

# Wealth and inequality in Australia

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*Inequality in Australia is growing and is driven by the rapid accumulation of wealth by the very wealthy. The wealth of Australia's richest 200 people nearly tripled over the last two decades. In 2020-21, capital gains exceeded all other types of income combined. Tax reform is needed to address this problem.*

Discussion paper

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# Introduction

Inequalities of incomes and wealth in Australia have grown in recent decades. Wealth is even more unequally distributed than incomes. Ranked by incomes, the top fifth of households have incomes five times higher than the bottom fifth. Ranked according to wealth, however, the top fifth of households are 146 times better off than the bottom fifth. In this paper we show that capital gains arising from accumulated wealth have produced large increases in passive, unearned income that have added further to the wealth of the rich. The result is that the wealth of the richest 200 Australians has risen from the equivalent of 8.4% of the nation's GDP in 2004 to 23.7% of GDP in 2024.<sup>1</sup>

Rather than reducing the inequality, the tax system has become part of the problem of an increasingly unequal society. If wealth inequality is to be reduced, the tax system would need to shift from taxing wages and other earned incomes towards taxing unearned income, wealth and capital gains. Although the political barriers to making this change are likely to be substantial, failure to confront the problem will consign the nation to ever-increasing inequality.

The growing disparity between inequality of incomes and inequality of wealth is increasing the rich-poor divide in Australian society. Income comprises things such as wages, plus any interest payments, rental income or government support payments. Wealth is the ownership of substantial assets, such as shares and real estate. The former is a flow: the latter is a stock. Understanding this difference is crucial to addressing this challenge of inequality and the options for reform.

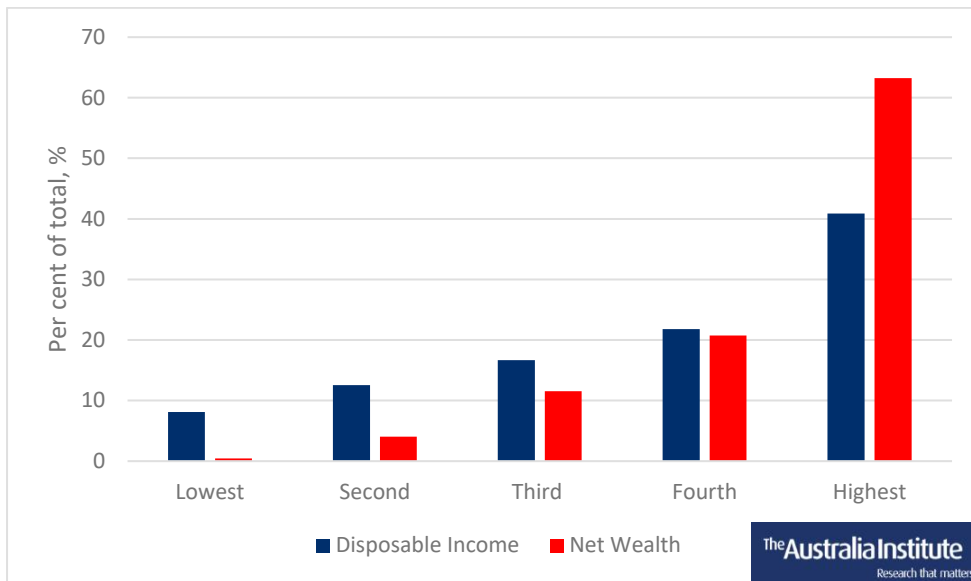
Wealth and incomes are interrelated, of course, because anyone owning a large stock of assets will normally get big flows of income, typically from dividends, interest payments, rents and—as we emphasise here—capital gains. Once a large amount of capital has been accumulated, the passive income it generates enables yet more assets to be purchased. This makes the growth of economic inequality a hard cycle to break.

The fact that wealth inequality is far greater than income inequality is evident in data from the Australian Bureau of Statistics (ABS). As Figure 1 shows, the bottom quintile (20%) of income recipients has 9.6% of total income but just 0.4% of the total wealth. By contrast, the top quintile has 40.9% of the total income and 63.2% of the total wealth. Clearly, while distribution of incomes is markedly uneven, the distribution of wealth is even more so.

