



Policy costing

Billionaire's tax	
Person/party requesting the costing:	Mr Adam Bandt MP, Australian Greens
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Status at time of request:	Submitted outside the caretaker period <input checked="" type="checkbox"/> Confidential <input type="checkbox"/> Not confidential
<p>Summary of proposal:</p> <p>The proposal would introduce an annual tax levied on the net wealth of Australian residents, regardless of where their assets are held, and the net wealth of non-residents who hold Australian assets from 1 July 2022.</p> <ul style="list-style-type: none">• Australian adult residents' net wealth would be equal to the value of all assets minus all liabilities.• Non-residents' net wealth would be equal to the value of their Australian assets minus Australian liabilities. <p>The following features of the tax would apply to both residents and non-residents.</p> <ul style="list-style-type: none">• The tax would be levied at 6 per cent of each individual's net wealth amount above \$1 billion.• The assessable net wealth would be calculated as at 30 June of each financial year.• The net wealth of adults would include any taxable assets held by their children.• Assets, both financial and non-financial, over the value of \$50,000 would be included in taxable wealth.• Initial net wealth valuations would be determined as at the date of policy announcement.<ul style="list-style-type: none">- For non-residents, up to 10 per cent of the initial wealth value would be exempt from the taxable wealth calculation each year if the wealth is moved offshore. This means that in the first year, the remaining 90 per cent of the initial value would be taxable, even if more than 10 per cent is moved offshore. In the second year another 10 per cent of the initial wealth value would be exempt from tax if it is moved offshore and 80 per cent of the initial wealth value would be taxable. This pattern would continue each year so long as funds continue to be moved offshore.- Resident taxpayers would remain subject to tax on their global net wealth.• Each year the amount of tax that arises from a single real estate holding could be deferred – and secured against the title of the property – up to an amount equal to 80 per cent of the value of the property. Once 80 per cent is reached, all additional tax derived from real estate would be payable when each year's tax is due.	

- The deferred tax liability would be limited to a single property (or single group of properties for agricultural holdings) for each individual.
- Real estate would be considered first in the calculation of net wealth for tax purposes. This means that up to \$1 billion of real estate would be exempt from the tax due to the \$1 billion tax-free-threshold and would not be deferred as outlined in the previous point.

The Australian Tax Office (ATO) would publish each individual's aggregate net wealth figure and tax paid each financial year on a National Wealth Register.

Costing overview

This proposal would be expected to increase the fiscal balance by \$11,260 million and the underlying cash balance by \$9,870 million over the 2020-21 Budget forward estimates period. On a fiscal balance basis this impact reflects an increase in revenue of \$11,370 million from the billionaire's tax, partially offset by an increase in ATO departmental expenses of \$110 million.

The proposal would be expected to have an ongoing impact that extends beyond the 2020-21 Budget forward estimates period. A breakdown of the financial implications over the period to 2030-31 is at [Attachment A](#).

ATO departmental costs to collect and ensure compliance with the billionaire's tax are estimated to be \$35 million per year with an additional set-up cost of \$40 million in the first year of the proposal. The departmental costs include the costs of establishing and maintaining a National Wealth Register.

The fiscal balance and underlying cash balance impacts are different due to differences between the timing of when individuals become liable for the billionaire's tax and when it is paid.

Uncertainty

There is a **very high degree of uncertainty** associated with this costing.

There is significant uncertainty about the extent to which individuals would comply with the tax, particularly given that it would impose taxes on assets that could be many times greater than the taxes imposed under the income tax regime on the earnings from those assets. It is likely that high wealth individuals would employ strategies to avoid or minimise their wealth tax liability, which would significantly reduce the revenue raised by the tax.¹ For example, certain forms of wealth are easier to hide or export than others, such as artwork, jewellery or fungible assets like bank balances.

- To account for this, the Parliamentary Budget Office (PBO) has made a high-level adjustment for the potential impact of the behavioural response (see *Key assumptions*). The overall magnitude of the estimated response is highly uncertain as is the uncertainty around how it may vary across different individuals. For example, the behavioural response of those with the highest amounts of wealth (who would be liable for more tax) could be larger than the average of individuals affected by the tax.

The annual net wealth of high wealth individuals is very sensitive to international and domestic economic and social conditions. The value of assets such as shares can fluctuate greatly with movements in the stock market on a daily basis. Since assets are valued at a point in time under the

¹ According to a 2018 paper published by the Organisation for Economic Co-operations and Development (OECD), empirical studies have shown clear evidence of wealth tax avoidance and evasion in Europe and that taxpayers respond more through tax avoidance and evasion than through changes in real behaviour (eg holding less wealth).

proposal (30 June of each financial year), any short-term fluctuations around that day may affect the annual estimate of net wealth. This could have significant implications on the amount of tax payable from year to year.

In addition, there are inherent uncertainties associated with projecting the stock of net wealth for high wealth individuals in future years, especially given the uncertainty about growth in different industries. For example, the recent increases in iron ore prices have resulted in a significant increase in net wealth for a small group of iron ore mine owners.

