Three ways Australia can tax wealth better

Australia taxes wealth very lightly. Imposing a 2% wealth tax on those with net assets over $5 million, an inheritance tax on large estates, and scrapping the CGT discount could raise $70 billion per year.

Discussion paper

David Richardson
Matt Grudnoff

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Summary

Australia is a low tax country, with increasing demands for government spending. There is bipartisan support for increasing spending in areas such as defence, healthcare, and housing. At the same time, both politicians and pundits make frequent calls to reduce the budget deficit. This can be achieved by increasing taxation.

Australia has a long history of taxing wealth lightly: it taxes capital gains concessionally; it does not have a wealth tax; nor does it have an inheritance tax.

This paper proposes three ways that the government could raise revenue by taxing wealth.

- More comprehensive taxation of capital gains.
- The introduction of an annual tax on wealth above a specified threshold.
- The introduction of a wealth transfer tax, that is, taxes on transfers via bequests at death and gift duties.

Realised capital gains are taxed at a 50% discount. This means half of the capital gain goes untaxed. Australia Institute analysis estimates the revenue forgone through the failure to tax realised capital gains in full was $19 billion in 2023-24, of which 81% goes to the top 10% of income earners. We recommend the capital gains tax discount be scrapped and realised capital gains should be taxed in the same way as other forms of income.

We recommend the Commonwealth Government introduce an annual wealth tax on very wealthy people at two per cent. If the tax only applied to people with a net wealth of $5 million or more, with the family home and superannuation exempt, it would raise $41 billion.

Finally, we recommend the Commonwealth Government reintroduce a wealth transfer tax for very wealthy estates. This is a common tax among other developed countries. The wealth transfer tax would also include a gift tax, to counter tax avoidance. Wealth transfer taxes, also known as inheritance tax or estate duties, are a once in a generation chance to tackle wealth inequality as well as raise billions of dollars in additional revenue. We estimate that such taxes could raise $10 billion.

Table 1: Summary of wealth taxes and additional revenue

Wealth tax	Revenue
Removing the CGT discount	$19 billion
2% annual wealth tax	$41 billion
Inheritance tax	$10 billion
Total	**$70 billion**

Better taxation of wealth will not only raise billions of dollars but will also help reduce inequality. More equal societies are associated with higher rates of economic growth, as well as better social cohesion.

Introduction

Australians are demanding both more, and better-quality, services from their governments. This includes better healthcare, education, aged care, infrastructure, and defence. Australians also demand more spending to address climate change, the quality of childcare, and the affordability of housing, just to name a few.

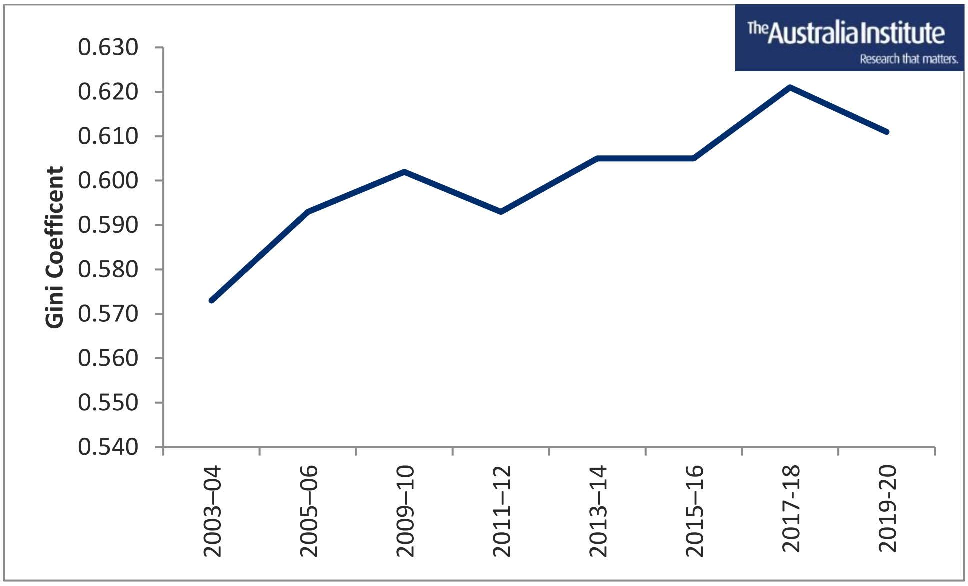
All major political parties want to increase spending. At the 2025 federal election there was bipartisan support for substantial increased spending on defence, Medicare, and housing. At the state level there have been demands for more spending on infrastructure, social and affordable housing, and to reduce ambulance ramping. All this has raised concerns about the health of Commonwealth and state budgets.