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<sup>1</sup> Rich List (2024) *Australian Financial Review*, 7 June, (no author specified) <https://www.afr.com/rich-list>.

**Figure 1: Income and wealth distributions: Shares by quintile, %.<sup>2</sup>**



Source: Authors' calculations and ABS (2022) Australian National Accounts: Distribution of Household Income, Consumption and Wealth, 2003-04 to 2021-22.

The impacts of wealth disparity on this scale were explored by Thomas Piketty in his widely cited book, *Capital in the Twenty-First Century*. Piketty showed that, if the increase in a society's wealth exceeds the growth in its national income, wealth becomes more concentrated and family dynasties loom increasingly large relative to the size of the economy.<sup>3</sup> This trend is already apparent in Australia, undermining any residual claims to egalitarianism and a "fair go" for all. If current trends continue, wealth will increase much faster than national income; and the higher ratio of wealth to income will eradicate any semblance of equality of opportunity from Australian society. Under these circumstances, the wealth and power of the very rich will become even larger and the intergenerational transfer of wealth even stronger in shaping social inequalities.

The annual "rich list" published by the *Australian Financial Review* helps to reveal what is happening at the very top by quantifying the wealth of the nation's 200 most wealthy people. In 2024, the rich list showed that the wealthiest 200 Australians held wealth totalling \$625 billion, the equivalent to nearly a quarter of the total income produced annually in the whole of Australia. Gina Rinehart topped the rich list with a personal wealth of \$40.6 billion.<sup>4</sup>

Those on the rich list are not only very rich; they have been getting richer relative to the size of the Australian economy. Twenty years ago, in 2004, the combined wealth of the richest

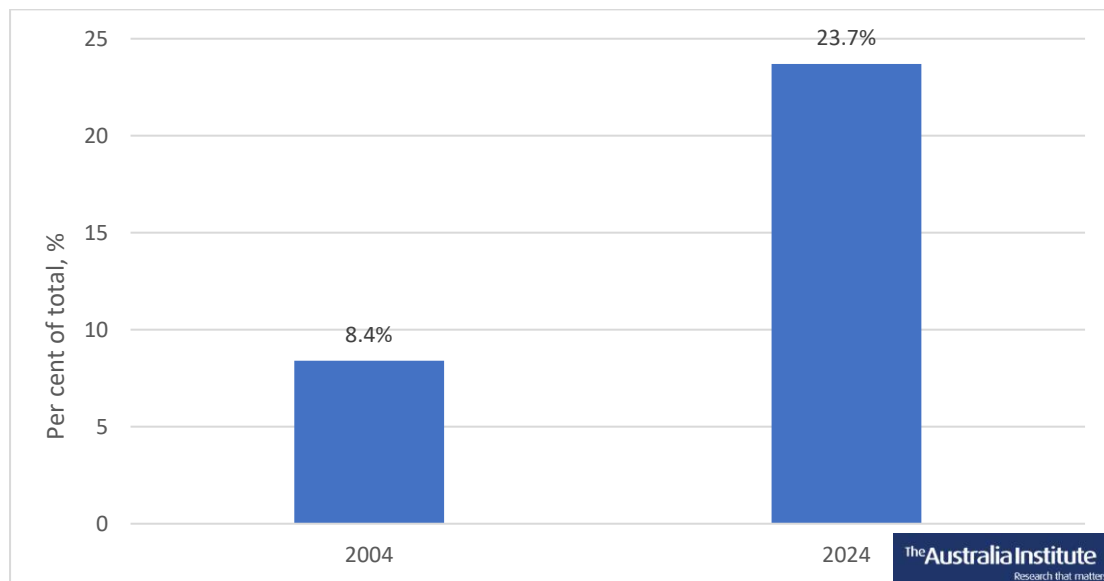
<sup>2</sup> The ABS adjusts for household size to present "equivalised" household income and wealth.

<sup>3</sup> Piketty T (2015), *Capital in the Twenty-First Century*, English Edition Translated by A Goldhammer, Cambridge, MA: Harvard University Press.

<sup>4</sup> Rich List (2024), *Australian Financial Review*, 7 June, (no author specified), <https://www.afr.com/rich-list>.

