

PER CAPITA TAX SURVEY 2014:

Public attitudes towards taxation and government expenditure

David Hetherington



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About the author

David Hetherington is the Executive Director of Per Capita. He has previously worked at the Institute for Public Policy Research, as a consultant to the OECD and for L.E.K. Consulting in Sydney, Munich and Auckland. He has authored or co-authored numerous reports on economic and social policy including *Towards a Fair Go: Design Challenges for an NDIS* (2011), *The Per Capita Tax Survey* (2010 & 2011), *Employee Share Ownership and the Progressive Economic Agenda* (2009), *The Full-Cost Economics of Climate Change* (2008), *Unlocking the Value of a Job* (2008), *The Investing Society* (2007), *Disability 2020* (2007) and *Would You Live Here?* (2006). His articles have appeared in the *Sydney Morning Herald*, the *Australian Financial Review*, the *Age* and *The Australian* and he is a regular commentator on *Radio National* and *ABC24*. David holds a BA with First Class Honours from UNSW and an MPA with Distinction from the London School of Economics where he won the George W. Jones Prize for Academic Achievement.

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About Per Capita

Per Capita is an independent progressive think tank which generates and promotes transformational ideas for Australia. Our research is rigorous, evidence-based and long-term in its outlook, considering the national challenges of the next decade rather than the next election cycle. We seek to ask fresh questions and offer fresh answers, drawing on new thinking in science, economics and public policy. Our audience is the interested public, not just experts and practitioners.

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Executive Summary

There has been a marked turnaround in Australians' attitudes to public spending and tax over the last 18 months. Between 2010 and late 2012, our views of the tax system became steadily less generous – we felt increasingly that we were paying too much tax and our support for public spending, while high, was falling.

These sentiments have now reversed. Rather than saying they pay too much, Australians now claim they are paying about the right amount of tax, and their support for higher public spending has risen. They believe that spending increases should be paid for with higher taxes on top income earners, and through the removal of tax concessions on superannuation and housing. They reject the approach to spending cuts mooted by the Government's Commission of Audit.

This change has been driven by several factors: the retreat of alarmist rhetoric around the carbon and mining taxes; the absence of major economic pain arising from those taxes; an acceptance that the end of the commodities boom means we can no longer expect tax cuts without service reductions; an increased focus of ending "the age of entitlement"; and a growing realisation that Australia is not the high-tax country we have previously held it to be.

This is the fourth Per Capita Tax Survey. In February 2014, the Survey asked a representative sample of 1,445 adult Australians for their views on a range of tax and public spending issues.

The results can be grouped into four primary themes, three of which constitute the reversal of trends from the earlier Surveys.

The first is that a majority of Australians (53%) now believe they pay about the right amount of tax, a jump of 17 percentage points since the last Survey. By contrast, the share who say they pay too much tax has fallen by 18 points.

The second theme is a turnaround in support for higher spending on public services. The share of those who want to see spending increased or maintained increased by eight points to 85%, while those who wish to see spending cut fell by four points to 8%.

Thirdly, Australians increasingly view the tax system as unfairly regressive: we believe those at the bottom and the middle of the income ladder are paying their fair share of tax, but those at the top are not. After falling in earlier Surveys, the proportion of those who said that high income earners paid too little tax jumped by 17 points to 72%. Simultaneously, there were significant jumps in the proportions who said that low- and middle-income earners and small businesses pay the right amount of tax.

The final theme that emerges from the Survey findings is that Australians want increases to public services to be funded by high income earners who they do not perceive as paying their fair share. 69% of respondents said that increased funding for public services should be paid for by tax increases on the top 5% of income earners or removal of tax concessions on superannuation and housing, which also flow primarily to high income earners.



Clearly, these sentiments are not echoed in the approach taken by the Abbott Government in the 2014 Budget, where spending cuts have been the primary mechanism for reducing the budget deficit.

It appears that Australians are increasingly acknowledging that they are not overtaxed, and that for services to be maintained as we want them, the tax take must be lifted in a fair fashion. This is consistent with both international comparison data showing Australia's low levels of tax, and the drop-off in our tax revenue base since the end of the commodities boom.

Australians understand that our fiscal challenges are not the result of too much spending, but of too little tax. They want the Federal Government to respond accordingly.



Introduction

With debate raging in the wake of the 2014 Budget, the question of the right level of public services and tax has become the most divisive issue in Australian politics. In response to its self-declared “budget emergency”, the Abbott Government has proposed the deepest cuts to public services in living memory, largely eschewing tax increases as a mechanism to balance the budget.

In this context, an understanding of ordinary Australians’ attitudes to public spending and tax is invaluable.

The Per Capita Tax Survey is the only regular comprehensive poll of views of public spending and tax in Australia. The 2014 Survey is the fourth edition, taken 17 months after the previous Survey in late 2012. Again, the Survey asks Australians for their view on the quality of public services, their preferences on public spending and their perceptions of the fairness of their own tax contributions and of the tax system as a whole.

Several features were prominent across the first three Surveys. Australians wanted greater spending on health and education, and a tax system that raised more from the wealthy. However, these views moderated over the first three waves, with support for spending falling somewhat and fewer people saying the wealthy should pay more tax. Finally, there were recurring inconsistencies across the responses: people wanted higher spending and lower tax, and many high income earners said that while the rich should pay more tax, they personally paid too much.

This year’s Survey was conducted in February 2014, five months after the election of the Abbott Government, but before the Commission of Audit final report and the Budget were published. It was administered as an online survey of 1,445 respondents aged 18 and over, constituting a demographically representative national sample. The sampling margin of error at a 95% confidence level is 2.6%.

The majority of questions from previous years’ Surveys were continued in the 2014 exercise, giving us up to four years’ trend data for a wide range of questions. We have retained questions on three specific policy areas covered in the last survey – superannuation, funding of public schools and the carbon tax. The list of questions is included as an appendix to the Survey, and the complete dataset of Survey responses is available on request from Per Capita.

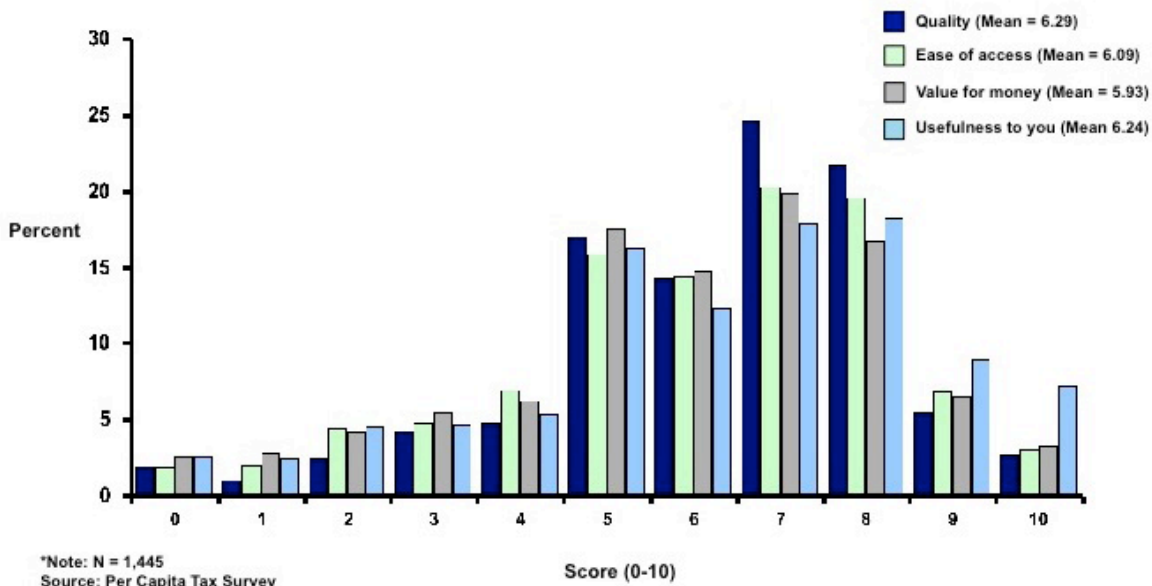
The Survey report is structured as follows. Section I deals with attitudes to public services, public spending and debt. Section II analyses respondents’ views on their own tax contribution, while Section III seeks views on the tax system as a whole. Section IV examines specific policy debates relating to public spending and tax – retirement incomes, schools funding and the carbon tax. Section V explores respondents’ perceptions of Australia’s tax system compared with other developed countries. Finally Section VI offers concluding thoughts and some reflections for the policymaking community.

Section I: Attitudes to Public Spending and Debt

The opening questions of the Survey ask respondents for their opinion on public spending, public services and government funding of these services. First, the Survey asked respondents to rate a number of dimensions of Australia's public services: quality, ease of access, value for money and usefulness. On a scale of zero to ten, the average (mean) ratings fell in a narrow range of 5.9 to 6.3.

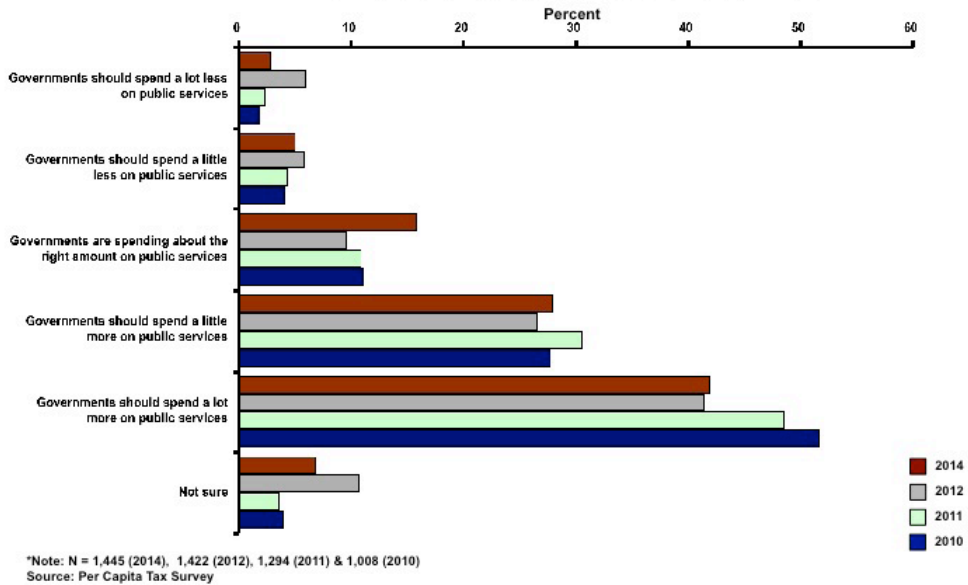
The highest-rated dimension was quality with a mean score of 6.29, followed by usefulness (6.24), ease of access, (6.09) and finally value for money (5.93). The ratings for usefulness were more widely dispersed than the other three dimensions, where scores were concentrated heavily between five and eight. This may reflect the fact that, while all citizens use public services at some point, people at some life stages are heavily dependent on them (such as early child-raising years and in old age) and those without children are less dependent on them.

Figure 1:
Thinking about Australia's public services, on a scale of 0 – 10, how would you rate them on the following factors?



