

# Towards a Wealth Tax in Australia

## Summary

- Individuals in western societies are setting up vast accumulations of wealth
- Australia is following this trend
- These accumulations are largely untaxed because of problems with assessing real 'income'.
- A tax on accumulated wealth at a low rate, applying only to the very wealthy could work
- In 2007-8, a wealth tax at a rate of just 1% would have netted 5% of the total Australian tax revenue from just 200 individuals.

## Wealth distribution

A recent press statement from the USA stated that 1% of the population of that country held 30% of its wealth. If true, this situation is very bad for a democracy. If individuals have wealth approaching the wealth of the nation, then they will be able to influence government policy and it is very likely that they will. From a taxation perspective, maybe this group should be considered separately. This prompted me to see how far Australia had gone down this route.

There are too many statistics to include here, but I have appended two useful summary references. The authors of reference (1) found that before the stock market boom, the top decile of Australian households enjoyed 157 times the wealth of the bottom decile – in 2006. I would suggest that the boom (even including the bust) would have increased this difference dramatically.

However, there is a very telling, but simple statistic. BRW magazine lists the top 200 wealthy people in Australia in 2006-7, and states that they owned collectively \$138 billion in wealth. If these people were incompetent enough to be earning only 7% (easily obtainable from any bank in 2007), then they would have earned (collectively) \$10 billion. National tax revenue in 2007-8 was \$303 billion. So just 200 individuals (0.00001 of the population) earned the equivalent to 3% of the national income of the Australian government. If they were incompetent -in the business environment of 2007-8 a clever person could have doubled their wealth.

## Taxing the extremely wealthy

The same BRW top 200 should have paid the order of \$5 billion in income tax on their income of \$10 billion. I would be prepared to bet that they did not. It should be easy for the ATO to check – but of course, they have not paid tax on that year yet. It's not due until May 2009

At the height of Bell Resources wealth, [removed for confidentiality reasons] boasted that he would be paying tax on an income of just \$10,000. This, at a time when he (essentially) owned several multimillion dollar houses, was pouring millions into sailing races, and routinely had exclusive use of several very expensive cars. He is not the only person of obvious wealth who has made comments of this sort.

There is an old saying that making your first million dollars is hard, the second is easier, and the third is nearly trivial. From the perspective of taxation, there is no doubt that this is true. As an individual's disposable income starts to vastly exceed the amount of money that can reasonably be spent, there are many opportunities to both further increase wealth, and decrease the amount of tax paid on that 'income'. Attempts to plug these tax loopholes seem only to generate more loopholes.

What we need is a tax which is assessed on accumulated wealth. We used to have 'death duties' but it would probably be politically unacceptable to reintroduce a death tax in Australia – to say nothing of the federal / state constitutional problems. 'Death duties' are a once in a lifetime event and so, need to be large, they come at a bad time for families, which makes them politically unpalatable.

## A wealth tax

A 'wealth tax' imposed as a small annual percentage of the value of accumulated wealth, might be possible – particularly if the vast majority of Australians were not affected by virtue of an entry level which exempts them from the tax. The recent excesses of corporate executives would make such a tax MUCH more acceptable now than it would have been even two years ago. (It might even be sold as a 'success tax'. I wonder what the 'Gruen Transfer' people would do to sell it!)

What I am suggesting is a tax imposed on the accumulated wealth of individuals.

A small percentage charged annually – say 1% of assets in excess of (say) \$20 million, which are owned by, or used exclusively by, an individual. There may be a need to exempt 'income earning' assets where the income is taxed - ie a company or shares which are assets of an individual should receive favourable treatment in a wealth tax assessment – perhaps the company taxes could become a 'deduction' from wealth tax owing.

A minimum assessable wealth limit of the order of millions of dollars ensures that the vast majority of Australians are unaffected, and that the costs of assessment of wealth by the ATO are only incurred when there is a commensurate return.

A small rate would help make the tax more palatable to those affected and would be more acceptable to the population at large – especially those that perceive they may be in this class someday and would vote accordingly.

The real benefit of a tax like this is that it is hard to enjoy a wealthy lifestyle without having obvious assets which are therefore easy to locate and assess. I have no doubt that assets will still disappear into Swiss bank accounts, the hands of relatives, or into convoluted corporate arrangements, but at least the ATO should be able to tax the obvious flouted wealth of these people. I am hoping that the tax can be set up so it assesses not only assets owned by an individual but those assets which the individual has personal and private use of – eg corporate cars, houses, and boats.

As an example, a 1% tax like this, on the aforementioned BRW top 200 would gather \$13.8 billion per year – **5% of the national tax revenue - from just 200 individuals!** While they would probably scream like stuck pigs, in reality, they would not actually miss it.

As a sweetener, you could probably exempt them from income tax – since assessable 'income' is not how they make their money.

Cliff Hignett

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### **Some summary references**

The last ABS figures are for 2006 and are summarised in (1)  
([http://www.melbourneinstitute.com/forums/bus\\_eco/Wilkins,%20Roger\\_Sept%202008.pdf](http://www.melbourneinstitute.com/forums/bus_eco/Wilkins,%20Roger_Sept%202008.pdf))

There is also an excellent 'inequality of wealth' summary written by *Dara Conduit* and published at (2) <http://www.crikey.com.au/Politics/20080407-Australia-Divided-Rich-v-Poor.html> Monday, 7 April 2008.

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