From:	
To:	Community Affairs, Committee (SEN)
Cc:	
Subject:	ATO responses - Questions on notice - Extent of income inequality in Australia [SEC=UNCLASSIFIED]
Date:	Friday, 14 November 2014 10:58:12 AM
Attachments:	

Good morning

Please find attached responses to questions on notice taken by the ATO at the hearing on 16 October.

Please note that a question taken notice (page 6 of the Hansard) in relation to implementation of Henry Review recommendations has been forwarded to Treasury for response. Treasury have advised that they will respond when they appear before the committee.

Please do not hesitate to contact me if you have any questions.

Many thanks

Kasia Galeotti
Parliamentary Services | ATO Corporate
Australian Taxation Office

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COMMUNITY AFFAIRS REFERENCES COMMITTEE

ANSWERS TO QUESTIONS ON NOTICE

Australian Taxation Office

16 October 2014

Topic: **Special discussions with intradepartmental or cross-departmental groups in relation to inequality.**

Hansard Page: **4**

Question: **1**

Senator MOORE: Are you aware of any group across the department? I would have thought that Treasury and Finance would have had policy groups as well in their departments looking at these kinds of issues and topics of concern in the Australian economy. We will have to ask them. Are you aware of any intradepartmental or cross-departmental group that would get together on issues such as inequality and appropriate expenditure in this country? Has it happened**?**

Mr Dyce: We do have regular liaison with Treasury, obviously, which is our policy agency. I am not aware of—

Senator MOORE: Of any special discussions?

Mr Dyce: But we could take that on notice and find out.

Answer:

The ATO is unaware of any inter-departmental committee that considers issues such as inequality and expenditure.

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ANSWERS TO QUESTIONS ON NOTICE

Australian Taxation Office

16 October 2014

Topic: **Date of Henry Review**

Hansard Page: **3-4**

Question: **2**

Senator MOORE: Perhaps one of the submissions talked about it. The last tax summit was the Henry review; is that right?

Mr Dyce: That is correct.

Senator MOORE: What was the date of that?

Mr Dyce: I will have to take that on notice; I am sorry.

Answer:

The latest tax review, conducted under the leadership of Dr Ken Henry, was commissioned in 2008 and the final report was released by the Australian Government in May 2010.

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ANSWERS TO QUESTIONS ON NOTICE

Australian Taxation Office

16 October 2014

Topic: **Negative Gearing in Australia- statistics and history**

Hansard Page: **5-6**

Question: **3**

Senator MOORE: How would I determine the use of negative gearing in Australia? Is there a dataset that can tell us how many people are accessing negative gearing currently? What percentage of the taxation base is it?

Mr Dyce: I would have to take that on notice.

Senator MOORE: I am not surprised by that, either. Is that something you can get?

Mr O'Neill: Yes.

Mr Dyce: Yes.

Mr O'Neill: We have tax statistics that reflect the process that Mr Dyce is talking about. The first emphasis is on prevention before correction—telling people how the negative gearing rules work. The second looks at the macro picture of how negative gearing is impacting on the whole tax system, the numbers of taxpayers and deductions claimed. The third looks at individual interventions, through audits and reviews, where we think there is something irregular in the negative gearing. So we would have that macro picture.

Senator MOORE: It would be great if I could get that. Is it also possible to see how much money is involved? Can we get any kind of quantitative data about how negative gearing operates in Australia? Is there anything also on the historic aspects? Negative gearing has been around for how long?

Mr O'Neill: For a long period of time.

Senator MOORE: For a long time, yes.

Mr O'Neill: It had a short hiatus under one government.

Senator MOORE: That is right.

Mr O'Neill: But there should be some knowledge on that.

Senator MOORE: If we can get anything on the history, it would be good. In all the stuff we have received, people constantly mention it as an issue. A lot of people who have made submissions to this inquiry see it as an area that is not equitable, and you would be aware of that. But there is no actual information about how it works and who gets it. So perhaps we can get some quantitative material as well as anything we can get from the Taxation Office perspective; thank you.

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Answer:

A rental property is negatively geared if it is purchased with the assistance of borrowed funds and the net rental income, after deducting other expenses, is less than the interest on the borrowings.

The allowance of deductions when determining taxable income is a long standing feature of Australia's tax system. The Income Tax Assessment Act 1922 specifically referred to interest as an included category of loss or outgoing able to be deducted.

