TaxWatch

SOME TRICKS OF THE TRADE

Misrepresenting the Australian tax system

Comparisons of Australian taxation with tax systems in other countries can be seriously misleading. Errors and misrepresentations often stem from our system being very different in key ways from most other OECD countries. These include our

- ***low level of overall tax revenue;***
- ***low level of GST revenue;***
- ***lack of social security taxes (although we have compulsory superannuation);***
- ***lack of a gift, inheritance or wealth tax.***

This note lists six of the most common misrepresentations.

Trick 1: ***Comparing the levels of revenue from a particular type of tax without explaining that the comparison relates to the*** *proportion* ***of total revenue which comes from that tax rather than to the overall*** *amount* ***which comes from it.***

Eg, this omission falsely makes our income taxes look high, because (a) our overall revenue is low, and (b) most other countries raise a lot of revenue from other types of tax.

Trick 2: ***Comparing the levels of revenue from "personal income tax" without taking account of all major taxes based on personal incomes, especially compulsory social security contributions.***

Eg, our personal income taxes are falsely made to look high by ignoring the very large taxes levied on incomes in most OECD countries through the imposition of "employee social security contributions".*

Trick 3: ***Comparing the levels of "personal income tax rates" without taking account of the level of income at which they take effect.***

Eg, if the top marginal rate starts at a high income level (as in Australia) it may be less onerous than if the rate is lower but starts at a lower level.

Trick 4: ***Comparing "corporate income tax" rates without taking account of whether the tax is refunded to shareholders.***

Eg, the extent to which we tax corporate income is greatly reduced by the fact that, unlike almost all other OECD countries, we effectively refund all of the tax to shareholders through dividend imputation.

Trick 5: ***Comparing the levels of revenue from "corporate tax" or "business tax" by considering only taxes on corporate income.***

Eg, our corporate taxes are made to look falsely high by ignoring the very large taxes levied on businesses in most OECD countries through the imposition of "employer social security contributions".*

Trick 6: ***Comparing the level of "taxes on assets" without taking account of all taxes on assets and without properly explaining the impact of the gift and inheritance taxes which exist in almost all other OECD countries.***

Eg, a general assertion about "taxes on assets" should take account not only of taxes on ownership of assets but also taxes on transfers of assets and on income generated by assets. It also should take account of the fact that the impact of gift and inheritance taxes cannot be assessed merely by looking at the revenue they raise (due to deterrent effects, tougher taxes may raise less revenue).

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* *Of course, due account must also be taken of our payroll taxes and compulsory superannuation (although the latter is rightly not classed as a tax by the OECD).*