

Paying for zero

The impacts of limiting the deduction for managing your tax affairs to \$3,000

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Summary

The Labor party has announced a policy to limit the deduction that can be claimed for managing your tax affairs to \$3,000. The complexity of the tax system means that some people are spending large amounts of money on accounting advice to take advantage of tax loopholes to significantly reduce their taxable income. They can then reduce their disposable income further by deducting the cost of this advice. Extreme examples of this have emerged where people earning considerable amounts of money are claiming more than a million dollars for the management of their tax affairs.

This paper will look at who is likely to be impacted by this policy.

About 47% of those submitting a tax return claim a deduction for expenses incurred in managing their tax affairs. While the average (mean) amount that people deducted was \$378 the median was much lower at just \$165. A large difference between the average and median indicates that a small minority are claiming considerably larger amounts than the average. This minority are dragging up the average.

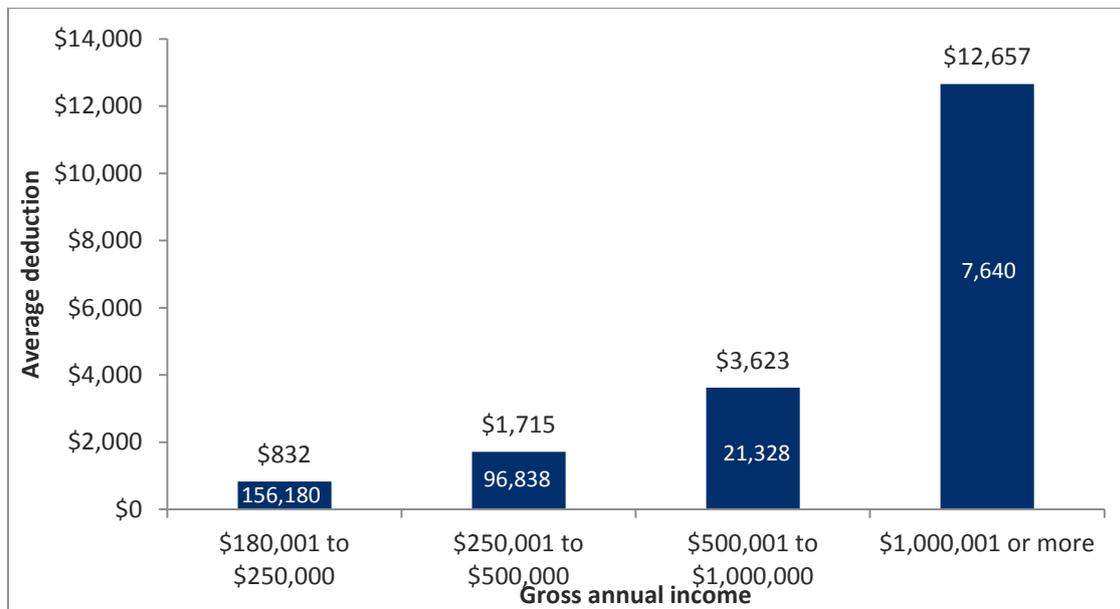
Those in Liberal Party electorates located in Australia's largest cities claimed larger amounts for managing their tax affairs. Liberal electorates made up nine of the top 10 electorates for this deduction. These electorates also had a larger percentage of people claiming the deduction.

The top 3 per cent of tax payers

Using the taxation statistics from 2014-15 (latest figures) we can break down how much people deducted, on average, for managing their tax affairs. In Figure 1 we look at the top three percent of tax payers, those earning more than \$180,000. They are broken down into various high income ranges. These ranges are gross income before

deductions. It shows that people that have a gross income of between \$180,001 and \$250,000 deducted on average \$832 for managing their tax affairs. The average amount deducted then rises to reach \$12,657 for people earning more than a million dollars.

Figure 1 – High income earners deductions for managing tax affairs



Source: Taxation statistics 2014-15, Table 10. The number in white shows the number of people claiming the deduction in that tier.

