

AUSTRALIAN COUNCIL FOR THE DEFENCE OF GOVERNMENT SCHOOLS

Press Release 977

IT'S THE TAX SYSTEM STUPID

In spite of all the claims of 'independence' in the private education system, the education of Australian children is more and more dependent upon taxpayer funding. But the inequality perpetuated by State Aid to private schools is exacerbated by both the economic and the tax system itself.

According to Richard Denniss, a researcher in the Australia Institute, inequality has been on steroids in Australia over the last decade with new data revealing the bottom 90% of Australians receive just 7% of economic growth per person since 2009, while the top 10% of income earners reap 93% of the benefits. The data shows a radical reversal on the long term trend from the period between 1950-2009 in Australia.

Australia is a now global outlier in the maldistribution of gains from economic growth, falling behind the EU, US, UK, China and Canada.

This research should increase pressure on the Government to reconsider the Stage 3 tax cuts before the next election, which mostly benefit the top 10% of income earners. [Below is a summary of the Australia Institute Research](#): Also see <https://australiainstitute.org.au/post/between-the-lines-newsletter-12-4-2023/>

*While everyone knows inequality has been rising in Australia, our recent report 'Inequality on Steroids' revealed some alarming figures that shocked even me: **since 2009, 93% of our economic growth has flowed to the top 10% of income earners.***

I was always suspicious about claims the benefits of economic growth would trickle down, but what our paper shows is that the benefits of growth are being hoovered up.

Rising inequality doesn't just 'happen', it reflects the full range of choices we as a nation have made. We chose to suppress unemployment benefits, the minimum wage and public sector wages, and we chose to cut taxes for high incomes, tax capital gains at half the rate we tax wage income, and to spend \$50 billion per year on tax concessions for superannuation. Causing inequality isn't cheap.

With the Federal Budget approaching, the Australia Institute will be releasing even more research to highlight the enormous cost, and even greater inequity, of Scott Morrison's legacy Stage 3 tax cuts. These tax cuts, which were dreamed up before Covid, before our soaring energy prices, and before the biggest ever fall in real wages, are due to kick in in July next year — six years after they were first announced.

While the total cost of the Stage 3 tax cuts make even the cost of AUKUS look cheap, the conservative voices that drone endlessly about the need for 'fiscal responsibility' remain

strategically silent. I can assure you that here at the Australia Institute, we won't tire of reminding people that over the next ten years, about half of the \$254 billion cost of the Stage 3 tax cuts will flow to those earning over \$180,000 per year.

While enormous increases in inequality occurred during the previous government, and the Stage 3 tax cuts were legislated by the previous Federal Government, it is up to the current Government to decide whether it wants to reverse this trend, or continue to drive our economy and society in the direction left by the Coalition.

Slashing tax concessions for super, ditching subsidies for fossil fuels, and abandoning or amending the Stage 3 tax cuts can all make a huge difference to our economy and society. Or not. Democracy is about choices and while our research highlights the benefits of choosing progressive tax reform, there is nothing inevitable about those choices being made. We here at the Australia Institute will be doing our bit to highlight the benefits of genuine tax reform. Hopefully you can help amplify it by sharing our research with your friends, or chipping in to help support our research program.

The mushrooming of the private education sector and its favourable treatment through both direct taxation grants and taxation exemptions has paralleled this development of a top heavy, plutocratic, Australian society. Trevor Cobbold in his analysis of the tax system illustrates how this has occurred:

A Golden Age of Tax Concessions for the Rich



Trevor Cobbold / April 13, 2023 / Funding

New data released by the Australian Treasury in February shows it is a golden age of income tax concessions for the rich. Tax concessions for the wealthy in Australia are at unprecedented levels. They benefitted nearly \$40 billion from seven major tax concessions in 2019-20. The avarice of the rich is robbing disadvantaged schools and other public services of much-needed revenue. It has huge social and economic costs.

The latest tax expenditure statement (now called Tax Expenditures and Insights Statement) shows that the top 10% of taxable income earners received \$39.1 billion from just seven forms of tax concessions. The total revenue forgone from these seven tax concessions in 2019-20 was a\$84.4 billion and 46% of this went to the top 10% of income earners.

