Wealth inequality by asset types

What's driving wealth inequality

Growing wealth inequality is being driven by the rapid increase in investment properties over the last 20 years. Most of the benefit of this increase is going to the wealthiest 10% of Australians. The housing affordability crisis is transforming into a wealth inequality crisis.

Discussion paper

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Contents

Summary

Wealth inequality over the past 20 years has progressively gotten worse in Australia. The most common measure of the level of inequality (the Gini-coefficient) has increased since 2004, indicating that Australia's wealth is now more unequally distributed than in the past.

Other more detailed measures also reveal the growing problem of wealth inequality in Australia. This paper uses data from the Household, Income and Labour Dynamics in Australia (HILDA) Survey, to examine the growth of Australian household wealth from 2002 to 2022 by asset. The average household's wealth is dominated by three types of assets: the family home, superannuation, and "other property", which includes any residential property owned by the household, excluding the family home (most usually investment properties but also holiday homes).

Wealth inequality is being driven by the expansion of this final category of "other property", the majority of which are held by the wealthiest Australian households. The majority (53%) of the increase in "other property" over the 20 years has flowed to the wealthiest 10% of households, with just 7% going to the poorest half of households. Over the 20 years "other property" grew at an average annual rate of 7.7%. This was much quicker than the average annual growth in superannuation (6.6%) and the family home (5.9%).

The average Australian household's biggest asset is the family home, which has historically reduced wealth inequality because of high home ownership rates. But over the past 20 years home ownership rates have been falling. There were 360,000 fewer homeowners in 2020 than there would have been if homeownership had stayed at the same rate as it was in 2003. Despite falling homeownership rates, the distribution of the increase in the family home is still the most equal of all major assets, with 30% going to the wealthiest 10% of households and the poorest half of households getting 14%.

Superannuation is, on average, the second largest asset held by households. Its growth over 20 years has been less equally distributed than the family home, but more equal than "other property". The richest 10% of households received more than a third (37%) of the increase in superannuation wealth, while the poorest half of households received 15% of the increase.

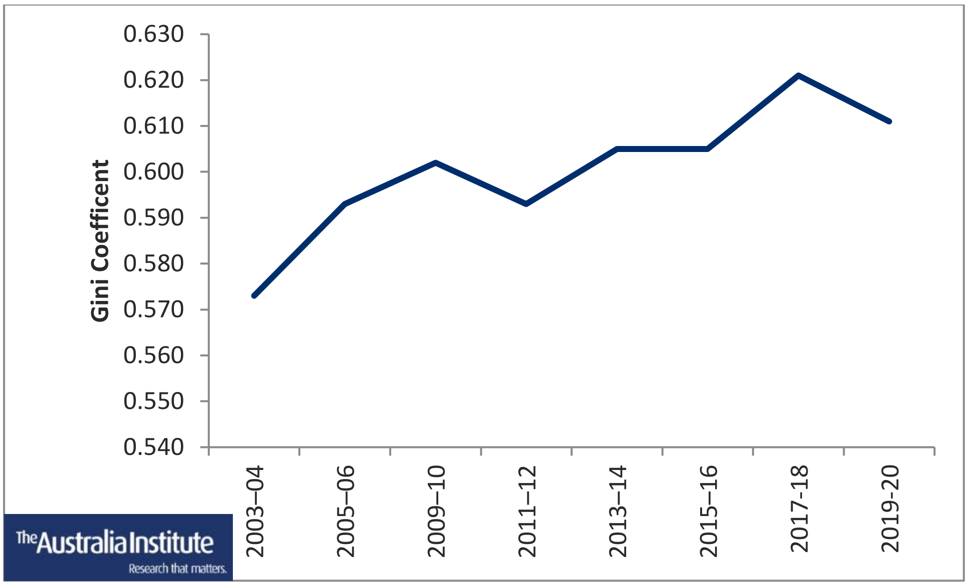
Tax concessions are also contributing to inequality. Each of the three biggest assets are subject to large tax concessions that provide $100 billion of benefit each year. The distribution of these tax concessions benefits those with the most and as a result exacerbates the inequality of wealth in Australia. Wealth is poorly taxed in Australia, but these concessions represent a further failure to properly tax wealth. Reforming or removing these concessions would deliver vital revenue and significantly reduce wealth inequality.

