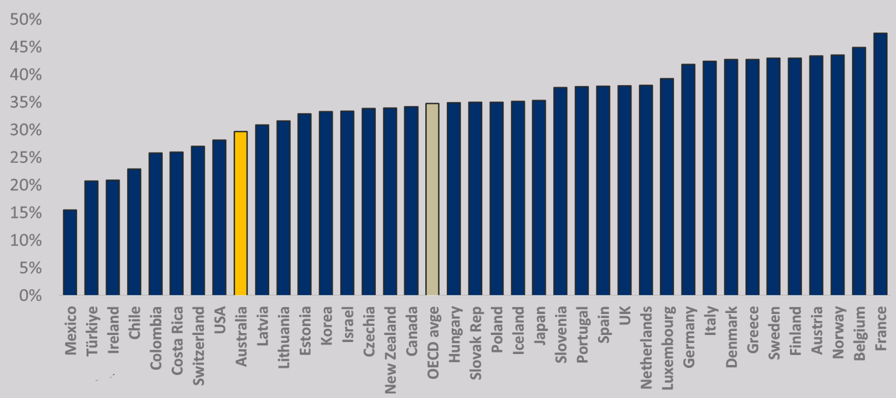
Australia is a low-tax country

Australia is one of the lowest-taxing countries in the developed world. While it is sometimes suggested that Australian governments spend too much money, the reality is that Australia raises very little tax revenue compared to similar countries. Insofar as Australian governments have a problem balancing revenue and spending, that problem lies in the level of revenue collected, not the amount it spent.

Tax is good!

Figure 1 shows the 38 economies in the Organisation for Economic Cooperation and Development (OECD) in order of tax revenues as a percentage of their economy (GDP). Only eight have lower tax to GDP ratios than Australia, and these include relatively low-income countries like Türkiye and Mexico, as well as tax havens like Switzerland and Ireland.

Figure 1: OECD countries, tax to GDP ratio, 2022



Source: OECD

If Australia were to increase the level of revenue it collects from taxation to the OECD average—a level similar to that collected by Canada or New Zealand—the Commonwealth would have had an extra $140bn in revenue in 2023–24.

This figure is 20% of the Federal Budget. It is also equivalent to the combined cost of the Aged Pension, the NDIS, Jobseeker, and Child Care Subsidy, along with the total government spending on housing, vocational education, and both the ABC and SBS.

Less tax means less social services...

Because of its low revenue, Australia spends less on social services than most OECD countries. It spends less on aged pensions than all but five OECD countries, mainly very low-taxing nations as Mexico and Chile.[1] Its unemployment benefits are the lowest in the OECD relative to the average wage in each country.[2] As a result, despite Australia being one of the richest nations in the OECD—in 2023, it had the eighth highest income per person—its level of poverty is above the OECD average.[3]

...and less happiness

Of the countries with higher average incomes per person than Australia, most collected higher tax revenues, including Norway, Denmark and Iceland.

Only the USA and Ireland had a higher GDP per person and lower taxes than Australia, However, Ireland is a tax haven, while the USA's high average GDP figure masks high levels of inequality; it rates lower than Australia on all other wellbeing metrics.

Similarly, the UN World Happiness Report assesses happiness based on income, health, corruption and freedom. The ten countries that are rated as happier than Australia, including the five Nordics, all have higher levels of tax.

In summary, countries that score higher than Australia on wellbeing metrics also raise more tax than Australia does. This allows them to spend more money on social services, which increases the wellbeing of their population. If Australia is to improve the wellbeing of its population, increasing public revenue and increasing social spending is the easiest way to do so.

Image: WilliamNYK/Flickr

How Australia should raise more revenue

Raising more tax revenue does not necessarily mean major increases in the tax bills of most Australians.

Measures that could raise substantial government revenue while improving equality and environmental outcomes include:

- Reduce superannuation tax breaks, which overwhelmingly benefit the wealthiest and cost over $50 billion each year in foregone revenue;
- Eliminate fossil fuel subsidies, which cost $14.5 billion in 2023–24;
- Increase charges for the fossil gas industry—more than half of Australia's gas exports pay no royalties and none pay Petroleum Resource Rent Tax;
- Impose a tax SRcarbon emissions, which would raise an estimated $70bn per year;[4] and
- Remove capital gains tax discounts and negative gearing; The Australia Institute estimates that the former alone will cost the government $15.5bn in lost revenue in 2024–5.[5]

1 OECD (2023) Pensions at a Glance, Table 8.2 Public expenditure on old-age and survivor benefits

2 OECD (2024) Data Explorer, Net Replacement Rate of Unemployment

3 Thrower and Jericho (2023) "'No one left behind': Why doesn't the Wellbeing Framework measure poverty?", The Australia Institute, https://australiainstitute.org.au/post/no-one-left-behind-why-doesnt-the-wellbeing-framework-measure-poverty/

4 Hutchens (2024) "Australia would be raising $70 billion a year from the carbon price if it wasn't dismantled, Ross Garnaut says", ABC, https://www.abc.net.au/news/2023-09-17/ross-garnaut-70-billion-from-carbon-price-economic-rent/102850464

5 Jericho (2024) "Raising jobseeker is not 'fiscally sustainable'? Sorry, but that is flat out wrong", The Australia Institute, https://australiainstitute.org.au/post/raising-jobseeker-is-not-fiscally-sustainable-sorry-but-that-is-flat-out-wrong/

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