# A COSTLY CHOICE

## Tax cuts, concessions, and widening inequality

Anglicare Australia
*in every Community*

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in every Community

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This analysis is based on the methodology developed by Per Capita for Anglicare Australia, and was previously published in The Cost of Privilege in 2018.

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# About this report

## Executive summary

This report seeks to understand how the tax and transfer system works for Australians across different income brackets, and shows the extent to which measures within the system support the richest and the poorest Australians.

The models in this report assess various tax concessions and other benefits and contrasts them with income support measures for Australians on the lowest incomes. We calculate the revenue lost to the federal budget of various measures that allow the wealthiest Australians to minimise their taxable income and build their individual wealth.

These measures include superannuation tax concessions, negative gearing, capital gains tax concessions, the use of discretionary trusts, and the planned Stage Three Tax Cuts. All of these concessions disproportionately benefit high income and high wealth households. Our analysis shows that, in combination, these measures will impose a cost on the federal budget of $146 billion. In contrast the cost to the budget of income support measures including the aged pension and JobSeeker is $76 billion.

This analysis clearly demonstrates that Australia is making a costly choice, losing billions from the budget bottom line. Both poverty and inequality are the result of policy choices. Government claims that Australia cannot afford to lift income payments above the poverty line, build social housing, or invest in services are reflection of priorities and choices. If the Australian Government can afford to forego billions of dollars to support those who need it the least, it can surely afford to support those who need it the most.

## Introduction

Former Prime Minister Julia Gillard once said that "budgets are about choices… you show what you value through the choices you make."[1] All Governments make choices about spending, about saving, and about where we will get our revenue from.

Australia's tax system already provides tax concessions to the highest-income Australians, helping them build their wealth and minimise their taxable income. These tax concessions cost the budget more than welfare payments. As shown in table 1 below, more than half of the benefits of these tax concessions go to the wealthiest fifth of households, compared with about three percent to the bottom fifth of households.

From next year, the Australian Government is choosing to put more money back in the pockets of the wealthiest people in the country, by progressing the Stage Three Tax Cuts. The Tax Cuts, legislated under the previous Government and set to be enacted under the current Government, would create a flat tax rate of 30 cents in the dollar for those earning between $45,001 and $200,000.

The tax cuts, which come into effect in July 2024, will:

- Increase the income at which the top tax bracket begins from $180,001 to $200,001.
- Remove the 37 percent bracket for incomes between $120,001 to $180,000.
- Lower the tax rate for incomes between $45,001 to $200,000 from 32.5 percent to 30 percent.

These tax cuts will further widen the inequality gap.

The recent modest proposals to reform superannuation tax concessions will help, but will only claw back about $2 billion from those with the highest superannuation balances.

Forgoing billions of dollars of revenue through these concessions and further tax cuts reduces the money Government has to spend on other priorities, like housing, aged care, health and addressing poverty, and prioritises people who need it the least. It's time to rebalance our system, and our national conversation, to support those who need it most.

# What we found

## Methodology

These figures are based on a model developed by Per Capita for Anglicare Australia in 2018 and published in The Cost of Privilege.[2] A detailed methodology for the calculation of each payment is available as an addendum to this report. We have chosen not to include some of the concessions examined in the original Cost of Privilege report in this update, but rather to include the forthcoming Stage Three Tax Cuts.

The updated total expenditure on tax concessions is drawn from the Department of Treasury 2022-23 Tax Expenditure and Insights Statement.[3] Estimates for the cost of discretionary trusts has been drawn from the Cost of Privilege report as this is the most recent data we identified.  Projections of the cost and distributional impacts of negative gearing are drawn from the Parliamentary Budget Office,[4] as are the distributional impacts of the Stage Three Tax Cuts.[5]

## Findings

This analysis looks at superannuation tax concessions, negative gearing, capital gains concessions and exemptions and the use of discretionary trusts. These are all mechanisms that Australians can use to minimise their taxable income, reducing the government revenue available to pay for services.

This analysis shows the total cost of forgone tax revenue is $128.26 billion. Of this, $72 billion benefits those with incomes in the top 20 percent. This includes about $40 billion on capital gains tax concessions, and nearly $26 billion on superannuation concessions.

In comparison, the people on the lowest 20 percent of incomes benefit less than $4 billion from capital gains tax exemptions, and not at all from superannuation concessions (see Table 1).

