Tax Concessions for the Wealthy Deny Adequate Funding for Disadvantaged Students

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The Turnbull Government claims that the Budget deficit precludes fully funding the last two years of the Gonski plan. However, the latest Tax Expenditures Statement by the Federal Treasury shows that fully funding Gonski is easily affordable if the Government reduced tax concessions for wealthy. Its failure to do so shows that this Government continues to put the interests of the wealthy above those of disadvantaged students.

The 2016 Tax Expenditures Statement released by the Treasury in January show that tax concessions mainly used by the wealthy will cost the Federal Budget $43.7 billion in 2016-17. In particular, superannuation concessions will cost $33.1 million and the capital gains concession $9.6 million.

The latest Mid-Year Economic and Fiscal Outlook (MYEFO) report estimates that the cost of these concessions will blow out to $50 billion by 2019-20, an increase of $6.3 billion in three years. The cost of the superannuation concessions will increase to $40.8 billion and while the cost of the capital gains concession will increase to $9.1 billion.

Superannuation contributions, and earnings on investment in super, receive concessional tax treatment compared to tax imposed at personal marginal tax rates. A flat 15% tax rate applies to employer and deductible personal contributions to superannuation, except for those earning over $300,000 per annum (to be lowered to $250,000 from 1 July this year). This encourages high income earners to divert income into superannuation. For example, the marginal tax rate of 45% for those who earn $180,000 or more is reduced to 15% on contributions to superannuation up to an annual limit of $30,000 (to be lowered to $25,000 from 1 July).

Superannuation benefits paid as an income stream in retirement are generally exempt from income tax for those over 60.

The large part of these tax benefits go to the top income earners. The Financial System Inquiry (Murray) report in 2014 estimated that about 55% of superannuation tax concessions went to the top 20% of income earners. On this basis, the top 20% of income earners will receive $18.2 billion in superannuation tax concessions in 2016-17 and $22.4 billion in 2019- 20.

Capital gains from the disposal of assets is taxed as income. However, Australian residents and trusts can discount any capital gain from an asset by 50% if the asset has been owned for at least 12 months. The discount means that only half the capital gain made on an investment is subject to tax.

The benefits also mostly go to the very wealthy. The National Centre for Social and Economic Modelling (NATSEM) has estimated that the top 20% of income earners account for 81% of the benefit flowing from the capital gains discount. On this basis, the top 20% of income earners will receive $7.8 billion in 2016-17.

Capital gains tax concessions also interact with negative gearing provisions to provide more benefits for the wealthy.

Negative gearing allows losses made on investments to be deducted from taxable income derived from all sources. In Australia, negative gearing is mostly associated with investments in housing. An investor borrows money to buy an investment property which is rented out. If the rent received is less than expenses relating to the property, such as interest on the borrowing, the loss can be deducted from all other taxable income. The investor usually records a tax loss on their income from the property, but can achieve a significant reduction in tax paid from total income. This is very valuable to high income earners on the top marginal rate, and they also get a capital gains concession when they sell the property. A much higher proportion of taxpayers on higher incomes negatively gear than those on medium or low incomes.

NATSEM estimates that negative gearing of residential investment property currently reduces tax revenue by $3.7 billion per year. The Grattan Institute has estimated the cost of tax concessions for negative gearing cost at least $4 billion a year. More recently, it found that nearly 70% of this flows to the top 20% of income earners.

These tax concessions are just a few of the myriad ways the wealthy are advantaged by the current tax system. Australia makes heavy use of tax expenditures to provide concessions to individuals and businesses. They include a multitude of tax exemptions, tax deductions, tax offsets, concessional tax rates and deferrals of tax liability. They have the effect of reducing budget revenue. According to research published by the International Monetary Fund, Australia has one of the highest tax expenditures in the world. It tops the list of 16 OECD countries with tax expenditures amounting to 8.5% of GDP.

In addition, the use of tax havens by wealthy individuals and large corporations in Australia to avoid tax is rampant. The second tax transparency report published by the Australian Tax Office in December 2016 shows that 36% of the largest 1,900 Australian and foreign-owned corporate entities did not pay any tax in 2014-15. One reason is that many of them transfer assets and profits to tax havens. A report published by Oxfam last year showed that Australia is losing $5-6 billion a year in tax revenue because foreign-owned multinationals based in Australia are shifting profits to 20 major tax havens. Another report by the Tax Justice Network in 2015 found that the 200 largest publicly listed companies in Australia avoid up to $8.4 billion a year in corporate tax. Nearly one third have an average effective tax rate of 10% or less compared to the statutory corporate tax rate of 30%. The companies have hundreds of subsidiaries in tax havens such as Singapore, Hong Kong, British Virgin Islands, Cayman Islands, Mauritius, Luxembourg, Switzerland and the Channel Islands.

The Panama Papers published last year revealed 118 offshore companies, trusts and foundations linked to Australia as clients of Panama-based law firm Mossack Fonseca, which has facilitated massive tax evasion on behalf of the wealthy and corporations around the world. The Papers revealed more than 1700 Australian directors, shareholders and/or beneficiaries connected with Mossack Fonseca. The Australian Taxation Office is investigating about 800 Australians in relation to the Panama Papers.

The wealthy in Australia are on a gravy train of exorbitant tax concessions and tax evasion. Their greed and lack of any sense of social responsibility to pay their due tax is abominable. It denies children from the most disadvantaged families the resources to ensure they have a successful school education and set them up for the life opportunities available to the rest of society.

The Government has announced its intention to introduce a Diverted Profits Tax (DPT) aimed at multinationals that artificially divert profits from Australia. The DPT will impose a penalty tax rate of 40% on profits transferred to tax havens that reduce the tax paid on the profits generated in Australia by more than 20%. However, the tax will only apply to companies with global turnover of $1 billion or more. It will leave many companies free to continue to evade tax by diverting profits to tax havens and will only raise about $100 million a year out of the billions in tax being evaded every year.

The Gonski plan was designed to boost funding for under-resourced schools and disadvantaged students. Large proportions of disadvantaged students fail to achieve minimum international and national standards and their results continue to lag those of advantaged students by 3-4 years of learning. The vast majority of these students are in public schools.

The cost of the last two years of the Gonski funding plan was originally estimated at $7 billion, that is, an average of $3.5 billion a year. It could be easily financed by reducing the revenue forgone to the wealthy through the superannuation, capital gains, negative gearing and other tax concessions and by reducing tax evasion. The refusal of the Turnbull Government to seriously challenge the tax benefits of the wealthy and fully implement the Gonski plan demonstrates that its priority is to support privilege at the expense of the disadvantaged.

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