The budgetary positions of the Commonwealth and states would move towards balance if Australia were to raise more tax revenue. One source of tax revenue that is often overlooked is taxing wealth. Wealth is lightly taxed and is potentially a large source of revenue. This paper will look at three ways the government could tax wealth more fairly. This includes a more comprehensive taxation of capital gains, the introduction of an annual wealth tax, and the introduction of a wealth transfer tax.

Wealth inequality

Wealth inequality is a growing problem in Australia. The most common measure of inequality is the Gini coefficient, a measure in which larger numbers, up to a maximum of one, mean worse inequality. This measure charts a steady increase in wealth inequality since 2004. Australia Institute research has shown that the richest 200 households in Australia have increased their wealth from 8% to 25% of GDP over the last 20 years.

Figure 1: Gini coefficient for wealth in Australia



Source: ABS (2022) *Household Income and Wealth, 2019-20*, https://www.abs.gov.au/statistics/economy/finance/household-income-and-wealth-australia/2019-20

A large and growing volume of research shows reducing inequality is bad for economic growth. The International Monetary Fund has shown that income inequality is bad for economic growth.[1] Countries with the highest inequality tend to have inferior macroeconomic performance. They 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.

The evidence also shows a generally negative correlation between the extent of economic inequality within a nation and the self-reported well-being and happiness of its people.[2]

[1] Berg AG and Ostry JD (2011) "Warning! Inequality may be hazardous to your growth" IMF Blog 8 April, https://www.imf.org/en/Blogs/Articles/2011/04/08/inequality-and-growth.

[2] Grudnoff (2020) *Tax and Wellbeing: The impact of taxation on economic wellbeing*, https://australiainstitute.org.au/report/tax-and-wellbeing-the-impact-of-taxation-on-economic-wellbeing/

Evidently, greater inequality produces less content 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.[3]

The last comprehensive tax review in 2010 was headed by Ken Henry and argued for taxing capital gains or wealth only lightly because it was the result of thrift. This depicted wealth as the outcome of income earners saving significant parts of their hard-earned incomes for a rainy day or for their retirement.[4]

Henry was concerned about taxing the same income twice, first when it is received as wages and second when any savings that have been invested produce income. Indeed, thrifty households may acquire wealth by saving part of their wages but, in practice, this is now only a small fraction of total wealth.

The Australian Bureau of Statistics (ABS) data shows that changes in net worth in Australia over the period 1990–91 to 2022–23 were, on average, 90% from capital gains and only 10% from savings out of income as conventionally defined. Moreover, there was no significant increase in household savings out of conventionally defined income during the ten years to March 2023. By contrast, capital gains have been, on average, 42.9% of Australian household incomes over that period and have been trending higher over time.[5]

[3] Schafer (2012) *Consequences of social inequality for democracy in Western Europe*, https://www.researchgate.net/publication/226586762_Consequences_of_social_inequality_for_democracy_in_Western_Europe

[4] Australian Government (2010) *Australia's Future Tax System: Report to the Treasurer, Part Two, Detailed analysis*, volume 1 of 2, December.

[5] Richardson D and Stilwell F (2024) "Tax reform", *Journal of Australian Political Economy*, No 92, pp189-205.

Taxing wealth

Australia does not do a good job taxing wealth. There is no annual tax on wealth, no inheritance tax, and capital gains are either not taxed at all (for example the capital gains tax exemption for the family home) or at concessional rates (the 50% capital gains tax discount), and then, only when those capital gains are realised.

State governments levy land and local governments calculate municipal rates according to ratepayers' property values. However, there has not been nationwide taxation on the total accumulated asset-holdings of very wealthy people.

Compared to wages capital gains are taxed very lightly. Household capital gains in 2023-24 were $1.4 trillion. The budget papers show that in that year capital gains taxation was just $26.4 billion or 1.9% of capital gains. By contrast compensation of employees was less than capital gains at $1.3 trillion on which at least $295 billion or 24% was collected as gross income tax withholding.[6]

So, on average wages are taxed at an average rate of 24% but capital gains are taxed at an average rate of 1.9%, or around 12 times less.

Most countries have one or more forms of wealth tax. Australia is unique in lacking both a wealth tax and taxing capital gains concessionally. In short, Australia’s tax treatment of wealth.

Three types of tax reform could restrain this growth of wealth inequality:

- More comprehensive taxation of capital gains.
- The introduction of an annual tax on wealth above a specified threshold.
- The introduction of a wealth transfer tax.

Any one of these would make a big difference: all three would be transformational.