Major Tax Concessions for Top Income Earners, 2019-20

| Tax Expenditure | Revenue Forgone (\$M) | Share to Top 10% (%) |
|--|------------------------------|-----------------------------|
| Employer Superannuation Concessions | 20,250 | 30 |

| | | |
|--------------------------------|---------------|-----------|
| Superannuation Earnings | 15,750 | 39 |
| Rental Dedications | 18,600 | 35 |
| Franking Credits | 17,200 | 68 |
| Capital Gains Discount | 9,240 | 75 |
| Donations & Gifts | 1,970 | 55 |
| Managing Tax Affairs | 1,400 | 47 |
| Total | 84,410 | 46 |

Source: Australian Treasury, *Tax Expenditures and Insights Statement*, February 2023.

The figures ignore tax avoidance through family trusts. High income earners can also reduce taxation through family trusts. Trust earnings can be allocated to family members who have low income from other sources so that the taxable income attracts the lowest rate of tax possible. For example, a high proportion of the trust income can be allocated to adult family members who work part-time so as to take advantage of the tax-free threshold applying to them. In some circumstances it is possible to reduce the tax bill to almost zero.

The Treasury does not estimate the tax revenue lost through this port. However, it does show that about 22% of those who receive trust distributions are in the top income decile and they accounted for about 60% of all income received from trusts by individuals. This amounted to about \$31.2 billion.

Estimates of the loss to tax revenue are hard to come by. However, a few years ago the University of NSW tax law expert, Dale Boccabella, estimated that tax avoidance through family trusts is reducing government taxation revenue was at least \$2 billion a year. At the time, he said this was a conservative estimate.

The rich also get rewarded with tax concessions to employ armies of lawyers, financial consultants, and accountants to arrange their tax affairs to avoid tax. The costs of this “wealth defence industry” can be claimed as a tax deduction. The Tax Expenditures and Insights Statement shows that the top 10% of income earners received a tax concession amounting to nearly \$658 million in 2019-20.

The cost of these tax concessions is borne by the rest of the community. It siphons off revenue that would be better used to fund schools, TAFE and universities as well as other

services such as health care, mental health, public housing, unemployment benefits and so on. As the economists Emmanuel Saez and Gabriel Zucman have observed, tax avoidance is “the triumph of injustice”.

The Stage 3 tax cuts for the rich will rob even more funding from services for low income families. According to estimates by the Parliamentary Budget Office the Stage 3 tax cuts will cost \$243 billion over eight years from 2024-25 to 2032-33. The top 20% of income earners would receive a tax cut of \$188 billion, nearly 80% of the total benefit of the tax cuts. Those with a taxable income of \$180,000 or more would get \$118 billion. The top 1% of income earners, with taxable incomes of over \$309,000 in 2021-22, will get a tax cut worth \$11.8 billion. This massive windfall for the richest people in Australia will exacerbate inequality and deny much needed funding for key services such as public education, health care, aged care and the NDIS.

To compound the injustice, the richest families in Australia also benefit from over \$1 billion a year in government funding for the elite private schools they send their kids to. Figures published on My School show that 126 of the richest schools in Australia received \$1.25 billion in government funding in 2020. Not only do the wealthy avoid paying tax, but they get huge subsidies out of the taxes paid by the rest of the community. The sheer scale of the avarice is gobsmacking.

These schools have a massive resource advantage over public schools. Yet, public schools which enrol over 80% of low socio-economic, Indigenous, remote area and disability students are massively under-funded. They are under-funded by nearly \$7 billion this year alone.

It is a disgraceful injustice and an inexcusable waste that elite private schools catering for the wealthy should continue to receive government funding while disadvantaged public and private schools are denied adequate funding and face severe shortages of teaching staff and educational materials. Yet, the avarice of the wealthy and their tax concessions goes unchallenged by governments while the rest of the community, especially disadvantaged families, suffers from inadequate services. As the US Supreme Court Justice Oliver Wendell Holmes famously said over 100 years ago: “Taxes are what we pay for civilized society”. It is time the rich in Australia fulfilled their obligation to support a better society.

LISTEN TO THE DOGS PROGRAM
855 ON THE AM DIAL: 12.00 NOON SATURDAYS
<http://www.3cr.org.au/dogs>