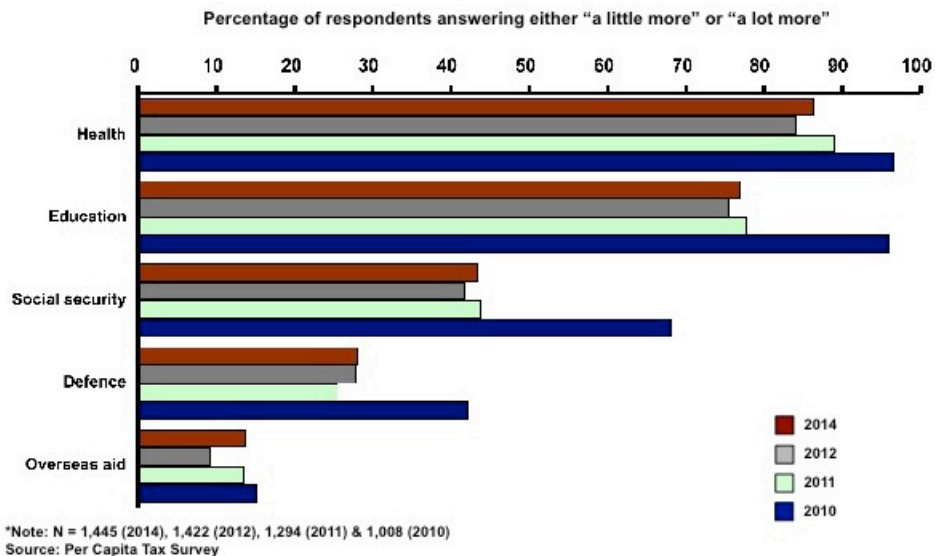
The Survey then turns to attitudes on government spending on public services. We see that a large majority of Australians (69.7%) support higher spending on public services. By contrast, only a small minority (7.8%) support reduced spending. We have asked this question in each Survey since 2010, and over the first three Surveys, support for higher public spending fell, albeit from a high base. Support fell from 79.3% in 2010 to 67.9% in 2012. In this year's Survey, this trend was reversed and support for increased spending grew for the first time since the Survey's inception. Conversely, support for reduced spending grew in the first three years, from 5.8% in 2010 to 11.8% in 2012 before falling back to 7.8% in this year's Survey.

Figure 2:
Overall views on public spending
"Which of the following statements best describes your views?"



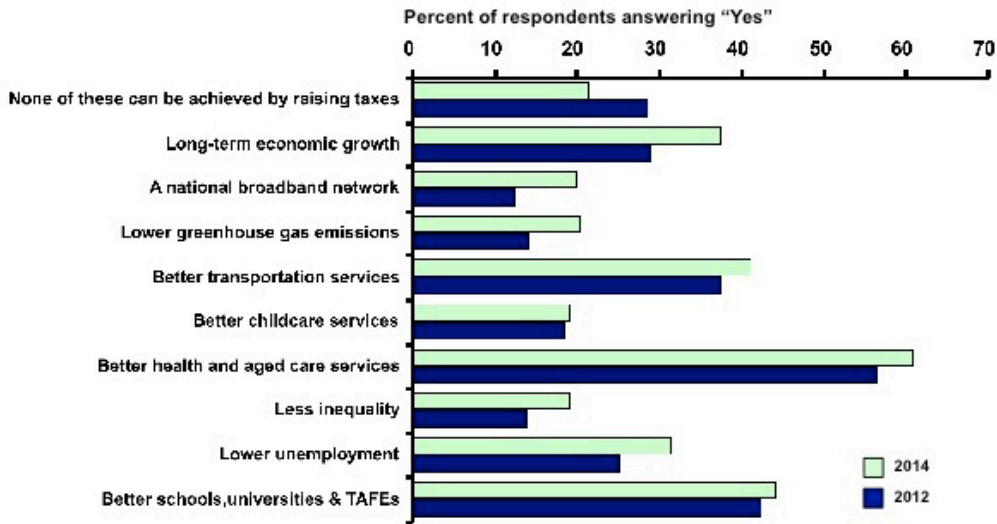
This trend holds across each major category of public spending. As in previous Surveys, health is the category which commands the highest level of support for increased spending with 86.4% saying they want a lot more or a bit more spending. This is followed by education (77.0%), social security (43.4%), defence (28.0%) and overseas aid (13.7%). In each category, support for greater spending has risen after consecutive falls across the first three waves of the Survey.

Figure 3:
"Would you like to see more or less government spending in...?"



The Survey proceeded to ask what outcomes citizens would be prepared to pay higher taxes to achieve. Again, the most popular outcome was health, with 60.8% of respondents saying they would be willing to pay higher taxes for better health and aged care services. Other popular outcomes included better schools, TAFEs and universities (44.0%), better transport (41.0%) and long-term economic growth (37.3%). In every category, the willingness to pay higher taxes to achieve outcomes increased since the last Survey.

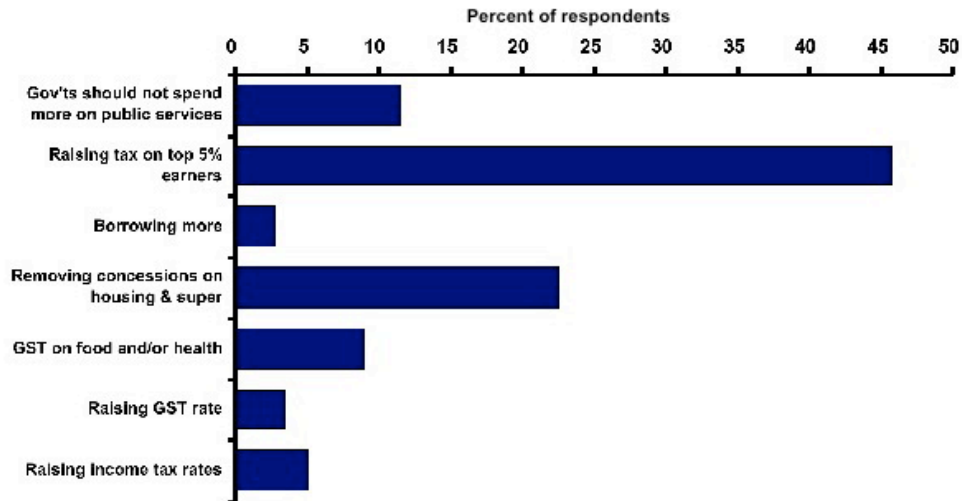
Figure 4:
“Which of these outcomes would you be prepared to pay higher taxes to achieve?”
 (respondents could choose multiple options)



*Note: N = 1,445 (2014), 1,422 (2012)
 Source: Per Capita Tax Survey

The Survey then asked respondents if they supported higher spending on public services, how they would like government to fund that spending. Each respondent was able to select one preferred option from a range of choices. The most popular approaches were those that lifted income tax in a progressive fashion. 45.7% of respondents preferred raising taxes on the top 5% of income earners, while a further 22.5% supported removing tax concessions on housing and superannuation. All other options enjoyed less than 10% support, including GST on food and health (8.9%), raising all income tax rates (5%), raising the GST rate (3.5%), and borrowing more (2.8%). 11.6% of respondents to this question said government should not spend any more on public services.

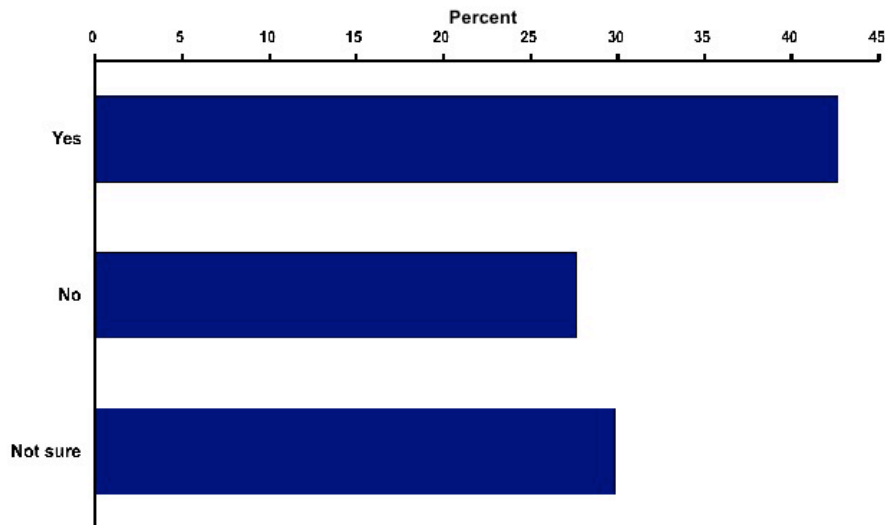
Figure 5:
 "If you think that governments should spend more on public services
 how do you think the money should be raised?"
 (respondents could choose one option only)



*Note: N = 1,445 (2014)
 Source: Per Capita Tax Survey

In the context of government borrowing, 42.6% were in favour of the proposition that governments should borrow for long-term investment in the same way that people take out a mortgage for a house. 27.6% did not agree with the proposition while 29.8% of respondents were unsure.

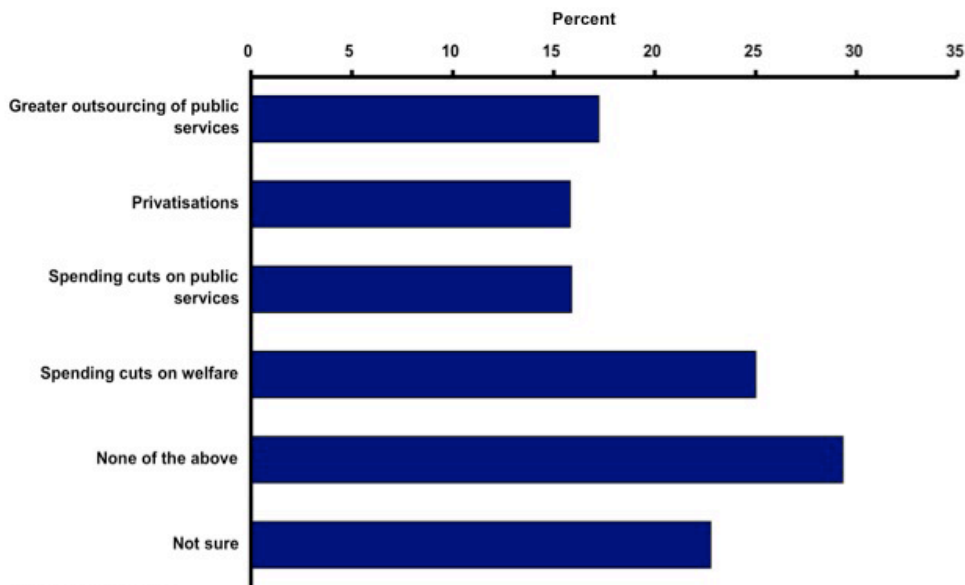
Figure 6:
 Opinions on public borrowing
 "In the past, governments have borrowed for long-term investment in the same way people
 take out a mortgage for a house. Are you in favour of such borrowing?"



*Note: N = 1,445
 Source: Per Capita Tax Survey

Finally, the Survey asked respondents for their views on the Federal Government's Commission of Audit which had not yet delivered its final report at the time the Survey was undertaken. The Survey outlined a number of potential recommendations which the Commission might recommend, and asked people whether they supported them (respondents could choose multiple options). The level of support for all recommendations was generally low. The highest was spending cuts on welfare which were supported by only 25% of respondents, followed by greater outsourcing of public services (17.2%), spending cuts on public services (15.9%) and privatisations (15.8%). The choice with the highest level of support was for the Commission to recommend "none of the above", chosen by 29.3% of respondents.