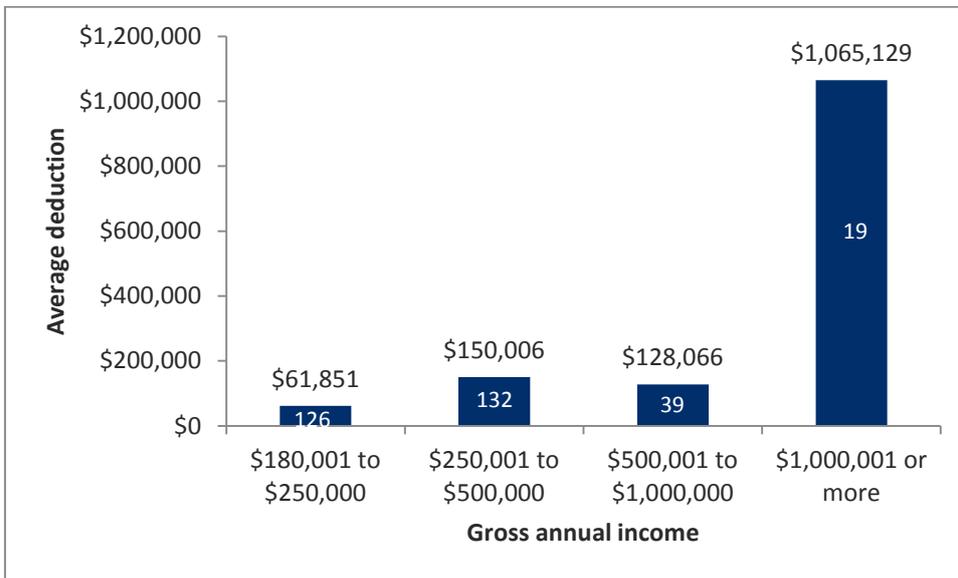
So while the average for all people submitting a tax return is just \$378, it is considerably more for high income earners – up to \$12,657 for those earning more than a million dollars a year.

Paying no tax

High income earners who have managed to reduce their taxable income to below the tax free threshold deduct even more for managing their tax affairs. These high income earners have found deductions that are large enough that they do not pay tax.

Figure 2 shows the average deductions for managing tax affairs for those with large gross incomes who paid no tax.

Figure 2 – Average deductions for managing tax affairs for high gross income earners who paid no tax



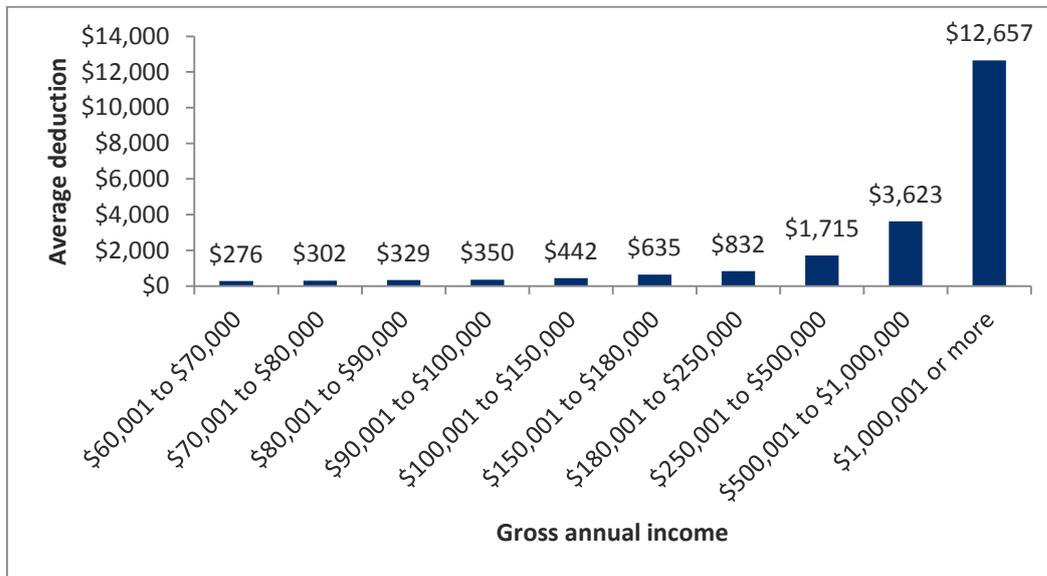
Source: Taxation statistics 2014-15, Table 10. The number in white shows the number of people claiming the deduction in that tier.

