

The **Australia
Institute**
Research that matters.

Policy School: Raising Revenue Right

Greg Jericho

Chief Economist, Centre for Future Work & The Australia Institute

Policy School

1. Highlight the issue:
 - Information / understanding / facts / explanation
2. Explain the problem:
 - Why does this matter?
 - Who does it matter to?
3. Provide a solution:
 - Policy – Who benefits

Highlight the issue: Australia is a low taxing country

MYTH: Australians pay a lot of tax, and the Govt spends too much

Finance > Money > Tax

Australia world leader in income tax surge, OECD data reveals

With bracket creep fuelling record tax collections, fresh data shows Australia's tax revenue grew faster than any other advanced economy last year.

Jack Quail

2 min read April 25, 2024

Australia's average tax rate increase tops OECD countries due to bracket creep and end of tax offset

— Opinion

Government spending addiction adds to RBA recession risk

— Opinion

Profligate public spending amplifies inflation crisis

Financial markets might spit the dummy and unilaterally impose a much higher long-term cost

— The AFR View

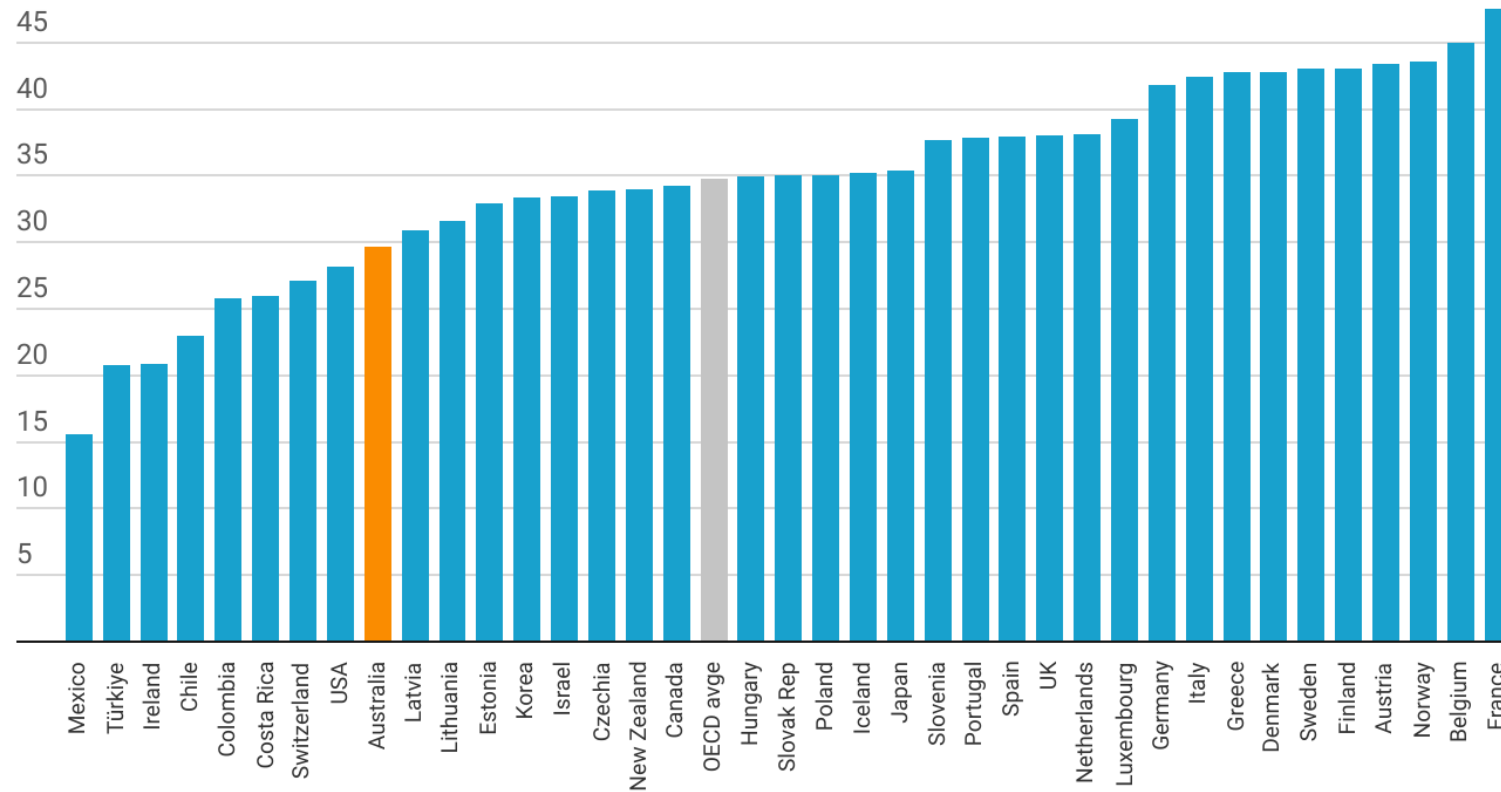
Chalmers' budget boast overlooks Australia's debt mountain

The substantial fiscal challenge facing the nation from the 2024 budget is the forecast decade-long period of high inflation, which will be compounded by a sharp rise in interest rates.

Highlight the issue: Reality

Total government tax revenue across the OECD

50% of GDP



Source: OECD. All figures for 2022

Explain the problem: We need more govt services

Australia News

Crisis in Australia's healthcare system as millions unable to afford GPs and ambulance waits top 50 minutes in one state

New data has revealed the true extent of the crisis in primary care due to cost, face extreme ambulance wait times in emergency departments.



