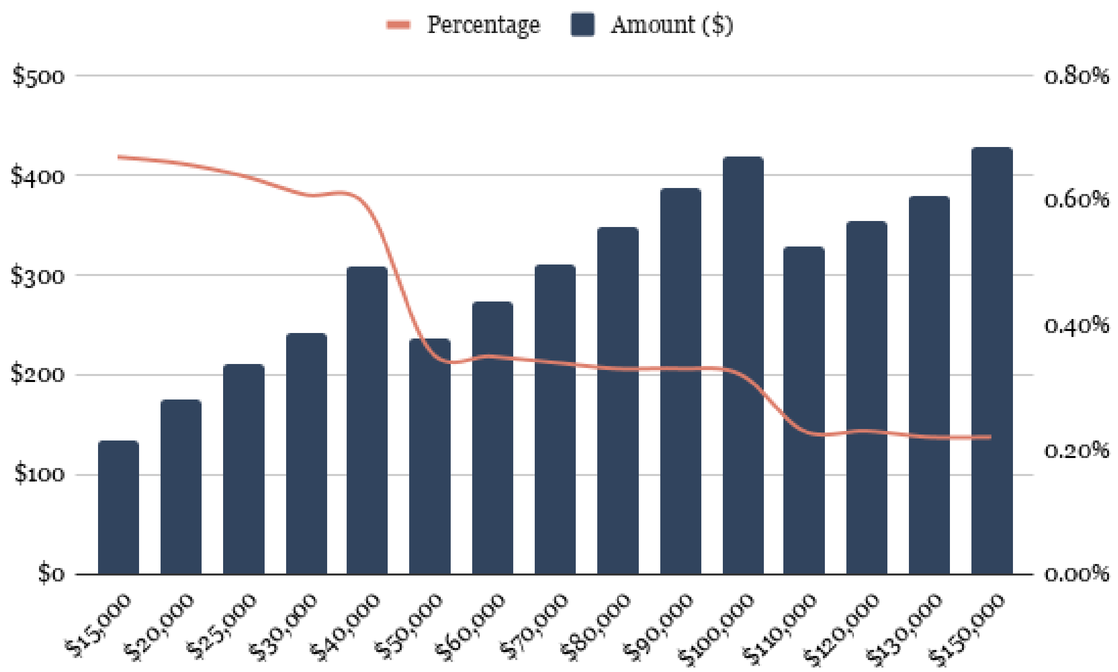
The average tax (both WET and the alcohol excise tax) paid on all alcoholic beverages is 20.2 per cent of each expenditure. This does not include the GST. An individual consumer will likely pay more or less alcohol tax depending on their preferences and other purchasing criteria. For example, a bottle of spirits includes a tax of 39 per cent of its retail value.

The average tax (both WET and the alcohol excise tax) paid on all alcoholic beverages is 20.2 per cent of each expenditure. This does not include the GST.

Using the average alcohol tax as a percentage of expenditure, we can then look at the average expenditure per income group and find the cost of the tax according to income. A worker in the first quintile earning $25,000 a year spends, on average, $209 annually on the alcohol tax. This is 0.63 per cent of their total compensation. A minimum wage worker spends $306, or 0.60 per cent of their total compensation of the alcohol tax.

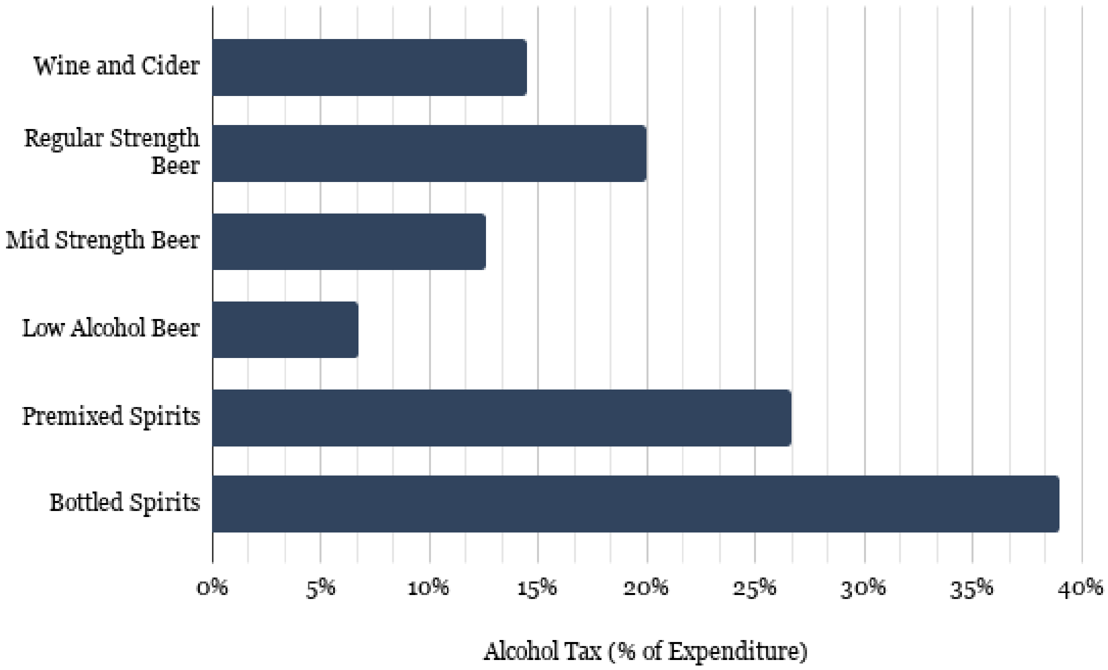
Like the GST, the alcohol tax impacts lower-income individuals more than those making higher incomes. However, the effect is more pronounced as lower-income individuals tend to spend more on alcohol compared with higher-income earners. Figure 2.2 shows both the average amount paid in alcohol excise taxes and the percentage tax of their total compensation.

Figure 2.2 - Alcohol Excise Amount Paid and Percentage Tax Compared



Additionally, individuals are taxed harshly depending on their personal preferences for alcoholic beverages. For example, someone purchasing wine or cider pays substantially less tax than an individual purchasing liquor, as shown in Figure 2.3.

Figure 2.3 - Alcohol Tax Rate According to Beverage Type



Alcohol taxes aim to reduce the amount of alcohol Australians consume, but instead, they reduce the amount of disposable income available to Australians for other things. When including GST, the total alcohol tax on certain beverages is close to 50 per cent, and yet the majority of Australians still consume alcohol.

Alcohol taxes aim to reduce the amount of alcohol Australians consume, but instead, they reduce the amount of disposable income available to Australians for other things. When including GST, the total alcohol tax on certain beverages is close to 50 per cent, and yet the majority of Australians still consume alcohol.

The taxes on alcohol do not take into account general drinking habits. According to alcohol content and at higher rates for purer alcohol, taxing does not create a progressive tax system where those who consume the most alcohol are taxed the most. The tax is entirely preference-based. Two individuals consuming the same number of standard drinks could face wildly different tax rates depending on what they choose to consume.

A fair tax does not punish consumers for their preferences. Drinking liquor does not lead to any more societal externalities than drinking beer.

Recommendation 2.2.1

a) **Replace the alcohol excise tax, which is calculated according to alcohol content, with the WET tax for spirits and beers.**
b) **Remove the biannual indexation of the alcohol tax. It is unnecessary with a tax based on the value of expenditures.**

2.2.2 TOBACCO EXCISE

Since 1901, the federal government has imposed excise duty on the manufacture and import of tobacco products with the Excise Act and the Customs Act, respectively. In 1983, the federal excise and customs rate was linked to CPI. The duty rate for cigars was immediately made equal to that of cigarettes, and the duty rate for non-cigarette tobacco was increased by $5 per kilogram.[59] Since that time, the duty has increased twice each year and often, it was increased beyond what was necessary to keep up with inflation. In 2010, the excise rate was increased by 25 per cent, and from 2013 to 2020, it was increased by 12.5 per cent annually.

Additionally, retailers from 1973 to 1997 had to pay licence fees, comprising a fixed yearly fee and a rate taxed on the value of tobacco sales for the prior month. The monthly sales tax reached a high of 100 per cent in 1997 before it was abolished the same year. Now, all tobacco products in Australia are imported as no one holds the appropriate licences to manufacture and grow tobacco products in Australia.

The introduction of GST in 1999 did not result in a tobacco excise reduction (as occurred for alcohol).[60]

[59] Duty rates increased by another $5 per kilogram in 1984 and 1985, and by another $1.90 per kilogram in 1986.
[60] Greenhalgh, EM, MM Scollo, and MH Winstanley, "Tobacco Taxes in Australia," Tobacco In Australia (Cancer Council Victoria; 2020), https://www.tobaccoinaustralia.org.au/chapter-13-taxation/13-2-tobacco-taxes-in-australia

Recently, tobacco excise rates have so far outpaced wage growth that the black market has become a significant competitor with the legal market. In Australia, a pack of Marlboros costs $33.16, while in nearby countries, they only cost a fraction of the price.[61] In South Korea, the same cigarettes cost only $5.51, in China $4.94, and a mere $2.64 in Indonesia. This leaves a large profit margin for potential illegal importers. Between the years 2018 and 2019, illicit tobacco sales jumped from 14.1 per cent to 20.7 per cent of all tobacco sales.

Recently, tobacco excise rates have so far outpaced wage growth that the black market has become a significant competitor with the legal market.

According to the National Drug Strategy Household Survey, 11.6 per cent of Australian adults smoke daily. The National Institute of Health estimates 20 to 25 per cent of Australians who smoke become daily smokers. Of those smoking daily, the NDSHS reports they, on average, smoke 12.9 cigarettes per day. These individuals are a minority of the population and so end up paying the bulk of the tobacco tax, well above the estimated average.

Tobacco, less than 0.8 grams, is taxed at $1.1036 per stick. The federal government taxes tobacco that is not in stick form and those in stick form exceeding 0.8 grams, at $1576.57 per kilogram of tobacco content.[62] This rate amounts to approximately a 63 per cent tax on the value of cigarettes. Using income adjusted household expenditure data finds individuals generally spend a couple of hundred dollars on cigarette excise. These findings average smokers with non-smokers and so finds workers in the lower-income group spend less than 1 per cent of their earnings on the tobacco excise tax, and those in higher-income brackets spend even less.

However, using government revenue yields very different results. In 2018/19, the federal government collected $12.147 billion from the tobacco excise tax; in 2019/20, they collected $16.270 billion and expect to collect $15.28 billion in 2020/21.[63] This amounts to $937.70 tax per Australian worker. Figure 2.4 shows both the estimated average expenditure on tobacco and

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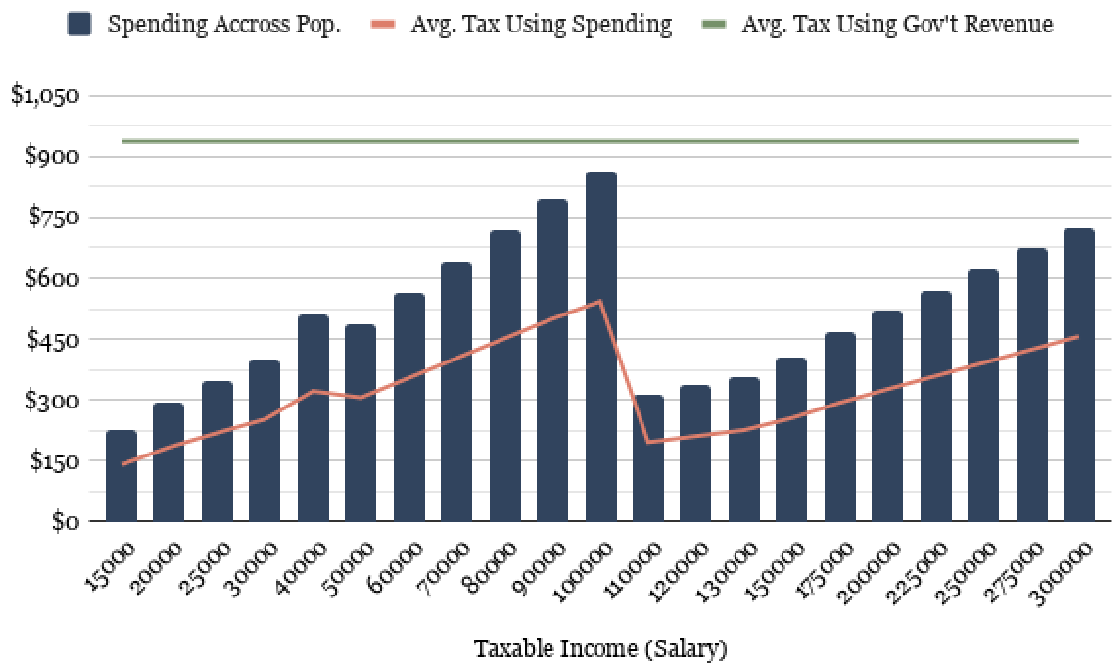
[61] Emilie Dye, "The government needs to wean itself off tobacco tax," Flat White, Spectator, August 23, 2020, https://www.spectator.com.au/2020/08/the-government-needs-to-wean-itself-off-tobacco-tax/

[62] "Excise Duty Rates for Tobacco," Australian Taxation Office, October 2, 2020. https://www.ato.gov.au/Business/Excise-on-tobacco/Excise-obligations-for-tobacco/Excise-duty-rates-for-tobacco/

[63] Department of the Treasury, "Budget Paper No. 1: Budget Strategy and Outlook."

the associated tax. For comparison, the figure includes the average tax for an Australian worker calculated using government revenue to arrive at a simple average. The average tax, using government revenue, exceeds even the estimated spending on cigarettes, using spending habits for different income groups.

Figure 2.4 - Tobacco Excise Calculated Using Avg. Spending and Per Worker Gov't Revenue From Tax Compared



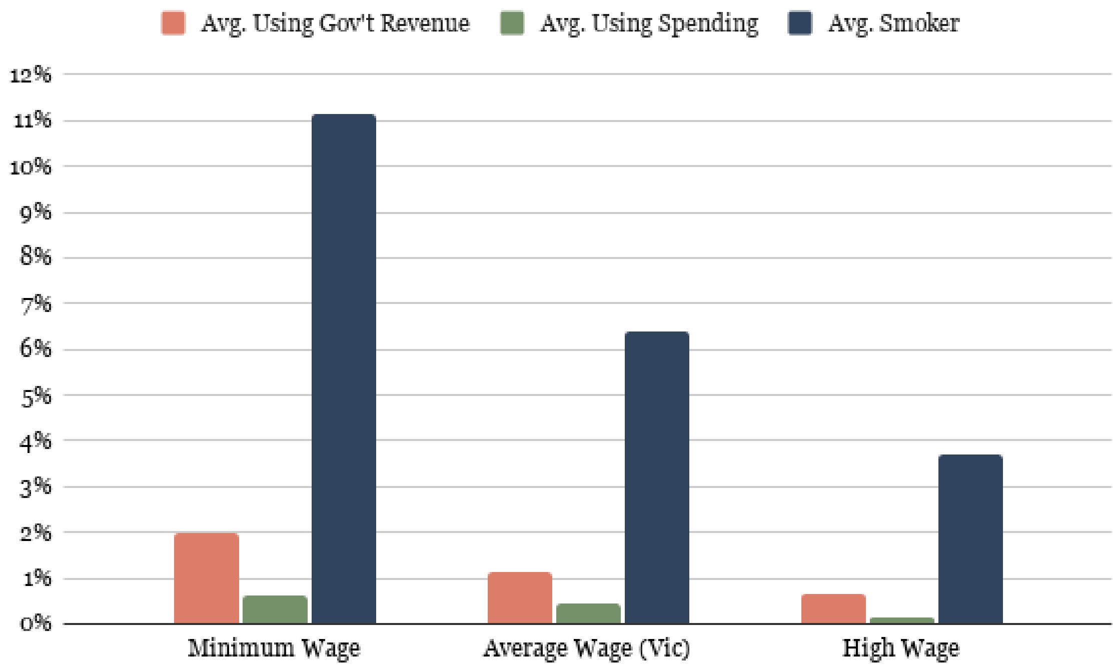
Because only 11.6 per cent of the population regularly consumes cigarettes, it distorts the data when using average spending habits. The average smoker, consuming 12.9 cigarettes a day, will end up paying $5,196 in tobacco excise tax. For someone in the first quintile, that equates to 25 per cent of their disposable income; 15 per cent for the second quintile, 11 per cent for the third quintile, 8.3 per cent for the fourth quintile, and 4.7 per cent even for the highest quintile.

"The average smoker, consuming 12.9 cigarettes a day, will end up paying $5,196 in tobacco excise tax. For someone in the first quintile, that equates to 25 per cent of their disposable income."

The average smoker, consuming 12.9 cigarettes a day, will end up paying $5,196 in tobacco excise tax. For someone in the first quintile, that equates to 25 per cent of their disposable income.