Figure 7:
"The Government is currently undertaking a Commission of Audit to review public spending.
Would you like to see the Commission recommend...?"**



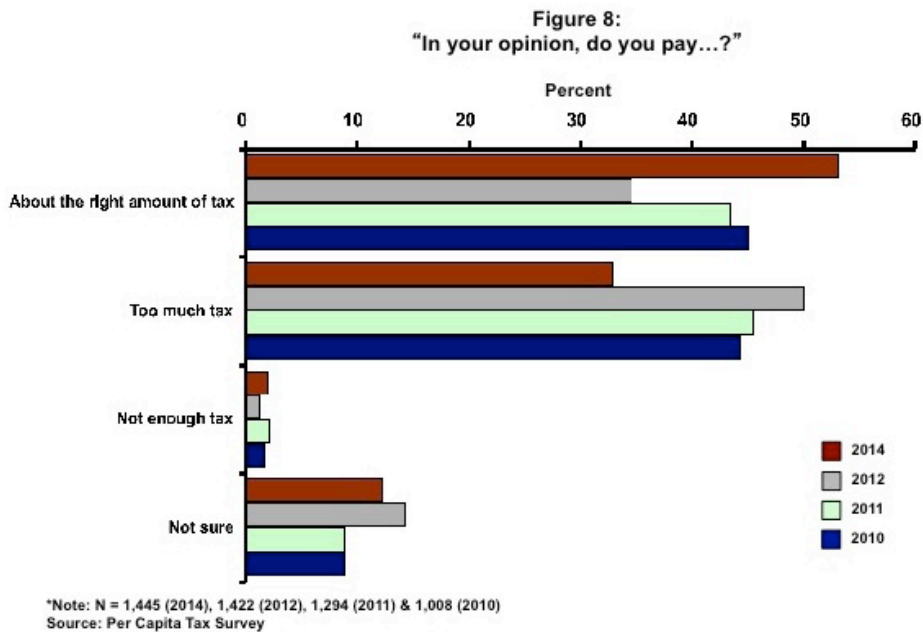
*Notes: N = 1,445 (2014)
 **Respondents could select more than one answer
 Source: Per Capita Tax Survey

Overall, respondents are in favour of higher public spending, especially on health and education, and this support has increased since the last Survey, after falling over the first three waves. The majority of citizens would like to see this spending funded by higher taxes at the top end of the income scale or by the removal of tax concessions on housing and superannuation. The number of respondents who support government borrowing for long-term investment exceeds those who oppose it by more than 50%. Finally, the level of support for potential approaches for spending reductions by the Commission of Audit was generally low, with the largest group supporting none of the likely approaches.

Section II: Personal Tax Obligations

In the next section, we turn to people’s views on their own levels of taxation. The Survey asks respondents for their opinion on the fairness of their personal tax obligations. Over half of all respondents (53.0%) believe they pay about the right amount of tax. 32.9% say they pay too much tax while only 1.9% say they do not pay enough tax. The remainder of respondents are unsure.

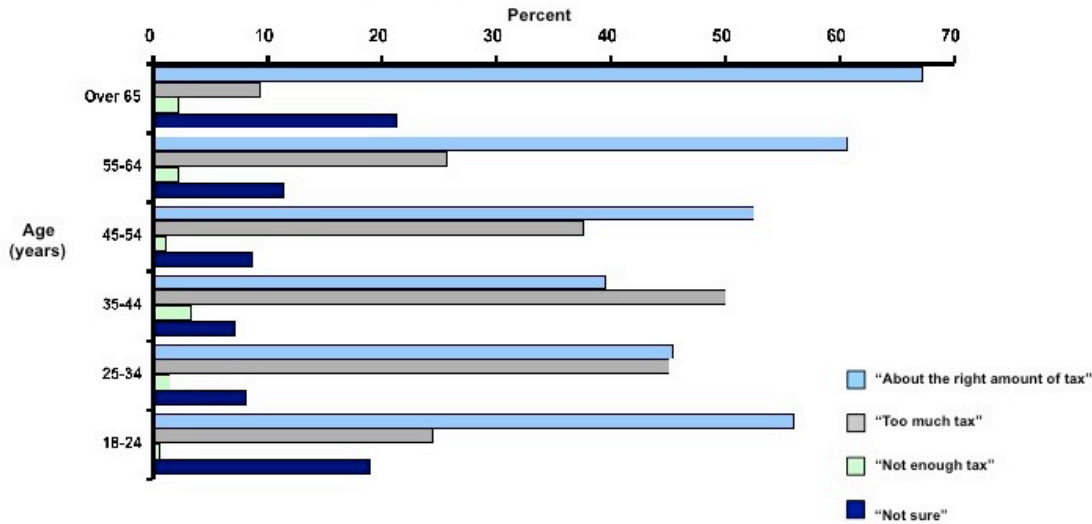
This represents a remarkable turnaround from previous Survey results. Australians are feeling far more comfortable about the fairness of their own tax contributions, reversing a pattern of declining belief in this fairness over the first three Survey waves. After falling by over ten percentage points across the first three waves, the share of respondents who say they pay about the right amount of tax has jumped by 18 points since the last Survey. Conversely, having risen by six percentage points from 2010-12, the share of those who say they pay too much tax has now fallen by 17 points.



When we examine views on personal tax obligations by age of respondents, we see a clear “U” shape in the pattern of answers. People over 45 and under 24 are more likely to feel they pay about the right amount of tax, while those in the middle age bands between 25 and 44 are more likely to say they pay too much tax. This is likely to reflect the combination of greater cost of living pressures and higher tax payments on those people in the middle age groups.

Those who feel their tax burden is fairest are the over 65s (where 67.2% agree their tax is fair), followed by the 55-64s (60.7%) and the 18-24s (56.0%). By contrast, only 39.5% of 35-44s felt they paid about the right amount of tax, while 50.0% said they paid too much.

Figure 9:
 "In your opinion, do you pay...?"
 (responses categorised by age bracket)



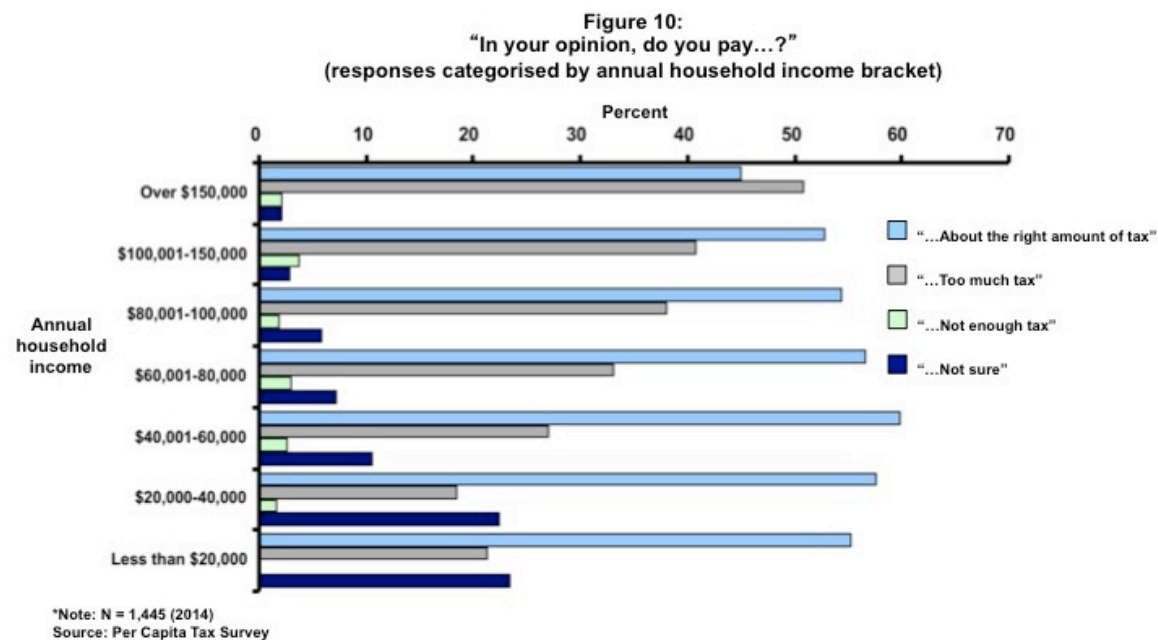
*Note: N = 1,445 (2014)
 Source: Per Capita Tax Survey

The biggest shift since the last Survey has been in the over 65s where the percentage of those who felt they paid the right about increased by 25 percentage points, while the share of those who felt they pay too much fell by 24 points. The next biggest shift was in the 18-24 year old group, where the corresponding increase and fall were 22 points and 18 points respectively.

There is no similar "U" shape when we break down responses by household income of respondents. In people's assessment of the fairness of their personal tax obligations, there is a clear correlation between higher income and a view that they personally pay too much tax. 50.8% percent of people in the income band of \$150,000 p.a. and over, say they pay too much tax, the only band where those people outnumber those who say they pay about the right amount. In the 2012 Survey, the share of those who say they pay too much tax exceeded those who say they pay about the right amount in every income band except one (\$20,000-40,000) - this situation has been essentially reversed.

The share of those who say they pay too much falls progressively with income until the \$20,000-40,000 p.a. band, where only 18.4% support this view. The share of those who say they pay about the right amount ranges between 53% and 60% in each income band up to \$150,000 p.a.

Since the last Survey, the biggest fall in those who say they pay too much tax has been in the \$100,000-150,000 p.a. band where this group fell by 23 percentage points. This was followed by the \$40,000-60,000 p.a. band (a 22 point fall) and the \$80,000-100,000 p.a. band (a 21 point fall).



These figures represent a remarkable reversal of citizens' attitudes towards their own tax obligations since 2012. Australians feel far more comfortable with the fairness of their personal tax payments, reversing a trend of declining faith in the system's fairness going back to 2010. The jump in those who believe they pay about the right amount of tax is 18 percentage points since 2012, and this group exceeds those who say they pay too much tax by over 20 percentage points.