Introduction

From 2002 to 2022, the mean net worth of Australian households has increased from \$470,000 to \$1.5 million.[1] But while this 200% increase is extraordinary, averages can be deceiving. This increase in average wealth tells us little about who has benefitted from the increase.

There is no doubt that wealth inequality is getting worse in Australia. According to data from the Australian Bureau of Statistics (ABS), the Gini-coefficient, one of the most widely used measures of inequality, is increasing.[2] A higher Gini-coefficient means a more unequal distribution of wealth. Figure 1 shows the distribution of wealth becoming more unequal from 2003-04 to 2019-20 (latest ABS data).

Figure 1: Gini-Coefficient 2003-04 to 2019-20



Source: ABS, *Household Wealth and Wealth distribution, Australia 2003-04 to 2011-12* and ABS, *Household Income and Wealth, 2013-14 to 2019-20.*

This paper provides a detailed analysis of the wealth of Australian households and examines who has benefited from the increase in wealth from 2002 to 2022. It will also look at the asset types that have increased the most in value and who has benefitted from this increase.

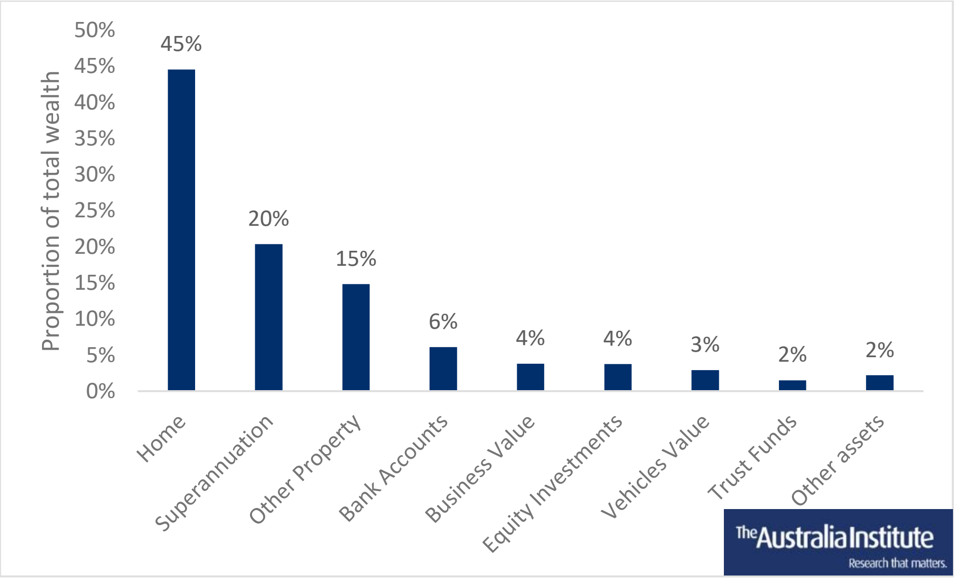
[1] Melbourne Institute: Applied Economic & Social Research (2023) *Household, Income and Labour Dynamics in Australia Survey, General release 22 (Waves 1-22)*, https://doi.org/10.26193/R4IN30

[2] ABS, *Household Wealth and Wealth distribution, Australia 2003-04 to 2011-12* and ABS, *Household Income and Wealth, 2013-14 to 2019-20*

Wealth by asset type

The three largest assets for Australian households are the family home, superannuation, and "other property".[3] Together, they make up 80% of household wealth. Figure 2 shows the proportion each asset contributes to the average household's wealth in 2022.

