

# The cost of tax

## In brief



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# Introduction

The average Australian worker mostly notices tax when it comes out of their paychecks – every paystub shows the deductions for income tax and Medicare levy. However, those are just two of 125 separate taxes imposed by State, Federal, and local governments. **The typical Victorian, earning the state’s 2019 average income of \$63,440, costs their employer about \$73,200 to hire once superannuation, payroll tax and extra benefits are all added up. Of that gross income, the government collects a whopping 55% – more than \$40,000.**

It seems like less because most of this burden is levied indirectly and invisibly to the average citizen, but in reality, Victorians are taxed on everything from consumables, transportation, housing, superannuation, and capital gains.

**Earn, spend, or save– the government gets a cut.**

A common argument is that Australians pay higher taxes to fund better public services that everyone benefits from, such as a public education system, a public health system, and infrastructure projects. However, the vast majority of Australia’s 125 taxes cost as much, or almost as much, to administer as they bring in – cutting them would not significantly affect government revenue, and therefore would not change the level of service the government is able to provide its citizens. But abolishing these taxes would make an enormous difference to the ability of Australians to provide for their families and live their lives as they choose.

Your earnings



The government’s cut of your earnings



Your cut of your earnings



**Did you know, the average Victorian, earning the state’s 2019 average income of \$63,440, costs their employer about \$73,200 to hire.**

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## Earnings

In addition to directly paying Federal income tax and Medicare levy from their paychecks, workers in Victoria are also subject to a state payroll tax of 4.85%. This is hidden from paystubs because technically it comes out of the employer's total payroll budget and not an individual worker's personal earnings – but nevertheless, it is paid on those earnings.

This payroll tax alone costs the average Victorian worker \$4,290 a year. Other hidden earnings taxes include an incredibly complicated fringe benefits tax on non-monetary perks an employer might provide their workers – if your company provides training, gym membership, or a company car, then the government is taking a cut from that.

The Federal government tries to tax higher earners more, but low-wage workers still lose a hefty chunk of their total earnings to direct taxation. Even a full-time minimum wage worker only receives 83% of their stated salary - \$133 a week, almost a fifth of their income, goes to the government.



## Consumption

Once the government has taken its scoop from a worker's paycheck, workers tend to spend about a third of what's left on housing (19.6%) and transportation (14.5%). Because of high taxes and restrictive regulations, Australians pay more for those necessities than most of the world – and a higher percentage of this burden falls on lower-income individuals.

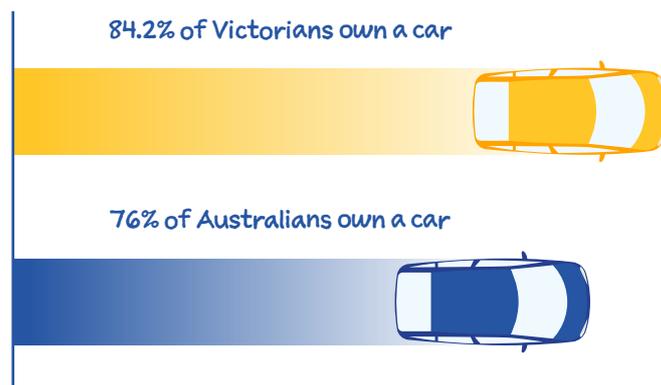
**Sin taxes:** The Goods and Services Tax adds 10% to the cost of everything, but a heavier burden on the working Joe is 'sin' taxes – the Alcohol Excise Tax, for instance, is about 20% of every dollar spent on alcohol (in addition to GST).

The tobacco tax is particularly heavy – your average smoker in the lowest 20% of income earners loses 25% of their disposable income, or \$5,196, per year, just to that tax. A smoker in the second-lowest 20% (which includes full-time workers on minimum wage) loses 15% of their income.

**Transportation:** Despite the billions spent on public transportation, most people (76% of Australians and 84.2% of Victorians) have their own cars. (Surprisingly, upper-income people are actually more likely to use public transport.) Not surprisingly, the government likes to tax those cars through:

- Import duties (on every vehicle now, since Australia no longer manufactures them)
- Luxury car tax, for vehicles costing above \$68,740 in 2020 (for context, the average new car in Australia costs \$40,128)
- Registration fees
- Fuel tax
- Road tolls
- Traffic fines