200 Australians was 8.4% of GDP, today's figure is 23.7% nearly three times larger. This is shown in Figure 2 below.

**Figure 2: Rich 200 Australians' wealth as share of GDP, %**



Source: "Rich List", *Australian Financial Review*, 7 June 2024 and 2004. and *Business Review Weekly*, 2004.

The concentration of wealth and income at the top of the distribution is as socially damaging as its absence from the bottom. As Joseph Stiglitz points out in his book *The Road to Freedom*, the enormous wealth and incomes of the ultra-rich reduce the opportunities available to the rest of society.<sup>5</sup> Concentrated wealth and debilitating poverty are two sides of the same coin.

Current cost-of-living stresses in Australia relate directly to these economic inequalities. While people living in poverty and struggling to make ends meet are hit hard by the rising prices of things they need to buy, wealthy people benefit from inflation in the value of things they own. Housing costs are the most striking example. Rapidly rising rents make it very hard for people on low incomes to cope, while the people who own the rented properties benefit from the higher rental incomes as well as the rising market value of their assets.

Household energy costs are another example. Electricity and gas retailers have been accused of price gouging,<sup>6</sup> a practice that benefits their shareholders—who are disproportionately among the top echelons of society, in terms of both wealth and income. Meanwhile, low-income earners and the poor struggle with bigger bills. Income distribution figures show the lowest income quintile spent 4.2% of their income on electricity, compared

<sup>5</sup> Stiglitz (2024) *The Road to Freedom: Economics and the Good Society*, Allen Lane.

<sup>6</sup> Bennis (2024) "A \$1bn energy gouge", *Daily Telegraph*, 27 February.

with just 1.1% for the top quintile.<sup>7</sup> Social stresses like these intensify as economic inequality increases. Consequently, there can be no resolution of the current cost-of-living crisis and ongoing housing crisis without tackling the causes of growing inequality.

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<sup>7</sup> Figures for 2021-22; see ABS (2022) *Australian National Accounts: Distribution of Household Income, Consumption and Wealth*, 13 December.



# Capital gains are main driver of rising wealth inequality

The term “capital gain” refers to the increase in the market price of an asset. For example, a capital gain could be the increase in the value of a house over time. The capital gain is “realised” when the homeowner sells their house. This distinction between accrued capital gains and realised capital gains is important to the discussion of tax implications below.

Capital gains, whether realised or not, are treated by economists as part of income. For example, the report of the last official review of the Australian tax system referred to the:

Schanz-Haig-Simons definition of income, under which income represents the increase in a person’s stock of assets in a period, plus their consumption in the period (with consumption including expenditure other than that incurred in producing income). There are important equity reasons for maintaining this approach...<sup>8</sup>

The inclusion of capital gains is even clearer in other treatments where income is defined as equal to “consumption plus changes in net worth”, no matter what caused those changes in net worth.<sup>9</sup> That is a way of saying your income must have been equal to what you spent and the increase in your wealth.

To tackle rising wealth inequality, tax reforms should focus on capital gains and the accumulation of private wealth, both of which create cumulative advantages for a minority within society but make life more difficult for the majority. Currently, capital gains and wealth are either lightly taxed or completely untaxed in Australia. This results in the overall percentage of tax paid falling more heavily on the bulk of wage-earners, whose income is most visible but who can least afford the higher taxes.

Until the 1980s in Australia, capital gains were not taxed at all. Now, they are taxed on realisation, but many assets are exempt from capital gains tax. For example, the accrued value of a house is only taxed when it is sold, and not at all if it is the main residence of the household. For the assets that *are* taxed, only half of the realised capital gain is added to the taxpayer’s assessable income. The capital gains tax (CGT) discount, introduced by the

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<sup>8</sup> Australian Government (2010) *Australia’s future tax system: Report to the Treasurer, Part Two Detailed analysis*, volume 1 of 2, December, p53.