Max Melzer Digital Reporter



The Sydney Morning Herald

Analysis Politics NSW Education

Public schools 'killing off sport' as private school facilities grow

Centrelink, Medicare call waiting times balloon and over 11 million calls not answered

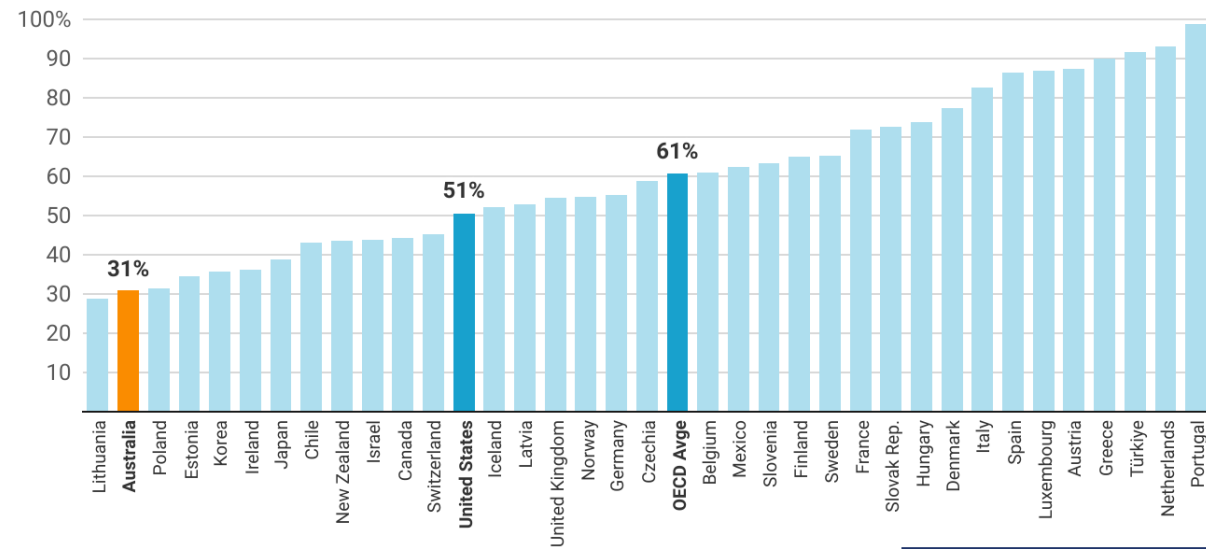
By political reporter **Nicole Hegarty**

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Explain the problem: We spend little on things that reduce poverty

Age Pension replacement rate for women

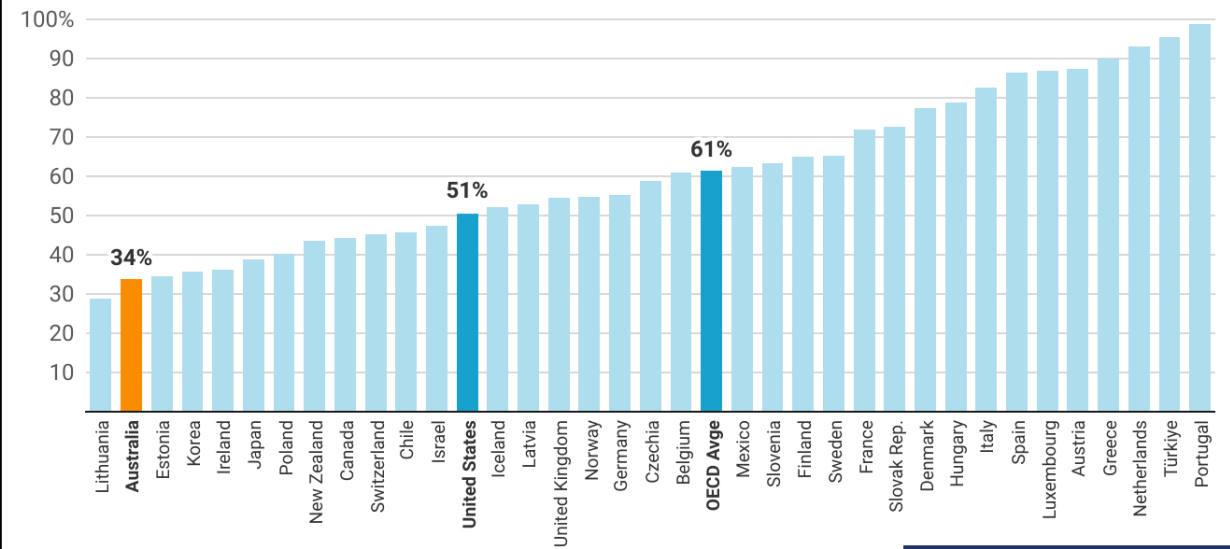
Net pension replacement rate at 100% of average women wage, 2022



Source: OECD Pensions at a glance

Age Pension replacement rate for men

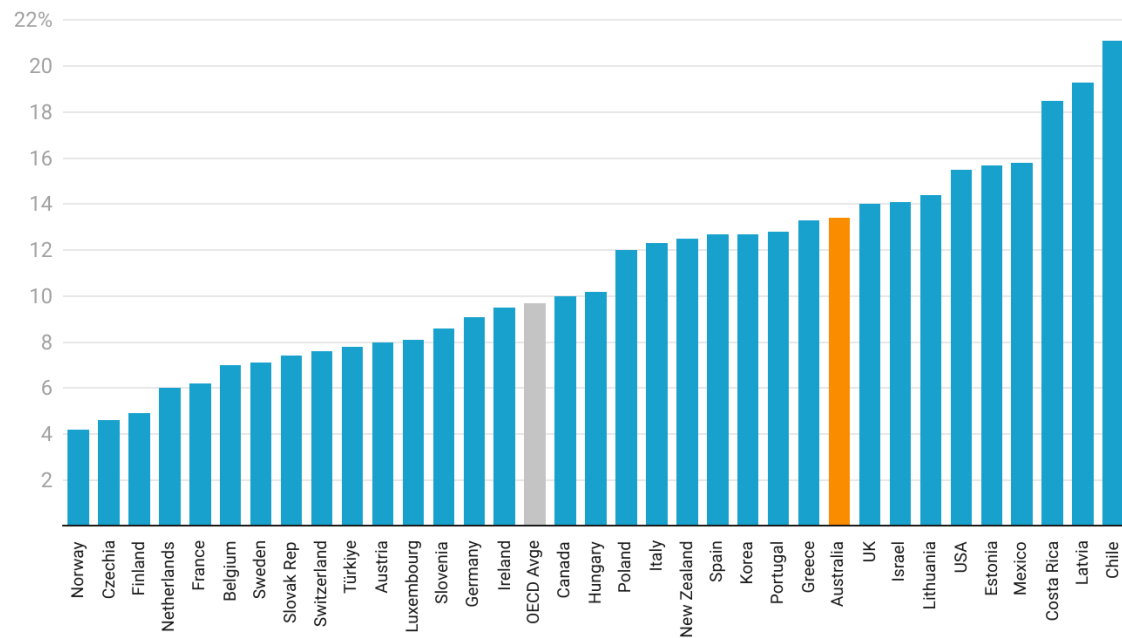
Net pension replacement rate at 100% of average male wage, 2022