In 1985 the government published the Draft White Paper on 'Reform of the Australian Tax System'. It estimated that negative gearing of rental properties cost the revenue about $175 million per annum, and recommended quarantining measures.

Amendments (Subdivision G of Division 3 of Part III of the Income Tax Assessment Act 1936) were enacted that effectively abolished negative gearing for real estate investors with investments purchased after 17 July 1985. The reform quarantined any losses made from owning rental properties, so that any excess of deductions over rental income could not be used to reduce tax on other sources of assessable income, but could be carried forward to offset against future rental profits and reduce taxable gains made from other rental properties purchased after that date.

In the House of Representatives the measure was justified on three main grounds:

i. taxpayers should not have to subsidise rental property investors
ii. negative gearing resulted in increased home prices to the detriment of ordinary home buyers
iii. an estimated revenue gain of $55 million in 1986-1987, $100 million in 1987-1988, rising to $195 million in 1990-1991 and subsequent years.

The government subsequently removed the measure, effective from 1 July 1987, citing two main reasons:

i. uniformity of tax treatment of interest costs for all types of investment
ii. the belief that the excessive tax benefits offered to high income earners by negative gearing were adequately countered by other tax reform measures, notably introduction of the capital gains tax regime.

For the 2012-2013 income year, the majority of individuals with net rental income less than zero reported taxable income of up to $80,000.

TABLE 1 provides an indication of those individuals with a rental property that was negatively geared, and TABLE 2 summarises the rental income and deductions that they declared.

TABLE 1: Individuals with net rental income less than $0, by taxable income, 2012-2013 income year[1]

	Net rental income less than $0			
Taxable income	**No.**	**%**	**$million**	**%**
$18,200 or less	167,042	13%	-1,522	13%
$18,201 - $37,000	186,238	15%	-1,415	12%
$37,001 - $80,000	486,136	39%	-4,027	33%
$80,001 - $180,000	342,955	27%	-3,548	29%
$180,001 or more	79,673	6%	-1,551	13%
Total[2]	**1,262,044**	**100%**	**-12,063**	**100%**

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TABLE 2: Individuals with net rental income less than $0; rental income and deductions, by taxable income, 2012-2013 income year[1]

Taxable income	Gross rental income	Rental interest deductions	Capital works deductions	Other rental deductions
	$million	$million	$million	$million
$18,200 or less	2,799	2,491	252	1,577
$18,201 - $37,000	2,459	2,311	220	1,344
$37,001 - $80,000	6,847	6,523	645	3,707
$80,001 - $180,000	5,990	5,739	585	3,213
$180,001 or more	2,212	2,285	223	1,255
Total[2]	**20,308**	**19,349**	**1,925**	**11,096**

1. Totals may differ from the sum of the components, due to rounding.
2. Data include returns processed up to 31 October 2014. Data are preliminary and are not necessarily complete.

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Australian Taxation Office

16 October 2014

Topic: **Breakdown of who accesses negative gearing in Australia**

Hansard Page: **6**

Question: **5**

Senator SESELJA: That is fine. In relation to the last question on negative gearing, I recall some recent reports which were trying to break down who accesses negative gearing and the income levels of the people who take advantage of negative gearing. Perhaps when you come back with some of that information you could tease that out to see whether it is just those in the top income groups who access it, or what proportion of middle-income earners access negative gearing. I think I recall a recent article which suggested that a lot of middle-income earners were accessing it.

Mr Dyce: I recall reading the same article; so, yes, we can chase that up. We will take that on notice.

Answer:

Refer to response to Question 3- Negative gearing in Australia.

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ANSWERS TO QUESTIONS ON NOTICE

Australian Taxation Office

16 October 2014

Topic: **Income inequality compared to other OECD nations**

Hansard Page: **6**

Question: **6**

Senator SESELJA: Sure. One of the implications or imputations by many who are arguing, I suppose, that we are a very unequal society and that we have income inequality which is unacceptable is that higher income earners are not pulling their weight. I would say that implicit in much of the criticism is that higher income earners should be doing more; they should be paying more. Are you able to talk us through this? Obviously we have a top marginal rate which, I think, if you add the Medicare levy and the NDIS levy, now is around 49 per cent for higher income earners. Are you able to give us any comparisons? How does that 49 per cent compare to other OECD nations? Where does that rank us? Are we asking too little of those at the top end of the income bracket compared to comparable nations, are we asking too much, or are we somewhere in the middle?