Figure 2: Proportion of wealth of average Australian household by asset in 2022



Source: Melbourne Institute, *HILDA waves 2002 and 2022*

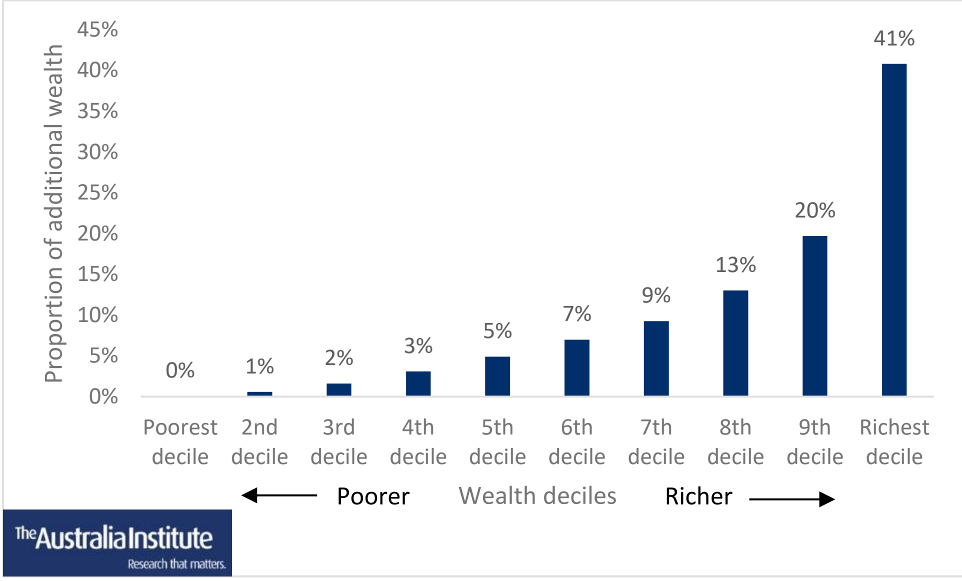
The three largest assets account for the overwhelming majority (83%) of the increase in wealth from 2002 to 2022. To examine wealth inequality, we need to group households into deciles. Wealth deciles divide Australian households into 10 equal groups based on how much wealth they have. The poorest 10% of Australians are in the first decile, the next 10% are in the second decile and so on, with the richest 10% of households being in the tenth decile. In 2022 the average net worth of the top 10% of Australian households was $5.3 million. The average net worth of the bottom 10% of households was $6,200.

NET WORTH

Net worth is the total assets of a households minus its liabilities or debts. The increase in net worth from 2002 and 2022 disproportionately went to the richest Australians. More than half of the increase in net worth went to the wealthiest 20% of Australians. By contrast, the poorest *half* of Australians received just 10% of the gains.

[3] Other property includes any residential property owned by the household excluding the family home. It is dominated by investment properties but also includes holiday homes.

Figure 3: Proportion of the increase in net worth by decile between 2002 and 2022



Source: Authors calculations from Melbourne Institute, *HILDA waves 2002 and 2022*

The increase in net worth of the average household in the wealthiest 10% increased by $3.4 million over the 20 years to 2022. An average household in the poorest half of Australians increased their net worth by just $170,000. The wealthiest 10% of Australia saw their average wealth increase by 20 times the amount of the least wealthy half of Australian households.

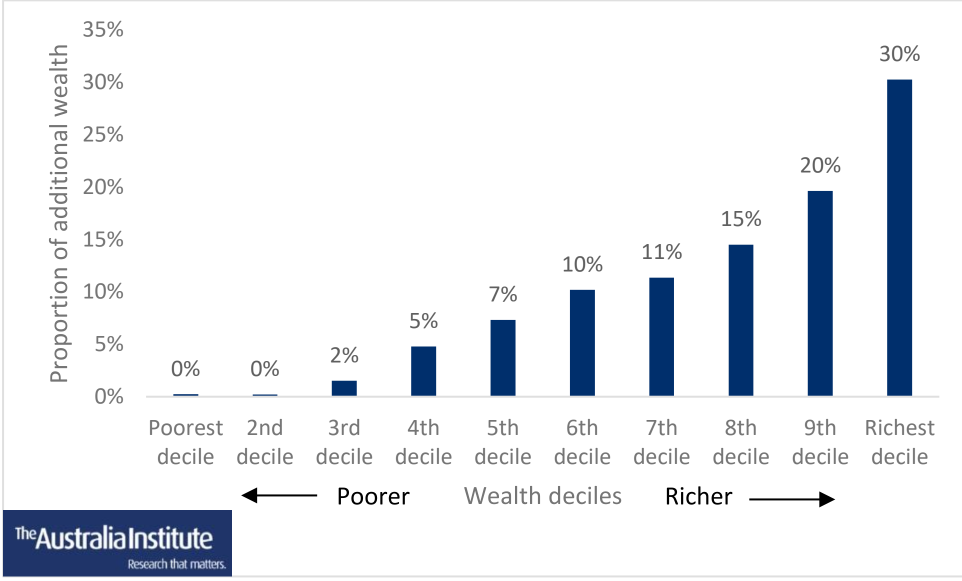
FAMILY HOME

The biggest asset held by Australian households is the family home. No one who has considered buying a home over the past two decades will be surprised to discover that the asset value of the family home grown substantially. The average annual growth in the value of the family home has been 5.9% over the past 20 years. This is more than twice as fast as average household income.[4]