Figure 2.5 demonstrates the different methods for calculating the tobacco excise tax burden across the population, compared with the tax burden for the average smoker, for three specific income groups: the minimum wage worker earning $38,300, the average Victorian earning $63,442, and a high wage worker earning $110,000 per year. While the average expenditure on the tobacco excise tax for all three groups is less than 1 per cent of total compensation, a smoker making minimum wage would, on average, spend 10.3 per cent of their total compensation on the tobacco excise. A smoker making the average wage in Victoria spends 6.4 per cent of their total compensation on the tobacco excise, and a smoker earning $110,000 spends 3.7 per cent of their total compensation on the tobacco excise tax. The dramatic difference between the tax burden felt by a smoker, compared with the average across the population, shows the narrow tax base for the tobacco excise.

Figure 2.5 - Tobacco Excise Tax Burden Averages Across The Population And Tax Burden For A Smoker Compared



The final calculation in this paper uses the average tax according to spending habits. However, this does not provide an accurate picture of smokers.

While calculating the tobacco excise via household expenditures does create the most considerable distortions, the data does show that those in the lowest income group tend to consume more cigarettes. As a result, the tobacco excise tax is likely Australia's most regressive and burdensome tax on the poor.

The tobacco tax is incredibly narrow, meaning a small minority of people must pay much money. Furthermore, those making the least tend to smoke the most, as a result, must pay the tobacco excise tax. A smoker in the bottom quintile could find themselves spending a higher percentage of their income on the tobacco excise tax than someone making $100,000 a year spending on income tax.

The tobacco excise tax hurt the most vulnerable in our society. Because cigarettes are so addictive and the excise tax so high, some find themselves choosing cigarettes over basic necessities.

Recommendation 2.2.2

a) **Remove the biannual indexation of tobacco excise tax.This leads to a rapidly increasing tax burden.**
b) **Reduce the tobacco tax substantially so as not to impoverish low-income smokers.**

2.2.3 GAMBLING TAXES

Gambling taxes are unsurprisingly the least effective of the 'sin' taxes at changing behaviour. The Victorian government acknowledges that gambling winnings are not a consistent source of income and that for every win, the gambler has likely lost a significant sum of money. Therefore, the state government taxes the gambling operators, or "the house", which profit from a gamblers' losses. From the perspective of gamblers, the tax does not impact them; they have already lost the money. On the other hand, operators are more likely to optimise games for greater profit due to the tax. As a result, gambling taxes do little to shift behaviour for the primary referent group, rendering gambling tax efficient as a standard tax but a complete failure as a sin tax intended to distort behaviour positively.

In 2018/19, the Victorian government collected approximately $2 billion in tax from all gambling taxes.[64] Taxes on private lotteries brought in $523 million, gambling machines brought in $1.121 billion, casinos brought in $228 million, races and sports betting brought in $110 million, and other types of gambling brought in $24 million. Gambling made up 6.88 per cent of the

[64] "Taxation Revenue, Australia," Australian Bureau of Statistics, released 28 Feburary 2020, https://www.abs.gov.au/statistics/economy/government/taxation-revenue-australia/latest-release#taxation-revenue-analysis.

Victorian government's revenue from state and local taxes. Taxes on gambling in Australia are not a significant form of taxation on a national level. From 1986 to 1987, the revenue from the tax came to a total of $1.26 billion and amounted to 1.53 per cent of all taxation revenue on all levels of government.[65] On the other hand, it is a crucial source of state government revenue, rising to 15 per cent of total state revenue in the 1940s, peaking at 20 per cent in the mid-1950s before gradually falling to 10 per cent in the 1980s. From 1991 to 1992, the tax revenue rose to 15 per cent again.[66]

Australia has the highest rate of gambling in the world despite gambling taxes. Approximately 80 per cent of Australians have gambled at least once.[67]

Australia has the highest rate of gambling in the world despite gambling taxes. Approximately 80 per cent of Australians have gambled at least once.

The most current data available on gambling expenditure is from 2017/18. That year Victorians spent $5.813 billion on all types of gambling or, on average, $1,163 per person.[68] The tax that year added up to 31.84 per cent of all gambling expenditures or a tax of $370 per person.

More research needs to be done on what percentage of the tax burden gamblers hold compared with the house. However, gambling is categorised as addictive behaviour, with multiple organisations devoted to helping people stop. This indicates that gamblers' habits are very

[65] Terry Alchin, "Taxation of Gambling in Australia," Economic Analysis and Policy 19, no. 2 (September 1989): 167, accessed on 12/4/2020, https://reader.elsevier.com/reader/sd/pii/S0313592689500237?token=CF640458A27FC743A1F9AE9880008570C78F8365A05301FB23413ABBBFF5F99D4448BBB32720F29C403911BECBBCABC9

[66] "Australian Gambling Comparative History and Analysis," Australian Institute for Gambling Research University of Western Sydney Macarthur, (Victoria: Victorian Casino and Gaming Authority, 1999), 46, https://www.vcglr.vic.gov.au/sites/default/files/Australian_gambling_comparative_history_and_analysis_project_report_1999.pdf .

[67] "Gambling in Australia," Central Coast Gambling Help, accessed 16 December, 2020, http://www.problemgambling.net.au/ausgambling.html.

[68] "Australian Gambling Statistics (report)," Queensland Statistician's Office, Queensland Government: Treasury, last reviewed 02 December, 2019, https://www.qgso.qld.gov.au/statistics/theme/society/gambling/australian-gambling-statistics#current-release-australian-gambling-statistics.

inelastic, meaning they will continue to gamble regardless of the cost or any tax. As a result, the house could easily pass most, if not all, of the tax burden onto the consumers.

For this paper's purpose, we will assume that gamblers are perfectly inelastic and so pay the full $370 tax.

The budget projections remain similar over the next few years, with the exception of the impact of COVID-19. Unsurprisingly, the gambling industry saw a 14 per cent decrease as a result of lockdowns that closed pubs and stopped many sporting activities.

Like other sin taxes, taxes on gambling are incredibly regressive, impacting those in lower-income brackets more than those at higher incomes. More research is needed to show how much more individuals in lower-income brackets gamble compared with those earning a higher income. Taxes on gambling are even more regressive than shown with this paper's flat calculation. Gambling taxes do not reduce gambling behaviour. They merely complicate the tax code and result in gamblers coming home with even less money.

Recommendation 2.2.3

a) **Remove the gambling tax and simply tax casino and other gambling venues using the corporate tax.**

2.2 TRANSPORTATION TAXES

Despite the government's attempt to ease transportation costs through infrastructure, public transit, etc., transportation remains the third-largest household expenditure, with 14.5 per cent of household disposable income going to it. Only housing and food cost Australians more than transportation.[69]

Australian Government's expenditures on communications and transport infrastructure in 2019/20 are estimated to be $9.0 billion, representing 1.8 per cent of the Australian government's total expenditure.[70] In general, 58 per cent of Australians use public transport or 12 million people. However, that includes those who only use public transport once every three months or so.[71] Even

[69] ABS, "Household Expenditures Survey,", 2019.
[70] Parliament of Australia, "Communications and transport infrastructure,", last accessed 11/30/2020 https://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/pubs/rp/BudgetReview201920/TransportCommunications
[71] Roy Morgan, "Australia's 12 million public transport users face a COVID19 dilemma – get back on the train or drive to work? ", 28 May 2020,

with Australia's large expenditures on public transportation infrastructure, 76 per cent of Australians report owning a car. Another 5 per cent have access to a company car—which is subject to Fringe Benefits Tax (FBT)—and only 12 per cent report not having access to either a family member's car or a company vehicle. [72]

Victorians own substantially more cars than Australians in other states. According to the Census of Population and Housing Survey for 2016, 16.8 per cent of Victorians own three or more motor vehicles, 34.8 per cent own two motor vehicles, and 32.6 per cent own one. That adds up to 84.2 per cent of Victorians owning a car.[73] According to a 2016 Census, 74.4 per cent of Melbournians drove to work while only 13.4 took public transport and a mere 5.4 cycled or walked.[74]

Victorians own substantially more cars than Australians in other states. According to a 2016 Census, 74.4 per cent of Melbournians drove to work while only 13.4 took public transport and a mere 5.4 cycled or walked.

Surprisingly, those in wealthier demographics tend to travel less in private vehicles as a percentage of total travel and more on public transport. Those in lower-income quintiles spend a higher percentage of their travel budget on fuel than those in the top income quintiles. On average, low-income individuals travel 10.6 per cent of the time on trains and 16 per cent on total public transport, compared with those earning a higher income who spend 19.4 per cent of their travel on trains and 25.1 per cent on total public transport. Of those making the lowest incomes, 76.3 per

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http://www.roymorgan.com/findings/8421-public-transport-patronage-in-the-time-of-a-pandemic-may-2020-202005272335.

[72] "Do you have a car permanently available in your household?," Statistica, last modified November 19, 2020, last accessed 27 November 2020 https://www.statista.com/forecasts/1004173/car-ownership-in-australia

[73] "Australian Community Profile: Victoria, number of cars per household," *.idcommunity demographic resources,* accessed 17 December 2020, https://profile.id.com.au/australia/car-ownership?WebID=110.

[74] Australian Bureau of Statistics, "Media Release: More than two in three drive to work, Census reveals", 23 October 2017, https://www.abs.gov.au/ausstats/abs@.nsf/mediareleasesbyReleaseDate/7DD5DC715B608612CA2581BF001F8404?OpenDocument.

cent are much more likely to travel by private vehicle, while only 66.8 per cent of high-income earners travel by private vehicle.[75]

Transportation is one of the largest expenses faced by Australians and one of the highest-taxed. Environmental concerns have led to higher taxes on motor vehicles and less directly to higher fees and regulation costs. This section will cover importation costs (including the luxury car tax), the fuel tax, registration fees, tolls and fees from traffic violations. The Australian and Victorian government can reduce transportation costs for commuters more by cutting taxes, fees, and fines than by building more public transport infrastructure.

2.2.1 PURCHASING A VEHICLE

The Australian government has gone to great lengths to protect the Australian car manufacturing industry. Unfortunately, despite all the tariffs and protectionist policies, Australian car manufacturing still failed. In February 2020, General Motors discontinued the last of the great Australian cars and shut the doors on Holden.[76]

The Centre for Independent Studies compared the prices of a Mercedes C-Class, C250 CGI sedan Avantgarde, registered in 2010 and with between 10,000 km and 20,000 km on the odometer in five countries. They found that in Australia, the average advertised price was $70,564 AUD, while in Germany it was just under AUD$42,000, a little more than AUD$38,000 in the United Kingdom, between approximately AUD$35,000 and AUD$55,000 in the United States and AUD$53,000 in New Zealand.[77] The same pricing disparity exists today with cars registered in 2020.

These high costs are in part due to a lack of supply despite the high demand for cars. All vehicles must be imported from abroad, therefore requiring consumers to cop the 5 per cent customs duty mentioned above. Additionally, individuals have been banned from importing vehicles independently and instead must purchase solely from large foreign manufacturers. Forcing Australians to use a middle-man increases costs. Those manufacturers, in order to export their vehicles to Australia, must comply with Australia's strenuous safety and environmental

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[75] Australian Government, "Relationship between transport use and income in Australia," Department of Infrastructure, Transport, Cities and Regional Development, 2 July 2019, https://www.bitre.gov.au/sites/default/files/Income_and_public_transport_IS102_Web_Accessible.pdf.

[76] Stuart Marsh, "Holden's demise: Why Australia's once-favourite car manufacturer died," *9News,* last updated 17 February 2020, https://www.9news.com.au/motoring/holden-closing-down-why-australias-favourite-car-maker-failed/c23442eb-4e0c-46cb-be93-b80150e2eae3.

[77] Oliver Marc Hartwich and Rebecca Gill, "Price Drivers: Five Case Studies in How Government is Making Australia Unaffordable," *Centre for Independent Studies,* published in 2011, https://www.cis.org.au/app/uploads/2015/07/pm125.pdf.

requirements. These obligations mean they must invest additional funds into vehicles sold in Australia, while this investment is not needed in other OECD nations.[78]

Regulations and tax requirements increase the cost of transportation for individuals in all income brackets. In Victoria, car loan repayments averaged $131.70 per week or $6848.53 per annum.[79] These costs are a result of various factors on top of the value of the vehicle, including regulatory burden, corporate taxes, the GST (covered above), Motor Vehicle Duty, importation costs and the import duty (covered above).

Regulations and tax requirements increase the cost of transportation for individuals in all income brackets. In Victoria, car loan repayments averaged $132 per week or $6,848 per annum.

Regulations add to the cost of vehicles. As a result, Australians get less value for their money when purchasing a vehicle.

Recommendation 2.3.1:

a) **Reduce regulations for vehicle importation that inflate the price of vehicles and hurt the Australian consumer.**

2.2.2 LUXURY CAR TAX (LCT)

In addition to the above costs, certain consumers face further taxes based on their vehicle preference. When the GST was introduced in 1998, the government feared the disruption that a drop in motor vehicle prices would cause as a result of replacing the Wholesale Sales Tax.[80] The original tax on luxury cars was 45 per cent. To counteract falling vehicle prices and protect domestic

[78] Australian Government, "Importing Vehicles into Australia," Department of Infrastructure, Transport, Regional Development and Communications, accessed 17 December 2020, https://www.infrastructure.gov.au/vehicles/imports/.
[79] Australian Automobile Association, " Transport Affordability Index," released February 2020, https://www.aaa.asn.au/wp-content/uploads/2020/02/Affordability-Index-Q4-2019.pdf.
[80] Parliament of Australia, "Bills Digest No. 159 1998-99 A New Tax System (Luxury Car Tax) Bill 1999,", last modified 1999, accessed 11/27/2020 https://www.aph.gov.au/Parliamentary_Business/Bills_Legislation/bd/bd9899/99bd159

vehicle manufacturers, the Australian government enforced a Luxury Car Tax (LCT) of 25 per cent.[81] However, Australia no longer has any vehicle manufacturers.

To counteract falling vehicle prices and protect domestic vehicle manufacturers, the Australian government enforced a Luxury Car Tax (LCT) of 25 per cent. However, Australia no longer has any vehicle manufacturers.

Currently, the LCT costs consumers 33 per cent of the value of their vehicle above the luxury car threshold. Like other consumption taxes, the business importing and selling high-value cars must pay the LCT but inevitably pass the consumer's tax burden.[82]

The luxury car threshold for fuel-efficient vehicles for 2020/21 is $77,565, and the threshold for other vehicles is $68,740. For efficient vehicles, this represents a 2.7 per cent increase from last year and a 1.8 per cent increase for other vehicles. However, the threshold for luxury cars has only increased twice in the last ten years and then only by 0.5 per cent and 0.2 per cent, respectively. The threshold for other vehicles increases by approximately 1.8 per cent every year. [83] This increase means that over time, similar to the income tax, the real tax burden goes up.

The tax on these vehicles is calculated based on the LCT value, which includes the value of the vehicle plus the GST on the vehicle and any importation costs. As a result, a car worth less than the threshold value can be liable for LCT as a result of GST. The LCT threshold is then subtracted from the LCT value, multiplied by 10 and divided by 11, and 33 per cent of the resulting number is the LCT. The same equation applies for a manufacturer importing and selling a luxury car and an individual purchasing a car from a foreign manufacturer and having it imported.[84]

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[81] Prafula Pearce, "The luxury car tax: past its use-by date" Taxation in Australia volume #47, no.11 (n.d.): 703-704, accessed 11/27/2020
https://espace.curtin.edu.au/bitstream/handle/20.500.11937/33703/191924_191924.pdf?sequence=2

[82] Australian Taxation Office "Luxury car tax,", last modified May 27, 2016, accessed 11/27/2020
https://www.ato.gov.au/business/luxury-car-tax/

[83] Australian Taxation Office "Luxury car tax rate and thresholds,", last modified June 2, 2020, accessed 11/27/2020
https://www.ato.gov.au/rates/luxury-car-tax-rate-and-thresholds/

[84] The LCT value of an imported car includes the custom value, amounts not already included in the customs value for the international transport of the car, the amount not already included in the customs value for the insurance of the car,

The tax on these vehicles is calculated based on the LCT value, which includes the value of the vehicle plus the GST on the vehicle and any importation costs. As a result, a car worth less than the threshold value can be liable for LCT as a result of GST. This again creates a situation where the government is taxing a tax.

Even if an individual's car has been subject to LCT, they may still have to pay the LCT on the latest sale if the value of the car has appreciated. This tax punishes consumers because of their preference. Furthermore, many vehicles that would not otherwise qualify for the LCT are pushed over the threshold by the GST. This again creates a situation where the government is taxing a tax.

Recommendation 2.3.2

a) **Remove the luxury car tax and instead only apply GST to vehicle purchases, or**
b) **Do not include GST when valuing vehicles for the LCT.**

2.2.3 REGISTRATION, COMPULSORY THIRD-PARTY INSURANCE, AND LICENSING

Once Victorians have purchased and imported their vehicle, the government requires them to pay the Motor Vehicle Duty, various registration costs, licensing fees, and Compulsory Third-Party Insurance (CTP).

In 2019, the average Victorian spent $31.76 per week on registration and licensing. City-based Victorians spend slightly more than regional Victorians — $32.81 a week, compared with $30.71 per week. Annually, this adds up to $1651.39.