- The PBO has grown the estimated baseline amount of net wealth by projected changes in nominal Gross Domestic Product (GDP) over the period to 2030-31 rather than by industry-specific growth rates. Uncertainty about the implications of COVID-19 on industry-specific growth, as well as economic growth overall, is likely to persist for some time. Any significant deviations from current nominal GDP projections would affect the net wealth estimates.

There are also uncertainties about the valuation methods that the ATO would apply to different assets under the proposal, as well as their ability to accurately value all asset types. There would be practical challenges associated with valuing assets, especially those held in trusts or where the sale of the asset does not take place to allow an independent market value.² Individuals may restructure their asset portfolios to take advantage of these challenges, which would impact the revenue collected.

Individuals affected by the billionaire's tax may also respond with legal action, which could significantly delay when revenue would be collected and could also mean that less revenue would be collected. In addition, there is a risk that high wealth individuals who are liable for large amounts of the tax, but hold illiquid assets, may have difficulties in paying the amount of tax owed. The PBO has not included any assumptions about the potential for legal action or liquidity issues that may arise.

There are also uncertainties around the estimated tax base. It is expected that tax minimisation strategies are already being used to avoid income tax liabilities which means the baseline data used to undertake this analysis may not fully capture the total amount of wealth that would become liable for the billionaire's tax. Moreover, the baseline data would not capture those who currently do not submit an income tax return (either because they are not a resident for tax purposes or because they do not have reportable income) but own Australian assets and may be eligible for the tax.

It is unclear how the billionaire's tax would interact, in practice, with existing taxes such as capital gains tax, personal income tax and luxury car tax. For example, capital gains tax may increase if high wealth individuals choose to restructure their assets as a response to the billionaire's tax. On the other hand, revenue from the personal income and luxury car taxes could decrease due to individuals claiming more deductions on costs of completing their tax affairs and holding fewer luxury cars to avoid double taxation. The PBO has not quantified any of these potential interactions.

² For more details on the challenges around asset valuation, see Chatalova and Evans' 2013 paper *Too rich to rein in? The under-utilised wealth tax base*, available at <https://www.business.unsw.edu.au/research-site/publications-site/ejournaloftaxresearch-site/Documents/eJTR-Too-rich-to-rein-in-Vol-11-No-3pg434.pdf>.

The issue around valuation and compliance burdens are also discussed in Ingles' 2016 paper *Does Australia need an annual wealth tax? (And why do we now apply on only to pensioners)*, available at https://taxpolicy.crawford.anu.edu.au/sites/default/files/publication/taxstudies_crawford_anu_edu_au/2016-04/d_ingles_taxation_of_wealth_final.pdf.

The proposal could also significantly reduce the amount of Australian investment undertaken by high wealth individuals with implications for the level of new capital investment and economic growth. It is unclear whether other investors who are not subject to the tax (eg institutional investors such as pension funds, sovereign wealth funds, corporations) would make up for the loss of investment by high wealth individuals.

Table 1: Billionaire’s tax – Financial implications (\$m)^{(a)(b)}

	2020–21	2021–22	2022–23	2023–24	Total to 2023–24
Fiscal balance	-	-	5,755.0	5,505.0	11,260.0
Underlying cash balance	-	-	4,295.0	5,575.0	9,870.0

(a) A positive number represents an increase in the relevant budget balance; a negative number represents a decrease.

(b) Figures may not sum to totals due to rounding.

- Indicates nil.

Key assumptions

The PBO has made the following assumptions in costing this proposal.

- The average rate of return on income-generating assets would be 7.84 per cent per annum.
 - This is based on the average annualised returns for the Australian Stock Exchange All Ordinary Index over the 10-year period from 2011 to 2020.
- For individuals with net wealth above \$1 billion, income-generating assets make up 25 per cent of total net wealth.
 - This proportion is informed by 2017-18 Survey of Income and Housing data on the asset portfolios of high wealth individuals.
- Net wealth subject to the billionaire’s tax would grow in line with nominal GDP, based on growth projections from the 2020-21 Mid-Year Economic and Fiscal Outlook (MYEFO).
- High wealth individuals affected by the proposal may respond in various ways to minimise their tax payable. In the first year of the proposal it was assumed that 50 per cent of the tax would be lost due to tax avoidance or evasion. This proportion was assumed to increase to 80 per cent after five years as individuals take further steps to minimise their tax.
 - This is a high-level adjustment informed by academic studies which suggest that high degrees of tax avoidance are undertaken by the ultra-wealthy. For example, a paper published by the Wealth Tax Commission in the United Kingdom estimated that the imposition of a 1 per cent wealth tax could reduce the tax base by 7 to 17 per cent. Since this proposal sets a tax rate for wealth at 6 per cent, we have assumed a very significant behavioural response.
 - These assumptions reflect the relative capacity of high wealth individuals and their accountants to manage their tax affairs and the available options to avoid or minimise the tax burden, including but not limited to:
 - ◆ exploiting valuation challenges in complex structures such as trusts and partnerships
 - ◆ moving overseas for tax purposes