Section III: Fairness of the Tax System

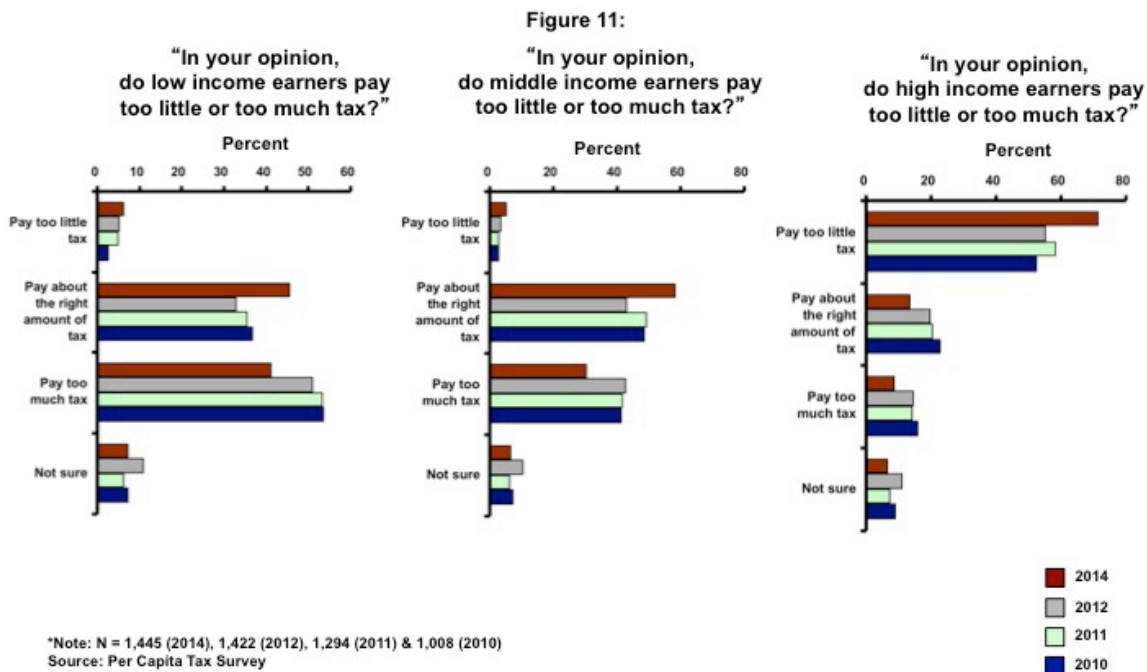
The next section of the Survey reports Australians' views on the fairness of the overall tax system. It begins by asking respondents for the views on the levels of tax paid by individuals at various income levels. Broadly, respondents say that high income earners pay too little tax, while medium and low income earners pay about the right amount of tax.

Almost three quarters of respondents (71.5%) believe that high income earners pay too little tax. 13.5% state that high income earners pay about the right amount of tax, while only 8.7% say this group pays too much tax.

The share of those who say high income earners pay too little tax has increased by 17 percentage points since the last Survey, while the shares of those who say they pay the right amount or too much tax have both fallen by six points.

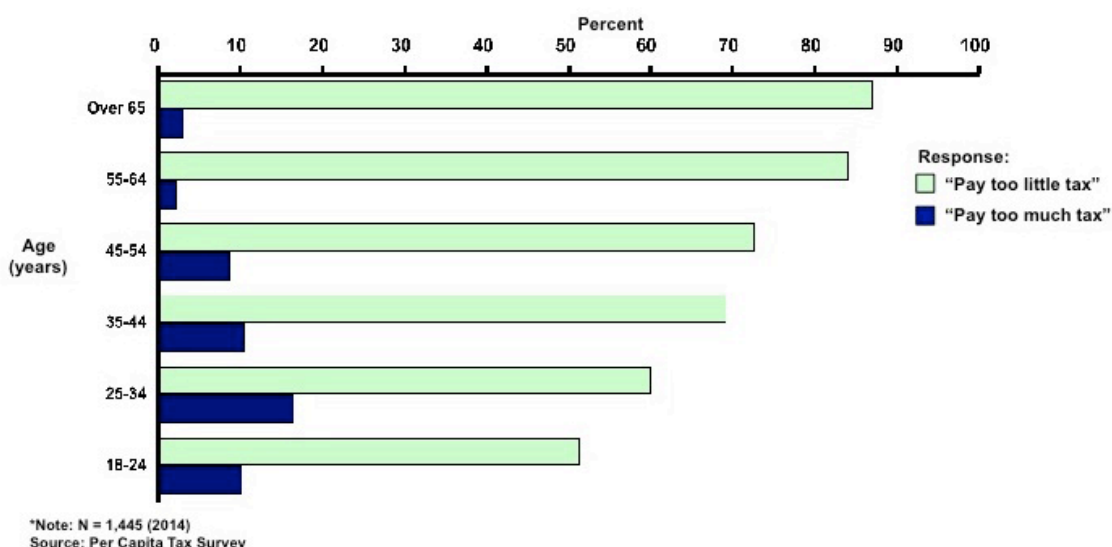
With regards to middle income earners, 58.2% of respondents say this group pays about the right amount while 30.2% say they pay too much. The figures for low income earners are 45.6% and 41.1% respectively.

The middle income group has seen a rise of 15 percentage points in those who say they pay about the right amount, and a fall of 13 points in those who say middle income earners pay too much. In the lower income group, the corresponding rise and fall are 13 and 10 percentage points respectively.



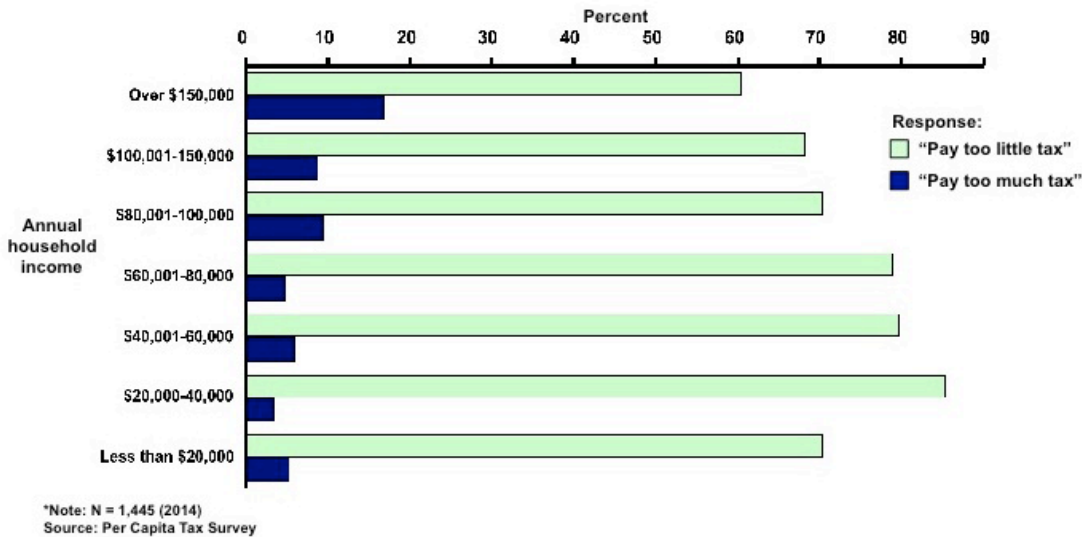
When we decompose these views by age of respondents, we see a strong correlation between age and the belief that the income tax system is unfairly regressive. As age increases, each cohort believes more strongly that high income earners pay too little tax, increasing from 51.2% in the 18-24 year age bracket to 86.9% in the over 65 bracket. The belief that high income earners pay too much tax is highest in the 25-34 year old group at 16.5% and lowest in the 55-64 bracket at 2.3%.

Figure 12:
"In your opinion, do high income earners pay too little or too much tax?"
 (responses categorised by age bracket)



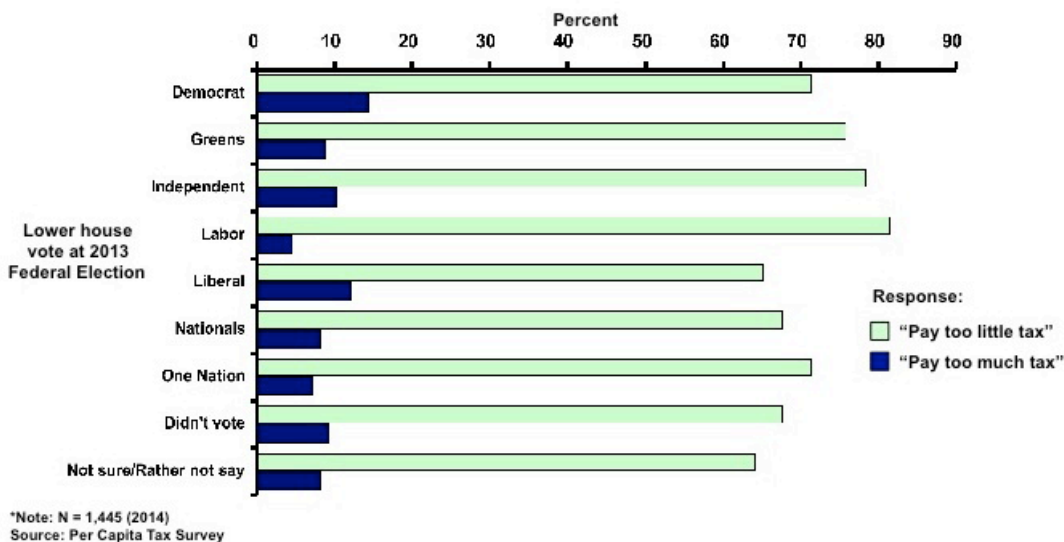
In every income band, including those earning over \$150,000 p.a., over 60% of respondents say that high income earners pay too little tax. This indicates that more than three-fifths of high income earners believe they themselves pay too little tax. This share has almost doubled since the last Survey, when only 36% of respondents in the over \$150,000 p.a. band said that high income earners pay too little tax. By contrast, the proportion in that band who say that high income earners pay too much tax has fallen by 23 percentage points, from 40% to 17%.

Figure 13:
 "In your opinion, do high income earners pay too little or too much tax?"
 (responses categorised by annual household income bracket)



We have analysed the same answers by respondents' vote at the 2013 election. For supporters of every political party and independents, the share of those who felt high income earners pay too little tax exceed those who felt high income earners pay too much tax at least 50 percentage points. The party with the highest share of supporters who felt high income earners pay too little was Labor with 81.5% and the party with the lowest was the Liberals with 65.1%. No party had more than 15% of supporters who believed high income earners pay too much tax.

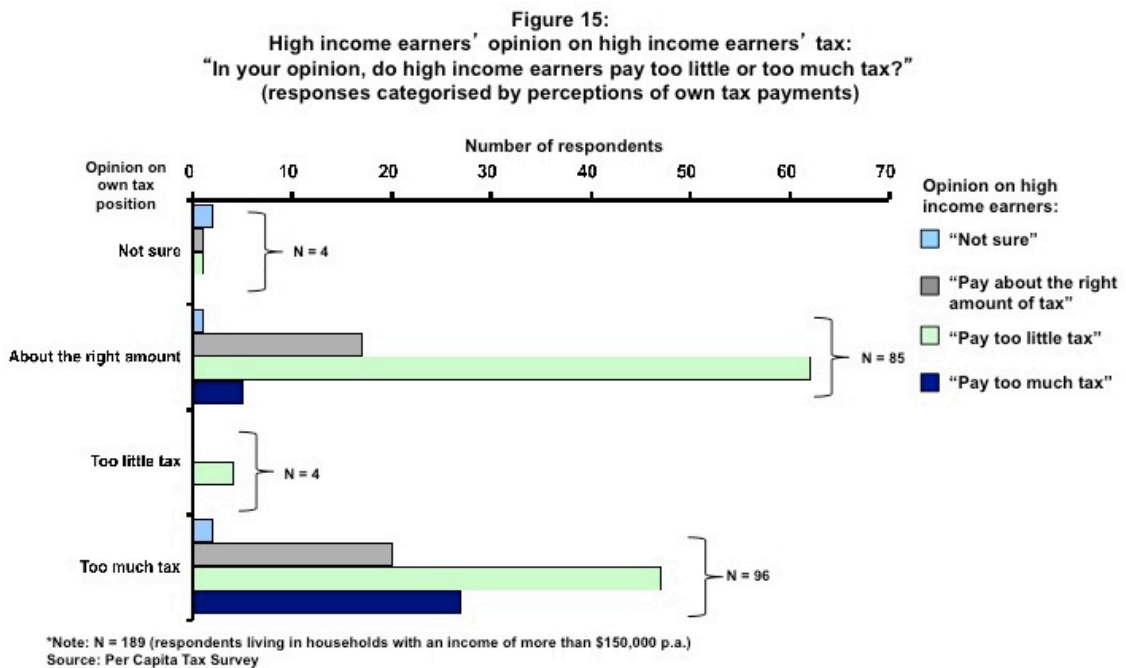
Figure 14:
 "In your opinion, do high income earners pay too little or too much tax?"
 (responses categorised by lower house vote at last Federal election)



We then assess respondents' views of the overall system's fairness against their perception of the fairness of their own payments. Across most income levels, these perceptions are quite consistent – the spread of individuals' views on personal tax levels is similar to the spread with regards to overall fairness of the system. With high income earners, however, this consistency breaks down.