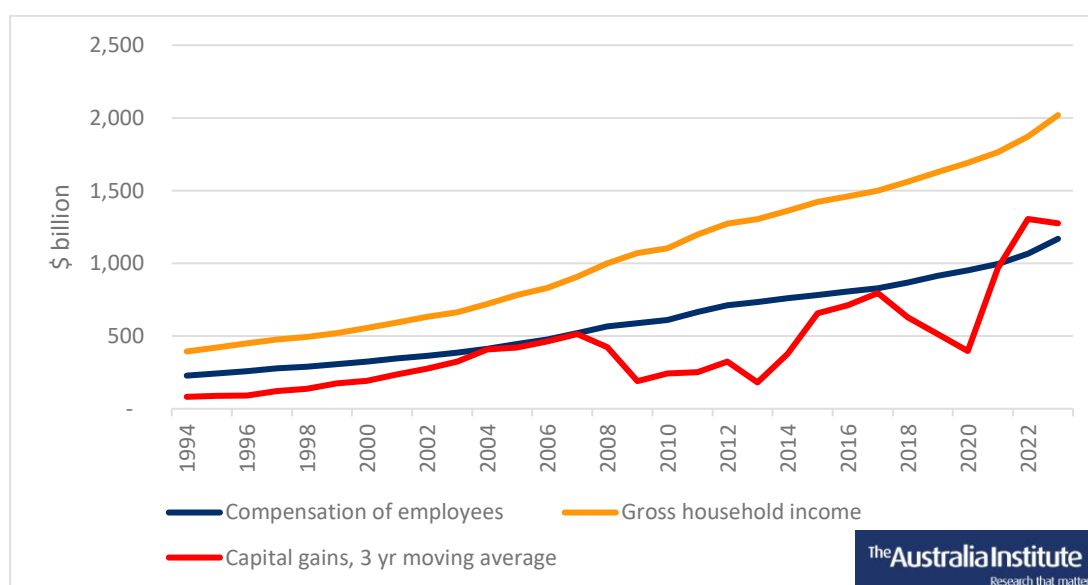
<sup>9</sup> Staff of the Joint Committee on Taxation (2012) “Overview of The Definition of Income Used by the Staff of the Joint Committee on Taxation In Distributional Analyses”, Committee Document JCX-15-12, 8 February, p3.

Howard government in 1999, means that only half of the accrued value of assets is taxed.<sup>10</sup> Capital gains tax does not apply to assets held for less than a year: if someone sells an asset within a year of buying it, they are considered a ‘trader’ and taxed on all the profit.

The tax arrangements related to the ownership of assets have become integral to the wealth accumulation process. Regrettably, however, most discussion of inequality in Australia ignores capital gains and their interaction with wealth, even though capital gains have been the major factor driving huge increases in wealth for the rich. A research report by the Productivity Commission, for example, failed to look adequately at the interaction between income and wealth.<sup>11</sup> Redress is necessary if the tax system is to become fit for purpose in dealing with current economic realities.

Capital gains are a large and rapidly growing element in total Australian household incomes. If current trends continue, they will become even more influential than wages in shaping ‘who gets what’ in Australian society. Already, capital gains are often as high or higher than the national wages bill, as can be seen in Figure 3 which compares capital gains with total household income (as conventionally measured) and aggregate wages. Note that the wages bill here is not just take-home pay, but also includes things like superannuation contributions and workers compensation insurance.

**Figure 3: The growth of capital gains relative to wages in household incomes, \$billion<sup>12</sup>**



Source: Authors’ calculations based on ABS (2024) *Australian National Accounts: Finance and Wealth*, 28 March and ABS (2023) *Australian System of National Accounts*, 27 October.

<sup>10</sup> Prior to 1999 capital gains were taxed by calculating the value of the gain relative to inflation over the period an entity had owned that capital (see in the section “Reforming Capital Gains Taxation”).

<sup>11</sup> Productivity Commission (2018) *Rising inequality? A stocktake of the evidence*, Commission Research paper, Canberra.

<sup>12</sup> Capital gains in Figure 3 are presented as a three-year moving average to smooth out some of the volatility.

Figure 3 shows that capital gains are on a strongly rising trend. At the beginning of the period shown in the graph, 1993-94, capital gains were 21% of total household income as conventionally measured. By 2022-23, however, capital gains had increased to 63% of household income. Early in the 1990s, the total amount of capital gains was much less than income from wages but, since then, capital gains have grown more rapidly than wages and, in some years, have equalled or exceeded wages. Indeed, the data in Figure 3 suggests that the trend in capital gains looked set to significantly outpace wages (“compensation of employees”) were it not for the turmoil of the global financial crisis that began in 2008 and the pandemic of 2020.