The growth in value has not been uniform. The wealthiest 10% of Australians received the largest share of the increase in the value of family homes, taking 30% of the increase. The poorest half received just 14% of the increase. Figure 4 shows the proportion of the increase in the value of family homes that went to each decile between 2002 and 2022.

[4] ABS (2024) *Australian System of National Accounts 2023-24*, https://www.abs.gov.au/statistics/economy/national-accounts/australian-system-national-accounts/2023-24#data-downloads

Figure 4: Proportion of the increase in the value of family homes by decile between 2002 and 2022



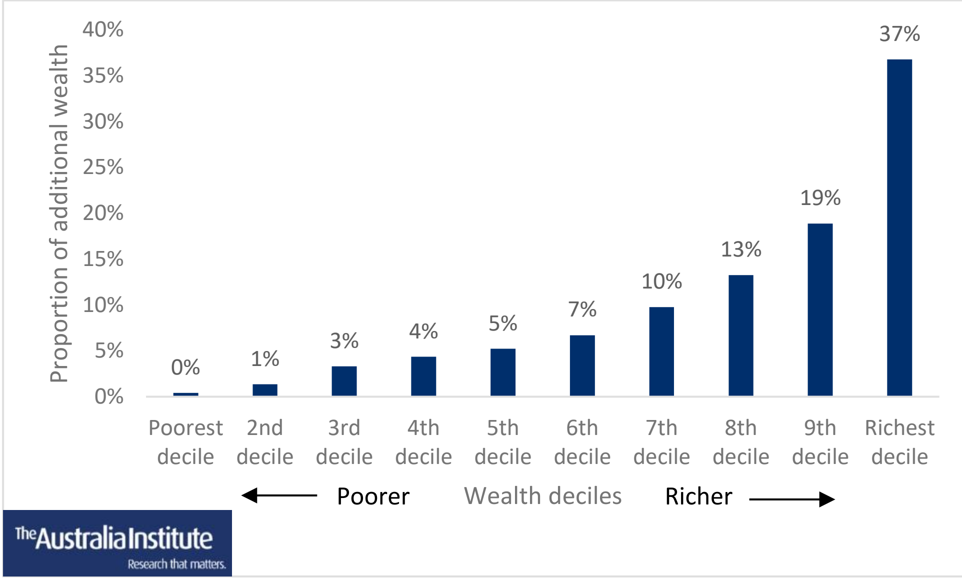
Source: Authors calculations from Melbourne Institute, *HILDA waves 2002 and 2022*

The family home was, on average, the largest asset for the wealthiest 10% of Australians. It also increased by the largest amount. The increase for the average household in the richest decile was $1.4 million, some 11 times the average $130,000 increase for the poorest half of households.

SUPERANNUATION

Superannuation grew at an average annual rate of 6.6% over the 20 years. This is slightly faster than the growth in value of the family home. The wealthiest 10% of Australians gained 37% of the increase in superannuation which is slightly more than their share of the gain on the family home. The poorest half of Australians received 15% of the increase in superannuation. This was slightly less than the gain they received from the family home.

Figure 5: Proportion of the increase in the value of superannuation by decile between 2002 and 2022



Source: Authors calculations from Melbourne Institute, *HILDA waves 2002 and 2022*

