



Tax comparisons—Australia and selected countries

Introduction

Despite the changes to the personal income tax thresholds in the 2005–06 Budget, there are continued calls for reform of the Australian taxation system, particularly the personal income tax system.¹

An often mentioned point in favour of the reform of the personal income tax system is that Australia's current arrangements are 'un-competitive' with the arrangements applying in other countries.² The consequences of this are that international capital flows to Australia are less than they might otherwise be and that Australians working overseas are more reluctant to return to this country, due to high marginal taxes. Further, in years to come, internationally mobile skilled workers may not be willing to migrate to Australia due to high marginal tax rates on personal income.³

The purpose of this Research Note is to provide information on tax rates to allow some comparisons to be made between Australia's and other countries' tax systems.

With whom should Australia be compared?

For the purposes of comparison, countries have been chosen that import capital, are potential destinations for permanent Australian emigrants, have comparable welfare systems, and whose governments provide similar services.

What should be compared?

While the top marginal tax rate is currently topical, it is not the only—nor even the most important—determinant of the overall tax burden on an individual. Rather, it is the combination of marginal rates, income thresholds, and wages that give some idea of the impact of personal income tax arrangements. These can be usefully summed up in the average personal tax burden that individuals face.

Problems of comparability

In Australia, personal income tax helps pay for services that are subject to separate arrangements in other countries. For example, in most European countries, it is common for a person's contribution to their retirement pension, and other social security and medical cost, to be collected separately from their income tax. In some federal systems (USA and Canadian), the states/provinces also collect income tax. For valid comparisons to be made, a country's 'all in' tax rate, that is, inclusive of social

security contributions and state/regional taxes have to be compared with Australia's tax rates plus the Medicare levy.

Average production worker wages

The OECD compiles data on tax on the wages of the 'average production worker'. Table 1 shows the average personal income tax and social security contribution rates on gross earnings for a single person without dependants, at various multiples of the 'average production worker' wages (in Australian dollars), including state/regional government taxes, where appropriate, for various countries in 2004.

The top row of the following table shows the percentages of the 'average production worker wage' on which the tax burden is calculated. For example, for Australia 67 per cent of its average production worker wage is \$35 882 per year. Some 20.7 per cent of this figure is \$7428. This is the amount, according to the OECD, that is paid by a person earning 67 per cent of 'average production worker wages' in tax and social security charges in Australia.

Comparisons are made by reading down the columns.

Table 1: Tax burden on average production worker wages (2004)

	APW*	67%	100%	133%	167%
Australia	\$53 222	20.7%	24.3%	28.4%	32.4%
Canada	\$55 381	19.8%	24.7%	26.4%	27.6%
Ireland	\$56 498	8.5%	15.7%	23.3%	28.0%
NZ	\$38 474	19.0%	20.7%	23.8%	26.5%
UK	\$50 350	20.1%	24.4%	26.6%	26.9%
US	\$46 542	21.7%	24.2%	32.6%	34.8%

Source: OECD Tax Database, [Table 1.2](#). Average personal income tax and social security contributions on gross labour income,⁴ Exchanges rates Afternoon 29 August 2005 *APW is Average Production Worker Wages.

Table 1 shows that while the average tax burden on Australian wages is high, overall it is not the highest, with that position belonging to the USA.

A deficiency of the data in Table 1 is that the nine per cent of wages Superannuation Guarantee payments are not included in the Australian figures, where other country's personal contributions for retirement income payments are included in these average tax burdens. Therefore,

Australia's overall tax burden may be understated in comparison to that of other countries.⁵

The relationship between the average production wage for various countries and the top marginal threshold is not dissimilar to other OECD countries, as Table 2 suggests.

Table 2: Production worker wages and top marginal rates

Country	APW as % of Top Marginal Threshold
Australia	56.0
Canada	43.1
Ireland	92.8
NZ	69.7
UK	65.1
US	10.7

Source: OECD data and author's calculations

In the above table a country's 'average production worker wage' is expressed as a percentage of that country's highest marginal tax threshold. In Australia's case the 'average production worker wage' of \$53 222 per annum is 56 percent of its highest marginal income tax threshold in 2005 (\$95 000).