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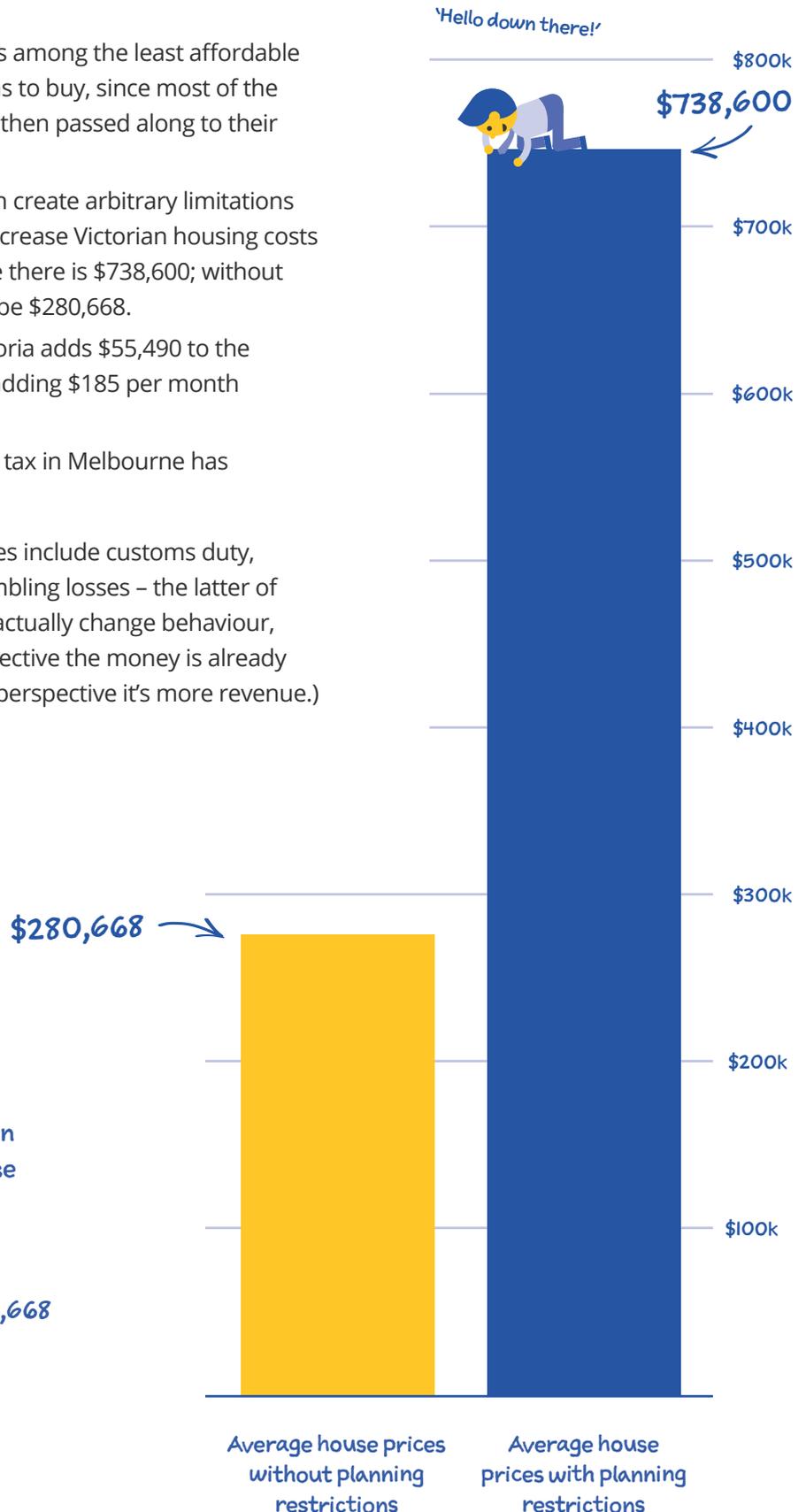
## Consumption Cont.

**Housing:** Housing in Australia is among the least affordable on the planet – to rent as well as to buy, since most of the costs inflicted on landlords are then passed along to their tenants. These include:

- Planning restrictions, which create arbitrary limitations on supply and artificially increase Victorian housing costs by 62%. The average home there is \$738,600; without these restrictions it would be \$280,668.
- Stamp duty – which in Victoria adds \$55,490 to the cost of that typical home, adding \$185 per month to a 25-year mortgage.
- Land tax - Since 2016, land tax in Melbourne has increased by 106%.

**Other:** Other consumption taxes include customs duty, insurance tax, and a tax on gambling losses – the latter of which is a ‘sin’ tax that doesn’t actually change behaviour, since from the gambler’s perspective the money is already gone. (From the government’s perspective it’s more revenue.)

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## Savings

Earn money – and you're taxed on it.

Spend money – and you're taxed on it. Save?

Yup. You're taxed on that, too.

**Capital gains:** The capital gains tax is paid on investment appreciation, and is taxed as income for that year. However, the capital gains tax does not take into account inflation. As prices rise, what you can buy with one Australian dollar decreases. Interest payments attempt to compensate for that lost value.

For example, if an average Victorian invests \$17,000 (approximately 6 months of expenses) and the account where they keep the money earns 2% interest (close to the inflation rate), they have to pay \$110 in capital gain tax. Their buying power has not increased but they must pay tax anyway.

**Superannuation:** Superannuation is taxed on both the compulsory contributions when they're made (as income), and on capital gains return on the accumulated balance. If our average-salaried Victorian worker starts from age 25 to put the required amount (9.5%) into a fund earning an average 6.5% per year, then at age 65 they'll have \$36,500 per year in real buying power to retire on.

If super contributions and appreciation were tax-free, they'd be getting \$49,200 per year in retirement – \$12,700 more, more than a quarter again as much income.

**If super contributions were tax-free, the average Victorian would receive \$12,700 more each year when they retire.**



## Conclusion

Few Australians realise just how much they actually pay in tax to the government — at the local, state, and federal levels — because only some of the bite is taken out of their paystubs and mentioned in their personal tax returns. Instead, it's taken through consumption, investment, and back-end payroll taxes.

This doesn't even consider the compliance costs — all the specialised lawyers and accountants employed by citizens and businesses, and on the other end by government departments, to navigate our complex tax code. And for all of that, most of Australia's 125 taxes cost as much, or almost as much, to administer as they bring.

As a result, the average Victorian loses more than 50% of their total compensation, to the government.

It's a good thing the politicians never waste any of it.