Mr Dyce: Again, I will take that on notice. I think there is some data. But again, for each country, you would need to take into account whether they just have federal taxes or whether they have state taxes as well factored in there with the local charges, to get an absolute comparison.

Mr O'Neill: We could give you the OECD league tables to give you an indication of this. As to whether it is too high or too low is really a policy question.

Senator SESELJA: I was putting some words around that, but effectively it is seeing where we sit. Are we around average in the OECD, are we high or are we low? I think, for instance, the top rate in New Zealand, one of our near neighbours, is significantly lower. I think it is in the low 30s, from memory—something like 33 per cent. Obviously, at least compared to New Zealand, our top earners pay a fair bit, and many would say that 49c in the dollar is a fair contribution.

Answer:

The Organisation for Economic Co-operation and Development released a report on tax burdens on 11 April 2014.

The report indicated that personal income tax has risen in 25 out of 34 Organisation of Economic Co-operation and Development countries over the past three years, as countries reduce the value of tax-free allowances and tax credits and subject higher proportions of earnings to tax, according to new data in the annual Taxing Wages publication. (Refer to http://www.oecd.org/newsroom/tax-burdens-on-labour-income-continue-to-rise-across-the-oecd.htm).

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Australian Taxation Office

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Australia's tax rates for 2014-2015 (applying from 1 July 2014) are set out in the table below:

Taxable income	Tax on this income
0 – $18,200	Nil
$18,201 – $37,000	19c for each $1 over $18,200
$37,001 – $80,000	$3,572 plus 32.5c for each $1 over $37,000
$80,001 – $180,000	$17,547 plus 37c for each $1 over $80,000
$180,001 and over	$54,547 plus 45c for each $1 over $180,000

The above rates do not include the Medicare levy of 2%

The Organisation for Economic Co-operation and Development "League" Table of individual top marginal tax rates is provided below:

Year	**2013**					
Income Tax	**Top marginal tax rates**		**Top statutory personal income tax rates**		**Average wage in national currency units**	**Average wage in US dollars based on Purchasing Power Parities**
Country	**Personal income tax**	**Personal income tax & employee social security contributions (all-in rate)**	**Top tax rates**	**Threshold (expressed as a multiple of the average wage)**		
Australia	46.5	46.5	46.5	2.32	77530	52639.45
Austria	43.71	43.71	50	1.96	41692.83	50321.83
Belgium	45.28	59.45	53.7	1	46810.48	56170.52
Canada	49.53	49.53	49.53	10.59	48077.62	38948.14
Chile	39.5	39.5	40	12.8	6607476	18988.86
Czech Republic	20.1	31.1	15	0.41	298770.05	22459.76
Denmark	56.23	56.23	56.2	1.16	395721.89	51771.82
Estonia	20.58	22.58	21	0.15	11663.55	21216.77
Finland	48.91	56.62	51.13	2.53	42492.97	46747.82
France	54.08	54.93	54.5	15.12	36980.04	43984.12
Germany	47.48	47.48	47.48	5.75	45170.4	57817.99
Greece	46	46	46	5.48	20603.82	31892.15
Hungary	16	34.5	16	0	2914514.2	22930.2
Iceland	44.37	44.37	46.22	1.49	6191179.2	44882.54
Ireland	48	52	48	1.01	32380.94	40174.74
Israel	50	50	50	6.19	131033.33	32418.83
Italy	47.26	47.26	48.55	10.1	29703.62	39430.29
Japan	50.59	51.09	50.84	4.55	4901704.2	47771.36
Korea	38.13	41.91	41.8	8.65	39829650	47075.33
Luxembourg	43.6	45	43.6	3.09	52902.01	57590.99
Mexico	30	31.65	30	4.04	97941.04	12500.77
Netherlands	49.89	53.08	52	1.21	48109.13	58251.84
New Zealand	33	33	33	1.31	53234	36381.31
Norway	40	47.8	40	1.58	524176.65	59547.62
Poland	20.93	38.75	32	2.43	41442.43	22967.9
Portugal	50.29	61.29	56.5	16.2	17335.35	28695.99
Slovak Republic	21.65	35.05	25	3.97	10015.37	19715.59