Motor Vehicle Duty

The motor vehicle duty applies when a Victorian registers a new vehicle or purchases a used vehicle and must transfer the registration. For passenger vehicles, Australians must pay 4.2 per cent of the

any customs duty payable on the importation of the car, any GST payable on the importation of the car and add-ons and if the importation of the car is GST-free, an amount equal to the amount of GST that would otherwise have been payable market value of their vehicle, regardless of whether the vehicle is new or used. For luxury passenger vehicles valued between $68,741 and $100,000, the consumer must pay 5.2 per cent of the market value of their newly transferred vehicle. For upper luxury passenger vehicles valued between $100,001 and $150,000, the rate increases to 7 per cent of the market value. For super luxury vehicles over $150,001, the rate is 9 per cent of the market value. However, if the vehicle is a green passenger car, the tax remains 4.2 per cent regardless of the value.

Table 2.6 - Motor Vehicle Duty Rates for Passenger Vehicles[85]

Value of Vehicle	Stated Tax on this value	Tax Rate
0-$68,740	$8.40 per $200 or part thereof	4.2%
$68,741 - $100,000	$10.40 per $200 or part thereof	5.2%
$100,001 - $150,000	$14.00 per $200 or part thereof	7.0%
$150,001 and over	$18.00 per $200 or part thereof	9.0%
Green Vehicles of Any Value	$8.40 per $200 or part thereof	4.2%

In 2017/18, the Victorian government collected $947 million from the stamp duty on the vehicle registration. In 2018/19, they collected $937 million from the motor vehicle duty adding up to 5.4 per cent of state and local tax revenue.

The tax adds up to an annual $496 for every vehicle owner. The motor vehicle duty is a one-off payment for every transfer and not annual tax, which is much lower than the actual duty paid at purchase. On average, individuals own their vehicles for 8.4 years. Added up over those years, the average stamp duty paid for all their vehicles is $4,166. This indicates the total value of the sum of all vehicles at purchase is $99,200. Because stamp duty is paid when an owner first registers their vehicle, and motor vehicles tend to depreciate in value, the tax is paid on the highest possible value of the vehicle for the time frame in which the consumer owns it. Note that the vehicle value is quite high because most Victorian vehicle owners possess more than one car.

Registration Charge and Associated Vehicle Transfer Fees

In order to register a used vehicle in Victoria, car owners must get a Certificate of Roadworthiness (RWC) before their registration appointment.[86] New vehicles, with the exception of taxis, are exempt. For a car in good condition, new owners must pay a mechanic between $100 and $150 for

[85] State Revenue Office Victoria, "Motor vehicle duty current rates (from 1 July 2020)," accessed 17 December 2020, https://www.sro.vic.gov.au/motor-vehicle-duty-current-rates.

[86] VicRoads, "Get a Certificate of Roadworthiness," Victorian State Government, accessed 30 January 2021, https://www.vicroads.vic.gov.au/registration/roadworthiness/get-a-certificate-of-roadworthiness.

an inspection and certification.[87] Prices vary depending on the mechanic, the age of the car, and various other factors.

After obtaining an RWC, car owners must then make an appointment for a registration appointment. Appointment fees cost $19, and vehicle owners must renew their registration annually. If the car has changed ownership, the new owners must also get an inspection and pay the $30.20 inspection fee. Additionally, if the vehicle has any defects, the owner must pay a defect clearance fee, on top of the $30.20 for an inspection.[88]

To register a vehicle, the owner must pay the Registration Fee and the Transport Accident Commission charge (TAC). The TAC is meant to pay for support services in case the vehicle is involved in an accident. The TAC is effectively a government-mandated insurance policy on drivers beyond any insurance they would purchase themselves. Duty is then charged on the settled figure to create a tax revenue stream for the government. Drivers living in 'high risk' (metropolitan) zones must pay less than those in 'medium risk' (outer metropolitan) zones or 'low risk' (rural) zones. For a vehicle located in Melbourne, the driver must pay $302.40 to register their vehicle plus the $440 TAC charge plus $44 in GST on the TAC charge. The federal government is essentially taxing a state tax. Vehicle owners in metropolitan areas must pay $834.80 per annum, in outer metropolitan areas $779.80, and in rural areas $716.00. Utility vehicle (such as a ute) owners must pay $835.90 in metropolitan areas, $706.10 in outer metropolitan areas, and $581.80 in rural areas.[89] These fees include the $48.40 insurance duty. The insurance duty is applied to the TAC premium and is in addition to the insurance tax.

Vehicle owners are also charged transfer fees of between $3 and $20 for the transaction to take place. Lastly, vehicle owners must pay $38.00 for number plates. [90]

On average, drivers must pay $907.30 in metropolitan zones, $852.30 in outer metropolitan zones, and $778.60 in rural zones every year for every vehicle in registration fees. Looking at the percentage of Victorians who own vehicles, this adds up to, on average, $1,384.54 per household or $1,191.40 per labour force participation. The high number of individuals with multiple vehicles has inflated

[87] Graham Smith, "Selling a car in Vic," Cars Guide, 1 August 2016, https://www.carsguide.com.au/car-advice/selling-a-car-in-vic.
[88] VicRoads, "Registration appointment, defect notice & inspection fees," Victorian State Government, accessed 30 January 2021, https://www.vicroads.vic.gov.au/registration/registration-fees/registration-appointment-and-inspection-fees
[89] VicRoads, "Vehicle fees," Victorian State Government, accessed 30 January 2021, https://www.vicroads.vic.gov.au/registration/registration-fees/vehicle-registration-fees.
[90] VicRoads, "Register a vehicle," Victorian State Government, accessed 30 January 2021, https://www.vicroads.vic.gov.au/registration/new-registration/register-a-vehicle.

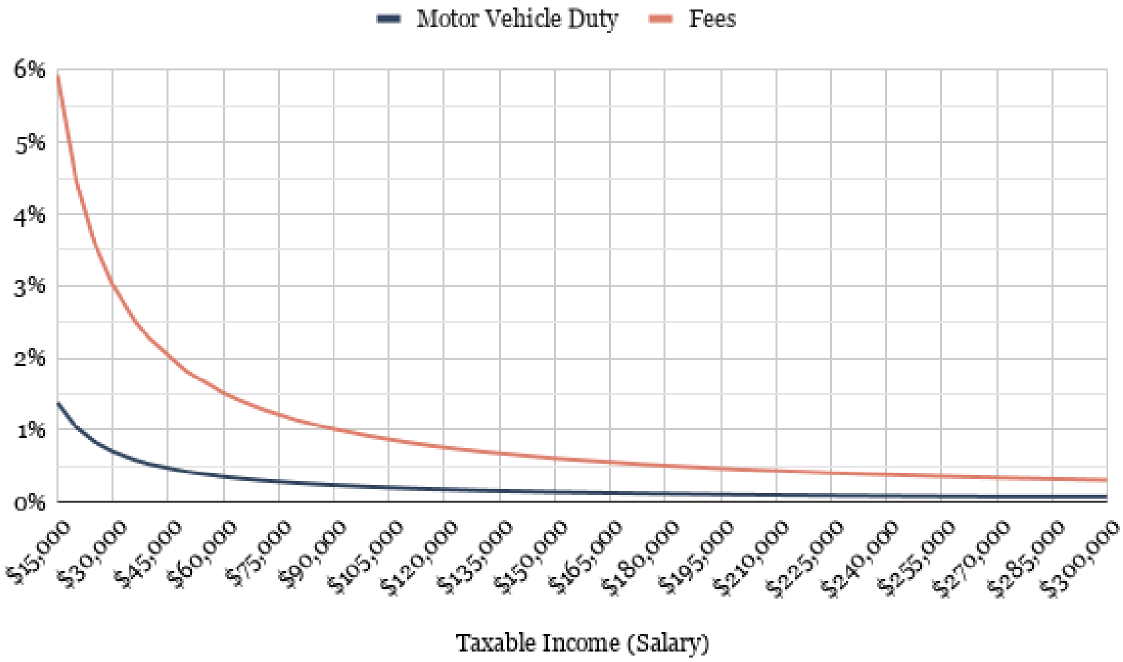
this number. Households with three cars pay on average $2,721.90 per annum, and those with two cars pay $1814.60 per annum.

Looking at the percentage of Victorians who own vehicles, [registration] adds up to, on average, $1,385 per household or $1,191 per labour force participation.

Summary

Fees and duties quickly add up from Australian consumers. For a minimum wage worker, just the fees and motor vehicle duty add up to 3.1 per cent of their total compensation. While those earning higher incomes are not substantially impacted by high fees for the average or low wage worker, fees take up a substantial fraction of their available income. Figure 2.6 shows the regressive nature of government fees and vehicle registration costs.

Figure 2.6 - Registration and Licensing Fees As A Percentage of Total Compensation



Recommendation 2.3.3

a) **Remove the motor vehicle duty and instead only apply GST to vehicle purchases.**

Recommendation 2.3.4

a) **Remove fees associated with registration and licensing. Individuals should not be fined for complying with government regulations.**

2.2.4 FUEL TAXES

Fuel taxes were first placed on diesel and petroleum imports prior to the introduction of local production of these resources in 1928. After 1928, the excise duty was imposed on locally-sourced fuel at a rate of 0.18 cents per litre. The tax on fuel was introduced to fund the country's fledgling road network. In 1931, similar excise duty was levied on coal tar and coke oven distillers because they were seen as potential replacements for petrol. In 1940, the tax on heavy fuel oil and an overall increase in excise rate was introduced to back the country's war-time financing requirements. Around the same time, the aviation industry was booming, prompting the construction of new airports and routes. Hence, a new duty was imposed on aviation turbine kerosene. In 1959, the tax on fuels to finance the Australian road network was brought to a temporary end. It was brought back in 1982, detailing a surcharge of 1 cent per litre, in which it doubled the subsequent year.[91] Now, the fuel tax is indexed to increase twice a year (on 1 February and 1 August), according to the CPI.

Fuel and petroleum products are excisable only if they are manufactured, produced or stored in Australia.[92] These products are classified as excise equivalent goods (EEG) if imported, in which case an equivalent customs duty is imposed. If imported fuel or petroleum is used to manufacture excise fuel products, excise duty is levied on the final product.[93]

[91] Bulk Fuel Australia. 2018. "History of fuel taxation in Australia". Last modified July 27, 2018. Last accessed 11/27/2020. https://bulkfuel.com.au/news/history-of-fuel-taxation-in-australia

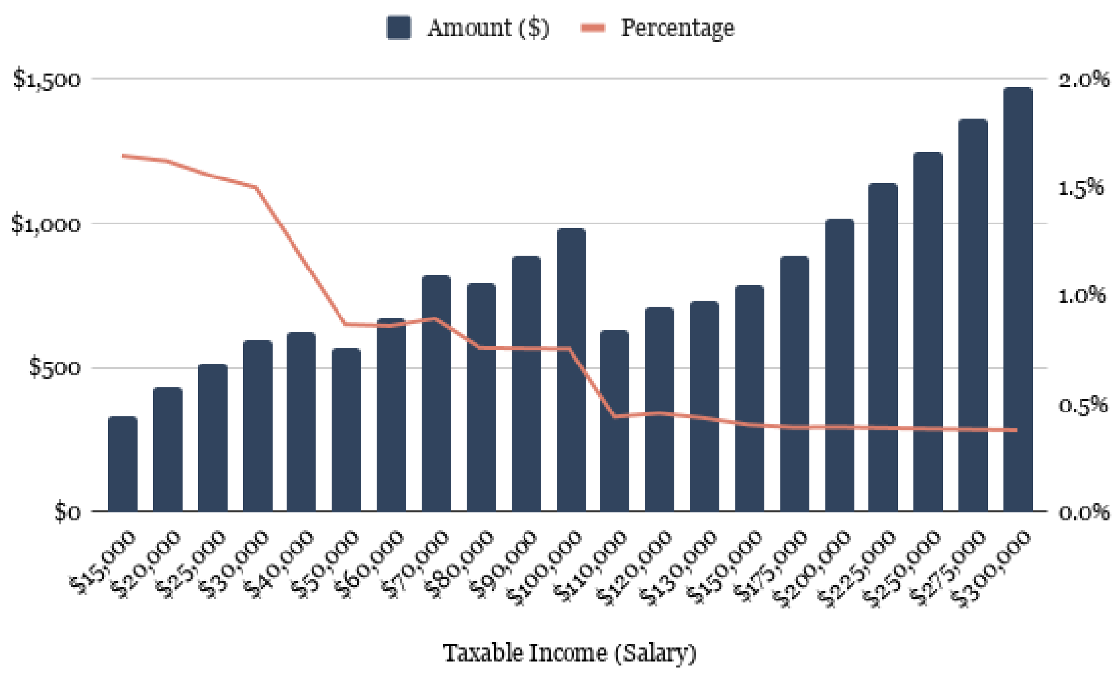
[92] You may be able to claim a refund or drawback of excise duty you've already paid. You may also be able to claim a remission for the excise duty if your goods can't be delivered into the Australian domestic market.

[93] Australian Taxation Office. 2020. "Excise on fuel and petroleum products". Last modified September 15, 2020. Last accessed 11/27/2020. https://www.ato.gov.au/Business/Excise-on-fuel-and-petroleum-products/

As of 1 February 2021, fuel rates are $0.427 per litre for both petrol and diesel.[94] Between the months July 24, 2020, and January 24, 2021, petrol prices in Melbourne averaged $1.267 per litre.[95] As a result, the average tax is 33.69 per cent of all petrol expenditures.

On average, workers spend 14.5 per cent of their disposable income on transportation. Of that expenditure, the household spends 24.6 per cent on motor vehicle fuel. This means the median work spend, on average $633 per annum on the fuel tax. However, those in lower-income brackets tend to spend more on fuel than those at higher incomes. A minimum-wage worker making $38,300 a year on average spends 19.1 per cent of their income on transportation and 29.8 per cent of that expenditure on fuel. As a result, on average, a minimum wage worker spends $650 a year on the fuel tax or 1.3 per cent of their total compensation. On average, those earning $110,000 only spend $682 per annum on the fuel tax or 0.5 per cent of their total compensation. Figure 2.24 demonstrates the impact of fuel tax on different incomes, both the amount individuals must pay in tax on average and the percentage of total compensation that goes to paying the tax.

Figure 2.7 - Fuel Tax Amount Paid and Percentage Tax Compared



[94] Australian Taxation Office. 2020. “Excise duty rates for fuel and petroleum products”. Last modified September 15, 2020. Last accessed 11/27/2020.
https://www.ato.gov.au/Business/Excise-on-fuel-and-petroleum-products/Lodging,-paying-and-rates---excisable-fuel/Excise-duty-rates-for-fuel-and-petroleum-products/

[95] Australian Institute of Petroleum, “Pricing: Melbourne,” accessed January 30, 2021, https://aip.com.au/pricing/ULP/VIC/Melbourne.

These numbers are averages across the whole population. An individual who chooses to commute to work daily will pay much more in fuel tax regardless of their income. The average two-car household spends $76.23 a week on fuel if they live in a metropolitan area and $79.82 if they live in a regional area.[96] This equates to $3,963.96 and $4,150.64 per annum in fuel costs, respectively. The urban household is paying $1,335.49 per year in tax, and the rural house is paying $1,398.38. The choice to own two cars is not dependent on income; 34.8 per cent of Victorians make this decision. Therefore, the fuel tax likely takes up a larger portion of many individuals' incomes because of their preferences.

> ***The average two-car household spends $76 a week on fuel if they live in a metropolitan area and $79 if they live in a regional area. [Accordingly] the urban household is paying $1,336 per year in tax, and the rural house is paying $1,398.***

In general, those in the higher income bracket benefit more from expenditures on transportation infrastructure, particularly trains, than those in lower income. Additionally, those with high incomes bear a much smaller percentage of the fuel tax burden as a percentage of their income. Like most excise taxes, the fuel tax is quite regressive.

Recommendation 2.3.5

a) **Remove the biannual indexation of fuel taxes. This leads to an increased tax burden.**
b) **Reduce the fuel tax to offset the high cost of tolls.**

2.2.5 TOLLS

The toll roads in Victoria are issued by two private toll road operators: Transurban, which runs CityLink and ConnectEast, which runs EastLink.[97] The state government then enforces the tolls through fines. This partnership between the private sector and state government came about

[96] Budget Direct, "Car Running Costs in Australia 2020," accessed Jan 20, 2021, https://www.budgetdirect.com.au/car-insurance/research/car-owner-cost-statistics.html.
[97] Travel Victorian, "Toll Roads: Using Melbourne's toll roads," accessed January 30, 2021, https://www.travelvictoria.com.au/victoria/tollroads/.

because the government commissioned these companies to design, build, finance, and maintain certain roads. To compensate these businesses, the government allows them to charge tolls.[98]

These companies determine toll amounts by location, vehicle type, distance travelled, and pass choice on Linkt.[99] Drivers are charged GST on tolls, and tax is included in the total toll cost.[100] Drivers must make an account with one of the two toll companies and purchase an electronic toll reader. If they fail to do so and use a toll road, they will be charged the toll plus a fee to cover the cost of an invoice. If a driver fails to pay the fee, the Victorian government will fine them.[101]

Drivers are charged GST on tolls, and tax is included in the total toll cost.