Table 1. Benefits and expenditures, recipients by income quintile, 2022-23

| Benefit | Total expenditure ($B) | Bottom 20% ($B) | Top 20% ($B) |
|---|---|---|---|
| Principle residence CGT exemption | $48 | $3.36 (7%) | $20.64 (43%) |
| Superannuation - earnings | $21.5 | $-0.06 (0%) | $12.47 (58%) |
| Superannuation - contributions | $23 | $-0.07 (0%) | $13.34 (58%) |
| Capital gains tax concession | $23.7 | $0.47 (2%) | $19.4 (82%) |
| Negative gearing | $5.06 | $0.1 (2%) | $2.78 (55%) |
| Private health GST exemption | $5 | $0.4 (8%) | $1.75 (35%) |
| Discretionary trusts | $2 | $0 (0%) | $2 (100%) |
| Total | $128.26 | $4.2 (3%) | $72.38 (56%) |

We then added in the first year of the Stage Three Tax Cuts to determine the cost to the federal budget of the various concessions and tax cuts, and who benefits. The Stage Three Tax Cuts will provide an additional $14 billion to the top income earners in 2024-25, taking the cost of forgone revenue from the top income quintile to over $86 billion. This reflects the combined cost of the tax concessions and the tax cuts.

Table 2 shows that nearly 60 percent of the benefit of the concessions and tax cuts will flow to the top income quintile, compared to three percent to the bottom quintile.

Table 2. Benefits and expenditures, including Stage Three Tax Cuts, recipients by income quintile, 2022-23; 2024-25 [6]

| Benefit | Total expenditure ($B) | Bottom 20% ($B) | Top 20% ($B) |
|---|---|---|---|
| Principle residence CGT exemption | $48 | $3.36 (7%) | $20.64 (43%) |
| Superannuation - earnings | $21.5 | $-0.06 (0%) | $12.47 (58%) |
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| Capital gains tax concession | $23.7 | $0.47 (2%) | $19.4 (82%) |
| Negative gearing | $5.06 | $0.1 (2%) | $2.78 (55%) |
| Private health GST exemption | $5 | $0.4 (8%) | $1.75 (35%) |
| Discretionary trusts | $2 | $0 (0%) | $2 (100%) |
| Stage Three Tax Cuts (2024-25) | $17.7 | $0 (0%) | $14.1 (80%) |
| Total | $145.96 | $4.2 (3%) | $86.48 (59%) |

These figures far outstrip the funding for income support and pensions, as shown at Table 3. Working age payments, including JobSeeker, cost the budget about $20 billion per year combined. The age pension costs $55 billion, and is set to be overtaken by the cost of superannuation concessions.

Table 3. Expenditure on income support measures, 2022-23 [7]

| Benefit | Total expenditure ($B) |
|---|---|
| Age Pension | $55.3 |
| Working Age Payments | $20.3 |
| Total | $75.6 |

Australia has never been more prosperous, yet we are facing growing inequality. Over three million Australians live in poverty, and wealth inequality is now the worst it has been in seventy-five years.[8] Our analysis helps explain these trends. High income earners already benefit disproportionately from generous tax concessions and exemptions. Forthcoming tax cuts will worsen that inequality, making our tax system even less progressive and more unfair.

# What this means

## The growing cost of concessions

Our figures show that more than half of the foregone revenue from negative gearing goes to the top 20 percent, while just 6.2 percent goes to the bottom quintile. Similarly, more than 80 percent of the savings from the capital gains tax concession go to the wealthiest quintile, and just two percent to the bottom 20 percent. It also appears that the foregone revenue from discretionary trusts is entirely received by the wealthiest 20 percent of Australians, although it should be noted that it is difficult to calculate precisely the lost tax revenue from discretionary trusts based on available data.

It is important to bear these findings in mind in light of rhetoric about the benefits of tax concessions to "average" Australians, and in light of hundreds of millions of dollars in cuts from social security over the past five years. The foregone revenue identified in our research shows that these cuts were unnecessary as well as harmful. If there is truly a need for cuts, our research shows that the place to start is by ending subsidies for wealth accumulation for those who need it least.

Anglicare Australia appreciates that the Government has already ruled out changes to some of these concessions in its first term and is introducing modest changes to taxation on income from superannuation balances over $3 million. Nevertheless, reforms to discretionary trusts, further superannuation concession reform and GST exemptions present a good opportunity to make savings while promoting fairness in the tax system. Anglicare Australia also notes that the concessions we explored were a sample, not an exhaustive list. We would encourage the Government to explore changes to interest deductions, dividend deductions, and deductions on litigation costs for managing tax affairs as changes that can be made quickly and fairly to raise revenue.