Within the group with a household income of over \$150,000 p.a., 50.8% said they personally pay too much tax, while 45.0% said they pay about the right amount of tax. Only 2.1% believed they pay too little tax.

However, within this group, 60.3% said that high income earners pay too little tax. This is 58% more high income earners than those who say they themselves pay too little tax. By contrast, only 16.9% believe that high income earners pay too much tax compared with the 45.0% of high income earners who said they themselves pay too much tax.



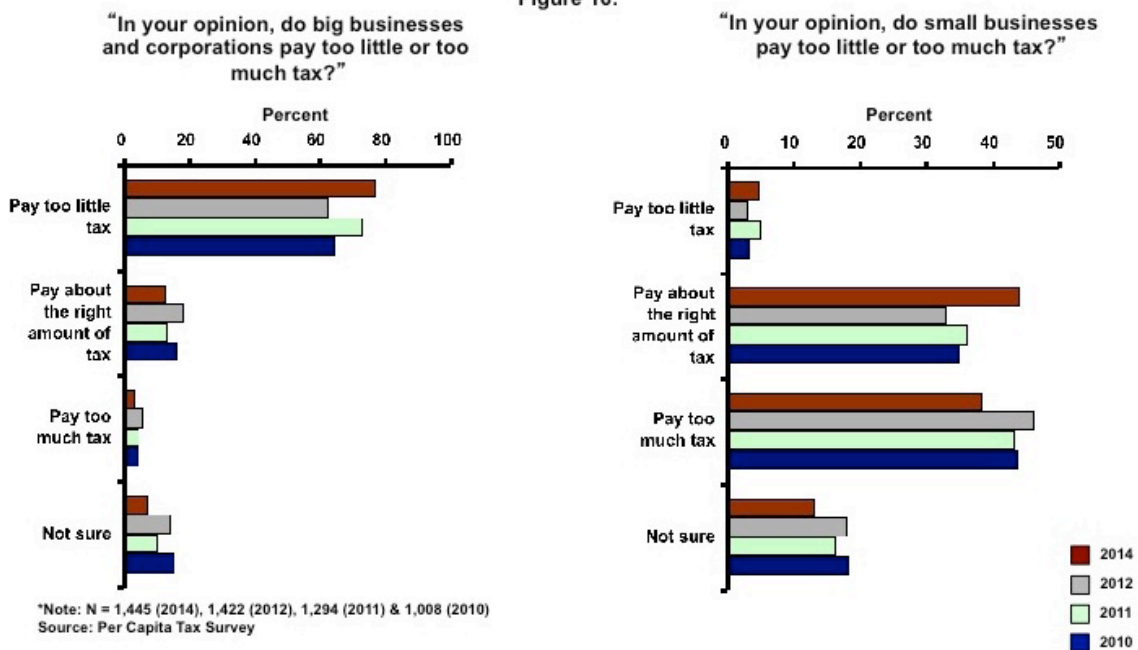
We have remarked in previous Surveys on this form of cognitive dissonance. The apparent explanation is that, while these respondents strongly believe that high income earners should pay more tax, they do not see themselves as high income earners. This is despite the fact that they live in households which are in the highest 15% of income earners in the country.

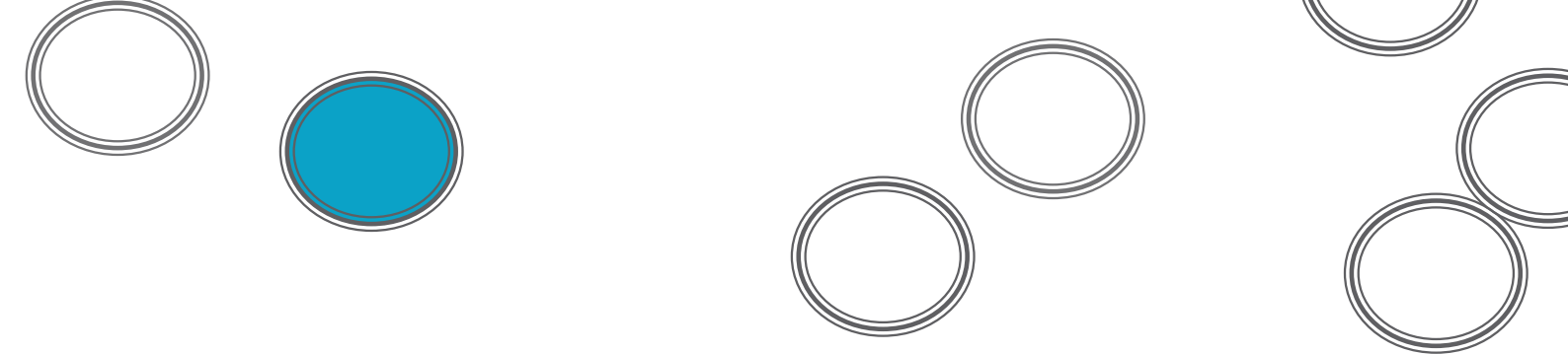
It is worth noting that this cognitive dissonance has grown stronger since the 2012 Survey. In that study, 56.1% of high income earners who said they paid too much tax also believed that other high income earners pay too much tax. This year, that number has fallen to 28.1%. On the other hand, of high income earners in the last Survey who said they paid too much tax, 28.7% believed that other high income earners paid too little; this year, the figure has grown to 49.0%.

The final aspect of overall system fairness the Survey examined was citizens' perceptions of business taxation. In the case of big business, respondents strongly believe that large corporations pay too little tax. This view was held by 77.0% of respondents. This represents a jump of 14 percentage points since the last Survey and the highest recorded in the Survey's history. In contrast, only 3.2% believe big businesses pay too much tax, while 12.8% of people say they pay the right amount, a fall of five percentage points since the last Survey.

Perceptions of small business's tax burden are quite different. The most popular view amongst respondents is that small businesses pay about the right amount of tax. 44.0% agree with this proposition, while a further 38.3% say they pay too much tax and only 4.8% say they pay too little. This is a shift since the 2012 Survey when the most popular view was that small businesses pay too little tax (held by 46.1%) and only 32.9% felt they pay about the right amount.

Figure 16:





Overall, Australians believe their tax system is unduly regressive. High income earners are seen to pay too little tax, whereas those on low and middle incomes are considered to pay about the right amount. This view has become more pronounced since the last Survey with a marked jump in those who say high income earners do not pay enough. It is constant across income bands and increases with age. There remains a cognitive dissonance among respondents in the highest earning households, most of whom agree that high income earners pay too little tax while stating that they themselves pay too much. Finally, Australians feel the business tax system is also regressive – big business is thought to pay too little and small businesses about the right amount.



Section IV: Current Issues in the Policy Debate

In this Section, the Survey asks respondents for their views on a range of issues currently being discussed in the national policy debate. We have retained the same three issues covered in the last Survey: superannuation, public education funding and the carbon tax.

Superannuation

Since the 2013 Federal election, retirement income has arguably become the most debated policy area in Australia. One of the Abbott Government's early commitments was to remove the Low Income Superannuation Contribution, a payment of up to \$500 for those earning less than \$37,000, as part of its repeal of the mining super-profits tax. This commitment, along with a decision not to reduce generous superannuation tax concessions to wealthy taxpayers, has caused significant controversy.

Since then, the Government has generated further controversy by announcing in the 2014 Budget a plan to increase the pension age to 70 by 2035, an extension of Labor's previous commitment to raise it to 67. This is in recognition of the fact that increasing longevity and the retirement of the baby-boomers will place enormous fiscal pressure on the Commonwealth Budget in coming decades.

Underlying these debates is an anxiety amongst Australians that their retirement incomes may well be inadequate for their expected longer lifespans. In this context, the Survey asked respondents how confident they were compared with five years ago that their superannuation would cover their retirement needs. A majority of respondents (57.2%) say that they are less confident their superannuation is adequate than they were five years ago. Only 6.0% say they are more confident than five years ago, while 18.1% say their view has not changed in that time.

The number who say they're less confident has fallen by six percentage points, and the number who say they fell the same has fallen by eight percentage points. Interestingly, however, the share of those who say they're more confident has only increased by three points, whereas the share of those who are unsure has risen by eleven points.

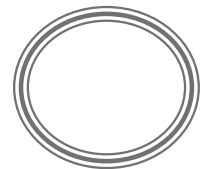
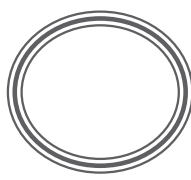
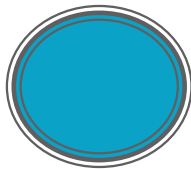
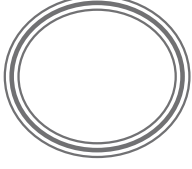
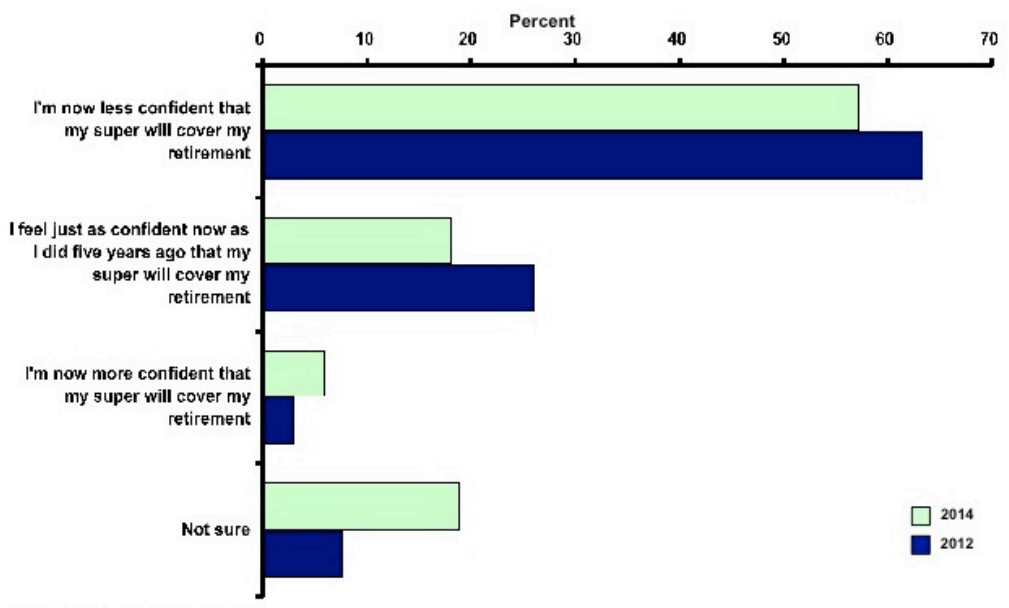


Figure 17:
"Compared with five years ago, how confident are you that your superannuation will cover your retirement needs?"