Tolls vary in price depending on whether customers have an account or a pass, what kind of vehicle they drive, and the distance they travel on a toll road. For passenger vehicles with a Transurban account, the toll price caps off at $10.05 per single trip.[102] For those using ConnectEast, the cap is $6.48 per single trip. However, ConnectEast has a series of additional fees, including a $55 minimum to set an account up.[103]

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[98] VicRoads, "About Victoria's toll roads," accessed January 30, 2021, https://www.vicroads.vic.gov.au/traffic-and-road-use/road-network-and-performance/toll-roads-in-victoria/about-victorias-toll-roads.

[99] Linkt, "What does it cost to travel on CityLink?", accessed December 10, 2020, https://help.linkt.com.au/melbourne/article/melbourne/payments-tolls-and-fees/tolls-and-fees/what-does-it-cost-to-travel-on-citylink

[100] Linkt, "Is Goods and Services Tax (GST) included in toll prices and trip charges?", accessed December 10, 2020, https://help.linkt.com.au/melbourne/article/general/payments-tolls-and-fees/tolls-and-fees/is-goods-and-services-tax-gst-included-in-toll-prices-and-trip-charges

[101] VicRoads, "What happens if you don't pay?" accessed January 30, 2021, https://www.vicroads.vic.gov.au/traffic-and-road-use/road-network-and-performance/toll-roads-in-victoria/what-happens-if-you-dont-pay.

[102] Linkt, "CityLink Pass and Toll Prices for 1 January - 31 March 2021," accessed January 30, 2021, https://www.linkt.com.au/content/dam/linkt/melbourne/toll_pricing/Toll-pricing-for-CityLink-January-to-March-2021.pdf.

[103] Ibid.

Transurban's toll revenue was $88 million in 2017.[104] By August 2018, toll revenue increased to $2.3 billion or 8.7 per cent.[105] In Melbourne, daily traffic growth increased by 1.1 per cent - also impacted by softer economic conditions - with proportional toll revenue up 3.7 per cent at $424 million.

Toll revenue typically goes into toll revenue bonds, municipal security that funds the maintenance of the roads. However, the government already levies fuel taxes from commuters. The revenue from fuel taxes levied by the government is also used to finance the Australian road network.[106]

According to the Australian Automobile Association, Melbourne drivers paid $50.20 per week on tolls.[107] Annually, that adds up to $2,610 per year per driver or $2,198 per person.

According to the Australian Automobile Association, Melbourne drivers paid $50.20 per week on tolls. Annually, that adds up to $2,610 per year per driver or $2,198 per person.

Recommendation 2.3.6

a) **Make all future roads toll free and instead rely on tax revenue for building and maintaining infrastructure.**

[104] Stephen Letts, "Transurban toll revenues top $1b as road charges rise", ABC News, February 7, 2020, https://www.abc.net.au/news/2017-02-07/transurban-toll-revenues-top-1b-as-road-charges-rise/8247296

[105] Stephen Letts, "Toll road operator Transurban profit doubles to $485 million as road works wind up", August 7, 2018, https://www.abc.net.au/news/2018-08-07/toll-road-operator-transurban-profit-doubles-to-485-million/10081818

[106] ACAPMAg "The big problem with electric vehicles that no politician wants to deal with", November 1, 2019, https://acapmag.com.au/2019/11/the-big-problem-with-electric-vehicles-that-no-politician-wants-to-deal-with/

[107] Australian Automobile Association, " Transport Affordability Index," released February 2020, https://www.aaa.asn.au/wp-content/uploads/2020/02/Affordability-Index-Q4-2019.pdf.

2.2.6 TRAFFIC AND PARKING FINES

Australia is one of the most expensive countries to get caught speeding. We have the 6th highest fines for speeding 20 kilometres per hour over the speed limit.[108] The average speeding ticket across all states costs a driver $417.5. A mobile phone infringement costs $364, and a red-light fine costs on average $356.5. In Victoria, speeding and red-light tickets are only $322, but mobile phone fines cost a driver $484.[109] These account for only a few of the many possible fines an individual could receive while driving.

Despite COVID-19 and people staying home, the Victorian government collected $330 million from traffic fines. The government expects that number to increase to $475 million next year and $524 million the year after.[110] The projected increase in fine revenue suggests the government doesn't expect drivers to stop speeding as a result of speed cameras. Instead, speeding drivers provide a consistent source of income for the government.

The projected increase in fine revenue suggests the government doesn't expect drivers to stop speeding as a result of speed cameras. Instead, speeding drivers provide a consistent source of income for the government.

In 2018/19, the Victorian government collected $320 million just from road safety cameras[111] and police issuing on the spot fines generated $150 million.[112] Fixed and mobile cameras account for

[108]Budget Direct "Speeding Statistics Australia 2020,", accessed 27 Jan 2021, https://www.budgetdirect.com.au/car-insurance/research/speeding-statistics-australia.html
[109] "Harsher Penalties", *GoCompare.com,* accessed 27 Jan 2021, https://www.gocompare.com/car-insurance/harsher-penalties/#/countries/australia/.
[110] Ben Zachariah, "Victoria's speeding fine revenue to increase by 60 per cent, despite safer drivers," *Car Advice,* 25 November 2020, https://www.caradvice.com.au/903993/victorias-speeding-fine-revenue-to-increase-by-60-per-cent-despite-safer-drivers/.
[111] Cameras Save Lives, "Revenue from fines", accessed 27 Jan 2021, https://www.camerassavelives.vic.gov.au/fines-penalties/revenue-from-fines.
[112] Benjamin Preiss, "Victorian state budget 2018-19: Victorians to pay $785 million in fines," *The Age,* May 1, 2018, https://www.theage.com.au/politics/victoria/victorian-state-budget-2018-19-victorians-to-pay-785-million-in-fines-20180501-p4zcqo.html.

1,228,188 infringements; police issued 223,883 on-the-spot fines. Toll fines added up to 648,078.[113] In total, that is 2,100,149 infringements or 53.7 per cent of all registered passenger vehicles in Victoria.[114] The average fine per traffic infringement is $309; with 53.7 per cent of the vehicles receiving traffic infringements, that averages $165 per year per vehicle. By using the number of vehicles per household, we can find the average fines per household. Households with only one vehicle only spend, on average, $165 per year on traffic fines. Those with two vehicles pay $332 per year, and those with three or more receive on average over $497 per year on traffic fines. On an individual level, driving tendencies are much better predictors of traffic fines. Someone with one vehicle could easily acquire more than $497 per year in fines, while someone with three could acquire none. By taking the average fines per vehicle and extrapolating those to households, we found the average household spends $253 per year on traffic fines. This amounts to $218 per Victorian worker.

The average household spends $253 per year on traffic fines. This amounts to $218 per Victorian worker.

Recommendation 2.3.7

a) **Remove traffic fines entirely and rely solely on the demerit system to incentivise good driving behaviour. Fines have a disproportionate effect on drivers depending on wealth. As a result, the traffic-fine system has led to unequal punishment under the law.**
b) **Cap the amount drivers can be fined for parking violations.**

[113] Cameras Save Lives, "Official warnings vs fines - 2018-19", accessed 27 Jan 2021, https://www.camerassavelives.vic.gov.au/road-safety/statistics/fines-by-category/official-warnings-vs-fines-2018-19.
[114] Australian Bureau of Statistics, "Motor Vehicle Census, Australia," 29 May 2020, https://www.abs.gov.au/statistics/industry/tourism-and-transport/motor-vehicle-census-australia/latest-release.

2.3 HOUSING

Australia is home to some of the world's least affordable housing. Sydney is the world's third-least affordable city, and Melbourne is the fourth. Only Hong Kong and Vancouver, British Columbia, are more expensive in proportion to income.[115] Affordability refers to the ratio of housing costs to income. While many countries have higher housing prices, residents' median incomes are high enough that homes are affordable.

However, Australia does not have many of the same supply constraints seen across the world. Approximately 90 per cent of Australia's population lives on only 0.22 per cent of Australia's landmass.[116] A large proportion of housing costs result from taxes and government regulation

As of 2017/8, only 66 per cent of households owned their own homes either with or without a mortgage, while 32 per cent rented.[117] This is a historic low for homeownership.[118] According to the 2015/16 Survey of Income and Housing, 30 per cent of households owned their homes outright, 37 per cent were paying a mortgage on their homes, and 29 per cent were renting either from private landlords or from the state.[119]

Housing is the largest expenditure made by Australians, with the average Australian putting 19.6 per cent of their disposable income toward housing costs or 13.9 per cent of gross income. On average, owners without a mortgage only spend 3 per cent of their gross income on housing. Those with a mortgage spend 15.9 per cent of their gross income. Renters spend on average 20.2 per cent of their gross income on housing, with those renting from state or territory housing authorities spending on average 22.5 per cent of their gross income and those renting from private landlords, 20.2 per cent. This disparity is not because private landlords charge less in rent, but because, in general, those in the lowest income brackets are relying on the state housing authority.

On average, in Victoria, those in the first quintile spend 26.3 per cent of their gross income on housing, 19.6 per cent in the second quintile, 15.1 per cent in the third quintile, 14.1 per cent in the

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[115] Demographia (2020, Schedule 2)

[116] William Jackson, "Population as a driver of environmental change," Australia State of the Environment, accessed 20 Janurary 2021, https://soe.environment.gov.au/theme/drivers/topic/population-driver-environmental-change#:~:text=Australia's%20population%20has%20one%20of,regional%20pressures%20on%20the%20environment.

[117] Australian Bureau of Statistics, "Housing Occupancy and Costs," last updated 17 July 2019, https://www.abs.gov.au/statistics/people/housing/housing-occupancy-and-costs/latest-release#housing-affordability.

[118] Wendy Stone, Margaret Reynolds, and Terry Burke, "Home ownership remains strong in Australia but it masks other problems: Census data," *The Conversation*, July 27, 2017, https://theconversation.com/home-ownership-remains-strong-in-australia-but-it-masks-other-problems-census-data-80068.

[119] Australian Bureau of Statistics, "Household Income and Wealth, Australia, 2015-16," last updated 13 September 2017, https://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/6523.02015-16?OpenDocument.

fourth quintile, and 10 per cent in the fifth quintile. The average for all Victorian households is 14 per cent.[120]

Across Australia, average weekly housing costs are $484 for owners with a mortgage; $53 for owners without a mortgage; and $366 for renters. In Victorian, the mean price for a residential dwelling is estimated at $738,600 as of September 2020. That is an increase of 3.5 per cent since September 2019, despite the impact of COVID-19 on the economy, resulting in Victorian home prices dropping from $761,200 in March 2020.

To quote Peter Tulip of the Centre for Independent Studies, "Affordable housing means a happier, more secure and more prosperous society where people have more freedom to choose their own living arrangements."[121] The Australian government needs to closely examine the areas where government policy has increased housing prices.

2.3.1 THE IMPACT OF PLANNING

While not a traditional tax, zoning regulation, more than any other factor, inflates the price of housing in Australia. That cost is borne by consumers. Since the 1980s, the states have been implementing more planning and zoning regulations to constrain urban sprawl and protect the environment. They have simultaneously added density restrictions such as height limits.[122] Researchers estimate zoning increased the cost of purchasing a home by 69 per cent in Melbourne, 73 per cent in Sydney, 42 per cent in Brisbane, and 54 per cent in Perth. For apartments, planning restrictions add 20 per cent to the cost in Melbourne, 68 per cent in Sydney, and 2 per cent in Brisbane.[123] This added cost indicates greenfield restrictions are even more burdensome than density restrictions.

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[120] Australian Bureau of Statistics, "Housing Occupancy and Costs, 2017-18," last updated 17 July 2019, https://www.abs.gov.au/statistics/people/housing/housing-occupancy-and-costs/latest-release#housing-affordability.

[121] Peter Tulip, "Planning restrictions harm housing affordability," *Centre for Independent Studies,* 3 December 2020, https://www.cis.org.au/app/uploads/2020/12/pp33.pdf?.

[122] Michael Buxton and Elizabeth Taylor, "URBAN LAND SUPPLY, GOVERNANCE AND THE PRICING OF LAND," *School of Global Studies, Social Science and Planning, RMIT University,* 11 October 2016, https://web.archive.org/web/20161011224906/http://apo.org.au/files/Resource/buxton_michael_taylor_elizabeth.pdf.

[123] Peter Tulip, "Planning restrictions harm housing affordability," *Centre for Independent Studies,* 3 December 2020, https://www.cis.org.au/app/uploads/2020/12/pp33.pdf?.

> ***While not a traditional tax, zoning regulation, more than any other factors, inflates the price of housing in Australia. That cost is borne by consumers. Researchers estimate zoning increased the cost of purchasing a home by 69 per cent in Melbourne, 73 per cent in Sydney, 42 per cent in Brisbane, and 54 per cent in Perth.***

According to the 2018/19 Survey of Income and Housing (SIH), 76.5 per cent of Australians live in separate houses, 11.4 per cent in townhouses or attached homes, and 11.8 per cent in apartments or flats. Assuming Victoria's housing occupancy is consistent with the rest of Australia, the extra cost of planning regulations adds up to 62 per cent.

Because those in lower-income demographics spend such a high percentage of their income on housing, the lack of affordable housing hits those groups hardest. Planning costs increase the cost of housing for a minimum wage worker by, on average, $4,366 a year or 11.3 per cent of their gross income. Those in the middle-income brackets lose between 8.3 per cent and 9.4 per cent of their income to housing costs, and those in the highest income bracket lose 5.5 per cent.

While the 'impact of planning' is not a tax and does not add to government revenue (on the contrary, it costs councils and state governments to maintain these regulations and approve building), it severely impacts the real wealth of all Australians. Additionally, because planning artificially inflates the supply of land, taxes based on land and property values are also inflated. While not directly a tax on a tax, Australians have a much lower standard of living and much higher tax rates as a result of these oppressive regulations on the supply of land and an individual's ability to build on that land.

Recommendation 2.4.1

a) **Relax height limits in the city of Melbourne and othercities across Australia.**
b) **Reduce restriction on greenfield agreements.**
c) **Evaluate the entire zoning and planning system with the goal of making it easier for people to build new homes to meet the demands of Australia's growing population.**

2.3.2 STAMP DUTY

Land transfer duty is calculated on the dutiable value of an individual's property. That is the price they pay for the property or its market value, whichever is greater. Duty is calculated on a sliding scale, starting at 1.4 per cent for properties valued at $25,000 and rising to 5.5 per cent for those valued at or above $960,000.

Table 2.7 shows the breakdown of duty rates for a primary residence. The Principal Place of Residence (PPR) concession is available to all home buyers whose property is valued up to $550,000 and who: start living in their property within 12 months of gaining possession of the property and then live in it for a continuous period of at least 12 months.[124] After $550,000, the concessional rates no longer apply.

Table 2.7 - Stamp Duty For Primary Residences[125]

Taxable amount	Tax on this amount
$0 - $25,000	1.4%
$25,001 - $130,000	2.4% tax on every dollar over $25,000 plus $350
$130,001 - $440,000	5% tax on every dollar over $130,000 plus $2870
$440,001 - $550,000	6% tax on every dollar over $440,000 plus $18,370
$550,001* - $960,000	6% tax on every dollar over $550,000 plus $28,070
$960,000 and over	5.5% on every dollar

*At $550,001, the concessional rates for primary residences no longer apply

If purchasing a property as a foreign investor, the Victorian government charges a surcharge of 8 per cent.[126] Foreign residents may still qualify for the exemption from stamp duty, including the Primary Place of Residence concessions. However, the 8 per cent surcharge still applies and is charged before any concessions are made.[127]

[124] State Revenue Office Victoria (2020) "Principal place of residence (PPR) concession". https://www.sro.vic.gov.au/pprdutyconcession
[125] State Revenue Office Victoria (2020) "Principal place of residence duty rates". https://www.sro.vic.gov.au/principal-place-residence-current-rates
[126] State Revenue Office Victoria (2020) "Foreign purchaser additional duty (FPAD) current rates". https://www.sro.vic.gov.au/foreign-purchaser-additional-duty-fpad-current-rates
[127] State Revenue Office Victoria (2020) "Vacant residential land tax". https://www.sro.vic.gov.au/vacant-residential-land-tax

Victorians purchasing their first home with a value of $600,000 qualify for the first home buyer duty exemption. If their first home is valued between $600,001 and $750,000, they can receive the first home buyer duty concession.[128]

However, the median value for a home in Melbourne is $840,000. In regional Victoria, homebuyers may be able to find a home under the threshold value as the median value is $443,000.[129] The average home value for the whole state of Victoria is currently $738,600 — well above the concessional rate.

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While stamp duty is not a significant driver of housing prices, it does reduce the amount of money home buyers put toward their home. Lower stamp duties lead to high expenditures on houses. Without stamp duty, homebuyers would otherwise make larger deposits on their home. Because of this fact, stamp duty has an additional opportunity cost.