Source: OECD Pensions at a glance

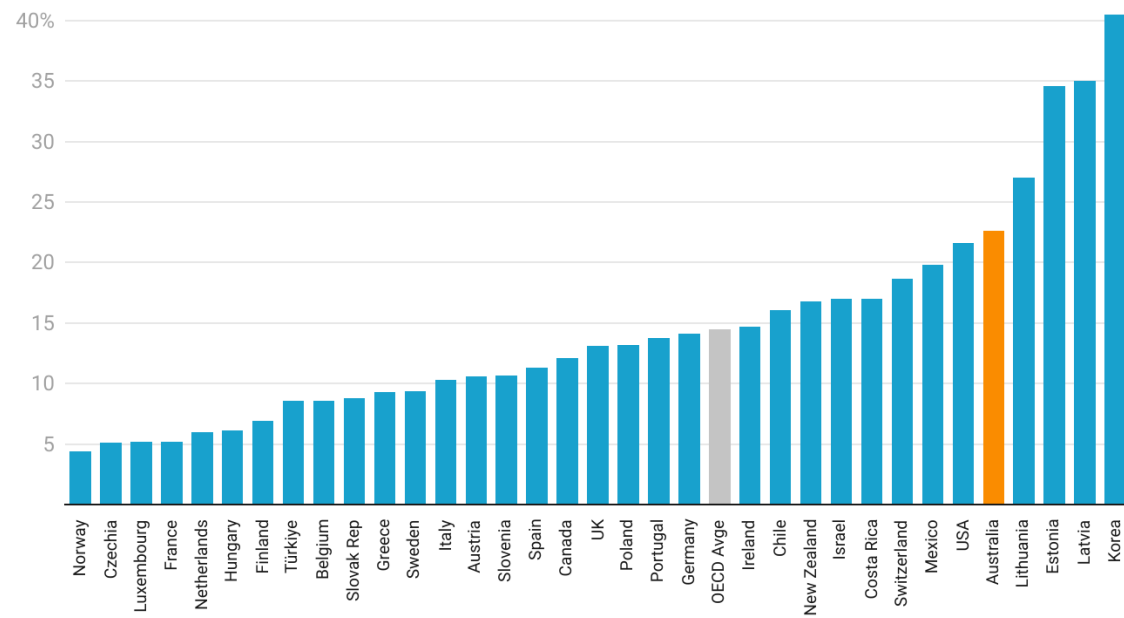
Explain the problem: We are a rich nation with high poverty

Poverty rate - people aged 51-65 years



Source: OECD - Income distribution database (all figures for 2020)

Poverty rate - people aged 65+ years

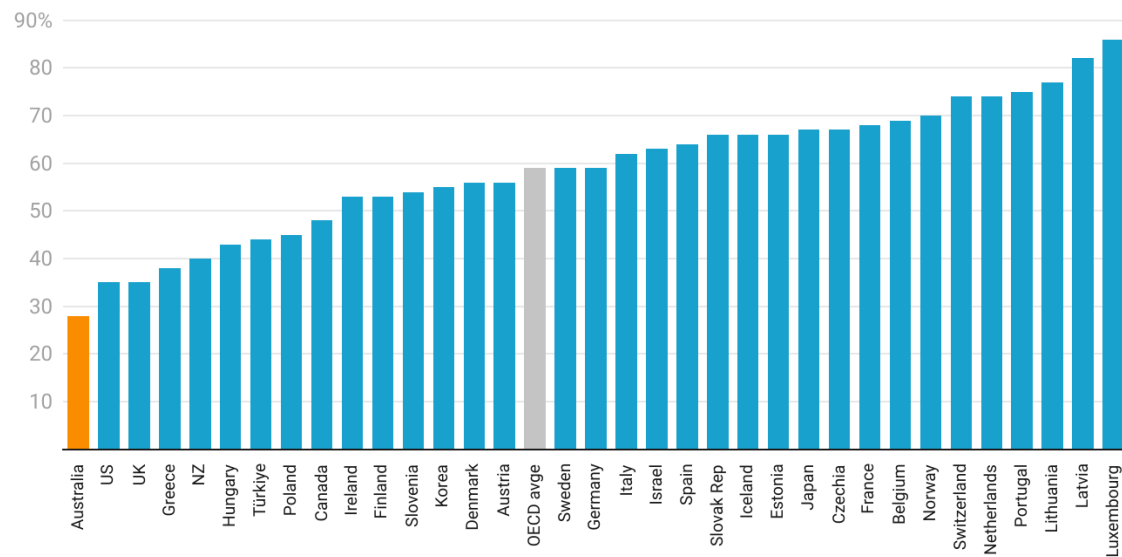


Source: OECD - Income distribution database (all figures for 2020)