- ◆ hiding assets in offshore accounts³
 - ◆ non-disclosure and underreporting of assets⁴
 - ◆ restructuring assets
 - ◆ ‘gifting’ assets to non-immediate family members
 - ◆ ‘gaming’ the date for which net wealth would be calculated by adjusting their asset holdings around that time.
- The billionaire’s tax attributable to a single property, or single group of properties for agricultural holdings, which can be deferred under the proposal is expected to be immaterial based on the limited number of properties that would exceed the \$1 billion tax-free threshold.
 - The assessable net wealth for the purposes of the billionaire’s tax would be calculated based on a combination of self-reporting and information provided by third parties (eg banks, insurance providers, superannuation funds, state-based land titles offices). The ATO would also undertake regular auditing and compliance checks similar to their existing processes.
 - The billionaire’s tax would be collected on a quarterly basis.
 - The ATO would employ an additional 200 full-time-equivalent staff to administer the new tax, undertake compliance and audit checks as well as establishing and managing the National Wealth Register.
 - This figure was based on the current staffing profiles of business areas responsible for high wealth individuals and compliance work as reported in the ATO’s 2018-19 annual report.

Methodology

The tax revenue implications were estimated based on an analysis of ATO personal income tax file data, in conjunction with publicly available information on the net wealth of high-wealth individuals. The net wealth of these individuals was estimated by grossing up income declared for income tax purposes using assumptions on the rate of return on assets and the proportion of assets that would generate income.

Each individual’s estimated annual net wealth was projected over the period to 2030-31 by indexing it in line with annual nominal GDP growth. The PBO then estimated the amount of billionaire’s tax that could be collected according to the specified tax rate and taking into account the amount of tax relating to real estate assets which could be deferred under the proposal. Finally, the estimates were adjusted to account for the expected behavioural response by individuals to minimise their tax payable.

The PBO estimated an initial set-up cost of around \$40 million for the ATO in the first year of the proposal. Ongoing costs of administering the billionaire’s tax, undertaking compliance checks and maintaining a national wealth register were estimated to be \$35 million per year. This was based on

³ In *The Hidden Wealth of Nations*, economist Gabriel Zucman estimates around 8 per cent of the global financial assets of households are held offshore in tax havens. Moreover, research based on leaked data records relating to Scandinavian countries found that the top 0.01 per cent of taxpayers evaded around 25 per cent of their tax liability by concealing assets and investment income abroad (Alstadsaeter et al, 2019).

⁴ A study compared self-reported assets (mostly cars) in Sweden for the purposes of a wealth tax with registry data on car values. The paper found that of those close to the exemption threshold, 75 to 80 per cent of taxpayers undervalued their assets compared to their true value, which eliminated around 70 per cent of their tax liability (Seim, 2017).

an assessment of staffing levels required in the relevant business areas as outlined in *Key assumptions*.

Revenue estimates for the billionaire's tax have been rounded to the nearest \$10 million. Departmental expense estimates have been rounded to the nearest \$1 million.

Data sources

The ATO provided personal income tax files for the 2017-18 financial year.

The Treasury provided economic forecasts as at the 2020-21 MYEFO.

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Attachment A – Billionaire’s tax – financial implications

Table A1: Billionaire’s tax – Fiscal balance (\$m)^{(a)(b)}

	2020–21	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27	2027–28	2028–29	2029–30	2030–31	Total to 2023–24	Total to 2030–31
Revenue													
<i>Billionaire’s tax</i>	-	-	5,830	5,540	5,180	4,730	4,170	3,490	3,800	4,140	4,510	11,370	41,390
Expenses													
<i>Departmental</i>													
<i>Australian Taxation Office</i>	-	-	-75	-35	-35	-35	-35	-35	-35	-35	-35	-110	-355
Total	-	-	5,755	5,505	5,145	4,695	4,135	3,455	3,765	4,105	4,475	11,260	41,035

(a) A positive number for the fiscal balance indicates an increase in revenue or a decrease in expenses or net capital investment in accrual terms. A negative number for the fiscal balance indicates a decrease in revenue or an increase in expenses or net capital investment in accrual terms.

(b) Figures may not sum to totals due to rounding.

- Indicates nil.

Table A2: Billionaire’s tax – Underlying cash balance (\$m)^{(a)(b)}

	2020–21	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27	2027–28	2028–29	2029–30	2030–31	Total to 2023–24	Total to 2030–31
Receipts													
<i>Billionaire’s tax</i>	-	-	4,370	5,610	5,270	4,840	4,310	3,660	3,720	4,050	4,420	9,980	40,260
Payments													
<i>Departmental</i>													
<i>Australian Taxation Office</i>	-	-	-75	-35	-35	-35	-35	-35	-35	-35	-35	-110	-355
Total	-	-	4,295	5,575	5,235	4,805	4,275	3,625	3,685	4,015	4,385	9,870	39,905

(a) A positive number for the underlying cash balance indicates an increase in receipts or a decrease in payments or net capital investment in cash terms. A negative number for the underlying cash balance indicates a decrease in receipts or an increase in payments or net capital investment in cash terms.

(b) Figures may not sum to totals due to rounding.

- Indicates nil.