## Impact of the upcoming tax cuts

The findings of this analysis have major implications for the forthcoming Stage Three Tax Cuts. The tax cuts will erode much of Australia's progressive taxation system. The changes will dramatically flatten the tax scales by abolishing the 37 percent tax rate, creating a single 30 percent tax rate for individuals earning between $45,001 and $200,000.[9]

The effect of the tax cuts is that the percentage of benefits of these concessions and tax cuts which flow to the top 20 percent rises from 56 percent to 59 percent.

Our analysis shows that high income earners will be the main winners from these changes, with the bottom 20 percent of income earners getting no benefit. At the same time, there will be gains of

$1,125 each year for an individual on $90,000. This rises to $9,075 per annum for a person on an income $200,000 or more. This includes an increase worth $1,125 per annum for a person on $90,000, rising to $3,875 for person on an income of $200,000 or more.[10]

The overwhelming share of these benefits will go to Australia's wealthiest metropolitan areas. Anglicare Australia's recent paper Left Behind, shows that the parts of the country in need of the most support amidst rising living costs will benefit the least from the tax changes.[11] Tasmania and South Australia will fare the worst, because people living in those states are least likely to earn high incomes. When comparing local regions, we see that those getting no benefit from the changes are more likely to live in poorer rural areas, or disadvantaged periurban areas.[12]

Anglicare Australia notes that the cost of the tax cuts has now blown out to $254 billion.[13] This cost is indefensibly high, particularly considering the Government's reluctance to take action to alleviate poverty and tackle the social housing shortage on the basis of cost. For the cost of the Tax Cuts working age payments could be raised to the poverty line, lifting 2.3 million Australians out of poverty. That includes 840,000 children. The Government could also build 36,000 social homes each year. This program would end the shortfall and provide affordable homes to hundreds of thousands of people.[14]

Together, these measures would cost $208 billion over ten years, well below the $254 billion cost of the tax cuts. Yet they would give the Government the power to tackle poverty and housing stress for tens of thousands of people. Anglicare Australia believes that if we can afford to redistribute a quarter of a trillion dollars in revenue to the wealthiest Australians, then we can surely afford a safety net and a secure home for those in need.

Given the growing cost of these concessions and benefits, and growing public expenditure needs, we cannot afford the cost of the next round of tax cuts. They will clearly benefit those who need the least support and entrench inequities for years to come.

## Conclusion

For years inequality has been growing across Australia, challenging our notions of being an egalitarian country. This report helps shed light on why. Increasingly our Governments have chosen to redistribute concessions, tax breaks, and wealth to those who need it the least.

Australia's tax system offers major concessions to the highest-income Australians, helping them build their wealth. These tax concessions cost the budget more than welfare payments. More than half of the benefits of these tax concessions go to the wealthiest fifth of households, compared with about three percent to the bottom fifth of households.

A system that is already unfair is set to become even less equitable from next year, when the planned Stage Three Tax Cuts come into effect. These cuts will further widen the wealth and income inequality gap.

Many of the choices and costs we set out in this report have become entrenched and will be politically difficult to change. Recent measures to better target superannuation tax concessions will help, but must be seen as the start of a conversation about equity rather than the beginning.

Yet there is hope, and there is opportunity. The Government has the chance to prevent Australia's tax system from becoming even more regressive by ending its plans to proceed with costly and unfair tax cuts, stopping the cuts before they start. This will represent the first major test of this Government's commitment to fairness in the tax system.

# References


1 Australian Government (2013) Prime Minister, transcript.

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3 Department of Treasury (2023) 2022-23 Tax Expenditure and Insights Statement.

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6 Ibid.

7 Australian Government (2022) Portfolio Budget Statements 2022-23: Social Services Portfolio.

8 UNSW and ACOSS (2022) The wealth inequality pandemic: COVID and wealth inequality.

9 ACOSS (2019) The Government's tax cuts: Who gains? What do they cost?

10 Ibid.

11 Anglicare Australia (2023) Left Behind: Who Benefits from the Stage Three Tax Cuts.

12 Ibid.

13 Australian Government (2022) Treasury portfolio, transcript.

14 Anglicare Australia (2022) A Clear Choice: Ending poverty for the cost of tax cuts.

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