Explain the problem: We are a rich nation with high poverty

Unemployment assistance replacement rate

Unemployment rate as a percentage of average wage, 2022

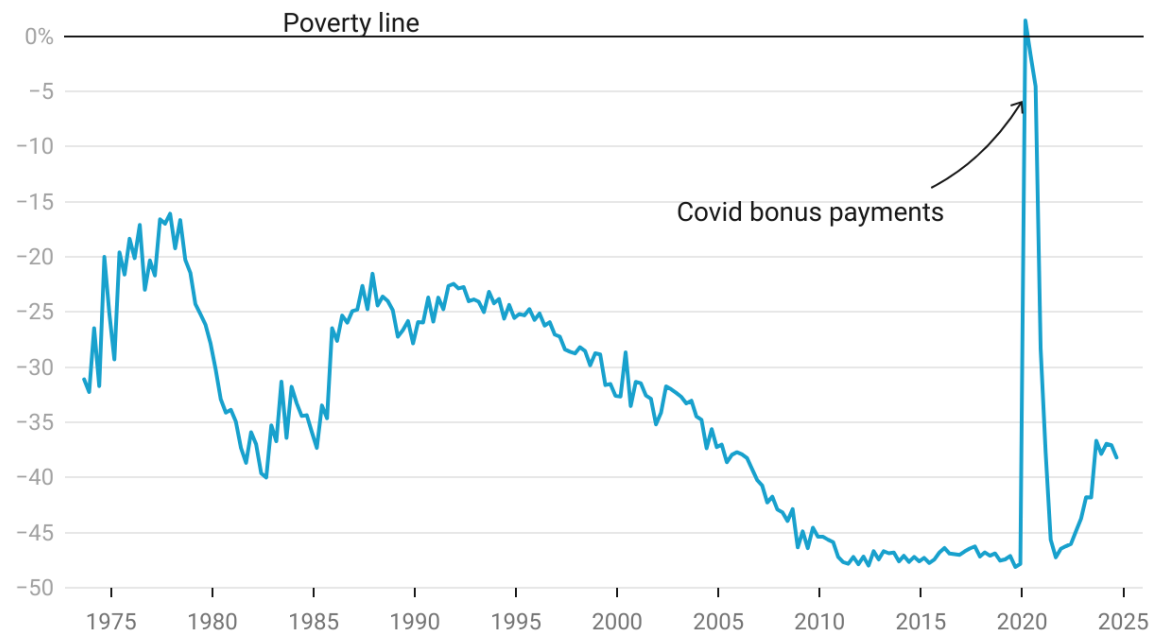


including housing benefits

Chart: The Australia Institute • Source: OECD

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Jobseeker remains well below the poverty line

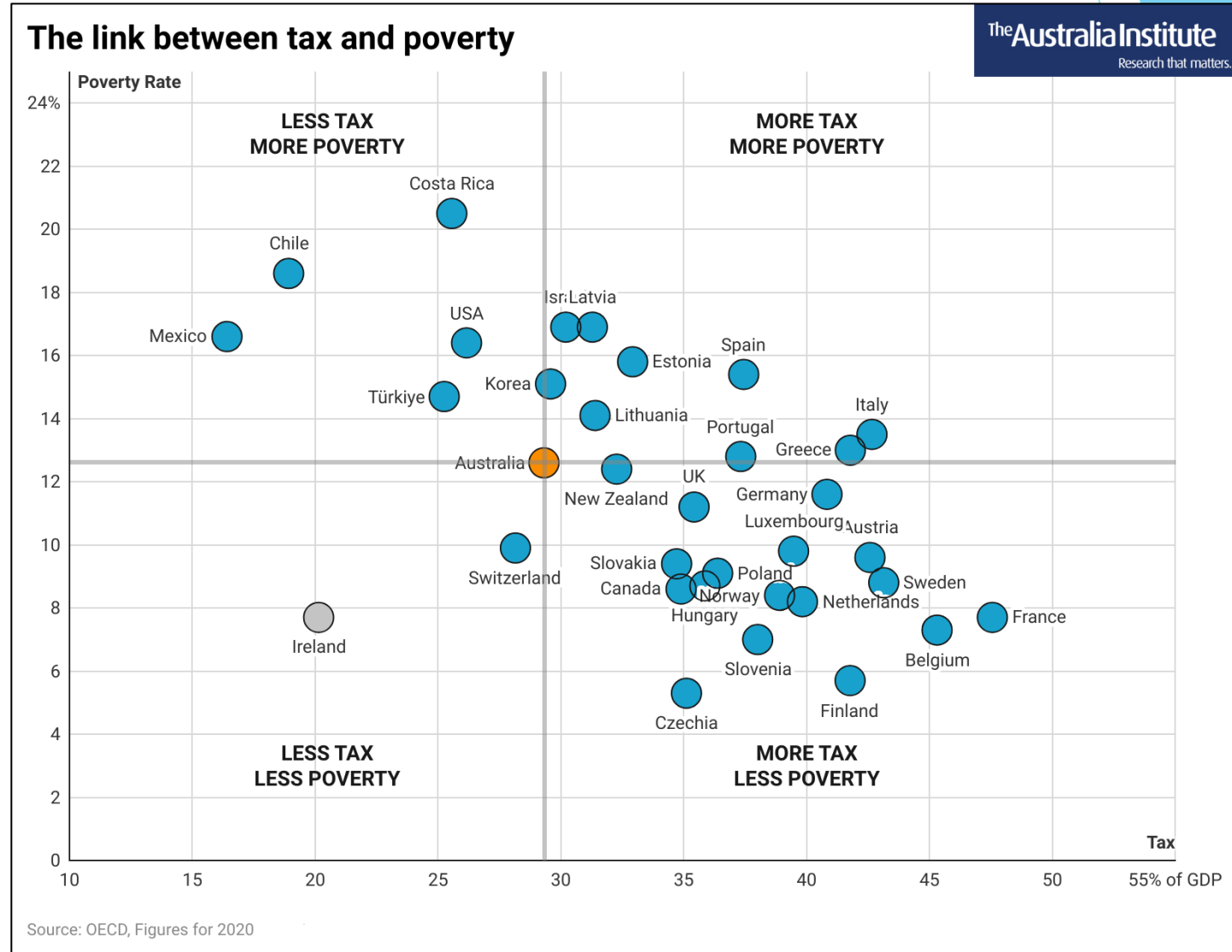


Source: DSS, Melb Institute

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Explain the solution: Tax is Good