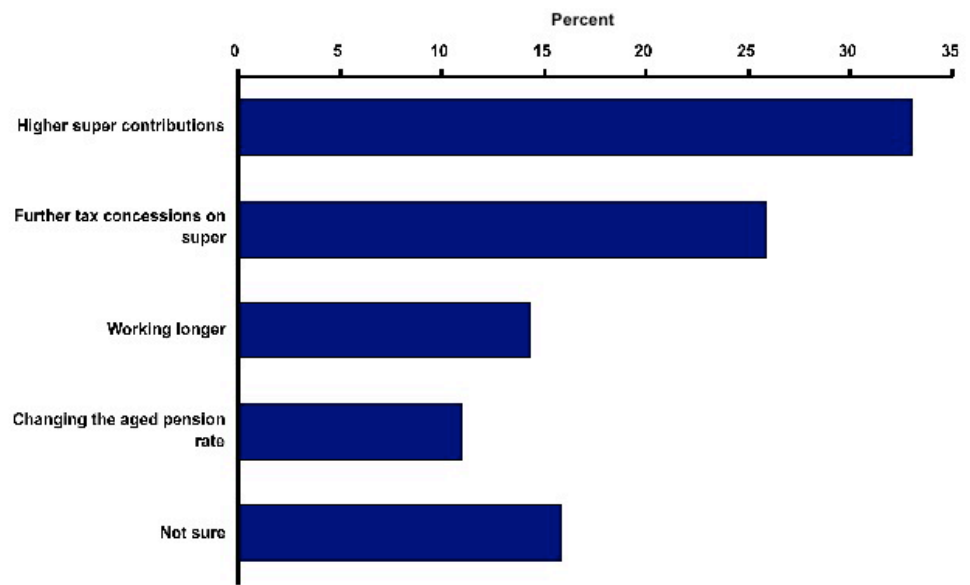


*Note: N = 1,445 (2014), 1,422 (2012)
Source: Per Capita Tax Survey

The Survey then asked how any increase in retirement income to cater for longer life expectancies should be funded. The most popular choice from the range of alternatives offered was a further increase in the superannuation rate (33.0%), followed by further tax concessions (25.9%). Working longer, as implied by the increase in the pension age, was supported by only 14.3% of people while changing the rate of the aged pension was, surprisingly, the least popular option with 11% support. It would seem that respondents either don't believe society can afford a higher pension rate or that they individually might not benefit from it.



Figure 18:
“When thinking about retirement income to provide for longer life expectancies, do you think this income should be funded by...?”



*Note: N = 1,445 (2014)
Source: Per Capita Tax Survey

Public education funding

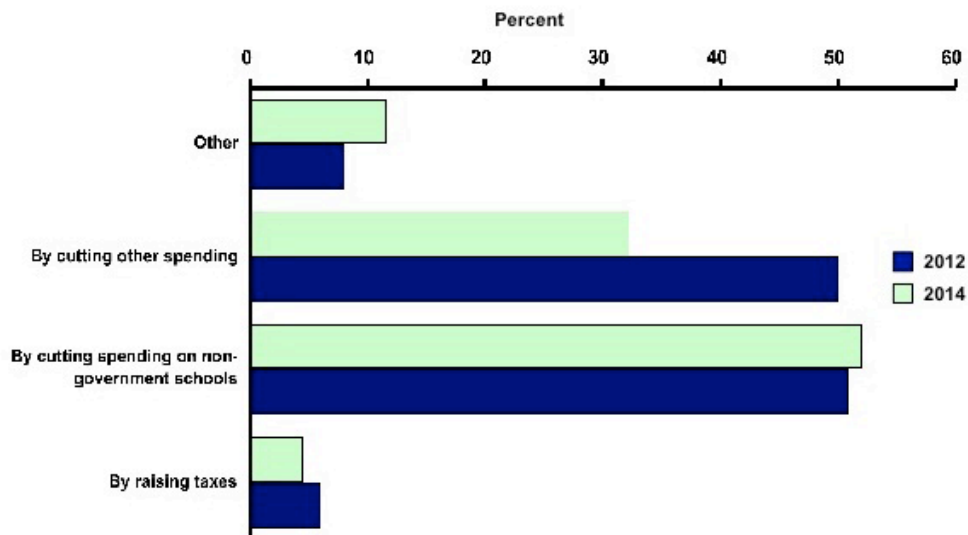
A second area of contested public debate has been proposed changes in funding to public schools. Again, the Abbott Government has caused considerable controversy by changing existing policy, notably by reducing the full funding package for the Gonski school reforms put in place by the previous Labor Government which increased funding to the neediest public schools.

The new Coalition Government has said it will only fund the first four years of the six year funding package, but not the final two years which contain the lion’s share of the funding. (This followed a brief departure when the Government said it would not fund the Gonski reforms but quickly backflipped.) Furthermore, in the 2014 Budget, the Government announced it would cut \$80 billion from education and health funding to the states in the four year period after the current funding agreement ends, further intensifying the debate over public education funding.

The Survey asked respondents how government should fund any increase to public school funding that it chose to provide. Over half of all respondents (51.9%) said that any funding increase should be delivered by cutting public spending on non-government schools. Almost a third (32.3%) say that it should be funded by cutting other public spending. Only 4.4% say it should be delivered by raising taxes.

These responses are broadly similar to the 2012 results, with the main difference being a fall in the share of people who say that cutting other public spending is the best approach. However, it should be noted that in the 2012 Survey, respondents were able to express support for multiple approaches, which was not possible in 2014.

Figure 19:
If government is to increase funding to public schools, how should it be paid for?



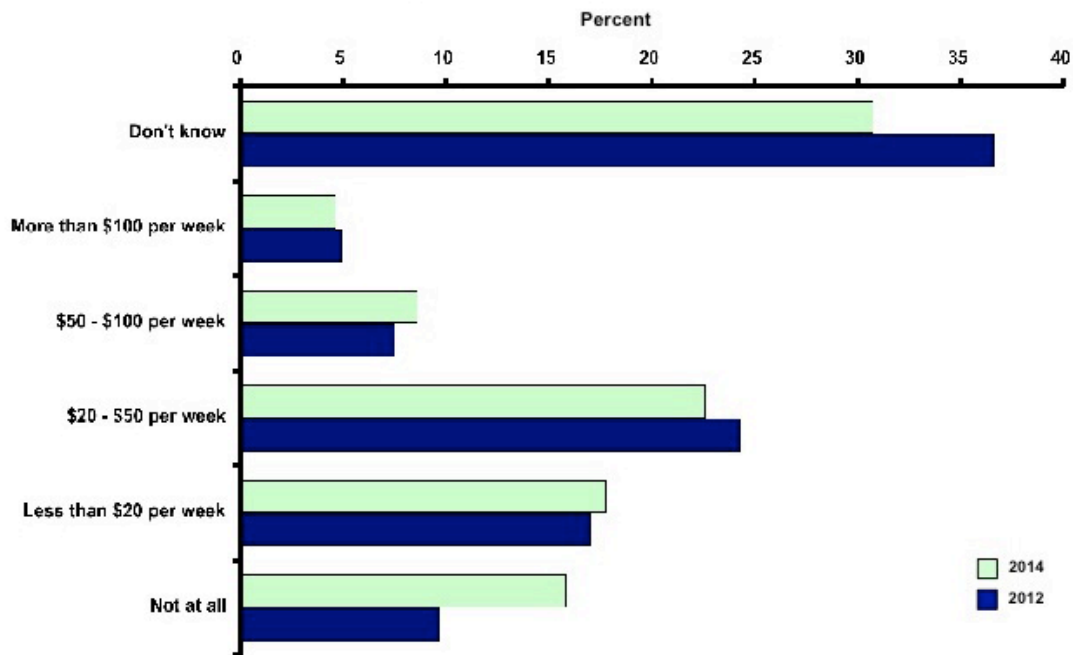
*Note: N = 1,445 (2014), 1,422 (2012)
Source: Per Capita Tax Survey

The carbon tax

Finally, this Section examines respondents' views on the most contested tax policy in Australia in recent years, the carbon tax. With the election of the Abbott Government, it appears the carbon tax will be repealed once the new Senate takes office in July 2014, and the tax will not convert to a floating carbon price as envisaged under Labor's policy.

The most contested element of the public debate around the carbon tax was its potential impact on costs of living. Given this, the Survey asked respondents by how much their cost of living had been affected by the carbon tax. The most common answer was that it had increased living costs by \$20-50 per week (22.6%), followed by under \$20 per week (17.8%) and not at all (15.8%). These responses were broadly in line with the prior Survey, although the share of those who answered "Don't know" fell by six percentage points and the share of those who said "Not at all" rose by six points.

Figure 20:
How much has your cost of living been affected by the carbon tax?



*Note: N = 1,445 (2014), 1,422 (2012)
Source: Per Capita Tax Survey

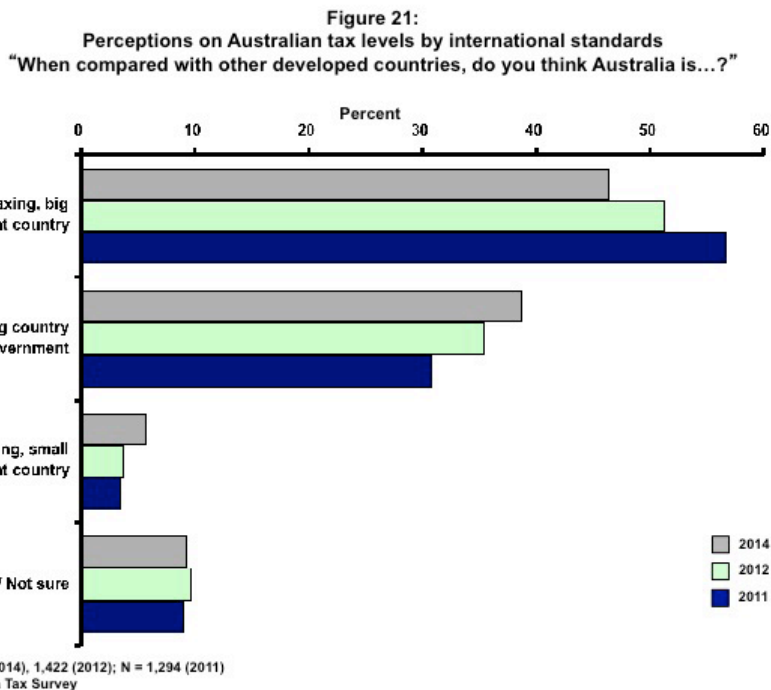
With the repeal of the carbon tax, it should be expected that certain prices would fall and competition and pricing authorities have indicated they will try to prosecute any price gouging. Whether they will be successful remains to be seen.

Section V: International Tax Comparisons

As in previous years, the Survey concludes by asking respondents for their perceptions of Australia's tax system relative to those of other wealthy countries.