Homeowners often assume stamp duty is a 'one and done' tax and that once they have paid, they do not need to worry about additional taxes on their homes. However, because that money does not go toward the mortgage, homeowners pay the extra interest over the course of their mortgage. For example, if an individual purchases a home at the mean value of $738,600, they will have to pay $39,386 in stamp duty plus an $1823 transfer fee and a $114.90 mortgage regulation fee. All this adds up to $41,323.90. The home buyer must take out a $632,204 home loan instead of a $590,880 loan. Assuming the average interest rate of 2.48 as of December 2020 and a 25-year home loan minus fees, the home buyer ends up paying a total of $848,943 for their home with monthly payments of $2,830. Without the stamp duty, they would only pay $793,452 in $2,645 monthly instalments. The stamp duty adds $55,490 to the cost of their home or an extra $185 per month. If a homebuyer purchases the house as an investment property, the interest rate would be higher,

[128] State Revenue Office Victoria (2020) "First home buyer duty exemption, concession or reduction". https://www.sro.vic.gov.au/fhbduty

[129] REIV, "Victorian Insights," accessed 18 December 2020, https://reiv.com.au/market-insights/victorian-insights.

increasing the burden of stamp duty. The investment buyer must pay an additional $57,635 or $192 per month as a result of stamp duty.[130]

Homeowners often assume stamp duty is a 'one and done' tax and that once they have paid, they do not need to worry about additional taxes on their homes. However, because that money does not go toward the mortgage, homeowners pay the extra interest over the course of their mortgage.

Like most taxes, we can assume a portion of the is passed on to the consumer. For simplicity, we assume the full value of stamp duty is passed on from the landlord to the renter through their rent payments.

The average household pays $2,220 per year in stamp duty costs. That adds up to $854 per person or $1,910 per worker.

Land transfer duties make up about 21 per cent of the state's revenue. In 2017/18, the state collected $6.933 billion in stamp duty from home transfers. In 2018/19, the state collected $6.003 billion, and in 2019/20, they collected $6.143 billion.

Recommendation 2.4.2

a) Remove stamp duty for all property purchases.

2.3.3 LAND TAX

Victorians pay land tax if the total taxable value of all the Victorian land they own as of 31 December 2020 is equal to or exceeding $250,00 in value.[131] Unlike the stamp duty, land tax is paid only on the value of the land, not on the whole property. This means if an individual adds to the value of their property, say, by building or renovating a home, they do not incur any extra tax.

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[130] "Mortgage calculator," *MoneySmart.gov,* accessed 18 December 2020, https://moneysmart.gov.au/home-loans/mortgage-calculator.

[131] State Revenue Office Victoria (2020) "Land Tax". https://www.sro.vic.gov.au/land-tax

Exempt land includes owner-occupied homes, known as a principal place of residence (PPR); farms, known as primary production land (PPL); and rooming houses and charitable institutions.

For each year an individual owns land in Victoria with a total taxable value equal to or above the relevant threshold, they must pay land tax. For land valued between $250,000 and $600,000, a landowner must pay $275 plus 0.2 per cent multiplied by the value of land over $250,000. This means that someone with land worth $249,999 pays nothing in land tax, but an individual with land worth $250,000 must pay $275 a year to the state government. For land valued between $600,000 and $1,000,000, a landowner must pay $975 plus 0.5 per cent multiplied by the value of land over $600,000. For land valued between $1,000,000 and $1,800,000 a landowner must pay $2,975 plus 0.8 per cent multiplied by the value of land over $1,000,000. For land valued between $1,800,000 and $3,000,000 a landowner must pay $9,375 plus 1.3 per cent multiplied by the value of land over $1,800,000. For land valued over $3,000,000, a landowner must pay $24,975 plus 2,25 per cent multiplied by the value of land over $3,000,000.

Victoria's land tax values and thresholds have not changed since 2009, meaning that as land values increase, landowners face ever-higher taxes.

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The median price for land in Melbourne was $1,448 per metre squared as of 2019, a 41.8 per cent increase from $1,021 in 2014. Unsurprisingly, the median land size has dropped from 607 metres squared in 2014 to 585 metres squared in 2019. As a result of the change in price and land size, the median value for a median sized plot has gone from $619,747 in 2014 to $847,080. In other words, a 36.7 per cent increase in value over five years.[132] This has resulted in a 106 per cent increase in tax from $1,074 per year in 2014 to $2,210 per year in 2019.

[132] REIV, "Melbourne land values skyrocket over 5 years," last updated 14 November 2019, https://reiv.com.au/policy-resources/latest-news/melbourne-land-values-skyrocket-over-5-years.

For regional Victoria, the median price for the median plot of land has increased from $282,503 in 2014 to $390,550 in 2019 or by 38.2 per cent. This has led to a 63.6 per cent increase in tax from $340 per year to $556 per year.

Table 2. 8 Median Price Per Plot Of Land In Victoria

	2019	2014	5 Yr Change
Metro	$847,080	$619,747	36.7%
Regional	$390,550	$282,503	38.2%
Inner Melbourne	$1,525,610	$1,121,350	36.1%
Middle Melbourne	$988,350	$703,056	40.6%
Outer Melbourne	$680,760	$463,320	46.9%
Average	$712,400	$548,243	29.94%

Unlike other states, Victoria does not increase the land tax thresholds with CPI. The current rates have not changed since 2009. This means that landowners must pay more in tax even if the real value of their land has not increased. Additionally, much of the rapid increase in land value has resulted from the arbitrary supply shortages caused by planning and zoning restrictions. Landowners must pay substantially higher land taxes because of the state government's land-use regulations. In fact, most of the tax burden incurred is a direct result of these restrictions, which increase property value by 20 per cent for apartments and by 68 per cent for homes. The impact of land value is much higher as those proportions include the value of the entire property, including the buildings on the land.

Table 2.9 Land Tax For Median Plots of Land in Victoria

	2019	2014	5 Yr Change
Metro	$2,210	$1,074	105.9%
Regional	$556	$340	63.6%
Inner Melbourne	$7,180	$3,946	82.0%
Middle Melbourne	$2,917	$1,490	95.7%
Outer Melbourne	$1,379	$702	96.5%
Average	$1,722	$918	87.6%

Additionally, the land tax combined with height restrictions creates inequity between inner-city residents and those living in the suburbs. While inner-city plots are valued much higher than those in the suburbs (the median value for inner-city Melbourne is $1,525,610, compared with $988,350 in the middle suburbs and $680,760 in the outer suburbs), owners can add a larger number of rental properties to the land and distribute the cost. For example, the inner city is zoned for tall apartment buildings while the outer suburbs are single-family homes. This means apartment dwellers pay substantially less land tax than those living in houses. The median land tax for inner-city Melbourne is $7,180. However, a high-rise building could easily have 30 stories with 20 units per floor. As a result, the tax is only about $12 per household. In comparison, a single household in the outer suburbs must pay the full $1,379, the median land tax for the outer suburbs of Melbourne.

Additionally, the land tax combined with height restrictions creates inequity between inner-city residents and those living in the suburbs. While inner-city plots are valued much higher than those in the suburbs, owners can add a larger number of rental properties to the land and distribute the cost.

In 2018/19, the Victorian government collected $3.5 Billion from taxes on land. The land tax made up 12 per cent of the state's total revenue. This equals $1,391 per household or $1,198 per labour force participation. This is consistent with 76.5 per cent of Australian households living in detached houses, which incur the most land tax per household. Townhouses, occupied by 11.4 per cent of households, incur slightly less land tax per household as they cover fewer square metres. In comparison, only 11.8 per cent of households live in apartments that incur very little land tax per household.

Recommendation 2.4.3

a) **Increase the thresholds for land tax in proportion to increasing land prices.**
b) **Ensure that the bottom threshold is high enough to exclude single-family homes on standard plots.**

2.3.4 COUNCIL RATES

Councils raise funds for local infrastructure and services through property taxes, in addition to the state's land taxes. Some of these services include reviewing and approving planning applications, managing animals, providing food security for at-risk individuals, upkeeping local roads and maintaining aquatic centres, libraries, and sporting areas. They also include collecting garbage and recycling bins, providing health services for children and at-risk groups, and providing fire services.[133]

Unlike the land tax, most council property taxes are issued on the total market value of the land, plus buildings and improvements. This value is called the 'Capital Improved Value.' However, some councils use the site value, the market value of the land, or the net annual value, the value of the rents that the landowner could collect from the property. According to state law, an independent valuer must assess the value of each property once every two years. Based on this valuation, the councils issue their property taxes. Additionally, some councils include a fixed charge for certain services such as garbage collection on top of the property tax.[134]

On average, 61.9 per cent of total council revenue (minus non-recurrent government grants and contributions for capital works) in Victoria comes from rates. The rest of their revenue is raised through recurring contributions from the federal and state government and fees. These property taxes add up to 0.4 per cent of the value (Capital Improvement Value) of all rated properties. The average tax for each property is $1,775 for all localities. For metro areas, the average is $1,795; for regional areas, it is $1,904; for small shires, it is $1,681; for large shires, it is $1,773; and for the interface councils or the suburbs surrounding Melbourne, it is $1,783. Per person, rates and fees add up to an average of $1,488. For metro areas, the average is $1,193; for regional areas, it is $1,494; for small shires, it is a high $1,936; for large shires, it is $1,604; and for the interface councils, it is only $1,012.[135] That comes out to $2,976 for every labour force participant.

Recommendation 2.4.4

a) **Issue property taxes on land value, not the "Capital Improvement Value".**

[133] Know Your Council (Victoria), "Guide to Councils: What councils do," accessed December 10, 2020, https://knowyourcouncil.vic.gov.au/guide-to-councils/what-councils-do

[134] Know Your Council (Victoria), "Guide to Councils: Rates and charges," accessed December 10, 2020, https://knowyourcouncil.vic.gov.au/guide-to-councils/finance-and-planning/rates-and-charges

[135] Know Your Council (Victoria), "Publications: Local Government Performance Reporting - Full Data Set," accessed December 10, 2020, https://knowyourcouncil.vic.gov.au/__data/assets/excel_doc/0010/32887/LGPRF-2015-2020-Full-Council-Data-Set-EXTERNAL.xlsx

Summary

This paper investigates 17 different taxes and government-mandated costs issued according to peoples' expenditures. The sheer number of consumption taxes (even when they charge relatively small amounts) add up to a heavy tax burden for the average Australian.

In general, taxes on consumption are regressive, taking a much greater percentage of total compensation from those in the lower quintiles and much less from those in the higher quintiles. Many of these taxes regularly increase, further adding to the tax burden for the Australians who earn the least.

Consumption taxes are issued at all levels of government. The commonwealth government issues the GST, customs duties, alcohol taxes, the tobacco excise tax, the LCT[136] and fuel taxes. The Victorian government issues insurance taxes, gambling taxes, motor vehicle duty, stamp duty and land tax. They also require vehicle registration fees, fine drivers for traffic and parking infractions, and create many planning rules that artificially inflate the cost of housing. Additionally, the Victorian government has delegated the maintenance of certain roads to private companies, allowing them to charge tolls, and then enforces the toll system through policing. The local government raises revenue through taxing properties. States wage the bulk of taxes on consumption, but both federal and local governments add to that tax burden.

Table 2.10 - Taxes On Consumption For Each Quintile By Level Of Government

	Commonwealth Taxes	Victorian Taxes, Fines, Fees, etc.	Council Rates	Total
First Quintile*	\$5,061 17.4%	\$11,870 41.6%	\$1,488 5.3%	\$18,418 64.3%
Second Quintile	\$5,345 10.7%	\$12,833 25.7%	\$1,488 3.0%	\$19,666 39.4%
Third Quintile	\$6,694 8.5%	\$13,905 17.6%	\$1,488 1.9%	\$22,087 28.0%
Fourth Quintile	\$7,937 6.8%	\$16,048 13.8%	\$1,488 1.3%	\$25,473 21.9%
Fifth Quintile	\$8,626 4.7%	\$17,083 9.4%	\$1,488 0.8%	\$27,197 14.9%

[136] The LCT is not included in final figures because it is a tax issued solely on preference and as a result is not paid broadly by consumers. However,

Because Australians already spend so much money on housing, the taxes and regulations affecting this basic necessity make up the bulk of consumption taxes. Transportation similarly takes up a large portion of workers' income and is tightly controlled by the government. As a result, just that one expenditure results in 20 - 25 per cent of the tax burden for consumption taxes. If the Victorian and Australian governments could reduce merely transportation and housing taxes, they could cut the consumption tax burden in half.

If the Victorian and Australian governments could reduce merely transportation and housing taxes, they could cut the consumption tax burden in half.

While the sin tax category is small when averaged across the population, it severely impacts small groups of people. This creates inequality based on an individual's personal choice or specific addictions.

General consumption taxes, which includes GST, is higher than it needs to be due to taxes on taxes. The GST is issued on customs duties, and the insurance tax is issued on GST. Avoiding this kind of double taxation and taxation on taxes would lower general consumption taxes and help consumers.

Figure 2.8 - Percentage Of Tax Burden For Each Category Of Consumption Tax

Figure 2.9 demonstrates the regressive nature of consumption taxes. Those making less than $100,000 spend substantially more of their total compensation on consumption taxes, while those making high salaries spend substantially less.

Figure 2.9 - Percentage Tax Burden Of Consumption Taxes Broken Down By Consumption Category

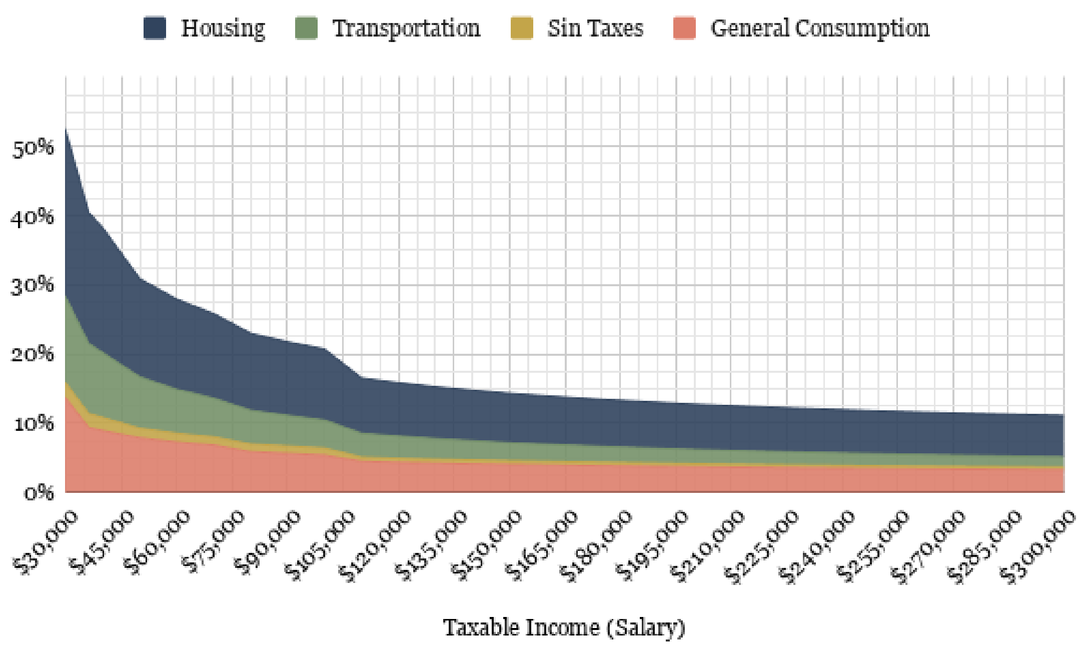
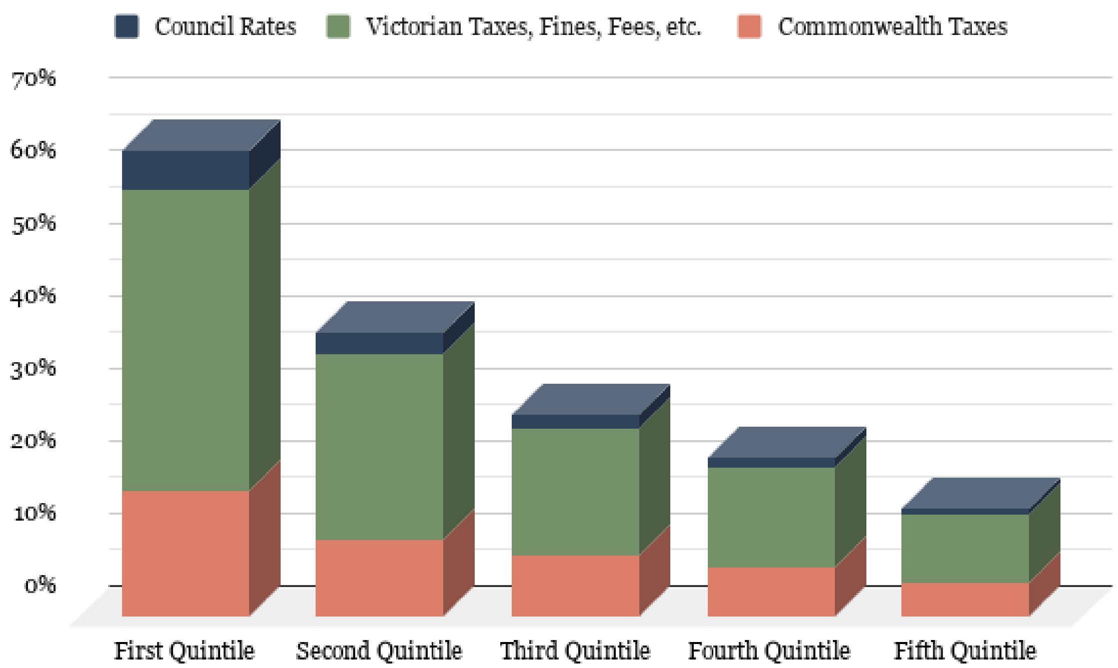


Figure 2.9 shows how much each income quintile spends on consumption taxes as a percentage of their earnings. According to averages found in this paper, those in the first quintile lose 64 per cent of their total compensation to consumption taxes. However, those in the first quintile are outliers in that they likely spend more than they earn, inflating their tax burden, and in reality, they in many cases must choose to forgo purchasing goods and services purchased by those earning more. Those in the second quintile spend approximately 39 per cent of their total compensation on taxes on consumption, those in the third quintile nearly 28 per cent, those in the fourth quintile 22 per cent, and those in the fifth quintile less than 15 per cent.