Overall, Figure 3 shows that the total amount of income from capital gains has been roughly equivalent to all the wage incomes earned by 14.4 million workers. In 2020-21, capital gains actually exceeded all other household income combined—wages, income support, dividends, interest, and rent. That surge of capital gains created a massive flow that increased the total stock of household wealth in Australia from \$11,220 billion in June 2020 to \$13,312 billion in June 2021, on its way to \$16,208 billion at March 2024. Because most households get very little or no income from realised capital gains, it follows that the wealthiest households must be receiving the large majority of this unearned income.<sup>13</sup>

While capital gains are volatile, they have been increasing relative to household income, contributing strongly to the growth of wealth. If household wealth were to continue growing annually by 7.3% and household incomes by 5.4%, then, in 40 years the total wealth in Australia will be over 15 times the total annual income, compared with 7.5 times now.<sup>14</sup>

Wealth and capital gains are crucial factors shaping the nature and extent of economic and social inequality, especially because capital gains operate as both cause and effect of increasing inequality in the distribution of wealth. Achieving a more sustainable and equitable set of tax arrangements therefore requires making wealth and capital gains the principal focal points for tax reform.

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<sup>13</sup> Moreover, a surge like this in capital gains increases total wealth, while a lesser flow of capital gains in a subsequent year, such as 2022-23, does not reduce total wealth. The process of wealth accumulation continues relentlessly, further intensifying inequality of wealth.

<sup>14</sup> These calculations are based on household income of \$2,019 billion in 2022–23 and household wealth of \$15,043 billion at June 2023.

# What can be done to reduce wealth inequality in Australia

Most countries have one or more forms of wealth tax. Australia is unique in simultaneously lacking a wealth tax and taxing capital gains concessionally. In short, Australia's tax treatment of wealth is a major cause of inequality in Australia. Three types of tax reform could restrain the growth of wealth inequality in Australia: more comprehensive taxation of capital gains; the introduction of an annual tax on wealth above a specified threshold; and the introduction of a wealth transfer tax. Any one of these would make a big difference; all three would be transformational.

## REFORMING CAPITAL GAINS TAXATION

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The Hawke Labor Government introduced capital gains tax (CGT) in 1986. It has only ever applied to realised gains, which is the difference between the price paid for the asset and the price received on its sale. Any capital losses can be used as a deduction against income from other capital gains.

The capital gains tax has always allowed exemption for the “family home”—more formally, one plot of land and the dwelling on it. Other realised capital gains were fully taxable at standard income tax rates until 1999, when the Howard Government introduced a 50% “discount” on the rate of capital gains tax payable. Unsurprisingly, ever since then, capital gains have been a major focal point for tax minimisation by the wealthy. The estimated revenue forgone through the failure to fully tax realised capital gains is estimated to be \$19 billion in 2023–24, equivalent to the total Government spending on the pharmaceutical benefits scheme—and 81% of this foregone revenue goes to the top 10% of income earners.<sup>15</sup>

Taxing capital gains at half the rate of wage incomes has neither an ethical nor an economic justification. Seeking to reduce this anomaly, the Labor Opposition's 2019 election policies included a proposal to reduce the CGT discount from 50% to 25%, which would have resulted in 75% of realised capital gains being taxed. That policy proposal lapsed when Labor failed to be elected and has not been revisited since Labor came to government in 2022.