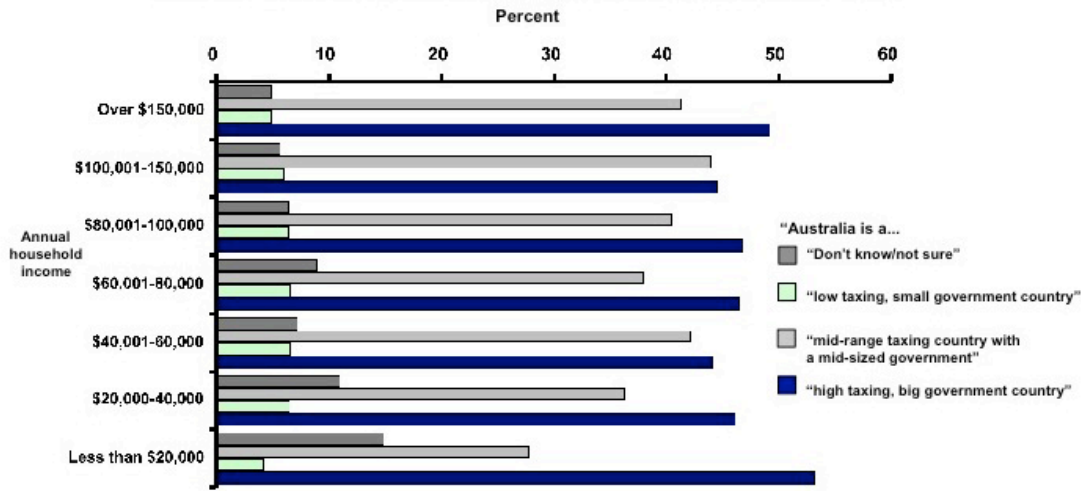
For the first time since this question has been asked, less than half of all respondents stated that Australia is a high-taxing, big government country. This is still the most common view (held by 46.3%), followed by the opinion that we are a mid-range taxing nation with a mid-sized government (38.7%). Only 5.7% believe that Australia is a low-taxing, small government country.

Since this question was first asked in 2011, there has been a modest, but steady shift away the view that Australia is a high-taxing state. This belief has fallen by ten percentage points over that period. In contrast, the view that we are a country of mid-range taxes has jumped by eight points, and the view that we are a low-tax country has risen by two points.



When analysed by household income bracket, the view that Australia is a high-taxing country ranges between 44% and 53%, however there is no strong correlation with income. It is most commonly held amongst the lowest income band (with 53.2% agreeing), and the highest income band (49.2%). There is a stronger correlation for those who see Australia as a mid-taxing country: the strength of this belief increases broadly in line with income. Only 27.7% of those with household incomes below \$20,000 p.a. agree that Australia is a country of mid-range taxation with a mid-sized government, whereas 44% of people in the \$100,000-150,000 p.a. band hold this view.

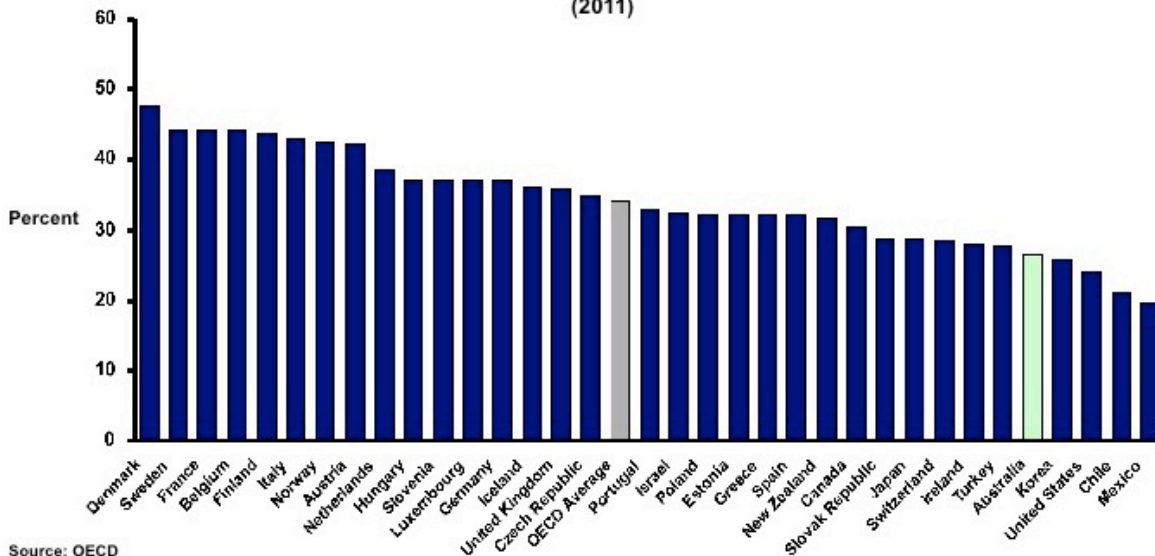
Figure 22:
Perceptions on Australian tax levels by international standards by income
"When compared with other developed countries, do you think Australia is...?"



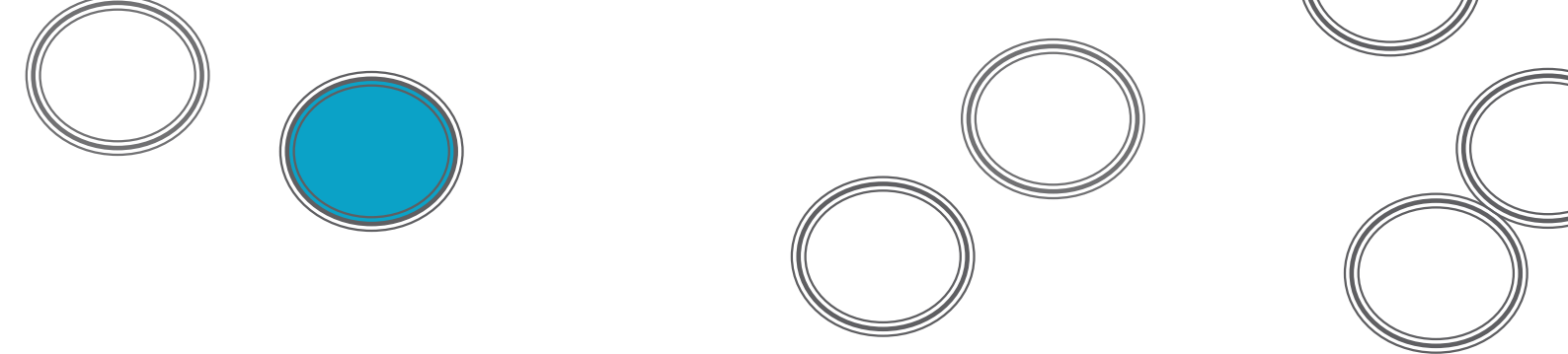
*Note: N = 1,445 (2014)
 Source: Per Capita Tax Survey

As this Survey has previously noted, Australians' perceptions of the scale of our national tax collection bear little resemblance to its reality. While 85% of respondents believed that we live in a high- or mid-range taxing country, the empirical data show that Australia is definitively a low-taxing country. Of the 34 nations in the OECD, Australia ranks 30th in terms of tax contributions as a share of the economy, in front of only Chile, the United States, South Korea and Mexico. At 26.5%, our tax-to-GDP ratio is eight percentage points below the OECD average.

Figure 23:
OECD Countries Total Tax Revenue as a Share of GDP
(2011)



Source: OECD



The lesson to be drawn here is that our tax system is hardly as punitive as we like to believe. When we rail against new tax measures, as we have done frequently in recent years, and when we bemoan spending cuts on health and education, we might remind ourselves that our taxation system is in fact very lean.



Section VI: Concluding thoughts and considerations for policymakers

This is the fourth edition of the Per Capita Tax Survey, and for the first time, we have witnessed a marked turnaround in a number of trends that emerged over the first three waves of the Survey.

In those waves, we saw a hardening of negative attitudes towards tax and public spending. Increasingly, citizens believed they were paying too much tax and their support for public spending, while still high, was falling. Support for a more progressive tax system also fell: fewer respondents said those on low incomes paid too much tax or that big business paid too little.

The 2014 Survey presents us with an entirely different picture. There are four principal themes to be drawn from this year's Survey data, and three of these tell a story of turnaround.

The first is that the majority of Australians no longer see themselves as overtaxed: overall, we see ourselves as paying reasonable levels of tax. In a striking reversal from the last Survey, the share who said they pay the right amount of tax rose by 19 percentage points to an outright majority of 53%, while those who said they pay too much fell by 17 points. This arrests a steady increase in the share of those who said they pay too much over the first three waves.

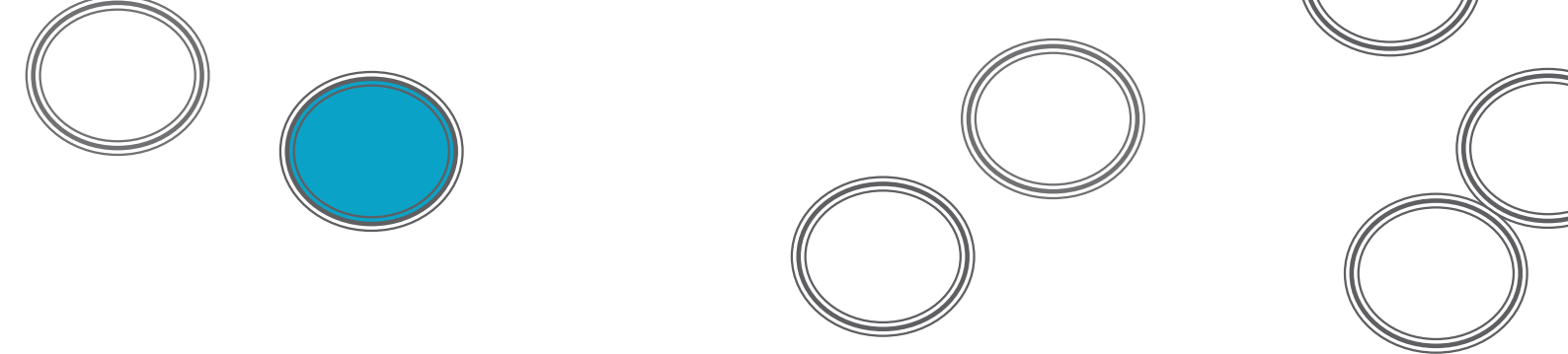
The second turnaround theme is that support for increased spending on public services is again growing after falling repeatedly since 2010. Almost nobody wants public spending cuts. The share of those who want increased spending or the maintenance of existing levels increased by eight points to 85% while the proportion of those wanting less spending fell by four points to 8%.

The third notable theme is that Australians increasingly see the overall tax system as unfairly regressive. In previous Surveys, the share of respondents who said high-income earners and big businesses paid too little tax fell, indicating a declining belief that the system was too regressive. In the 2014 responses, the ratio of those who said that high-income earners paid too little tax jumped by 17 points to 72%. At the same time, there were significant jumps in the share of those who said that low- and middle income earners and small businesses pay the right amount of tax, and falls in the share who said these groups pay too little.

It appears Australians believe that those at the bottom and the middle of the income ladder are paying their fair share of tax, but those at the top are not.

The final standout theme of the 2014 Survey is not a turnaround from previous years, but relates to new questions in this year's exercise. It is that Australians want higher public spending to be funded by higher income earners who they perceive to be contributing less than their fair share, and that they do not believe the budget position warrants significant spending cuts, privatizations or outsourcing.