These tables do not show the income levels at which various marginal tax rates cut-in. The following table compares the structure of the central government personal income tax rates in 2005 (converted to Australian dollars).

Table 3: Marginal tax rates and income thresholds (2005)

Australia	0% to \$6000	16.5% to \$21 600	31.5% to \$63 000	43.5% to \$95 000	48.5% on \$95 000+
Canada*	16% to \$39 510	22% to \$79 020	26% to \$128 437	29% on \$128 437+	
Ireland	20% to \$60 863	42% on \$60 863+			
NZ	15% to \$8746	21% to \$34 978	33% to \$55 229	39% on \$55 229+	
UK	10% to \$4990	22% to \$77 381	40% on \$77 381+		
USA#	10% to \$9 724	15% to \$39 563	25% to \$95 844	28% to \$199 992	33% to \$434 814 35% on \$434 814+

Source OECD Tax Data Base, [Table 1.5](#) Central government personal income tax rates and thresholds⁶, Exchange Rates Afternoon 29 August 2005. * Additional provincial (i.e. state) tax rates of between 10 and 19.6 per cent (representative rate of about 17%) on earned income apply in Canada in 2005. # Additional state based taxes apply in the United States of between 0 and 9.9 per cent (representative rate of 4.5%). Canada, Ireland, UK and USA have personal tax allowances or tax credits that modify these nominal rates.

Table 3 shows that Australia's marginal personal income tax rates commences to apply at lower levels of income than for most comparable countries, save for New Zealand.

This table also shows that the Australian personal income tax system, in comparison with these particular countries, is unique, in that it features a zero tax rate for the first \$6 000 and has more steps in its scale. Within the OECD only Luxembourg, Portugal, Switzerland and the United States have more steps in their personal income tax scales than Australia.

It is difficult to assess the impact of these tax structures from such a table, but one can gain an appreciation of this impact by observing the average percentage of income paid as tax at various incomes levels.

The following table shows the percentage of personal income paid as tax (the taxpayer is single, male and has no dependants). The income amounts are expressed in each country's own currency.

For example, in Australia, a person receiving a taxable income of just A\$10 000 year would pay 6 percent of that income in tax (\$600). A person in the UK, receiving an income of £10 000 a year would pay 9 percent of this amount in tax (£900). Comparisons are made by reading across the rows.

Table 4: Average personal income tax paid

Income	Aus (\$A)	Ire (€)	NZ (\$NZ)	UK (£)	USA (\$US)
10 000	6%	0%	15%	9%	2%
20 000	10%	6%	18%	16%	7%
30 000	16%	11%	19%	18%	10%
60 000	23%	26%	20%	27%	16%
100 000	31%	33%	20%	32%	20%
200 000	39%	37%	35%	36%	25%

Sources: OECD Tax Data Base [Table 1.5](#) for NZ, and Australia. Ernest and Young Tax Calculator for [Ireland](#), H&R Block Tax Calculator for [USA](#), Authors' own calculations for Australia and NZ. Rates are either for 2005 or for 2004/05 (UK only).

Table 4 shows that the structure of Australia's personal income tax system has the second lowest impact on low income earners, but has the highest impact on high income earners, of the countries compared. However, Australian average personal income tax rates do not exceed these other countries until a higher income (in Australian terms) is received. It should be noted that this table does not take account of the average levels of income in each country.

Another consideration is that the table does not allow for the impact of state/provincial personal income tax rates in the USA, nor does it allow for any transfers back to the individual as is the case in Table 1. In federal systems, what may at first seem like a low average tax burden at federal level becomes much higher when state/provincial taxes are taken into account.