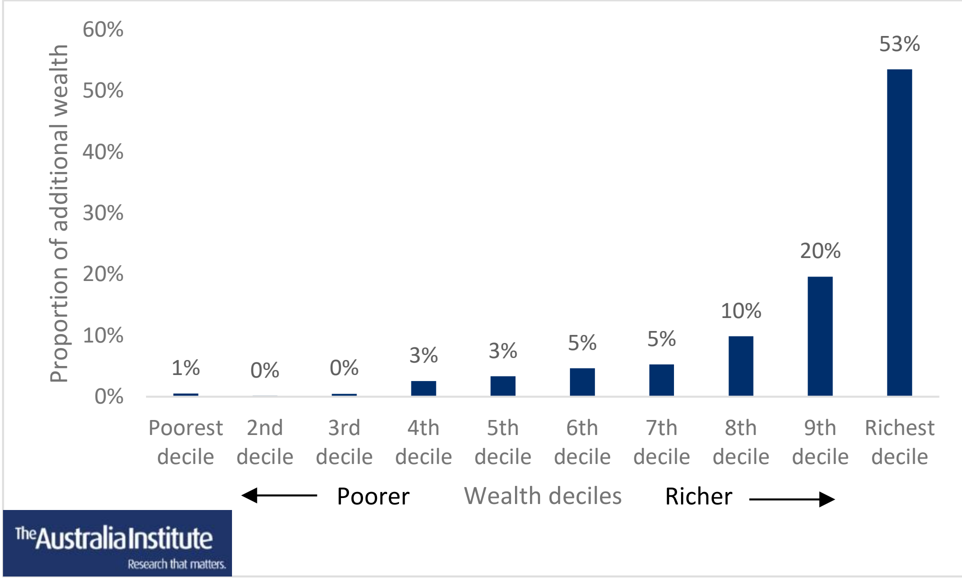
For the wealthiest 10% of households, superannuation grew on average by $790,000 between 2002 and 2022. This is less than the growth in value of the family home. The poorest half of households saw their superannuation increase in value by $60,000.

OTHER PROPERTY

"Other property" includes residential property other than the family home. The largest part of this is investment properties, but it also includes holiday homes. "Other property" saw the most rapid increase of any type of asset, at an average annual rate of 7.7%.

The wealthiest 10% received more than half (53%) the increase in wealth from "other property". This was the most unequal distribution of all the assets, with the smallest proportion going to the poorest half of Australian households. These households gained only 7% of the increase in value. Figure 6 shows the proportion of the increase in the value of "other property" that went to each decile between 2002 and 2022.

Figure 6: Proportion of the increase in the value of other property by decile between 2002 and 2022



Source: Authors calculations from Melbourne Institute, *HILDA waves 2002 and 2022*

The increase in "other property" was worth $900,000 to the average household in the top decile. This was larger than superannuation but smaller than the family home. However, this growth was 38 times the $24,000 gain in value which went to the poorest half of households.

ASSETS ADDING TO INEQUALITY

The family home is the largest asset owned by Australian households and has had the largest dollar value increase over the 20 years. It also saw the slowest growth (5.9% per year) of the major assets. The increase in the value of family homes has historically been more equally distributed because of relatively high rates of home ownership. Housing affordability issues have caused home ownership rates to fall in recent years from 70% in 2002-03 to 66% in 2019-20.[5] If homeownership rates had not fallen over this period, then 360,000 more households would be homeowners.[6] Lower homeownership rates have led to housing being more concentrated into the hands of fewer people.

The third largest asset (after superannuation) is "other property". This asset had the most rapid increase over the 20 years (7.7% per year). This increase has also been the most unequal with most of the benefits going the wealthy. For the wealthiest 10% of households, "other property" rose from accounting for 13% of all their assets in 2002 to 20% in 2022.

[5] ABS (2022) *Housing and Occupancy and Costs, 2019-20*, https://www.abs.gov.au/statistics/people/housing/housing-occupancy-and-costs/2019-20

[6] ABS (2024) *Total Value of Dwellings, September 2024*, https://www.abs.gov.au/statistics/economy/price-indexes-and-inflation/total-value-dwellings/latest-release

The rapid increase in the value of "other property" means a smaller number of people now own a greater number of properties, resulting in increasingly uneven wealth distribution.

It might seem strange that the average value of family homes could grow more slowly than "other property" since both assets are residential housing. The difference comes from the fact that home ownership rates are falling, from 70% in 2002-03 to 66% in 2019-20.[7] This has the effect of reducing the average growth rate of the value of family homes.