This small number of individuals spent considerable amounts managing their tax affairs. Those earning between \$180,001 and \$250,000 spent on average \$61,851. Those earning more than a million dollars deducted on average just over a million dollars for managing their tax affairs.

Cost of managing tax affairs for top half of tax payers

If we look at the top 50% of tax payers by gross income we see that people in most income brackets deduct very little for managing their tax affairs. It is only those on very high incomes that claim considerable amounts.

Figure 3 –Average deduction for managing tax affairs by top 50% of gross income earners



Source: Taxation statistics 2014-15, Table 10

This graph shows that only those on very high incomes are likely to be negatively affected by restricting deductions for managing tax affairs to \$3,000.

Cost of managing tax affairs by electorate

We can also look at the deduction for managing tax affairs by electorate. Table 1 shows the 10 electorates claiming the largest average deduction for managing tax affairs for those who made the deduction. It also shows the percentage of those submitting a tax return that made a deduction in each electorate.

Table 1 – Top 10 electorates by average cost of managing tax affairs

Rank	Electorate	State	Party	Avg cost of managing tax affairs	% claiming deduction	Representative
1	Higgins	VIC	Liberal	\$2,121	44.3%	Kelly O'Dwyer (Assistant Treasurer / Minister for Revenue and Financial Services)
2	Wentworth	NSW	Liberal	\$1,235	48.4%	Malcolm Turnbull (Prime Minister)
3	Melbourne Ports	VIC	Labor	\$1,156	44.3%	Michael Danby

4	Curtin	WA	Liberal	\$1,125	43.9%	Julie Bishop (Deputy Leader Liberal Party & Minister for Foreign Affairs)
5	Warringah	NSW	Liberal	\$819	48.4%	Tony Abbott (Ex-Prime Minister)
6	Bradfield	NSW	Liberal	\$796	43.2%	Paul Fletcher (Minister for Urban Infrastructure)
7	North Sydney	NSW	Liberal	\$783	46.2%	Trent Zimmerman
8	Brisbane	QLD	Liberal	\$766	41.7%	Trevor Evans
9	Kooyong	VIC	Liberal	\$757	43.5%	Josh Frydenberg (Minister for Environment and Energy)
10	Goldstein	VIC	Liberal	\$647	45.1%	Tim Wilson

Source: Taxation statistics 2014-15, Table 6

The table is dominated by Liberal seats close to the centre of large capital cities, mostly Sydney and Melbourne. Nine of the 10 electorates are held by Liberals, including senior members of the government: the Prime Minister, the Deputy Leader of the Liberal Party and Minister for Foreign Affairs, the Minister for Revenue, the Minister for Environment and Energy, the Minister for Urban Infrastructure and ex-Prime Minister Tony Abbott.

Conclusion

Tax data shows that limiting the deduction for managing your tax affairs to \$3,000 is likely to affect very high income earners who live mainly in Liberal Party electorates. Middle and low income earners are unlikely to be negatively affected by this change.

References

Australian Tax Office (2017) *Taxation Statistics 2014-15*, ATO, <https://www.ato.gov.au/About-ATO/Research-and-statistics/In-detail/Taxation-statistics/Taxation-statistics-2014-15/?anchor=Individuals#Individualsdetailedtables>