To illustrate the impact of state/provincial taxes on the average personal income tax burden Table 5 shows the estimated effect of provincial taxes in the case of Canada.

Table 5: Effect of regional taxes on average tax paid—Canada

Income (\$C)	Average Federal Tax#	Average Federal plus Provincial Taxes
10 000	3%	4%
20 000	9%	16%
30 000	12%	20%
60 000	16%	27%
100 000	20%	72%
200 000	24%	36%

Sources: Canada Federal Tax, #Authors own estimations based on OECD Tax Database Table 1.5, Federal plus Provincial Taxes: Ernest and Young [Canada](#). Taxpayer assumed to live in Manitoba Province.

Attracting skilled workers

Participants in the current tax debate have not suggested that perceived high levels of personal income tax are a major reason for skilled Australians seeking permanent work overseas. However, some commentators have suggested that high perceived marginal tax rates may encourage skilled Australians to remain overseas.⁷ If this is the case then it is important to understand the tax regimes of destination countries in comparison to Australia's.

The major destinations for permanently departing Australians are New Zealand (23 per cent), the United Kingdom and Ireland (almost 16 per cent), Singapore (5 per cent), China (almost 6 per cent), Hong Kong (8 per cent) and the United States (10 per cent).⁸ The following table gives the personal income tax rates for Singapore and Hong Kong expressed in Australian dollars.

Table 6: Marginal tax rates and income thresholds—Hong Kong and Singapore

HK	2% to \$5 140	8% to \$10 280	14% to \$15 420	20% on \$15 420+			
Sing	0% to \$15 836	4% to \$23 760	6% to \$31 664	9% to \$63 328	15% 126 693	19% to 253 196	22% on 253 196+

Sources: Hong Kong, PriceWaterhouse Coopers 2004/2005 Hong Kong Tax Rates Card, Singapore, Pricewaterhouse Coopers, Tax Facts and Figures 2005 Singapore, p. 1. Exchange rates as at morning 30 August 2005.

Marginal tax rates in both Hong Kong and Singapore are low by comparison with other countries. However, this may also be due to the lower level of service provision and/or a broader indirect tax base.

Corporate tax rates

Individuals generally are not borrowers of significant amounts of overseas capital, but governments and large corporations are. As governments are not generally subject to their own tax arrangements in so far as tax arrangements affect the decision to invest in a particular country, its corporate tax rate(s) is the important rate on which to focus. The following table shows the corporate tax rates,

net of any credit for paying tax at the state or provincial level and inclusive of any surcharges, of various OECD countries in 2005. Where the state/provincial (sub-central rates) are noted, the overall rate is derived by adding the central and sub-central government rates together.

Table 7: Corporate tax rates (2005)

Country	Central Government Nominal Rate %	Representative Sub-Central Government Nominal Rate %
Australia	30	
Canada	22.1	14 (8.9 – 17)
Czech Republic	26	
Hungary	16	
Korea	25	10 (5-15)
Ireland	12.5%	
Mexico	30	
New Zealand	33	
Portugal	25	10
Slovak Republic	19	
Spain	35	
Turkey	30	
United Kingdom	30	
United States	32.7	6.6 (6.5–9.99)

Source: OECD Tax Database, [Table II.1](#) Corporate income tax rates⁹

The majority of the above countries were selected because they are more likely than not to require large amount of capital for development purposes, or for funding ongoing budget deficits.

Observations

Table 1 seems to support the notion that in general, Australia's tax system places a comparatively high burden on individuals over a wide income range. Those countries having an apparently lower impost on individuals often have a higher rate of value added tax (VAT), as the following table, citing the various countries VAT rates for 2003, shows.

Table 8: Rates of value added tax (2003)

Country	Standard Rate %
Australia	10
Canada	7
Ireland	21
NZ	12.5
UK	17.5

Source: OECD Tax Database, Table IV.1 Rates of value-added taxes/general sales taxes

It is particularly interesting that the country that has the lowest individual personal income tax burdens, as shown in Table 1 above (Ireland) should have the highest rate of VAT. It is even more interesting that the country with the

lowest personal income tax burden (USA) does not have a consumption tax.