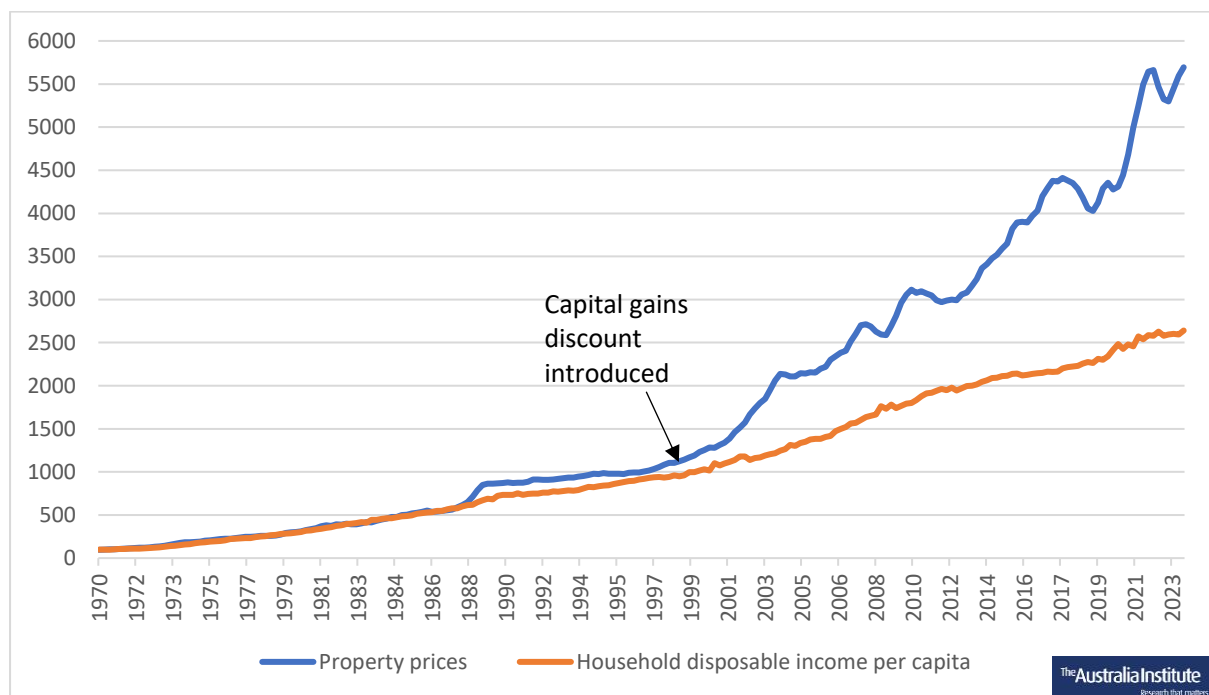
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<sup>15</sup> Australian Government (2024) *Tax Expenditures and Insights Statement*, <https://treasury.gov.au/sites/default/files/2024-01/p2024-489823-teis.pdf>

The capital gains tax discount that has existed since 1999 has had a particularly damaging effect on housing affordability. While purchasing housing was once regarded primarily as getting a safe and secure place to live, it has increasingly come to be seen as a tax-favoured way to build your wealth. As Figure 4 reveals, prior to the introduction of the CGT discount Australian property prices rose roughly in line with household income. From 1970 to 1999, property prices rose 1.2 times the rate of household incomes. Since then, property prices have risen 2.3 times the rate of household income.

This is *prima facie* evidence that getting more affordable housing in Australian society would be more achievable if the capital gains tax discount were to be removed. That policy change would end the use of property ownership, over and above the ‘family home’, as a tax-favoured investment vehicle.

**Figure 4. Index of Australian property prices and household disposable income per capita, 1970-2023 (1970=100)**



Source: Authors’ calculations based on ABS (2024) National Income, Expenditure and Product and BIS (2024) Australia - Selected residential property prices, Nominal.

## TAXING WEALTH ANNUALLY

Taxes may also be levied on the overall amount of wealth that people own. Whereas capital gains tax relates to additional increments of wealth, a wealth tax relates to the total stock of wealth. At its most basic level, a wealth tax is a tax charged annually on a person’s total worth. While simple in principle, a wealth tax can work in practice in many different ways.

To illustrate this, we can examine examples from the four OECD countries—France, Norway, Spain and Switzerland—that currently operate wealth taxes.