More tax – less poverty



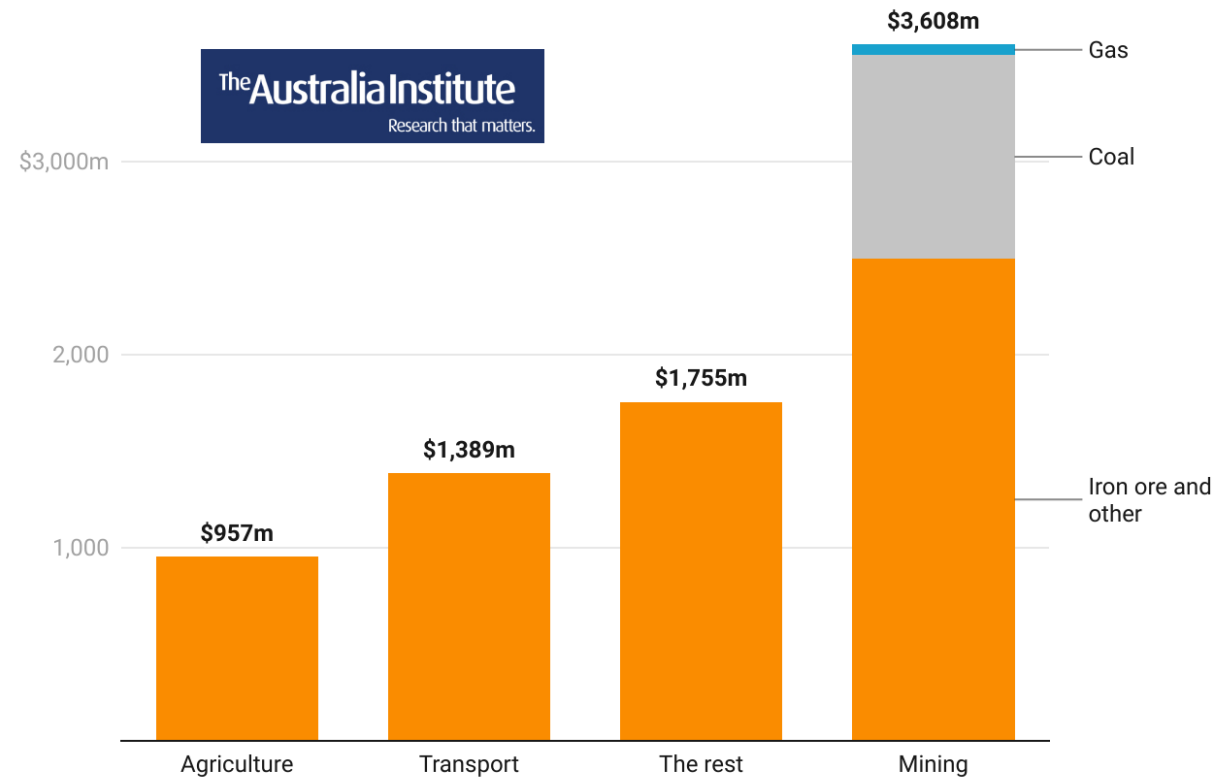
Explain the solution: Tax is Good – we need more of it

- Not more Income Tax
- The point is to improve equality, lower poverty, provide better public services, improve the environment.
- Cutting income tax **might** but generally does little to do any of the above.

Part 1 - End Fossil Fuel Subsidies

Reform	Revenue
End FTCS	\$10.6bn
End FTCS for trucks and apply lower rate to off-road vehicles and machinery.	\$4.4bn
Cap FTCS claims at \$50 million per company	\$1.7bn

Cost of fuel tax credit 2022-23



Source: ATO

Part 1 - End Fossil Fuel Subsidies

Aren't these needed for business?

No – a minute fraction of their profits

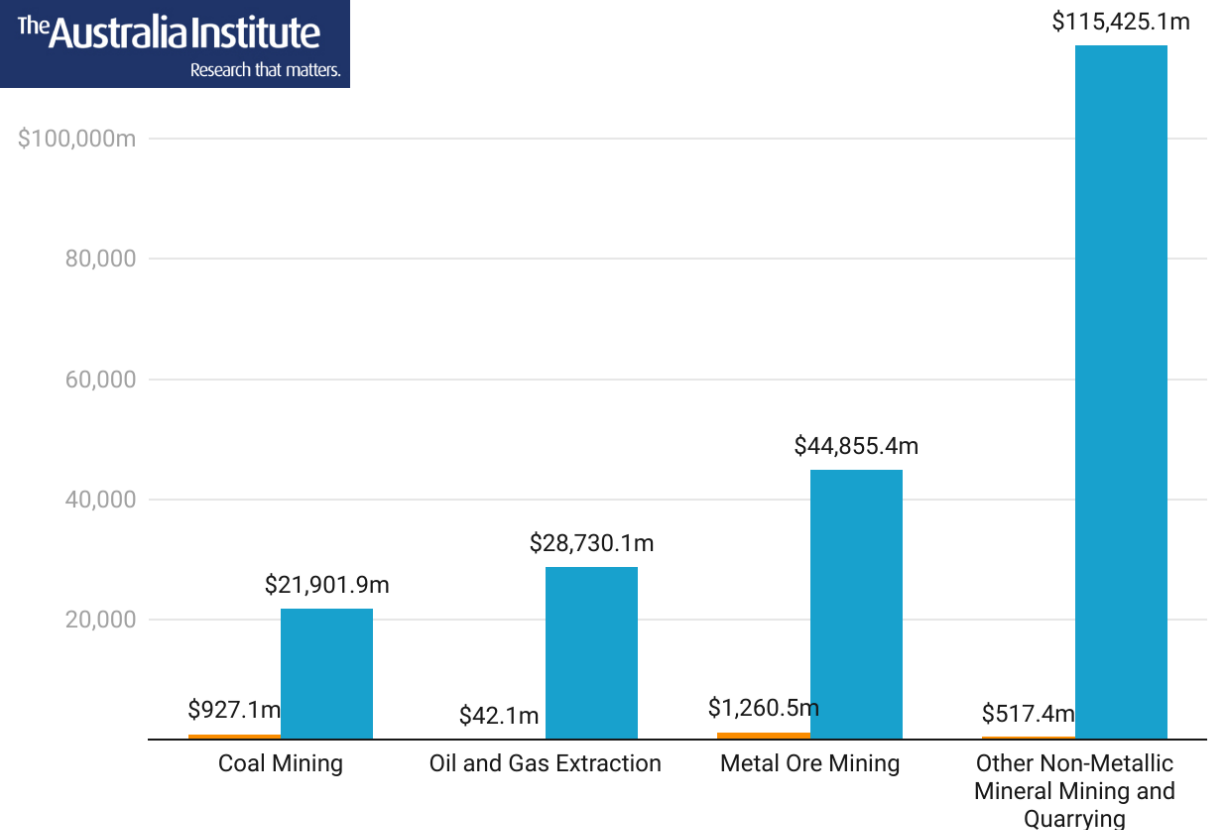
They subsidise the consumption of fossil fuels; AND fossil fuel producers themselves are key beneficiaries.