These differences may partly reflect policy preferences, but they may also reflect the fact that some countries have traditionally high rates of personal income tax evasion.

As has been often claimed, Australia's nominal corporate tax rate appears to be in line with most OECD countries, especially once state/provincial corporate tax rates are taken into account. However, it is not the nominal corporate tax rate that is important, but the effective corporate tax rate (the rate actually paid after various allowances etc) that is the real measure of a country's tax competitiveness in this area. Unfortunately, up-to-date cross-national data on effective corporate tax rates is not available.

The major destinations for the skilled Australian diaspora remain United Kingdom and Ireland, Asia and the United States. On the basis of the figures noted in this paper it is not clear that these countries have an overall personal income tax advantage over Australia sufficient to compel Australians working in these countries to never return. But Table 4 suggests that Australia's personal income tax rates, in isolation, can be seen as imposing the highest income tax burden on that country's tax payers. Further, personal tax rates in Asia appear substantially lower than Australia's.

Perceptions of tax fairness drive tax compliance. If taxpayers consider that their country's tax system is unfair it encourages non-compliance with their own tax system. Comparisons with the tax systems of other countries can engender perceptions of unfairness, say, when Australia's tax system is compared with that of the USA. However, such simple comparisons overlook the different level of services provided by each government. Ultimately the levels of government service and the distribution of transfer payments to the community will determine the demands for tax revenue that government has to satisfy.

1. More recent examples include Sinclair Davidson, *Are There Any Good Arguments Against Cutting Taxes*, Perspectives on Tax Reform (9), Centre for Independent Studies Policy Monograph 69, Sydney, 24 August 2005; Craig Emerson MP, *New thinking for a new century, Getting our priorities right in income tax reform*, Paper prepared for the Federal Australian Labor Party, 25 August 2005; Malcolm Turnbull MP and Jeromey Temple, *Taxation Reform in Australia, some alternative and indicative costings*.
2. For example, Davidson, *ibid.*, p. 8.
3. For example, The Business Coalition for Tax Reform, *Budget Submission 2005*, 31 January 2005, p. 10, and David Stevens, 'Unfinished business at the margins', *The Australian*, 24 February 2004, p. 6.

4. This table reports average personal income tax and social security contribution rates for a single person without dependant, at various multiples (67%, 100%, 133%, 167%) of the APW. The results, derived from the OECD Taxing Wages framework (elaborated in the annual publication *Taxing Wages*), use tax rates applicable to the tax year. The results take into account basic/standard income tax allowances and tax credits and include family cash transfers (see *Taxing Wages*). The average rates are expressed as a percentage of gross wage earnings. The state/provincial personal tax rates used in this table correspond to those used in *Taxing Wages* (rates applicable in a typical manufacturing area or a weighted average of state/provincial rates for the country as a whole).
5. It is not clear whether other countries' payroll taxes are included in these average tax burden figures. For example, the United States finances its Social Security Fund by a payroll tax. It is not clear that the figures quoted include this payroll tax in the case of the United States.
6. The table reports central government (statutory) personal income tax rates for wage income and the taxable income thresholds at which these statutory rates apply. The table also reports basic/standard tax allowances and tax credits, and surtax rates. The information is applicable for a single person without dependents.
7. Emerson, *ibid.*, p. 4. The author notes that the reasons behind Australia's skilled worker diaspora remain poorly understood. See also Turnbull and Temple, *ibid.*, p. 8.
8. Department of Immigration, Multicultural and Indigenous Affairs, *Immigration Update July-December 2004*, Canberra, cited in Emerson, *ibid.*, p. 4.
9. This table shows 'basic' (non-targeted) central, sub-central and combined (statutory) corporate income tax rates. Where a progressive (as opposed to flat) rate structure applies, the top marginal rate is shown.

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