Slovenia	38.95	61.05	50	5.41	17610.5	29528.29
Spain	52	52	52	11.73	26026.93	38277.58
Sweden	56.73	56.73	56.73	1.54	391989.58	45388.35
Switzerland	36.1	41.75	41.67	3.41	88160.57	64298.17
Turkey	35.8	35.8	35.76	3.33	31744.19	29435.71
United Kingdom	45	47	45	4.22	35548.44	51255.36
United States	46.25	47.7	46.25	8.46	48463.34	48463.34

Data extracted on 05 Nov 2014 from the Organisation of Economic Co-operation and Development Data set: Table I.7. Top statutory personal income tax rate and top marginal tax rates for employees. Available online: http://stats.oecd.org/index.aspx?DataSetCode=TABLE_I7

COMMUNITY AFFAIRS REFERENCES COMMITTEE

ANSWERS TO QUESTIONS ON NOTICE

Australian Taxation Office

16 October 2014

Topic: **Tax gap**

Hansard Page: **11-12**

Question: **7**

CHAIR: Thank you. I am sorry; I know that I have been focused on DSS. Following up on Senator Seselja's and Senator Moore's line of questioning, some of the comments and submissions we have received have not necessarily been about the level of taxation; they have been about the level of taxation evasion and the capacity of some bigger operations to avoid tax. Is there any data on the percentage of tax that is avoided? We have talked about people inadvertently making mistakes. It seems to a layperson, like me, that the bigger income earners and the bigger operations—and we have had a very public discussion about this—move tax earnings offshore. What is the percentage of tax avoidance by individual mums and dads compared to the big end of town for want of a better term?

Mr Dyce: I am not sure that we have actual figures on that. But because I deal with aggressive tax planning which I think is what you are referring to I can tell you that it encapsulates a full spectrum of income levels. So we see aggressive arrangements that are pitched at higher income levels, middle-income levels and lower income levels, in terms of the people who participate in those arrangements. I think you are referring to individuals rather than corporates.

CHAIR: No; corporates as well. They may be the same numbers, but you are talking about a magnitude that is much bigger when you are talking about large organisations and corporations.

Mr Dyce: If I can step back from it a bit, there are aggressive tax planning arrangements possibly at both ends of the spectrum, and I will explain that. There are some that perhaps believe they are operating at a legitimate tax planning level, but inadvertently step over the line. They do not intend to circumvent the law; they intend to operate within the boundary, but close to it. At the other end of the spectrum you have far more blatant arrangements. We have encountered arrangements at both ends of the spectrum and often with low thresholds to get into the arrangements. Some pitch to higher income earners and some pitch to lower income earners and some that pitch to both. The extent to which they participate might vary depending on their particular circumstances and what outcomes they want to achieve. In most cases, I would say that most people who participate in those arrangements do not genuinely believe they are doing something wrong; they have had something sold to them as complying with the tax law and providing a legitimate outcome. But it does vary in terms of income levels. We do not see a pattern skewed completely one way or the other.

Mr O'Neill: One of the things that might be helpful is that our commissioner has previously told estimates about the work that is ongoing in relation to measuring the tax gap; that is the gap between what people are paying and should pay under the law. It does not take into account policy settings under the law. Superannuation is a policy setting that is concessionally taxed for a policy reason. The tax gap might be a proxy of what you are aiming for. Some countries, like the US and the UK, have advanced analysis of tax gap in their jurisdictions. The ATO more recently has taken on the best practices of those countries. We are trying to generate some tax gap numbers in relation to a range of taxes.

It is not an easy process of analysis and we probably will not have a good set of numbers until 2015, but there is some work we can brief you on to give a sense of what we are doing there.

CHAIR: Could you provide a written briefing?

Mr O'Neill: Yes.

CHAIR: If you could take that on notice, it would be appreciated.

Mr O'Neill: Certainly.

CHAIR: Thank you.

Answer:

Please refer to pages 19-23 of the ATO submission to the Standing Committee on Tax and Revenue Committee on 8 August 2014.

The submission is available at http://www.aph.gov.au/Parliamentary_Business/Committees/House/Tax_and_Revenue/2013_Annual_Report/Submissions select “4.3 Supplementary to submission 4”.