- In France, the former *Impôt de solidarité sur la fortune* (ISF) was applied at marginal rates to gross worth in excess of €800,000, reaching a maximum rate of 1.5% on fortunes exceeding €10m.<sup>16</sup> This tax was repealed in 2018 and replaced by a similar tax on real estate holdings alone.<sup>17</sup>
- In Norway, wealth tax is assessed on global net worth, and imposed at 0.7% on wealth exceeding NOK 1.7m (about A\$238,000).<sup>18</sup>
- In Spain, the marginal rates for the wealth tax are set by the national government, but each region of the country applies a deduction, so the effective rate varies regionally. The national rate begins at 0.2% on individual net worth over €167,129, peaking at 2.5% on net worth exceeding €10,695,996.<sup>19</sup>
- Switzerland's rate also varies from region to region, ranging from a flat 0.25% of wealth over CHF50,000 in the canton of Nidwald to more complex marginal systems elsewhere in the country.<sup>20</sup>

In Australia, if a simple wealth tax was levied annually by the Commonwealth Government at a rate of no more than 2% on households owning assets whose combined value currently exceeds a threshold of, say, \$3 million indexed annually for inflation, it would generate considerable revenue but only impact about a small minority – perhaps 1 in 20 – of Australian households. The 200 people on the rich list alone might contribute an amount of around \$12 billion per year from their \$625 billion wealth, which would represent a substantial increase in Commonwealth revenue— financing public expenditures on infrastructure, services or other benefits amounting to over \$1,000 for every household in Australia. Overall, a tax like this would be potent, efficient and equitable.

There are already more minor instances of wealth taxation in Australia, focusing on specific types of wealth, such as the land taxes levied by state governments and municipal rates that local governments levy on ratepayers' property values. However, there has not been a nationwide tax on the total accumulated asset-holdings of very wealthy people. Introducing such a tax would be a significant innovation, redressing the current imbalance between the taxation of incomes, expenditures and asset ownership.

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<sup>16</sup> French Government (2017) Calcul de l'ISF, <https://www.impots.gouv.fr/particulier/calcul-de-lisf>

<sup>17</sup> Ledsom (2020) "France's Rich Get Much Richer After Abolition Of Wealth Tax", *Forbes*, <https://www.forbes.com/sites/alexledsom/2020/10/09/frances-rich-get-much-richer-after-abolition-of-wealth-tax/>

<sup>18</sup> Norwegian Tax Administration (n.d) "Wealth tax and valuation discounts", <https://www.skatteetaten.no/en/Rates/Wealth-tax/>

<sup>19</sup> Johnson (2024) "Wealth tax in Spain—how much you'll pay in 2024", *Moving to Spain*, <https://movingtospain.com/wealth-tax-spain/>

<sup>20</sup> Wicht (2024) "Wealth tax in Switzerland in 2024", *The Poor Swiss*, <https://thepoorswiss.com/wealth-tax/>

# TAXING WEALTH TRANSFERS

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Taxing wealth transfers is a further means of raising revenue from people with substantial wealth. Inheritance taxes, sometimes called estate taxes or death duties, are common in other countries. Those successfully operating such taxes include Belgium, Chile, Denmark, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Japan, Korea, Lithuania, Luxembourg, Netherlands, Poland, Portugal, Slovenia, Spain, Switzerland, Turkey, the UK and the USA.<sup>21</sup>

An OECD report notes that, of the 36 countries examined, 24 operated inheritance and estate taxes. Most of these countries used inheritance taxes levied on the individual receiving the bequest. The exceptions are Denmark, Korea, the UK and US, which levy estate taxes on the value of the donor's overall estate.<sup>22</sup> The tax on estates may be simpler to operate, but most important is that the transfer is included in the nation's tax base.

Australia did have estate duties at both state and federal levels before former Queensland Premier Joh Bjelke-Petersen and Prime Minister Malcolm Fraser set about dismantling them in the 1970s. The Queensland government was apparently motivated to do so by the wish to attract more retirees from the rest of Australia and to boost property development in the state's southeast. Queensland's move was then emulated by other states, with the Commonwealth Government following suit.<sup>23</sup>

The general rationale for wealth transfer taxation is clear: to raise revenue in a manner that does not impair productivity, while reducing the intergenerational transmission of inequality that currently obstructs any prospect of achieving equality of social opportunities. Importantly, inheritance tax needs to be supplemented by taxation of large gifts, valued about a specified limit. Otherwise, substantial tax avoidance is bound to occur, reducing the revenue raised and impairing the fairness of the tax's effects. Subject to this proviso, however, considerable benefits for the overall equity of the tax system may be anticipated. There would be a substantial reduction in the inter-generational transmission of wealth inequality.