And don't take our word for it...

Despite huge profits, coal and gas still get a fuel tax credit

Fuel tax credit Profit

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Source: ATO Taxation statistics, Excise and fuel schemes, Table 4, Figures for 2021-22

Part 1 - End Fossil Fuel Subsidies

Aren't these needed for business?

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They subsidise the consumption of fossil fuels; AND fossil fuel producers themselves are key beneficiaries.

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“Existing fuel tax credits are expensive and limit incentives to reduce fuel use.... Fuel taxes for on-road heavy vehicles should be brought in line with fuel taxes on other on-road vehicles such as cars and vans, and the government should consider reducing the generosity of fuel tax credits for off-road vehicles and machinery.”

Part 2a – Make Gas companies pay – The PRRT

Reform	Revenue
Change to transfer pricing	\$3.2 bn
Cap deductions at 80% per year	\$0.5 bn
Cap deductions at 60% per year	\$1.5 bn

AUSTRALIA INSTITUTE RESEARCH SHOWS THINGS THAT RAISE MORE MONEY THAN PETROLEUM RESOURCE RENT TAX

2025-26

Tobacco
\$7.05 bn



Spirits
\$3.38 bn



Beer
\$2.78 bn



PRRT
\$1.95 bn



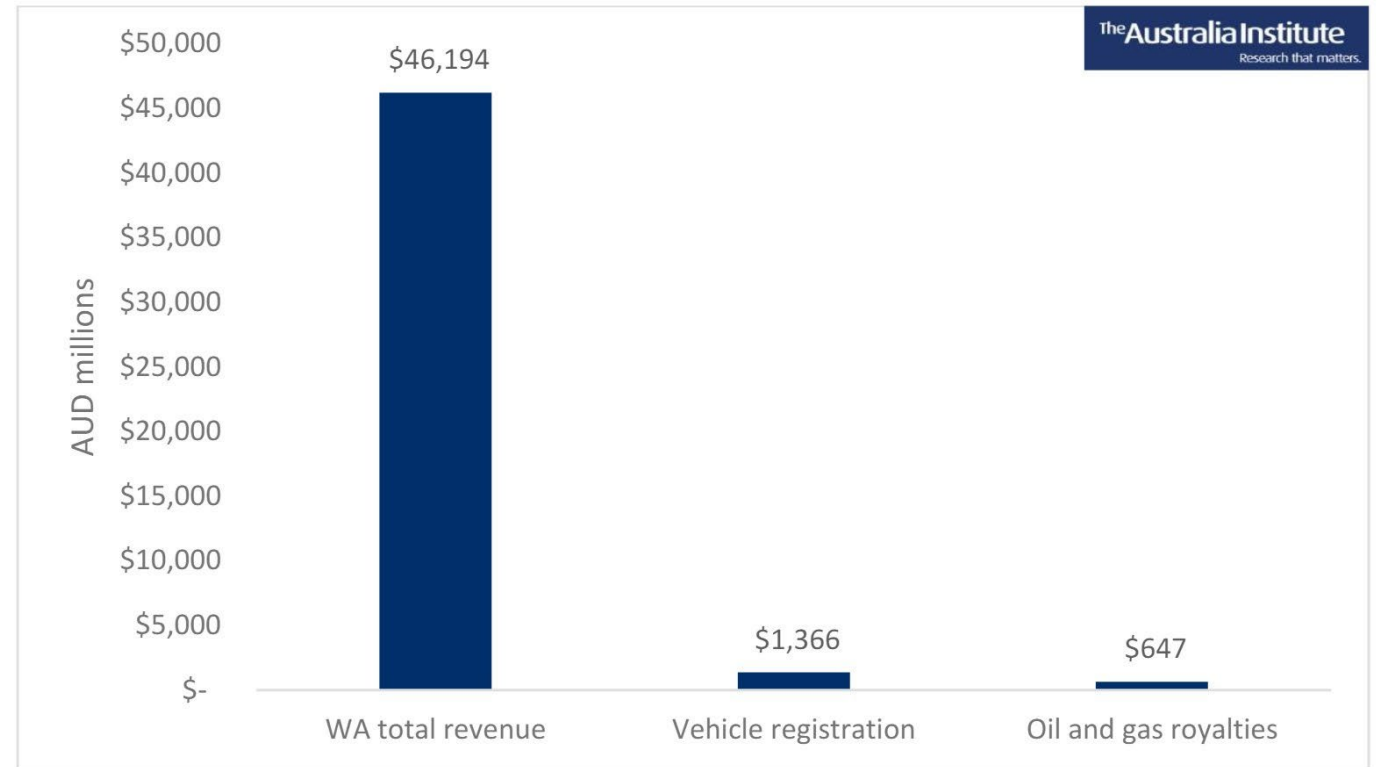
Australians are paying too much for our own gas at home and not getting a fair share of the returns from the gas we export overseas.

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Part 2b – Make Gas companies pay – Royalties

Reform	Revenue
Extend royalties to all gas extraction	\$3.6 bn
Increase royalties by 50% and extend to all producers in Commonwealth Waters	\$6.9 bn

Figure 2: WA gov revenue, oil & gas royalties and vehicle registration, 2024-2025



Source: Government of Western Australia (2024) *Budget Paper No.3 Economic and Fiscal Outlook*

Part 3 – Remove Distortions in the Housing Market

55 years of property prices and household income

Index of residential property prices and household disposable income per capita: 1970 = 100