Figure 2.9 - Percentage Consumption Taxes According To Income Quintile Broken Down By Level Of Government



Figures 2.10 and 2.11 show how the number of consumption taxes adds up to create a heavy tax burden. Figure 2.10 reveals how every single tax impacts those making lower wages more than those earning more, and figure 2.11 shows how those in higher-income quintiles do not pay substantially higher taxes in terms of dollar amounts. Fees and fines burden lower-income earners more than sales taxes and duties because those individuals are often not given a choice to consume less and so pay less tax.

Figure 2.10- Percentage Consumption Taxes According To Income Quintile Broken Down By Level Of Government

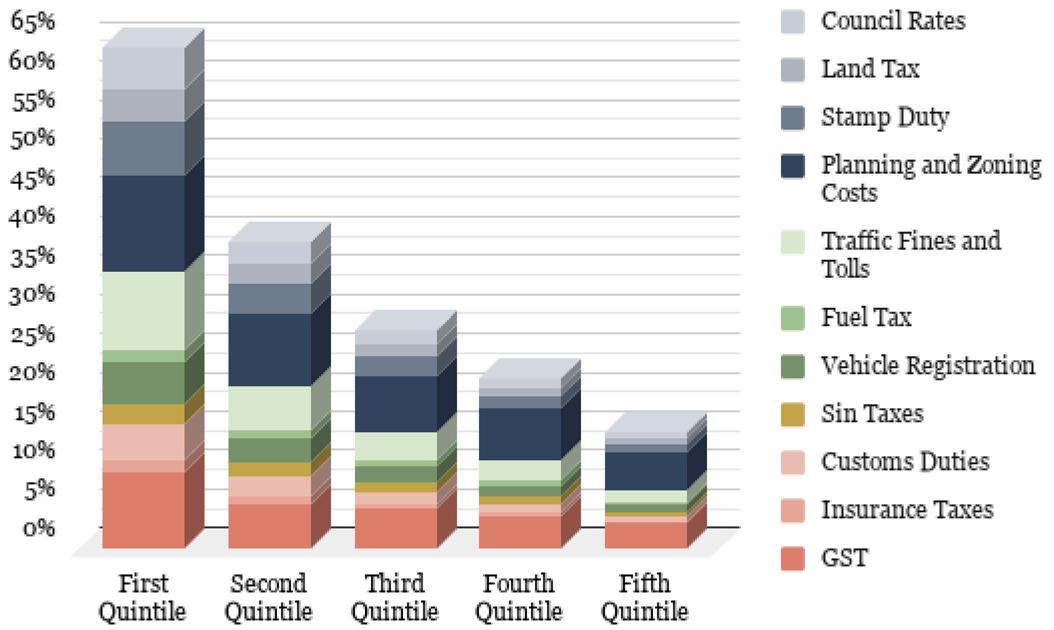
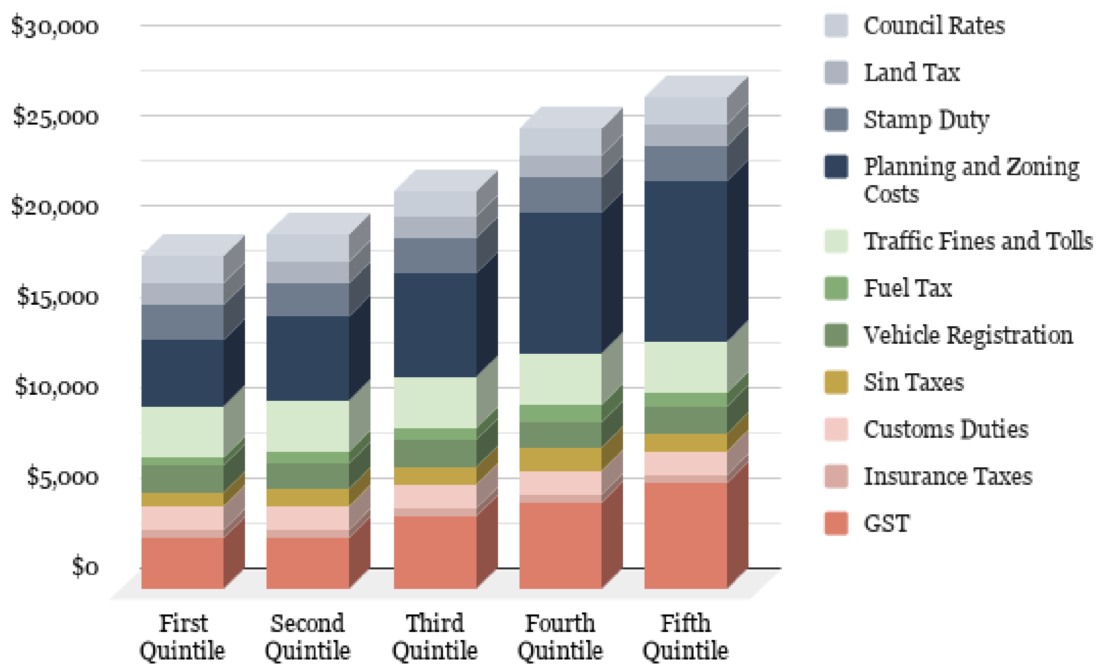


Figure 2.11 - Amount Paid in Consumption Taxes Broken Down By Each Tax



These taxes are in addition to the taxes on earnings discussed in section one and are waged on the income the government considers 'after tax'. Because consumption taxes are indirect and paid incrementally, many consumers fail to realise how much of their income goes to the government. Cutting down on the number of consumption taxes would do much to reduce the tax burden, particularly for lower-income households. When the government implemented the GST, they planned to get rid of the many complicated sales taxes. However, some taxes such as insurance duties and the luxury car tax have remained. These taxes could be repealed with little impact on government revenue. Any way in which the government can simplify the tax code cuts down on compliance costs.

Cutting down on the number of consumption taxes would do much to reduce the tax burden, particularly for lower-income households.

Sin taxes, while meant to improve general welfare, have unfortunate externalities of their own. These include promoting black market activity and relying on a narrow group of people to provide billions in revenue. Many Australians are trapped between their addiction to tobacco and the tax. If an individual is unable or unwilling to change behaviour, then a sin tax simply leaves them worse off.

Australia's cost of living is driven up by high housing and transport costs, made worse by taxes and regulations. Australia's housing market is broken with land use regulations restricting development and driving up housing prices, which Australians are then taxed on. Reducing height restriction as well as allowing our cities to expand outward — particularly smaller cities such as Newcastle — would allow middle-class Australians to achieve the Australian dream, which they are currently being priced out of. Transportation costs, particularly fines and fees, are incredibly high. For some, registration fees on the vehicle they need for commuting equate to two or three weeks of rent, and a traffic violation could leave some in a serious financial lurch. Traffic tickets should be low, consistent and not merely serve as another revenue stream for state governments.

Australia does not need so many consumption taxes to raise revenue. Cutting sales taxes, customs duties, and regulatory costs would flatten Australia's tax code and help to alleviate its most regressive aspects.

Savings Taxes

Not only are Australians taxed on their incomes and their purchasing choices, but they also face taxation on their savings — savings they will later spend and pay more consumption taxes on. The average Australian only saves 2.8 per cent of their disposable income. However, all Australian workers have superannuation funds as a result of compulsory contributions. This leads to Australians saving at least 9.5 per cent of their taxable income for retirement. The superannuation guarantee is scheduled to increase to 12 per cent by 2025, meaning Australians will soon pay a larger nominal amount in superannuation taxes.

Superannuation is taxed in three primary ways: on contributions, on investment earnings, and on withdrawals. The superannuation funds also have very high fees, which cut into earnings. However, delving into the fees surrounding super funds requires further research and those fees are not included in this paper.

All other savings and investments are taxed according to the capital gains tax, which the government categorises as another form of taxable income.

Table 3.0 - Taxes on Savings for Specific Incomes

	Minimum Wage *($38,300)*	**Average Wage (Vic)** *($63,442)*	**High Wage** *($110,000)*
Tax on Superannuation Contributions	$546 1.1%	$904 1.3%	$1,567 1.3%
Tax on Super Investment Earnings (6.5 % Interest for 40 yrs)	$880 1.7%	$1,457 1.8%	$2,527 1.8%
Tax on Superannuation Withdrawals	—	—	—
Capital Gains Tax	$104 0.2%	$182 0.2%	$289 0.2%
Total	**$1,529** **3.0%**	**$2,543** **3.1%**	**$4,383** **3.1%**

3.1 SUPERANNUATION

For many, their superannuation account holds the vast majority of their savings. Unfortunately, superannuation, unlike many international retirement funds, is taxed on both contributions and investment earnings. It also has additional fines and taxes associated with withdrawals.

Superannuation contributions are taxed according to the size of the fund, annual income, and whether or not contributions were made before or after annual income tax. The tax on the interest accrued and realised at retirement is a simple 15 per cent but does not take into account inflation that has a heavy impact on these earnings. Retirement savings, unlike most investments falling under capital gains taxes, are held for a much longer period (often over forty years) and, as a result, are heavily impacted by the inevitable decrease in the value of the Australian dollar. The ATO determines the tax on withdrawals based on the age at which a retiree withdraws their money, the amount of money they withdraw, whether they make the withdrawal as a lump sum or an income stream, whether they worked in the private or public sector, and various other factors.

Employers, not employees, pay the 9.5 per cent compulsory superannuation guarantee, so most view it as an addition to wages. However, on whom the government wages a tax (or, in this case, a forced savings program) has little bearing on who ultimately pays the tax. The least elastic party, that is, the group least sensitive to changes in the price, tends to bear the brunt of any tax increase. The same principles apply to any forced withholding of money, even in a retirement saving program. In this case, workers are the least elastic party. While employers must make SG contributions, workers bear the cost of these contributions through lower wage growth.[137]

Wages-superannuation tends to have a statistically significant elasticity of 1.03[138] (nearly unit elasticity). Elasticity is "a measure of a variable's sensitivity to a change in another variable; most commonly, this sensitivity is the change in price relative to changes in other factors."[139] It can be measured as the percentage change in wages over the percentage change in the compulsory SG equals 1.03. Note, elasticity is written as an absolute value (the negative is dropped), and so wages-superannuation are inversely proportional. This means an increase in the SG of 2.5 per cent from 9.5 per cent to 12 per cent would lead to an estimated drop in wages by 2.5 per cent.

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[137] Henry, K., Harmer, J., Piggott, J., Ridout, H., & Smith, G. (2009). A2-2 Taxing Retirement Incomes. In Australia's future tax system: report to the treasurer.Canberra: Commonwealth of Australia.
[138] Taylor, Kyle. "Does higher superannuation reduce workers' wages." McKell Institute (2019).
[139] Adam Hayes, "Elasticity," Investopedia, accessed 14 Novemeber 2020, https://www.investopedia.com/terms/e/elasticity.asp.

This means an increase in the SG of 2.5 per cent from 9.5 per cent to 12 per cent would lead to an estimated drop in wages by 2.5 per cent.

Applying this logic, it follows that a worker currently earning the minimum wage would have an annual wage of $41,938 instead of $38,300. The average worker in Victoria making $63,442 would have a salary of $69,469, and a high wage worker earning $110,000 would have $120,450.

With additional money would come additional income taxes. However, because workers cannot access that money immediately, there is a high opportunity cost. The value of money in the future is highly discounted. The paper does not take into account those opportunity costs.

For simplicity, this paper calculates the 9.5 per cent superannuation guarantee as part of total compensation as well as all earnings on superannuation. Total compensation is gross wage plus all earnings from superannuation and savings. When making these forecasts, we assumed the individual was 25 years old and planned on retiring at 65 years of age. That allows them to save for 40 years. Additionally, we assumed an interest rate of 6.5 per cent before retirement and an interest rate of 5 per cent during a 15-year retirement, as well as an inflation rate of 2 per cent. We then calculated all the taxes on superannuation and found their impact on total compensation.

3.1.1 TAX ON CONTRIBUTIONS

Superannuation 'before-tax' contributions are taxed at 15 per cent, with an annual contributions cap of $25,000.[140] This cap includes the superannuation guarantee placed in a worker's superannuation fund by their employer. Beyond this limit, additional contributions are taxed according to an individual's marginal tax rate.[141] If an individual earns more than $250,000 per annum, their contributions up to a $25,000 threshold are taxed at 30 per cent and according to the individual's marginal rate thereafter. This tax is generally paid by the super fund provider, further separating the individuals from what happens to their retirement savings.

The tax on contributions severely impacts a person's ability to retire comfortably. Without the tax on contributions, a worker would be able to retire on 63.4 per cent of their working income as

[140] AustralianSuper. (2020). *Tax on Super* [fact sheet], https://www.australiansuper.com/tools-and-advice/forms-and-fact-sheets
[141] Ibid.

opposed to 54.1 per cent. The closer an individual's retirement income is to their working income, the easier it will be for them to retire without needing to make dramatic changes in lifestyle to match their reduced financial situation.

Without the tax on contributions, a worker would be able to retire on 63.4 per cent of their working income as opposed to 54.1 per cent.

Figure 3.0 shows the direct tax on contributions as well as the percentage of total compensation. Unlike consumption taxes, the tax on contributions is a relatively flat tax. The figure does not show the cost to retirement saved, merely the initial tax paid. Unlike workers who reach a taxable income of $250,000, they must pay approximately 1.3 per cent of total compensation on the tax on superannuation contributions.

Figure 3.0 - Tax On Super Contributions Amount Paid and Percentage Tax Compared

3.1.2 TAX ON INVESTMENT EARNINGS

Investment earnings within a super fund are taxed at 15 per cent before determining the consumer's crediting rate. As such, this specific tax is paid by the super fund, and investors are credited an amount that takes this into account.

Even though Australians do not have to pay the full capital gains taxes on their superannuation funds, the 15 per cent tax on interest adds up as a result of high returning superfunds, compound interest, and the fact that retirements, unlike most investment savings, are held for longer and accrue larger sums of money.

To calculate the tax on the investment earnings, we found the compounding interest during an individual's working life and the taxes on that interest. Using future value calculations, we found that what that money is worth in real terms. This subtracts the impact of inflation and so allows us to use the figures in terms of real dollar terms today. We then repeated this for an individual's earnings for the course of their retirement. Adding these figures together, we found the total earnings on the assumed superannuation fund and what those taxes will be. We then found the average across those fifty-five years and applied it to our annual figures on total taxation.

3.1.3 TAX ON WITHDRAWALS

A retiree can easily incur additional taxes depending on how they chose to withdraw their superannuation fund. Australians must take into account their preservation age (for those born after 1964, that is 60 years)[142] and the age at which they wish to withdraw their superannuation; whether they wish to withdraw their superannuation as a lump sum or as an income stream and what type of retirement income stream they receive; whether their superannuation is made up of 'tax-free' or 'taxable' components and of the 'taxable' components how much of it is the 'taxed element' and how much is the 'untaxed element'.

If 60 and over, an individual pays no tax on retirement income payments or lump sum withdrawals. Individuals under 60 have their withdrawals taxed according to their specific "Preservation Age": the age at which an individual can access their super without incurring higher taxes. Individuals are taxed 22 per cent on contributions withdrawn under their preservation age. Between the age of 59 and their preservation age, $210,000 may be withdrawn tax-free, after which the balance is taxed at 17 per cent. This additional cost aims to disincentivise early withdrawal, which leaves retirees living on fewer earnings compounded over their working life during a longer retirement period.

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[142] "When you can access your super," *Australian Government Australian Taxation Office,* last modified 11 November 2020, https://www.ato.gov.au/individuals/super/in-detail/withdrawing-and-using-your-super/withdrawing-your-super-and-paying-tax/?anchor=Preservationage#Preservationage.