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<sup>21</sup> OECD (2021) *Inheritance Taxation in OECD countries, OECD Tax Policy Studies, No 28*.at [https://read.oecd-ilibrary.org/taxation/inheritance-taxation-in-oecd-countries\\_e2879a7d-en#page4](https://read.oecd-ilibrary.org/taxation/inheritance-taxation-in-oecd-countries_e2879a7d-en#page4)

<sup>22</sup> OECD (2021) *Inheritance Taxation in OECD countries, OECD Tax Policy Studies*.

<sup>23</sup> See the account in Pedrick WH (1981) "Oh, to die down under: Abolition of death and gift duties in Australia", *The Tax Lawyer*, vol 35, pp 113-41. Pedrick mentions that Fraser was himself a wealthy grazier

# Benefits of reducing inequality

A large and growing volume of research shows that reforming tax to reduce inequality is conducive to better economic and social outcomes. The International Monetary Fund has shown that income inequality tends to reduce economic growth.<sup>24</sup> Countries with the highest inequality tend to have inferior macroeconomic performance. They also tend to create bigger ecological footprints and disproportionately large climate change impacts. They experience more intense social problems, ranging from poorer physical and mental health to more violence and incarceration.

Research also shows a generally negative correlation between economic inequality within a nation and the self-reported wellbeing and happiness of its people.<sup>25</sup> Evidently, greater inequality produces less contented and cohesive societies. Internationally comparative research also shows that, with greater income inequality, people are less satisfied with the way democracy works and less trusting of their politicians and parliaments.<sup>26</sup>

How inequalities of wealth arise is also pertinent. The last official review of Australian taxation, chaired by Ken Henry, argued that capital gains or wealth should only be taxed lightly because they result from personal thrift which should not be discouraged. This disingenuously portrayed the accumulation of wealth as resulting from workers saving substantial parts of their hard-earned incomes for a rainy day or for their retirement.<sup>27</sup> Indeed, some thrifty households may build wealth by saving some of their wage incomes but, in practice, this comprises only a small fraction of the total wealth.

ABS data shows that on average, only 10% of the growth in the total net worth in Australia between 1990–91 and 2022–23 came from savings out of income as conventionally defined. Almost all (90%) of the growth in wealth came from capital gains. There was no significant increase in household savings out of conventionally defined income during the ten years to March 2023. By contrast, capital gains comprised, on average, 42.9% of the growth of Australian household incomes, over that period.

A tax system that is both fair and potent would tax all sources equally; and that means regularly taxing wealth and taxing capital gains when they congeal into wealth.

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<sup>24</sup> Berg and Ostry (2011) “Warning! Inequality may be hazardous to your growth” IMF Blog 8 April at <https://www.imf.org/en/Blogs/Articles/2011/04/08/inequality-and-growth>.

<sup>25</sup> Grudnoff (2020), *Tax and Wellbeing: The impact of taxation on economic wellbeing*, The Australia Institute, <https://australiainstitute.org.au/report/tax-and-wellbeing-the-impact-of-taxation-on-economic-wellbeing/>

<sup>26</sup> Schafer (2012) Consequences of social inequality for democracy in Western Europe

<sup>27</sup> Australian Government (2010) *Australia’s Future Tax System: Report to the Treasurer, Part Two, Detailed analysis*, volume 1 of 2, December.



# Conclusion

Australia is getting more unequal. Wealth inequality is growing rapidly and the tax system is making it worse. Australia needs new ideas and new policies to fix it.

Economic and social inequalities in Australia will become much greater if excessive caution about progressive tax reform results in another decade of policy inertia. As this paper has shown, wealth inequality is being driven by capital gains. A failure to fully recognise the significance of those capital gains massively understates the true extent of income inequality. Australia only taxes capital gains if they are realised—that is, when the assets are sold—and the tax rate varies between zero and half the rate applicable to wage incomes. There is also no nationwide tax on accumulated wealth, nor on inherited wealth.

These factors help to explain why the share of Australia's total wealth held by the richest 200 people nearly tripled during the last two decades - up from the equivalent of 8.4% of GDP to almost a quarter of GDP today. To counter the dystopia of ever-more concentrated wealth driving ever-increasing inequality will require bold policy actions. Both capital gains tax reform and wealth taxation will need to be priorities in creating a more equitable and sustainable tax system.