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PER CAPITA
**TAX
SURVEY
2018**

BY Emma Dawson
WITH Warwick Smith

percapita
FIGHTING INEQUALITY IN AUSTRALIA





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About the Authors

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Executive Summary

This is the eighth Per Capita Tax Survey, which has been conducted annually since 2010, with the exception of 2013.

The results provide a snapshot of the Australian public's attitudes towards taxation and public expenditure, and a long-term view of trends in public sensibility towards our tax and transfer system.

As in previous surveys of recent years, the 2018 Survey finds a high level of public support for increased spending on public services, particularly in health and aged care, and education.

This year we have also seen a marked increase in support for more spending on social security. This is at variance with recent government legislation to reduce spending on welfare in the pursuit of a return to a budget surplus.

Similarly, while the current federal government's signature tax policy is to cut company taxes, the overwhelming view of respondents is that big business is not paying enough tax, and that this is unfairly skewing our tax and transfer system.

Almost nine in ten Australians believe that tax avoidance by large corporations is a significant factor in undermining fairness. Support for the extension of the tax cuts to businesses with an annual turnover of more than \$50 million is weak, and particularly so amongst voters who intend to support the Opposition and Senate cross-bench parties at the next election.

We have also seen a significant increase in the proportion of Australians who believe they pay too much tax. Where in previous years, most people earning up to \$200,000 a year felt their tax contribution to be about right, that cut off has now dropped to \$80,000. A majority of households earning more than \$80,000 per year believe they are paying too much tax.

Most Australians also believe that wealthy individuals are not paying enough tax. This strong sense that the rich are not paying their fair share is reflected in the overwhelming support for the so-called "Buffet rule". Australians clearly want to see tax minimisation by high-income earners addressed by policy makers.

This desire is also reflected in high levels of support for the closing of existing loopholes in our system through which high-income earners can minimise their taxable incomes. The survey finds that a significant number of Australians now support the abolition or restriction of negative gearing, the reduction of superannuation tax concessions, and a wealth tax on financial assets.

We also asked respondents about their view of the recently reversed increase in the Medicare Levy to fund the National Disability Insurance Scheme (NDIS) and found that only just over a quarter of respondents supported the increase, which was to begin in July 2019 before Treasurer Scott Morrison announced its cancellation last week.



Introduction

Australia's tax and transfer system is highly progressive, with tightly targeted spending on government services and social security, relatively low marginal tax rates for low income earners and relatively high marginal tax rates on high incomes.

Serious tax reform has been neglected in recent years, but political debate around issues of tax and spending is currently sharply divided. The current federal Coalition Government and its Labor Opposition are pursuing policy approaches that are more ideologically opposed than at any point since the introduction of the GST two decades ago. While the Government champions tax cuts for big business and high-income earners, Labor is staunchly opposed to any tax increases for low and middle-income earners, instead focusing on raising revenue through reducing tax concessions in the current system that allow people to minimise their taxable income.

While different policy ideas are floated, attacked, amended and negotiated through the Parliament, public attitudes towards government services, spending and taxation are usually considered through a political lens, gathered in snap polls which seek opinions on isolated policy proposals.

Per Capita's annual Tax Survey is different. It sets out to obtain a broad-based understanding of public sentiment towards Australia's tax system and the provision of public services, and builds a picture over time of changes in community attitudes.

This is the eighth Per Capita Tax Survey. As in previous years, we asked a representative sample of Australians for their views on range of questions. We seek opinions on the quality and effectiveness of public services, the fairness of the overall tax and transfer system and of individual and business tax contributions, and on a range of other measures that have been at the fore of recent policy debate.

Each year we retain a core of roughly two-thirds of the questions, allowing us to build up a time-series trend of attitudes towards tax, services and spending. The remaining questions are altered to assess reactions to current policy proposals, with some questions being asked over two or three years if the issue remains central to the public debate. A full list of the questions asked in this year's survey can be found in the Appendix.

This year's fieldwork was undertaken between 27 March and 7 April through Research Now. It was conducted as an online survey of 1,557 Australians with nationally representative samples by gender, age and state or territory.

The survey has a sampling margin of error of 2.5% at a 95% confidence level for answers given by all respondents. When considering answers by particular subgroups, the margin of error may be considerably higher. Where results are described as essentially unchanged from last year, this indicates any change is not statistically significant.