All calculations in this paper assume a retiree aged 65 who withdraws their superannuation as an income stream with superannuation made up solely of the taxable superannuation guarantee and no additional voluntary contributions. Many Australians take a hands-off approach to their superannuation savings, assuming the superannuation guarantee will provide them enough in retirement.

Using these assumptions, the withdrawals tax only applies to an income stream of over $100,000. For every dollar over $100,000 withdrawn within a year, Australians must pay tax on half the amount at their marginal tax rate. For example, if a retiree has an annual retirement income of $150,000, they must pay tax on $25,000 at the marginal tax rate of 19 per cent. However, if this retiree has other sources of income, such as a rental property, they could pay tax in a higher income tax bracket. This paper assumes superannuation is a retirees' only income stream in retirement, so it calculates the minimum tax on withdrawals.

Because the tax on Superannuation applies at such a high rate, if an individual does not add any voluntary contributions to their super fund, they will only have to pay the tax if they have an annual income over $250,000.

3.1.4 IMPACT ON RETIREMENT

Taxes on superannuation severely impact an individual's ability to have a livable retirement income. Consequently, 68 per cent of Australians over the age of 65 depend on the means-tested age pension. This costs current taxpayers more and robs retirees of financial independence.

Table 3.1 shows a retired person's annual pension as a percentage of their current taxable income. The closer a retiree's pension is to their working salary, the less financial shock they must face at retirement. Without tax on superannuation, Australians would take home close to 73 per cent of their working income, merely saving the superannuation guarantee. However, as a result of taxes and multiple levels of superannuation, individuals must instead live on 54 per cent of their working income.

Table 3.1 - Percentage of Retirement Income to Working Income

System	Percentage of working income
Under Current System	54.1%
Without Tax On Contributions	63.6%
Without Tax On Interest Earned	61.9%
Without Either Tax	72.8%

Figure 3.1 charts the amount individuals lose as a result of taxes on retirement savings. For simplicity, the figure assumes the same salary throughout a person's lifetime. This loss takes into account both the initial tax and the lost interest on that money, so it is greater than merely the direct cost of the tax. The figure demonstrates how much better off a worker would be each year without the tax, not the amount the government collects from the tax. In reality, the government only collects a small fraction of what the individual loses, making this an incredibly inefficient tax.

Figure 3.1 - Annual Amount Lost In Retirement From Superannuation Taxes

The government collects only a fraction of what an individual loses on their retirement as a result of superannuation tax. This disparity makes all taxes on superannuation incredibly inefficient. On average, the federal government only collects $12 billion from superannuation while spending $50 billion on the means-tested age pension. Merely removing the taxes on superannuation would leave many Australians so much better off in retirement that they would not qualify for the means-tested age pension. This would save the government money and give Australians greater financial independence in retirement.

Recommendations 3.1

a) **Remove taxes on superannuation contributions or,**
b) **Remove the tax on interest earned through superannuation.**
c) **Reduce fees on superannuation funds.**

3.2 CAPITAL GAIN TAXES

Capital gains tax applies to nominal investment earnings on, but not limited to, the sale of property, investments, cryptocurrencies, foreign currency, or capital improvements to land or any other capital asset with some exceptions. The capital gains tax simply includes any investment earnings in an individuals' taxable income. As such, any capital gains made are taxed according to each individual's applicable income tax bracket.[143] However, for this paper, we have separated capital gains from what we term 'Taxable Income (Salary)' and instead include it in total compensation.

The capital gains tax was initially introduced to stop 'tax avoidance' through the sale of capital, increase economic efficiency, and prevent distorted investments. In 1999 the current tax discount system was introduced. This allows for capital owned for a year or more to only face a 50 per cent tax on capital gains —that is 50 per cent of the individual's income tax bracket.[144] By changing the tax code, the government incentivised individuals to hold assets for longer, creating stability in the market. [145]

However, the legislation also removed CPI indexing meaning nominal earnings were liable to face taxation even if the investor failed to see real growth in their investment. Additionally, the government stopped averaging earnings from capital gains over the number of years an individual held that investment. This means that now when individuals sell their investments, they risk falling into a higher tax bracket even if their annual returns were relatively low.

To calculate the capital gains tax according to income, this paper assumes all workers save 2.8 per cent of their disposable income. The savings rate is so low because many people do not save or spend more than they earn. We assumed an inflation rate of 2 per cent and that peoples' investments grew at that rate. Most investors aim to earn more than inflation, but that would account as actual additional earnings. By assuming the inflation rate, we are able to assume the amount of money an individual earns remains constant.

Because the Australian government does not discount the inflation rate from the capital gains calculations, individuals not earning any additional income in real terms must pay tax. This increases the tax burden.

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[143] 2020. Review of Capital Gains Tax. Australian Taxation Office. June 1, 2020.
https://www.ato.gov.au/general/capital-gains-tax/.

[144] 2018. Review of Working out Your Capital Gains or Loss. Australian Taxation Office. August 15, 2018.
https://www.ato.gov.au/General/Capital-gains-tax/Working-out-your-capital-gain-or-loss/

[145] Reinhardt, Sam, and Lee Steel. 2006. Review of A Brief History of Australia's Tax System. Treasury.Gov.Au. Department of the Treasury. September 4, 2006.
https://treasury.gov.au/publication/economic-roundup-winter-2006/a-brief-history-of-australias-tax-system.

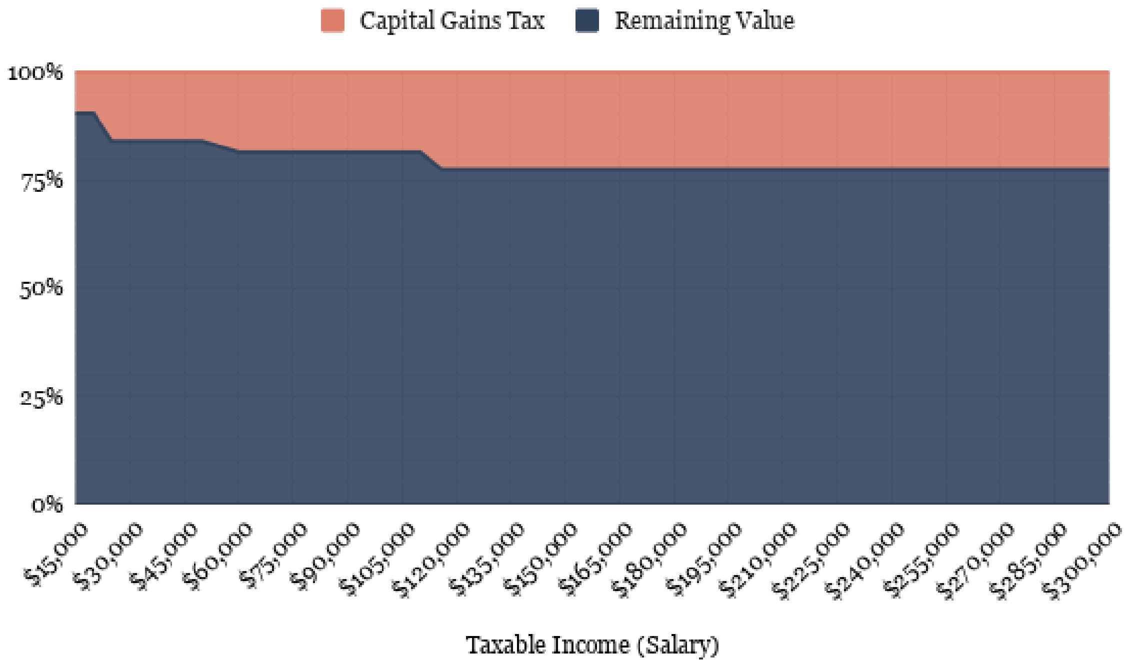
In order to estimate the savings and interest earned over their working life, we assume they save for 40 years at 2 per cent interest. We then found the present value of those investment earnings and added them to the individual's taxable income to find the tax bracket they would fall into should they realise their full earnings. More likely, individuals will save and withdraw money more frequently and avoid falling into a higher tax bracket. However, this demonstrates the problem with determining the tax rate on aggregate investment earnings and not averaging those earnings across the years they were held. Many Australians suffer as a result of this policy, particularly when they sell a property they have held for decades. After determining the tax bracket, we calculate the capital gains tax on the real value of the investment earnings and averaged that tax over 40 years.

Because this calculation only includes the interest earned on the inflation rates, that tax can be found as a percentage of total compensation. The interest earned at the inflation rate does not factor into total compensation because the individual did not see any real return.

However, the capital gains tax views all earnings in nominal, not real terms. This means that the capital gains tax is not only a tax on added earnings from investments but also the savings itself.

Figure 3.2 shows the lost value on savings as a result of the capital gains tax. At 100 per cent, the value of the money remains unchanged, having kept up with inflation. However, the capital gains tax views all earnings in nominal, not real terms. This means that the capital gains tax is not only a tax on added earnings from investments but also the savings itself. The increase in capital gains tax is as 'Taxable Income (Salary)' increases results from taxpayers falling into a higher income tax bracket. If the government averaged investment earnings over the time period the investment was held, those increases in capital gains (decreases in the 'Remaining Value') would more closely align with individuals' actual income tax brackets instead of applying to higher tax brackets to lower incomes.

Figure 3.2 - Savings Lost As A Result Of The Capital Gains Tax



While the dollar amount for the capital gains tax is low, the tax steadily encroaches on Australian's savings. Inflation is, in a sense, a hidden tax. If individuals want their savings to maintain the same buying power, they need to earn some interest. However, when the government taxes that interest, they are essentially fining Australians for saving. Interest earned below the inflation rate should not be counted as earnings because the real value of the money has not gone up.

Recommendations 3.2

a) **Average all investment earnings across the number of years held to avoid punishing individuals for holding an investment for an extended period.**

b) **Subtract inflation from the tax on capital gains to avoid taxing the initial value of the investment.**

Conclusion

While the income tax is generally the most sizable tax most people pay, the sheer number of taxes in Australia add up to a heavy tax burden. Once all the consumption and savings taxes are taken into account, the income tax starts to look small, particularly to lower-income brackets. Every government level has taken its share of people's wealth even if they do not tax earnings.

While indirect taxes can function as a tool for governments to change behaviour, those taxes can become too high if they are not careful and begin seriously encroaching on the nation's citizens' real wealth.

Throughout this paper, we have focused on three specific income groups: the minimum wage workers who take home $38,300 a year working full time, the average wage worker in the state of Victoria who collects $63,442 a year, and a high wage worker earning $110,000 per year. We selected that salary for the high wage worker because we found those earning around $110,000 pay the least tax a percentage of their total compensation.

Figures 4.0 and 4.1 provide visuals for home much in both dollars, and as a percentage of total compensation, these three income groups pay in tax. The taxes are broken down by what they tax: taxes on earnings, taxes consumption, and taxes on savings. Taxes on consumption make up the bulk of the tax burden for the minimum wage worker. The tax burden for the average worker is also mostly consumption taxes. However, taxes on earnings do take up a larger portion of these individuals' total tax burden. Lastly, the high wage worker has a much higher earnings tax burden than the minimum wage worker or the average worker.

Figure 4.0 - Amount Paid In Taxes For Specific Incomes

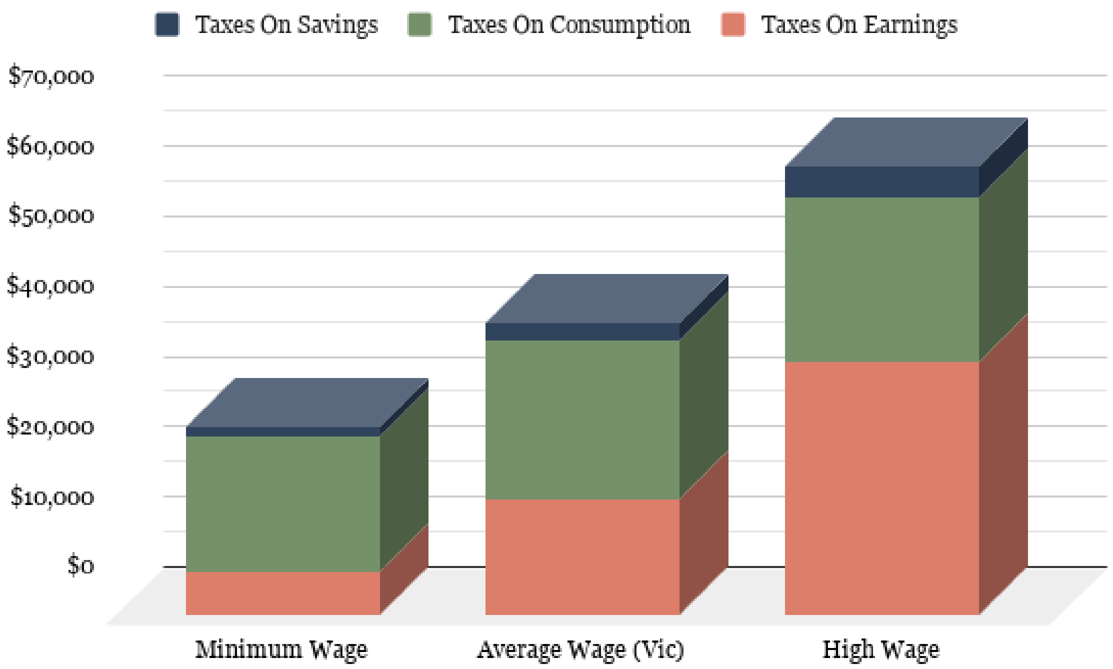
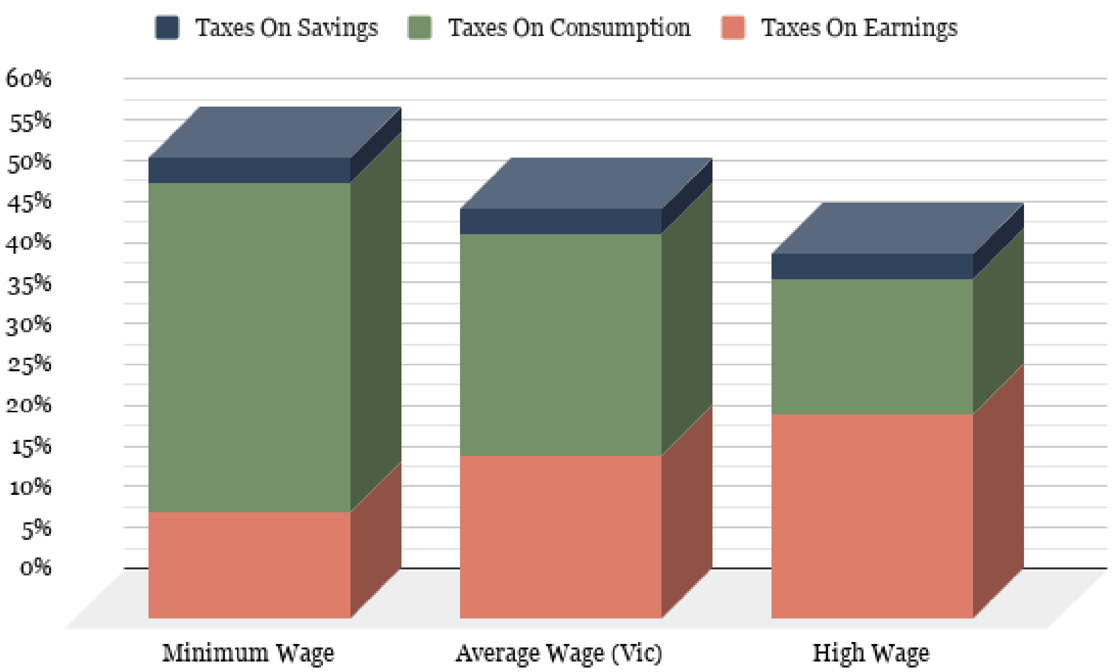


Figure 4.1 - Percentage Tax For Specific Incomes



Tables 4.0 and 4.1 give an in-detail breakdown of every tax paid by these three income groups, including the amount and percentage. Many of these taxes bring in little income for the government but still heavily burden the people paying the tax.