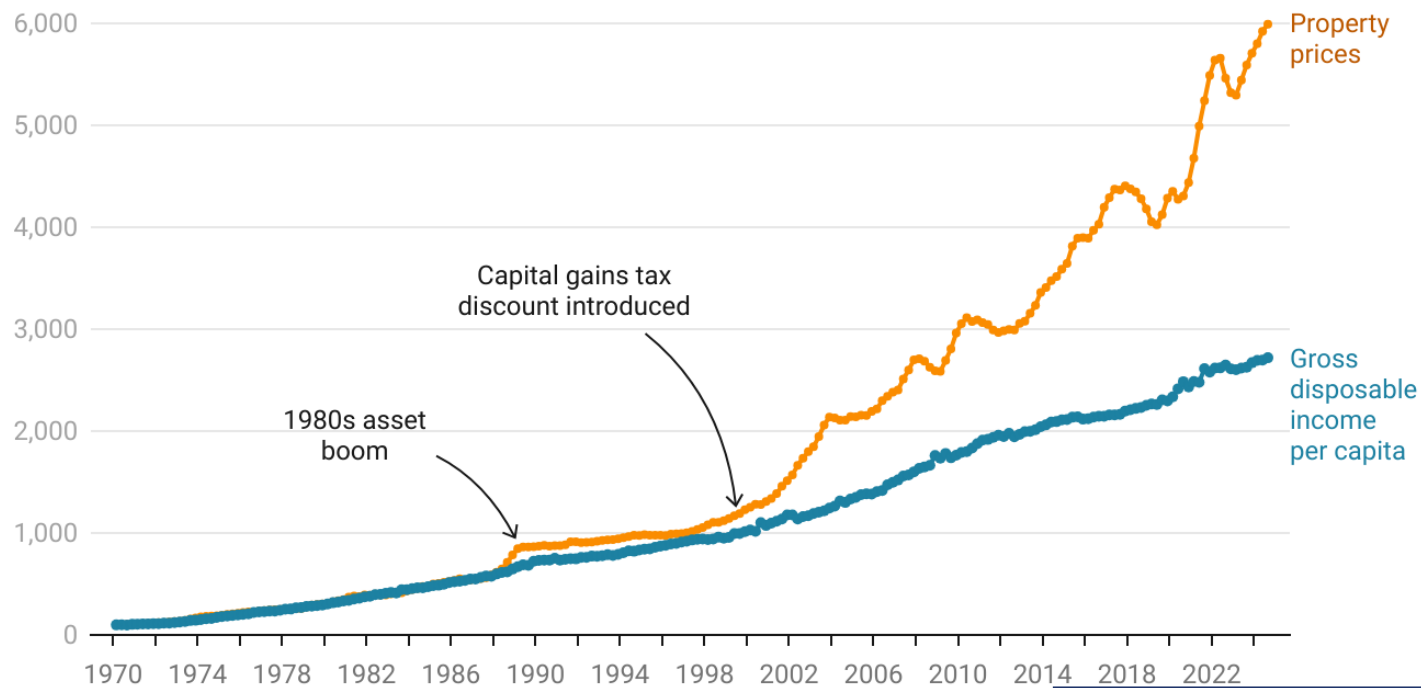


Chart: Greg Jericho • Source: BIS, ABS National Accounts

Part 3 – Remove Distortions in the Housing Market

NEGATIVE GEARING

Reform	Revenue	Description
Remove negative gearing	\$5.5bn	This removes negative gearing on all residential property. Housing deductions could still be used on rental income.
Remove negative gearing with grandfathering	\$0.4bn	Rental property losses would no longer be deductible from other income, with exemptions for properties bought before a particular date.
Restrict negative gearing to 1 property	\$0.9bn	Rental losses from one property would be deductible from other income, but not second or subsequent investment properties.
Restrict negative gearing to new properties	\$5.4bn	Rental losses would only be deductible from other income for newly constructed homes, not for purchase of existing homes.

Source: PBO (2024) *Policy reform options for negative gearing and capital gains tax*

Part 3 – Remove Distortions in the Housing Market

CAPITAL GAINS TAX DISCOUNT

Reform	Revenue	Description
Remove CGT discount	\$14.3bn	Capital gains currently subject to the CGT discount are taxed as regular income.
Remove CGT discount on residential property	\$5.9bn	Capital gains for residential property investments (not family home) taxed as regular income, while the discount would remain for other eligible assets.
Remove CGT discount on residential property with grandfathering	\$1.8bn	Remove CGT discount on residential property bought after a particular date. This would raise little revenue in the short term as most of the residential property that is sold would still be subject to the discount. Revenue raised ramps up over time. \$1.8 billion is the average of the years estimated by the Parliamentary Budget Office out to 2033-34.
CGT discount only for new properties after 3 years on residential property with grandfathering	\$1.4bn	Remove CGT discount for residential properties unless the investor bought the property when it was newly constructed. Existing properties are grandfathered. The \$1.4 billion figure is the average of the years estimated by the Parliamentary Budget Office out to 2033-34.