The Survey findings are structured as follows:

- Section I outlines respondents' attitudes to the level and quality of public services, and levels of debt;
- Section II presents individuals' perceptions of their own tax contributions;
- Section III presents respondents' perceptions of the fairness of the overall tax system;
- Section IV canvasses views on a range of individual tax and spending issues that are pertinent to the current policy debate, including retirement incomes, negative gearing, a "Buffett rule" to limit tax minimization, land tax, the repeal of the budget repair levy and company tax cuts;
- Section V covers people's perceptions of tax and spending levels in Australia relative to those in other OECD countries; and
- Section VI presents an overall interpretation of this year's responses.

The annual Per Capita tax survey is the only comprehensive study focused on community attitudes to public services and tax in Australia. It provides policy makers with a valuable assessment of the Australian public's views of taxation and the provision of government services, and a rare insight into the nation's values and expectations of our tax and transfer system.

Section I: Attitudes to Public Spending and Debt

The Survey begins by seeking respondents' views on various aspects of public service delivery in Australia: quality, ease of access, value for money and usefulness. We ask respondents to score these aspects on a scale of 0-10 (see Figure 1). Since 2014, we have found the same ranking of these different aspects: Australians score our public services highest for quality and usefulness, followed by ease of access and then value for money.

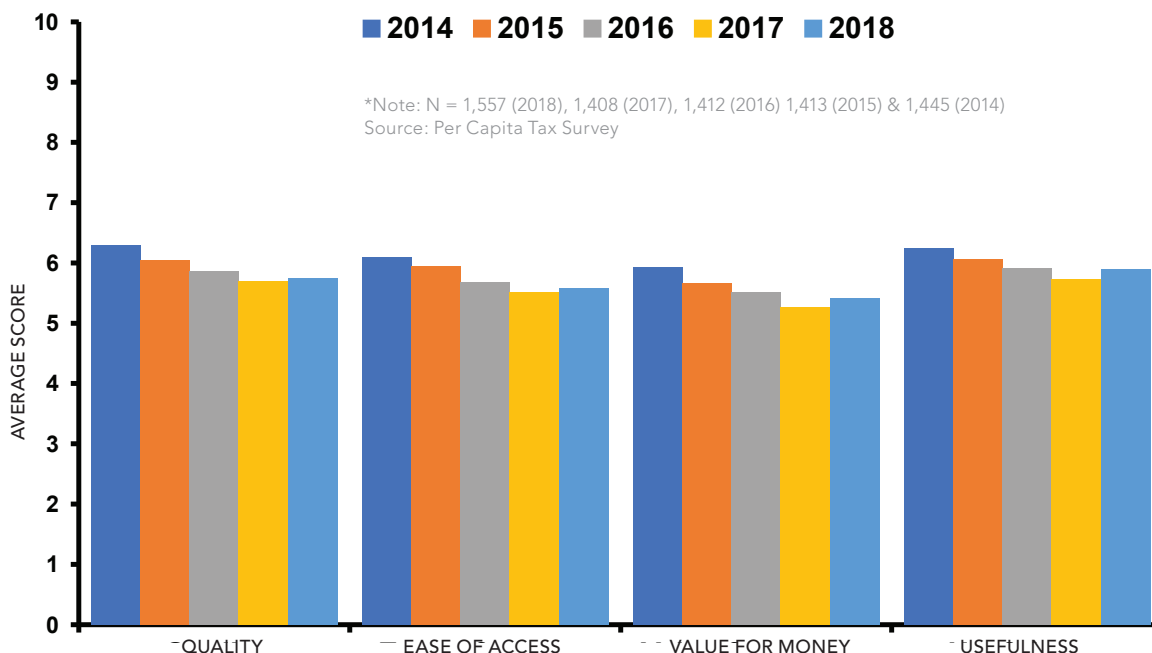
It is notable that, after four successive years in which the rating for each aspect declined, 2018

results have recorded a slight, though statistically negligent, improvement. Despite this small recovery, the rating for quality has declined by 0.54 out of 10 since 2014, while for usefulness it has declined by 0.35 out of 10. Ease of access and value for money have each declined by 0.51 since 2014.

This decline in the regard of Australians towards their public services may reflect ongoing pressure on Australian public services due to funding cuts, wages and hiring freeze, increased outsourcing and growing demand.