CAPITAL GAINS

The Hawke Labor Government introduced capital gains tax in 1986. It has only ever applied to realised gains which means the gains realised when the assets are sold. It has always allowed the “family home”, or more formally, the main residence, which is one plot of land and the dwelling on it, to be exempt from the tax.

[6] Richardson D and Stilwell F (2024) “Tax reform”, *Journal of Australian Political Economy*, No 92, pp189-205.

Realised capital gains on other assets were fully taxable at standard income tax rates until 1999. In that year, the Howard Government introduced a 50% “discount” on the rate of capital gains tax payable and, ever since, capital gains have been a major focal point for tax minimisation by people wealthy enough to have substantial asset holdings. The estimated revenue forgone because of the failure to tax realised capital gains in full is estimated to be $19 billion in 2023-24, of which 80 cents in every dollar goes to the top 10% of income earners.[7]

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

Housing affordability increases with the existing CGT discount. Housing was once a safe and secure place to live, but over recent decades it is increasingly seen as an investment: a tax-effective way to build your wealth. In 2023–24, as mentioned earlier, the CGT discount cost the Australian Government $19 billion in forgone revenue, equivalent to the total government spending on pharmaceutical benefits.

We recommend the capital gains tax discount be scrapped, and capital gains be taxed in the same way as other forms of income.

ANNUAL WEALTH TAX

France, Norway, Spain and Switzerland are examples of European countries that operate wealth taxes. Introducing an annual wealth tax would be significantly different from reforming capital gains tax. It would shift the focus from taxing flows of income to taxing stocks of private wealth.

There are already minor examples of the latter in Australia, focusing on specific types of wealth, such as the land taxes levied by state governments and municipal rates that local governments calculate according to ratepayers' property values. However, there is no nationwide taxation on the total accumulated asset-holdings of very wealthy people.

A wealth tax could be levied by the Commonwealth Government on households whose assets have a combined value that exceeds a high threshold. For example, households with net assets (assets minus debts) worth more than $5 million were in the top five per cent in

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

2022.[8] An annual wealth tax of two per cent on this group would raise tens of billions of dollars. Even exempting the value of their family home and superannuation would still raise $41 billion per year.[9]

Even if the annual wealth tax was restricted to the 200 households on the rich list, it would raise around $12.5 billion per year from their $625 billion wealth.[10] This could finance benefits of over $1,000 for every household in Australia. A tax like this would be potent, efficient and equitable.

INHERITANCE TAX

Taxing wealth transfers is more common and operates through taxes on the inheritance or the estate to be distributed. Those 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, UK and US.[11]

The growth of wealth could be more equitably controlled through the introduction of inheritance tax and gift tax. The former, sometimes called estate taxes or death duties, would need to be supplemented by a gift tax to reduce the tax avoidance that would otherwise occur if asset-holders could make large tax-free gifts in the years prior to their demise.

There are precedents for both types of tax in other nations that have successfully operated wealth transfer taxes. 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. But Denmark, Korea, the UK and US levy estate taxes on the value of the donor's overall estate.[12]

Australia did have estate duties at both state and federal levels before former Queensland Premier, Joh Bjelke-Petersen, and former Prime Minister Malcolm Fraser set about dismantling them in the 1970s. The Queensland government was motivated to do this to attract more retirees from the rest of Australia and boost southeast Queensland property

[8] 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

[9] Authors calculations from 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

[10] Australian Financial Review (2025) *Rich List*, https://www.afr.com/rich-list

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

[12] OECD (2021) *Inheritance Taxation in OECD countries, OECD Tax Policy Studies.*

development. Queensland's move was then emulated by other states and the Commonwealth Government followed suit.[13]

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.

Over the ten years from 1965–66 to 1974–75 the amount of revenue raised from probate and succession duties collected by state and commonwealth governments amounted to 0.36% of GDP.[14] If they collected that amount in 2023–24 then it would raise $10 billion in revenue.

[13] 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.

[14] Parliamentary Budget Office (2024) *Australia's tax mix*, https://www.pbo.gov.au/about-budgets/budget-insights/budget-explainers/tax-mix

Conclusion

Taxing wealth provides Australia with an opportunity to raise revenue from those most able to afford it. Well-targeted taxes on wealth, like the three proposed here, can make a big difference in several ways.

1. They will help reduce wealth inequality, which in turn will create more capacity for the Australian economy to grow.
2. By reducing inequality, they will improve social cohesion and safeguard democracy.
3. They will allow Commonwealth and state governments to meet the growing demand for services.

Targeted wealth taxes have the advantage of raising large amounts of revenue while only impacting the very wealthy. This is a group with the greatest capacity to pay. They are also a group that have been largely ignored by Australia's current tax system. This is the kind of tax reform that Australia needs.