At the same time the rates of private rentals have been increasing, from 22% in 2002-03 to 26% in 2019-20.[8] More private rentals mean more investment properties which shows up as a more rapid rise in wealth from "other property". The increase in the proportion of private rentals means there are 460,000 additional investment properties in 2022 than there would have been if the proportion had stayed at the 2002-03 rate.[9]

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[7] ABS (2022) *Housing Occupancy and Costs 2019-20, Data Cube 1*, https://www.abs.gov.au/statistics/people/housing/housing-occupancy-and-costs/2019-20#data-downloads

[8] ABS (2022) *Housing Occupancy and Costs 2019-20, Data Cube 1*, https://www.abs.gov.au/statistics/people/housing/housing-occupancy-and-costs/2019-20#data-downloads

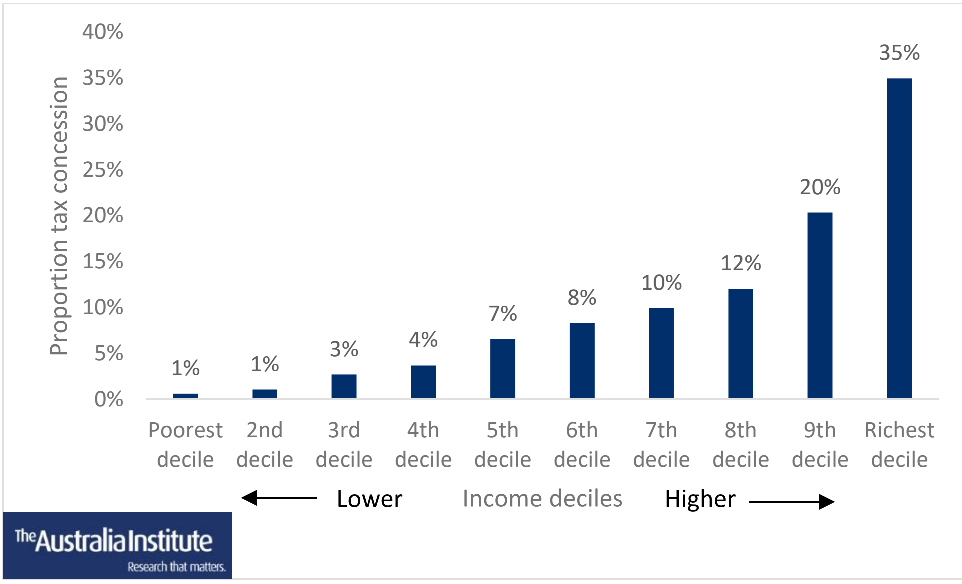
[9] ABS (2024) *Total Value of Dwellings, September 2024, Table 1*, https://www.abs.gov.au/statistics/economy/price-indexes-and-inflation/total-value-dwellings/sep-quarter-2024#data-downloads

Tax concessions

The owners of the three largest asset types benefit from significant tax concessions. The family home is not subject to capital gains tax. Superannuation is taxed at concessional (lower) rates than other forms of income. Finally, the capital gains on "other property" including investment properties are taxed at a discount of 50%, and any potential losses can be written off against other sources of income, also known as negative gearing.

The largest of these tax concessions goes to superannuation. In 2021-22, superannuation tax concessions for contributions and earnings totaled $49.1 billion.[10] These tax concessions overwhelmingly went to high income earners. The top 10% of income earners received a third (35%) of the tax concessions.[11] The top 20% of income earners received over half (55%) of the tax concession. The bottom half of income earners received only 15% of the concessions.

Figure 7: Income distribution of superannuation tax concessions on contributions and earnings in 2021-22



Source: Treasury (2024) *2024-25 Tax Expenditures and Insights Statement*, https://treasury.gov.au/publication/p2025-607085.