When asked how governments should fund increased spending on services, 46% of respondents said that this should be done by raising tax on the top 5% of income earners. The second most popular response, with 23%, was the removal of tax concessions on superannuation and housing which also flow primarily to



high income earners. In response to a question on how funding increases to public schools should be paid for, 52% of people replied that we should cut funding to non-government schools, again supporting a transfer from high-income earners to mid- and low-income earners.

Finally, when offered a set of cost-cutting measures that might be recommended by the Commission of Audit, the most popular response was “None of the above” with 29% support. The average support level for the other options proposed was 18%.

The evidence is clear. Australians do not want to see their budget position improved through spending cuts; instead they wish to see higher income earners and big business contribute a fairer share to maintaining public service levels.

What has contributed to these turnarounds in perceptions of public spending and tax? There are a number of evolving points in the public debate that are likely to have shifted attitudes, a combination of old messages fading and new messages becoming clearer.

The most obvious of these is the retreat of the scaremongering language of the Coalition after their Federal election win in September 2013. Prior to that, voters were subject to a constant drumbeat of rhetoric calling for a cutting of waste and the end of new carbon and mining taxes. This constant refrain has receded markedly since the election, and as a result voters are reminded less of the alleged imposition of waste and taxes.

A more powerful factor is likely to be the absence of the widespread economic pain which was forecast by the Coalition as a result of the carbon and mining taxes. Since the introduction of the carbon tax in July 2012, the economy has continued to grow steadily, unemployment has remained below 6% and the Australian sharemarket has risen by over 25%. Under the carbon tax legislation, 90% of households received compensation to adjust to the introduction of the tax. The mining tax, as a result of poor design and changes in economic circumstances, barely raised any revenue.

This absence of promised economic pain from these taxes is likely to have made citizens realize that changes in the tax mix through the introduction of new taxes does not necessarily cause the enormous impost suggested by some of our political leaders. Citizens have begun to see that they were not as “overtaxed” as they had been led to believe.

A further change in the public debate has been a broader acknowledgment that Australia’s enormous prosperity over the last decade has been due, along with good management, to a remarkable set of economic tailwinds that have started to fade. As a result, Australians have begun to realize that the continuing increases in standard of living that they may have previously taken for granted will not necessarily continue. This argument has been outlined by the economist Ross Garnaut in his recent book *Dog Days: Australia after the boom* (2013). Now that the expansion phase of the commodities boom has receded, Garnaut argues, we must prepare ourselves for difficult adjustments and will potentially face falls in real standards of living.

Australians are now waking up to the fact that their remarkable rise in living standards cannot continue uninterrupted. The conditions that allowed us to pay ourselves seven consecutive years of income tax cuts have abated. This was not a “new normal”, although perhaps we became to see it as such. Now we are



accommodating to this idea, we are more comfortable with the fact that we must pay our way if we continue to want high quality public services. It is no longer possible to keep these public service standards and expect to pay less tax. This acknowledgment is seen for the first time in this year's Survey.

Another shift in the public discourse relates to questions of entitlement. The Treasurer Joe Hockey has made several speeches in the lead-up to his first Budget arguing that the "age of entitlement" was necessarily over, and that we must change our expectations of government (2012, 2014). Setting aside the fact that Mr Hockey was a senior minister in the government that built these generous entitlements, he is nonetheless correct on several dimensions. The end of the boom means that Australians cannot continue to enjoy ongoing tax cuts without compromising services. And we do need to get the Budget back into balance.

The Survey's responses show that public has acknowledged these facts. However, they do not believe that improvements to the Budget should be achieved by further spending cuts. Instead, they say overwhelmingly that service improvements should be paid for by increases in tax rates and the removal of concessions and subsidies, particularly for high-income earners and big business.

These considerations have been brought into stark relief by the discussions around the Government's Commission of Audit. While the Commission had not released its final report when the Survey was conducted in February 2014, a number of potential recommendations had been floated in the public debate and in the Commission's interim report (2014), including reduction in additional funding to public schools after 2017 and the delayed introduction of the National Disability Insurance Scheme.

When asked about the Commission's recommendations, the respondents to this Survey say overwhelmingly they do not want service cuts. Instead, they want service increases and they want them to be paid for with a fairer contribution from high income earners and big business.

All these sentiments were apparent, of course, in the public response to the Abbott Government's first Budget delivered in May 2014. The Government sought to address the budget deficit largely by cutting spending, particularly in the areas of health and education where it has removed \$80 billion in funding to the states after current funding agreements expire.

Where it has chosen to increase spending, it is in less popular areas such as defence and paid parental leave for high income earners. Where it has chosen to increase tax collections, it has for the most part avoided progressive changes to the tax system, introducing co-payments for health services and leaving regressive concessions on superannuation and housing in place.

So how should policymakers approach our public spending and tax system, given Australia's budget circumstances combined with the express desire of citizens for higher spending on services paid for with a greater contribution from those at the top end?

The first step is to recognise, as many commentators have observed, that Australia's modest budget problems are the result of a sharp decline in tax collected, rather than any blow-out in public spending. As Fairfax journalist Tom Allard has written, "...the main reason for the decline in government's finances has been on the revenue side of the ledger. Revenue is down from 26 per cent to 23 per cent of gross domestic product



in the past decade, while spending has remained at a relatively stable 25 per cent.” (2014)

This decline occurred as a result of the end of the mining boom, and Australia had done little to prepare itself for this eventuality. In fact, we had awarded ourselves seven successive years of income tax cuts and built generous entitlement programs as though the boom represented a permanent structural shift. In our 2011 report *After the Party*, Dominic Prior and I analysed how Australia spent \$25 billion of its public windfall from the boom on tax cuts and concessions, and a further \$50 billion on new spending programs.

Given this, the appropriate response to Australia’s budget predicament is to gradually rebuild the tax base. The Abbott Government has taken a step in this direction with a deficit levy of 2% on those earning over \$180,000 p.a. However, the rebuilding needs to be permanent rather than temporary as is the case with the levy.

The simplest approach in policy terms would be to wind back tax concessions on superannuation and housing. The prevailing wisdom is that this is politically impossible, but as the Survey results show, Australians do not want their public services reduced and they think regressive concessions should be removed to ensure service standards are maintained.

Clearly, this approach is not favoured by the Abbott Government which continues to maintain that we have a spending problem, rather than a revenue one. If it persists with this false belief, the Government will erode public services and redistribute wealth and income in an increasingly unfair direction. Given the findings of this Survey, the Government should not be surprised that its own approach is so unpopular with the Australian people.



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Appendix: Survey Questions

Q1. Thinking about Australia's public services, on a scale of 0 – 10 how would you rate them on the following factors:

1. Quality
2. Ease of access
3. Value for money
4. Usefulness to you

Q2. Which of the following statements best describes your views on government spending and public services?

1. Governments should spend a lot more on public services
2. Governments should spend a little more on public services
3. Governments are spending about the right amount on public services
4. Governments should spend a little less on public services
5. Governments should spend a lot less on public services
6. Not sure

Q3. Would you like to see more or less government spending in each of these areas?

Q4. Which of these outcomes would you be prepared to pay higher taxes for? Please select all that apply.

Q5. If you think that governments should spend more on public services, how do you think the money should be raised:

1. By raising personal income tax rates
2. By putting GST on food and/or health
3. By raising the rate of GST
4. By removing tax concessions on things such as negative gearing and superannuation
5. By borrowing more
6. I don't think the governments should spend more on public services
7. By raising income taxes for the top 5% of income earners only

Q6. In your opinion, do you pay...?

1. Too much tax
2. About the right amount of tax
3. Not enough tax
4. Not sure

Q7. In your opinion, do the following groups pay too little or too much tax?

1. Small businesses
2. Big businesses and corporations
3. Low-income earners
4. Middle-income earners
5. High-income earners



Q8. Which of these do you think is most important? Please select one option.

1. Setting taxes high enough to pay for essential public services
2. Setting taxes low enough to encourage economic growth
3. Setting taxes at a level which balances essential public services with economic growth
4. Not sure

Q9. In the past, governments have borrowed for long-term investment in the same way people take out a mortgage for a house. Are you in favour of such borrowing?

1. Yes
2. No
3. Not sure

Q10. How much has your cost of living been affected by the carbon tax?

1. Not at all
2. Less than \$20 per week
3. \$20 - \$50 per week
4. \$50 - \$100 per week
5. More than \$100 per week
6. Not sure

Q11. Compared with five years ago, how confident are you that your superannuation will cover your retirement needs?

1. I'm now more confident that my super will cover my retirement needs
2. I'm now less confident that my super will cover my retirement needs
3. I feel just as confident now as I did five years ago that my super will cover my retirement needs
4. Not sure

Q12. When thinking about retirement income to provide for longer life expectancies, do you think this income should be funded by:

1. Higher superannuation contributions
2. Further tax concessions on superannuation
3. Working longer
4. Changing the rate of the aged pension
5. Not sure

Q13. If government is to increase funding to public schools, how should it be paid for?

1. By raising taxes
2. By cutting spending on non-government schools
3. By cutting other spending
4. Not sure



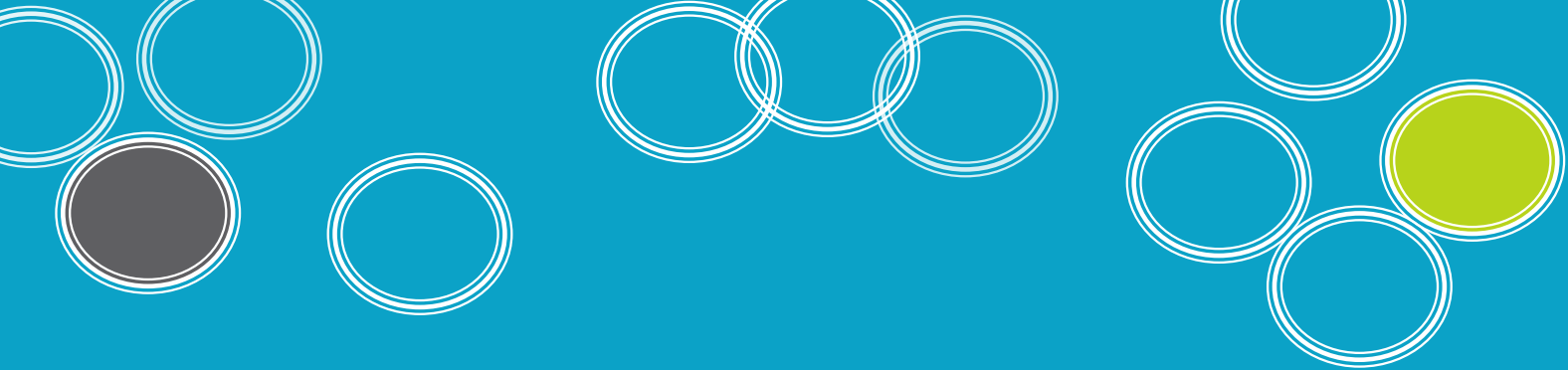
Q14. The Federal Government is currently undertaking a Commission of Audit to review public spending.

Would you like to see the Commission recommend:

1. Greater outsourcing of public services
2. Privatization of public service agencies and infrastructure
3. Spending cuts on public services
4. Cuts in spending on social welfare programs
5. None of the above
6. Not sure

Q15. When compared with other developed countries, do you think Australia is...?

1. A high-taxing, big government country
2. A low-taxing, small government country
3. A mid-range taxing country with a mid-sized government
4. Not sure



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