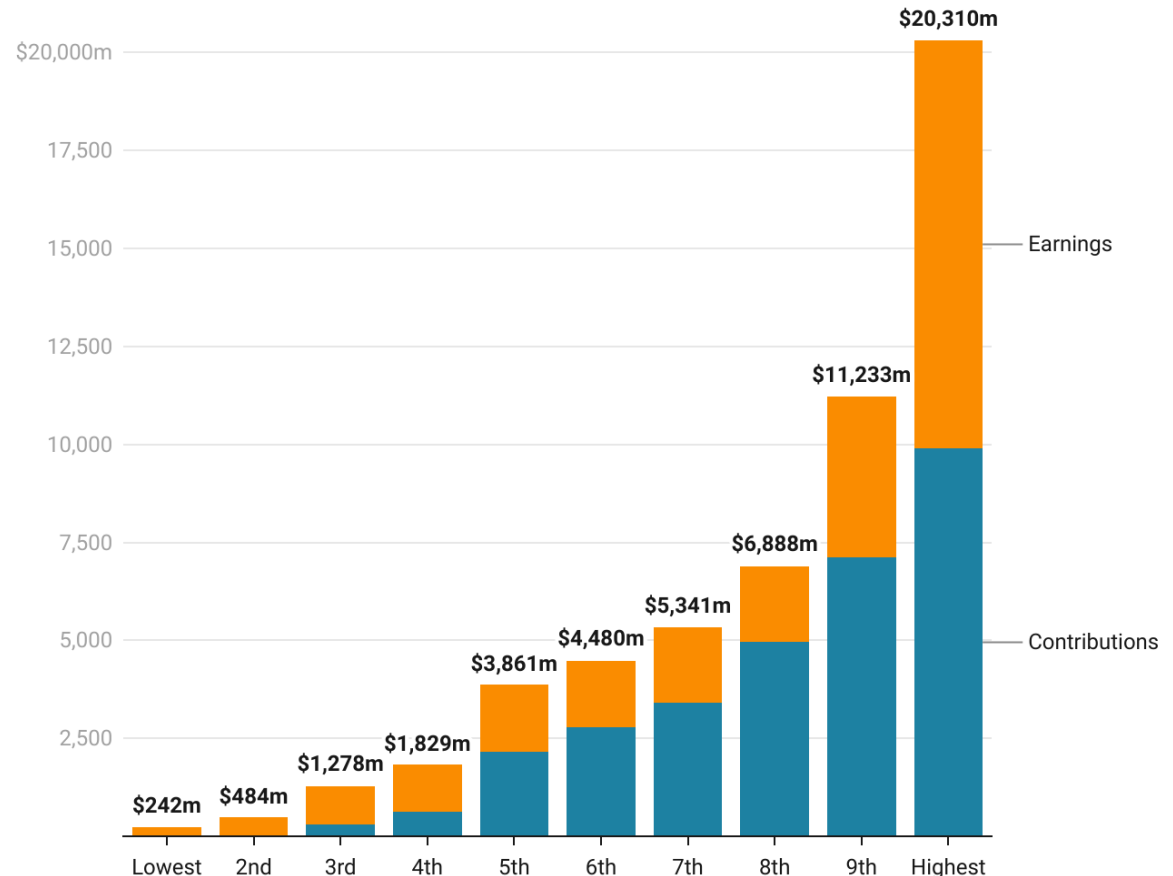
Source: Treasury (2024) *Tax expenditure and insights statement: 2024-25* & PBO (2024) *Policy reform options for negative gearing and capital gains tax*

Part 4 – Stop the abuse of Superannuation concessions

Reform	Revenue
Lower tax concession on earnings on super funds with balances above \$3m	\$2.3 bn
Abolish super tax concession for the top 10% of income earners	\$20.3 bn

The richest 10% get \$20bn in superannuation tax concessions

Estimates of revenue forgone by income decile from superannuation tax concessions (2024-25)



The second receive "minus" \$310m in tax concession for contributions - these have been excluded.

Source: Treasury Tax Expenditures and Insight Report 2024-25 • Created with Datawrapper

Part 5 – Tax harmful things

Reform	Revenue	Description
End luxury tax exemption on utes	\$0.25bn	Limiting the exemption to vehicles that are for commercial rather than personal use.
Plastic tax	\$1.5bn	Taxing virgin (non-recycled) plastic packaging at the same rate as the EU tax.
End subsidy on tax avoidance	\$0.13bn	Limiting the amount that could be claimed for managing tax affairs at \$3,000.
Total	\$1.9bn	

Raising Revenue Right

Recommendation	Revenue raised - Minimum	Revenue raised - Maximum	Other benefits
1. End fossil fuel subsidies	\$1.7bn	\$10.6bn	Reduce carbon emissions
2. End the gas industry's free ride	\$4.1bn	\$10.1bn	Reduce carbon emissions
3. Reform the Capital Gains Tax Discount and negative gearing	\$1.8bn	\$19.8bn	Increase housing affordability
4. Reform superannuation tax concessions	\$2.3bn	\$20.3bn	Reduce wealth inequality
5. Tax luxury yachts, plastic and tax avoidance	Up to \$1.9bn		Increase road safety Increase fairness Reduce carbon emissions Reduce plastic waste
Total	\$11.8bn	\$62.7bn	A better Australia

Raising Revenue Right – the solution

The minimum

Program	Policy	Cost in 2024-25
JobSeeker	Increase by \$100.50 to \$489.50pw	\$4.2bn
Age Pension	Increase by \$26.50 to \$550pw	\$3.0bn
Disability Support Pension	Increase by \$26.50 to \$550pw	\$1.0bn
Carer Payments	Increase by \$26.50 to \$550pw	\$0.4bn
Govt school expenditure	Increase by 10%	\$1.1bn
Higher education expenditure	Increase by 10%	\$1.2bn
Vocational & other ed expenditure	Increase by 10%	\$0.3bn
Housing expenditure	Increase by 10%	\$0.4bn
ABC & SBS operations	Increase by 10%	\$0.1bn
Total		\$11.8bn

Raising Revenue Right – the solution

The max

Program	Policy	Cost in 2024-25
JobSeeker	Increase by \$211 to \$600pw	\$8.9bn
Age Pension	Increase by \$110.50 to \$625pw	\$11.6bn
Disability Support Pension	Increase by \$110.50 to \$625pw	\$3.9bn
Carer Payments	Increase by \$110.50 to \$625pw	\$1.4bn
Parenting payment – single	Increase by \$110.50 to \$600pw	\$1.3bn
Parenting payment – partnered	Increase by \$80 to \$436.50pw	\$0.2bn
Govt school expenditure	Double expenditure	\$11.5bn
Higher education expenditure	Double expenditure	\$11.5bn
Vocational & other education expenditure	Double expenditure	\$2.5bn
Housing expenditure	Double expenditure	\$4.4bn
ABC & SBS operations	Double expenditure	\$1.5bn
Aged care quality	Double expenditure	\$0.5bn
Aboriginal & Torres Strait Islander health	Double expenditure	\$1.3bn
Dental services	Increase by 500%	\$2.0bn
Total		\$62.7bn

Responses to arguments

- **What about the GST – we need to raise it?**
 - The GST is regressive – it hurts low-middle income people.
BUT putting a GST on Private Health Insurance and Private Education is progressive (estimated revenue in 2023-24 - \$9.5bn)
- **Tax rises are unpopular**
 - Income tax rises are unpopular – but Stage 3 changes increased income tax.
 - Public services are popular.
- **Productivity? Aspiration?**
 - There is no link between less tax and more productivity, more wealth, more income – but there is with more poverty and less overall happiness in society

TAX IS GOOD – it is the price we pay to live in society

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Thank You