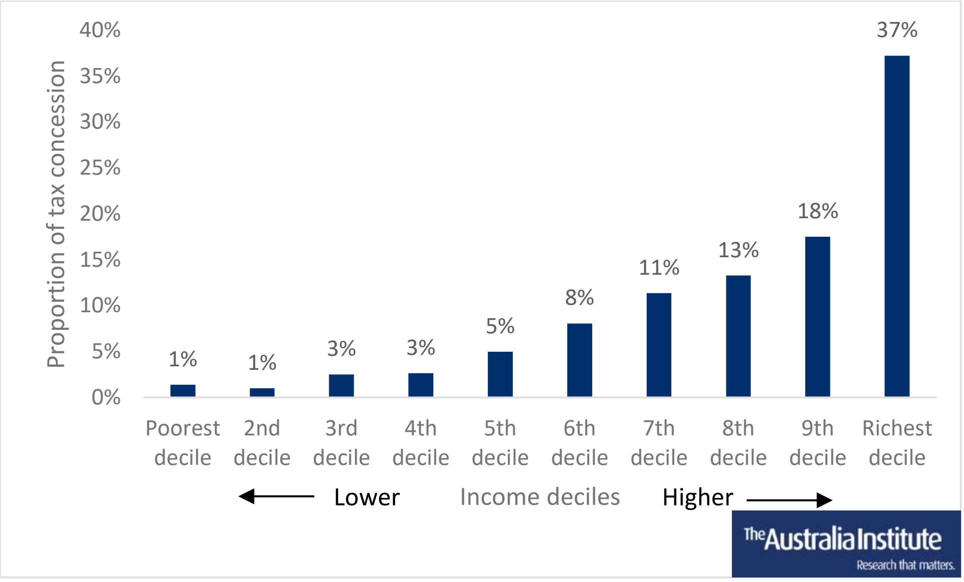
The next largest tax concession is the main residence (family home) exception from capital gains tax (CGT). In 2021-22, this concession was worth $39.5 billion. The top 10% of income

[10] Other smaller superannuation tax concessions bring the total up to $60 billion but no distributional analysis on these super concessions is available so they have been excluded.

[11] Note this analysis is done on income deciles of individuals. Analysis of the distribution of assets has been done on wealth deciles of households.

earners received 37% of the benefit, while the top 20% received 55% of the benefit.[12] The bottom half of income earners got just 13% of the benefit.

Figure 8: Income distribution of main resident exemption from CGT in 2014-15



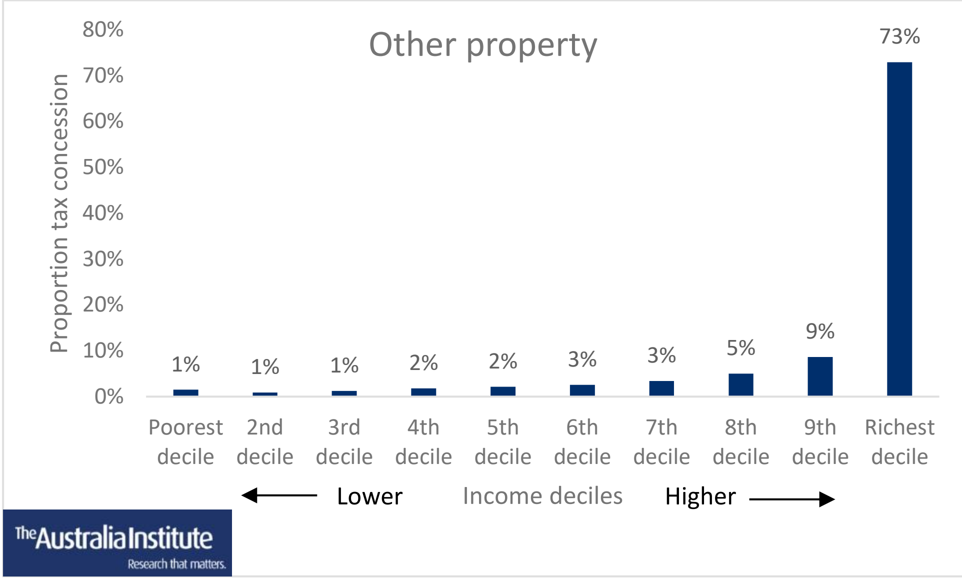
Source: Grudnoff (2016) *Capital Gains Tax – Main Residence Exemption*, https://australiainstitute.org.au/report/capital-gains-tax-main-residence-exemption/

The tax concession going to "other property", which is a combination of the CGT discount and negative gearing, totaled $11.3 billion.[13] This is the most unequal of the three major concessions, with three quarters (73%) of the benefit going to the top 10% of income earners. The top 20% of income earners received 81% of the benefit. The bottom half of income earners received just 8% of the benefit.

[12] This distribution is not available from the Tax Expenditure and Insight Statement and is instead sourced from an older publication. The modelling is from 2014-15 data.

[13] This distribution comes from PBO (2024) *Cost of Negative Gearing and Capital Gains Tax Discount*, https://www.pbo.gov.au/publications-and-data/publications/costings/cost-negative-gearing-and-capital-gains-tax-discount. The distribution comes from 2024-25 figures but the totals come from 2021-22 figures.