Table 4.0 - Aggregate Taxes For Specific Incomes

	Minimum Wage *($38,300)*	**Average Wage (Vic)** *($63,442)*	**High Wage** *($110,000)*
Income Tax	$3,988	$12,033	$28,197
Medicare Levy	$766	$1,269	$2,200
Fringe Benefits Tax	$301	$301	$301
Payroll Tax	$1,858	$3,077	$5,335
GST	$2,880	$4,190	$4,717
Insurance Taxes	$413	$413	$413
Customs Duties	$1,231	$1,231	$1,231
Alcohol Excise Taxes	$306	$294	$337
Tobacco Excise Tax	$321	$382	$202
Gambling Tax	$370	$370	$370
Luxury Car Tax*	—	—	—
Motor Vehicle Duty	$278	$278	$278
Registration Charge And Associated Vehicle Transfer Fees	$1,191	$1,191	$1,191
Fuel Tax	$650	$817	$682
Tolls	$2,610	$2,610	$2,610
Traffic And Parking Fines	$218	$218	$218
The Impact Of Planning	$4,669	$5,959	$6,842
Stamp Duty	$1,910	$1,910	$1,910
Land Tax	$1,198	$1,198	$1,198
Council Rates	$1,488	$1,488	$1,488
Tax On Super Contributions	$546	$904	$1,567
Tax On Super Investment Earnings (6.5% Interest For 40 Yrs)	$880	$1,457	$2,527
Tax On Superannuation Withdrawals**	—	—	—
Capital Gains Tax	$104	$182	$289
Total	**$28,176**	**$41,770**	**$64,097**

Table 4.1 - Percentage Tax Of Total Compensation For Specific Incomes			
	Minimum Wage	**Average Wage (Vic)**	**High Wage**
	($38,300)	*($63,442)*	*($110,000)*
Income Tax	7.9%	14.5%	19.7%
Medicare Levy	1.5%	1.5%	1.5%
Fringe Benefits Tax	0.6%	0.4%	0.2%
Payroll Tax	3.7%	3.7%	3.7%
GST	5.7%	5.1%	3.3%
Insurance Taxes	0.8%	0.5%	0.3%
Customs Duties	2.4%	1.5%	0.9%
Alcohol Excise Taxes	0.6%	0.4%	0.2%
Tobacco Excise Tax	0.6%	0.5%	0.1%
Gambling Tax	0.7%	0.4%	0.3%
Luxury Car Tax*	—	—	—
Motor Vehicle Duty	0.6%	0.3%	0.2%
Registration Charge and Associated Vehicle Transfer Fees	2.4%	1.4%	0.8%
Fuel Tax	1.3%	1.0%	0.5%
Tolls	5.2%	3.1%	1.8%
Traffic and Parking Fines	0.4%	0.3%	0.2%
The Impact of Planning	9.3%	7.2%	4.8%
Stamp Duty	3.8%	2.3%	1.3%
Land Tax	2.4%	1.4%	0.8%
Council Rates	3.0%	1.8%	1.0%
Tax on Super Contributions	1.1%	1.1%	1.1%
Tax on Super Investment Earnings (6.5% Interest for 40 yrs)	1.7%	1.8%	1.8%
Tax on Superannuation Withdrawals**	—	—	—
Capital Gains Tax	0.2%	0.2%	0.2%
Total	**56.0%**	**50.4%**	**44.7%**

* Most individuals do not pay the luxury car tax as it only applies to certain vehicles, so it is not included here.
** The tax on superannuation withdrawals only applies to incomes over $250,000 unless an individual withdraws their superannuation early.

The Australian government not only taxes too much, between the three levels of government, it has too many taxes. While most of the taxes shown in Table 4.2 take less than 1 per cent of an individual's total compensation when added up to amount to 56.0 per cent or a minimum wage workers' total compensation, 50.4 per cent of an average worker's total compensation, and 44.7 per cent of a high wage worker's total compensation.

Figure 4.2 shows the total amount paid across all taxes (federal, state, and local) according to taxable income.

Figure 4.2 - Total Taxes Paid According To Income

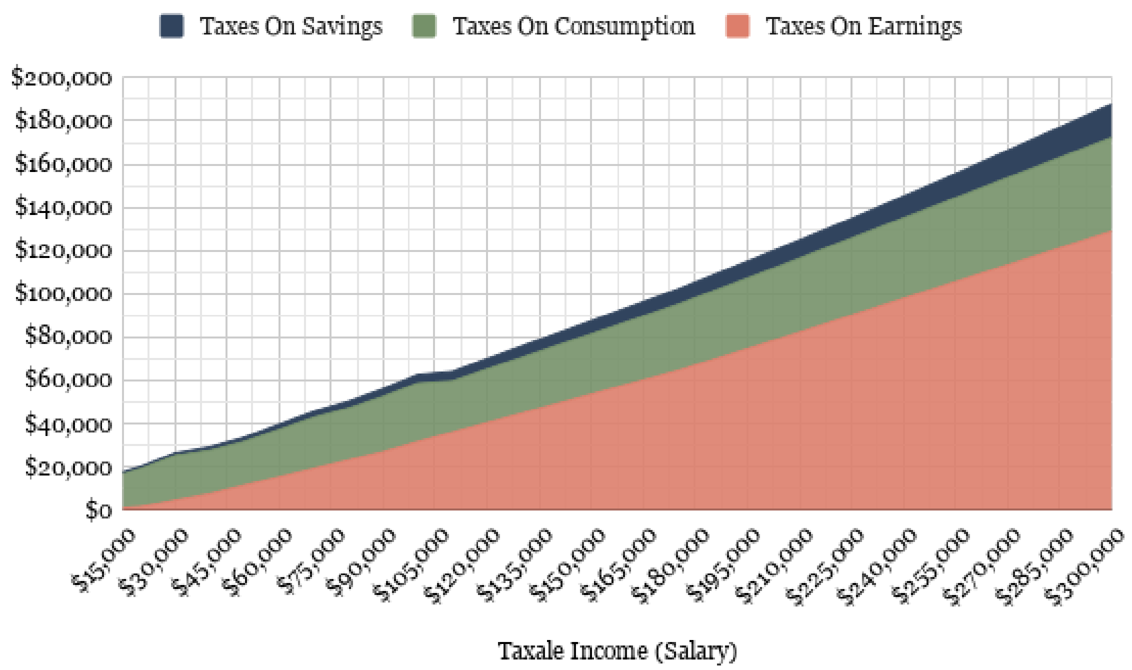


Figure 4.3 looks at what percentage of peoples' total income goes to each type of tax. This provides a picture of how different types of tax affect people according to their earnings. Figure 4.4 isolates the impacts of planning from other taxes because, unlike taxes, fees, and fines, the impact of planning is a cost of regulation. Regulation can and does act like a tax, mainly when that regulation is highly restrictive and on goods or services Australians depend on and spend a large portion of their earnings on. Planning and zoning laws, and regulations around importing vehicles, cost Australians thousands of dollars every year.

Additionally, these costs do not increase government revenue or lead to any government services. On the contrary, they cost the taxpayer even more to maintain. More research needs to be done into this topic, categorising government regulation's total cost on the Australian consumer and worker. This paper could only deal with arguably the highest and most burdensome regulatory costs, planning restrictions.

Figure 4.3 - Percentage Of Tax Burden For Each Type Of Tax

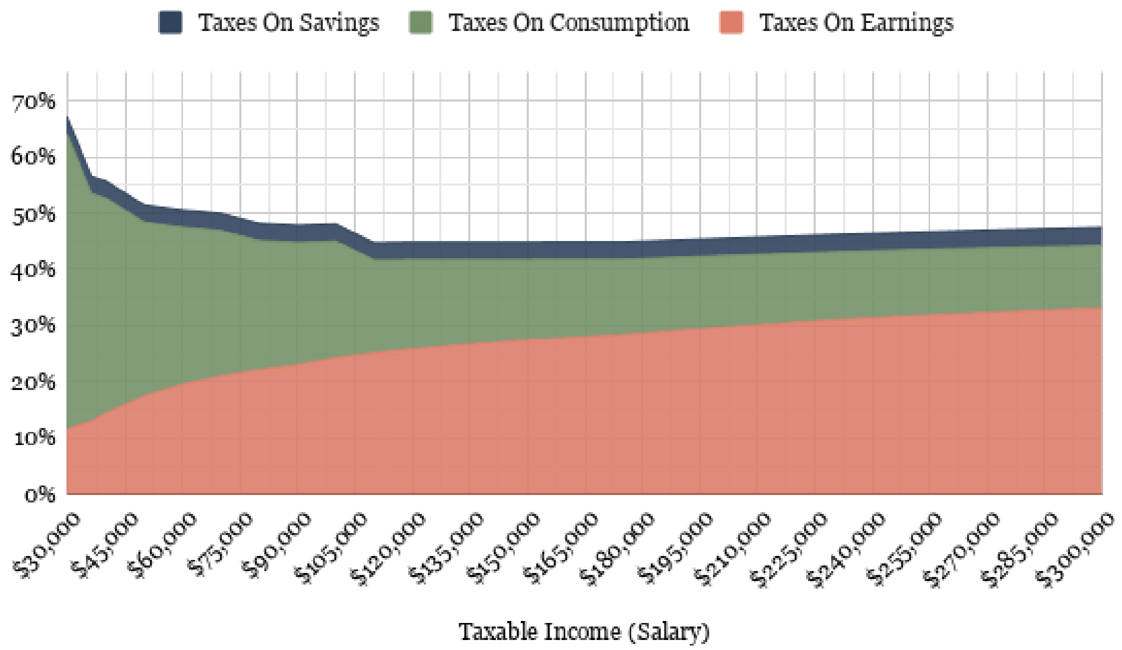
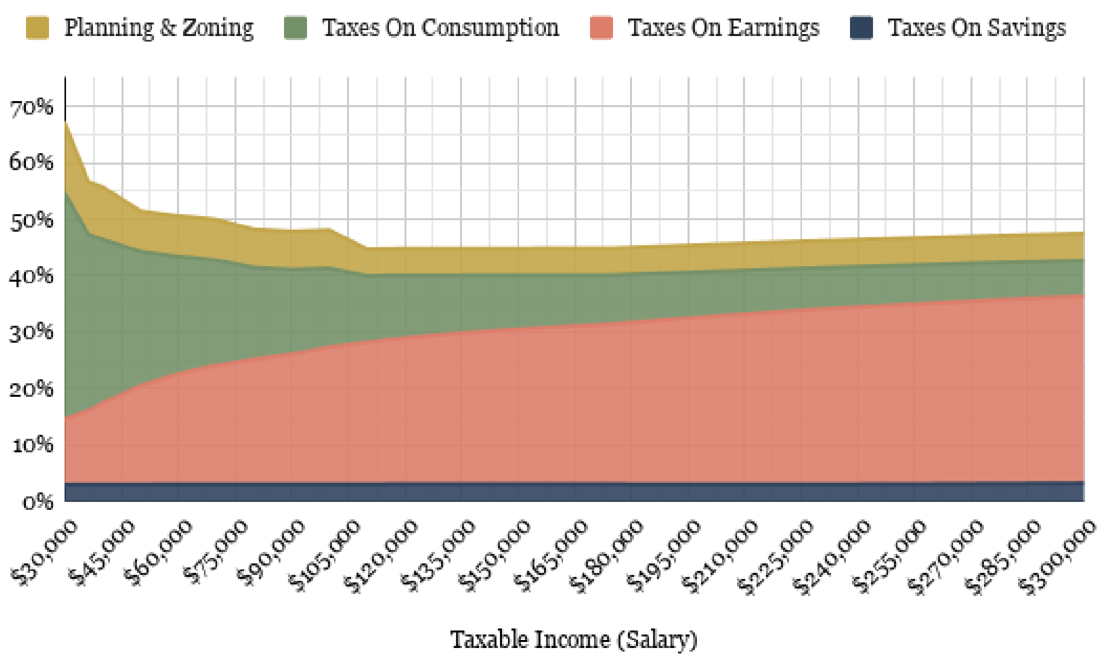


Figure 4.4 - Percentage Of Tax Burden For Each Type Of Tax Isolating The Impact of Planning Regulations



Australian politicians at all levels of government must work together to lower the tax burden. Australians should not need to spend half their income on taxes. While some taxes fund necessary projects, the government wastes much of what they collect. That money would be better spent by the Australians who worked hard to earn it.

Recommendations

TAXES ON EARNINGS:

Recommendation 1.1 - Income Tax

a) Index income tax brackets to CPI to avoid annual real tax increases and bracket creep as a result of inflation.
b) Peg the tax-free threshold (now $18,200) to the full-time minimum wage (now $38,300) to avoid burdening those making the least with taxes they cannot afford.
c) Replace the progressive income tax with a low flat income tax.

Recommendation 1.2 - Medicare Levy

a) Remove additional surcharges for those earning higher incomes as they are already contributing higher dollar amounts for the same service as low-income earners and,
b) Maintain the 2 per cent flat tax.

Recommendation 1.3 - Fringe Benefits Tax

a) Make the FBT exemption (made in response to the COVID-19 pandemic) for employer-provided trainings permanent,
b) Lower the fringe benefits tax to match the income tax, and
c) Allow businesses to choose between providing an itemised list of fringe benefits and a standard amount for fringe benefits.

Recommendation 1.4 - Victorian Payroll Tax

a) Repeal the payroll tax completely as it reduces both employment and wages.

CONSUMPTION TAXES:

Recommendation 2.1.1 - Goods and Services Tax (GST)

a. Re-evaluate cutouts and loopholes that allow certain industries to avoid paying GST and consider removing them to improve efficiency.
b. Remove areas where GST is issued on other taxes.

Recommendations 2.1.2 - Customs Duties

a) Remove the cost of the import duty from the calculation for GST to avoid taxing a tax.
b) For imported goods, allow businesses to pay a reduced GST of 5 per cent as they already must pay the import duties.

c) Negotiate further free trade agreements with our allies in order to benefit Australian consumers by providing them with cheaper foreign goods and to benefit Australian businesses dependent on intermediary goods from abroad.

Recommendation 2.1.3 - Insurance Taxes

a) Remove the cost of insurance taxes from the calculation for GST to avoid taxing a tax.

b) Consider removing insurance taxes entirely and instead simply charge GST on the products offered by insurance providers and tax all profits according to corporate tax. This would reduce the disincentive to purchase insurance.

Recommendation 2.2.1- Alcohol Taxes

a) Replace the alcohol excise tax, which is calculated according to alcohol content, with the WET tax for spirits and beers.

b) Remove the biannual indexation of the alcohol tax. It is unnecessary with a tax based on the cost of an expenditure.

Recommendation 2.2.2 - Tobacco Excise Tax

a) Remove the biannual indexation of tobacco excise tax. This leads to a rapidly increasing tax burden.

b) Reduce the tobacco tax substantially so as not to impoverish low-income smokers.

Recommendation 2.2.3- Gambling Taxes

a) Remove the gambling tax and simply tax casino and other gambling venues using the corporate tax.

Recommendation 2.3.1: Purchasing A Vehicle

a) Reduce regulations for vehicle importation that inflate the price of vehicles and hurt the Australian consumer.

Recommendation 2.3.2 - Luxury Car Tax

a) Remove the luxury car tax and instead only apply GST to vehicle purchases, or

b) Do not include GST when valuing vehicles for the LCT.

Recommendation 2.3.3 - Motor Vehicle Duty

a) Remove the motor vehicle duty and instead only apply GST to the vehicle purchased.

Recommendation 2.3.4 - Registration Charge And Vehicle Transfer Fees

a) Remove fees associated with registration and licensing. Individuals should not be fined for complying with government regulations.

Recommendation 2.3.5 - Fuel Taxes

a) Remove the biannual indexation of fuel taxes. This leads to an increasing tax burden.

b) Reduce the fuel tax to offset the high cost of tolls.

Recommendation 2.3.6 - Road Tolls

a) Make all future roads toll free and instead rely on tax revenue for building and maintaining infrastructure.

Recommendation 2.3.7 - Traffic And Parking Fines

a) Remove traffic fines entirely and rely solely on the demerit system to incentivise good driving behaviour. Fines have a disproportionate effect on drivers depending on wealth. As a result, the traffic fine system has led to unequal punishment under the law.

b) Cap the amount drivers can be fined for parking violations.

Recommendation 2.4.1 - The Impact Of Planning

a) Relax height limits in the city of Melbourne and othercities across Australia.

b) Reduce restriction on greenfield agreements.

c) Evaluate the entire zoning and planning system with the goal of making it easier for people to build new homes to meet the demands of Australia's growing population.

Recommendation 2.4.2 - Stamp Duty

a) Remove stamp duty for all property purchases.

Recommendation 2.4.3 - Land Tax

a) Increase the thresholds for land tax in proportion to increasing land prices.

b) Ensure the bottom threshold is high enough to exclude single-family homes on standard plots.

Recommendation 2.4.4 - Council Rates

a) Issue property taxes on land value, not the "Capital Improvement Value".

TAXES ON SAVINGS:

Recommendations 3.1 - Superannuation Taxes

a) Remove taxes on superannuation contributions.

b) Remove the tax on interest earned through superannuation.

c) Reduce fees on superannuation funds.

Recommendations 3.2 - Capital Gains Tax

a) Average all investment earnings across the number of years held to avoid punishing individuals for holding an investment for an extended period.

b) Subtract inflation from the tax on capital gains to avoid taxing the initial value of the investment.

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Emilie Dye is the Policy Director for the Australian Taxpayers' Alliance, the nation's largest grassroots advocacy group representing taxpayers. Having graduated from George Washington University with a Bachelors of Science in Economics, she moved to Australia to participate in the Liberty movement and get a taste of politics outside the United States. She is widely published with her work appearing in the Daily Telegraph, the Spectator Australia, Liberty Works, and international publications including RealClear Policy, the Washington Times, and the National Interest. She has appeared on Sky News, 9News, and 7News as well as interviewed with radio stations across Australia. You can find her work on her website emiliedye.com or follow her on Twitter @Emilie_Dye.

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