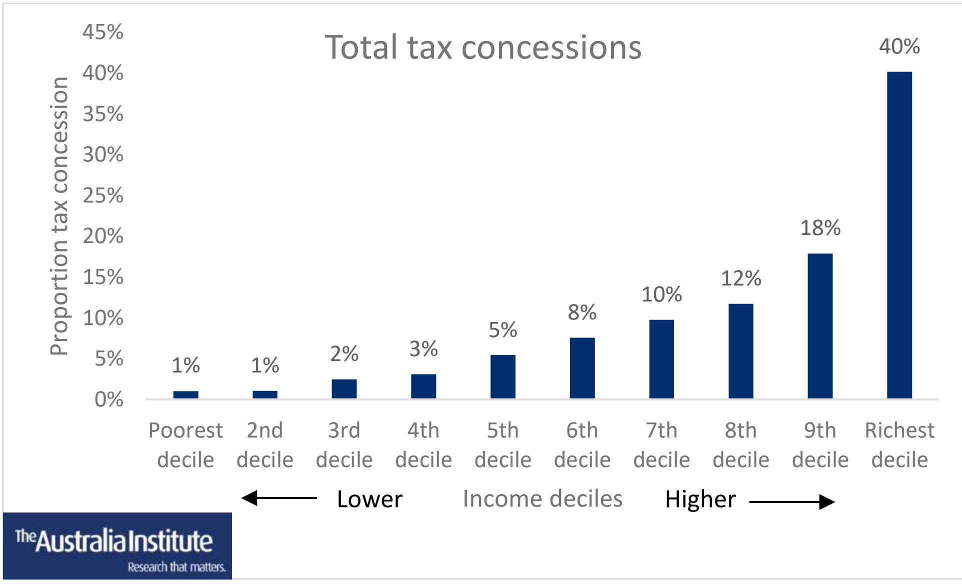
Figure 9: Income distribution of CGT discount and negative gearing



Source: PBO (2024) *Cost of Negative Gearing and Capital Gains Tax Discount*, https://www.pbo.gov.au/publications-and-data/publications/costings/cost-negative-gearing-and-capital-gains-tax-discount.

Combined, the tax concessions discussed above are worth $100 billion per year. The top 10% of income earners receive $40 billion in tax concessions (40%), while the bottom half of income earners get $13 billion (13%). The bottom 10% of income earners get just $1 billion (1%). Put another way, for every $1 of tax concessions going to the bottom 10% of income earners, the top 10% get $40.

Figure 10: Income distribution of total tax concessions



Source: Authors calculations from Source: Treasury (2024) *2024-25 Tax Expenditures and Insights Statement*, https://treasury.gov.au/publication/p2025-607085 and Grudnoff (2016) *Capital Gains Tax – Main Residence Exemption*, https://australiainstitute.org.au/report/capital-gains-tax-main-residence-exemption/ and PBO (2024) *Cost of Negative Gearing and Capital Gains Tax Discount*, https://www.pbo.gov.au/publications-and-data/publications/costings/cost-negative-gearing-and-capital-gains-tax-discount

Like wealth, these tax concessions are unequally distributed. Their distribution and size mean they are adding to inequality. Removing these tax concessions would mean that wealth would be taxed more effectively. It would also reduce wealth inequality.

Conclusion

Wealth inequality is getting worse. This is being driven by the rapid growth in investment properties which are mainly owned by the wealthiest 10% of Australian households. Falling home ownership rates are also adding to this problem.

Rather than addressing this problem, Australia's tax system is currently making a bad situation worse. Large tax concessions are making the problem of wealth inequality worse by reducing the taxation of wealth and delivering benefits to the already very wealthy. The size and unequal distribution of the tax concessions means wealth holders are taxed more lightly than income earners and serve to increase the wealth of those who already have so much.

Housing is an important part of this problem. The housing affordability crisis is also a wealth inequality crisis. Real action to make housing less expensive will also reduce the increase in wealth inequality.

Reducing the tax concessions on capital gains and negative gearing will reduce demand of investment properties by making them a less tax effective investment. This will make housing more affordable, increasing home ownership rates and distributing wealth more evenly. It will also rebalance the tax system by taxing wealth at higher rates.