FIGURE 1

"THINKING ABOUT AUSTRALIA'S PUBLIC SERVICES, ON A SCALE OF 0 – 10, HOW WOULD YOU RATE THEM ON THE FOLLOWING FACTORS?"

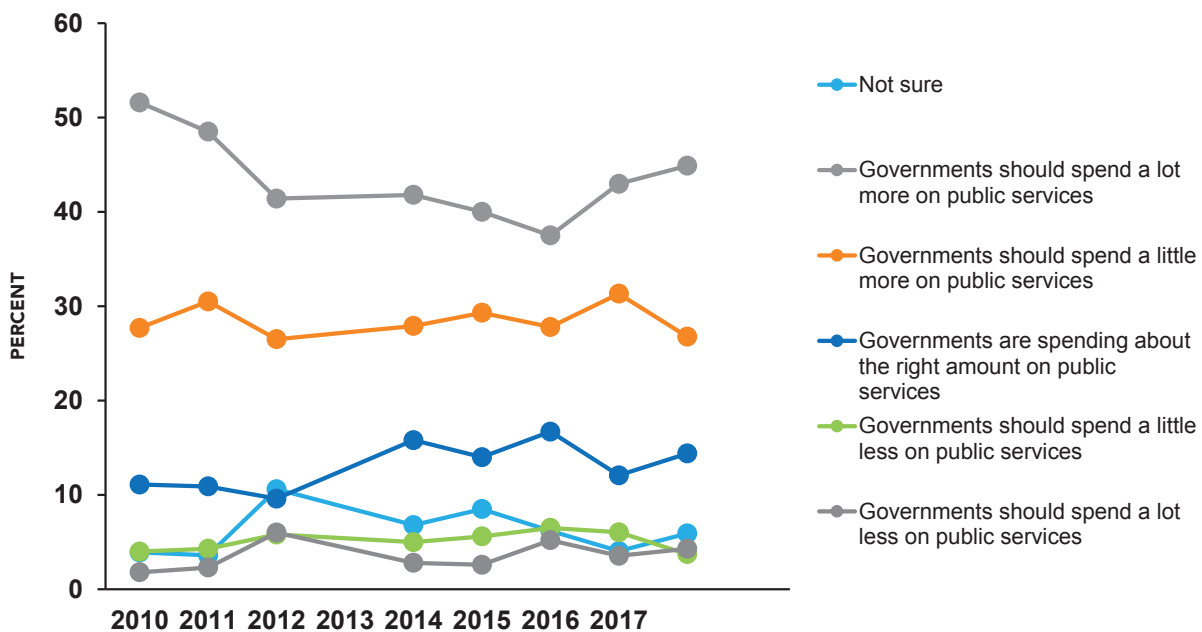


The Survey then proceeds to record people's views on government spending on public services (see Figure 2). 71.67% of respondents believe the government should spend more on public services (down from 74.3% last year), while only 8.03% believe the government should spend less, down from 9.6% last year. Those who believe spending should increase "a lot" went up from 43% last year to 44.89% this year, while those who felt it

should increase "a little" dropped from 31.3% to 26.78%. The proportion of people who think the government spends about the right amount on services increased from 12.1% in 2017 to 14.39% this year, while those who answered "not sure" increased from a record low 4% last year to 5.91% this year.

FIGURE 2

OVERALL VIEWS ON PUBLIC SPENDING "WHICH OF THE FOLLOWING STATEMENTS BEST DESCRIBES YOUR VIEWS? GOVERNMENTS SHOULD SPEND..."



*Note: N = 1,557 (2018), 1,408 (2017), 1,412 (2016), 1,413 (2015), 1,445 (2014), 1,422 (2012), 1,294 (2011) & 1,008 (2010). No survey conducted in 2013.
Source: Per Capita Tax Survey

The Survey then asks respondents for their preferences for the allocation of public expenditure (see Figure 3). As in all previous Tax Surveys, health has the most support from respondents as the area that should attract more government spending, followed by education. This trend continues in 2018, with 87.2% of respondents supporting increased spending on health, and 77.6% on education – slight drops from 88.1% and 80.6% respectively in 2016.

The most notable finding from this question relates to support for more spending on social security. After several years during which this finding remained steady at around 40%, 2017 saw a significant increase in this figure to 48.7% of

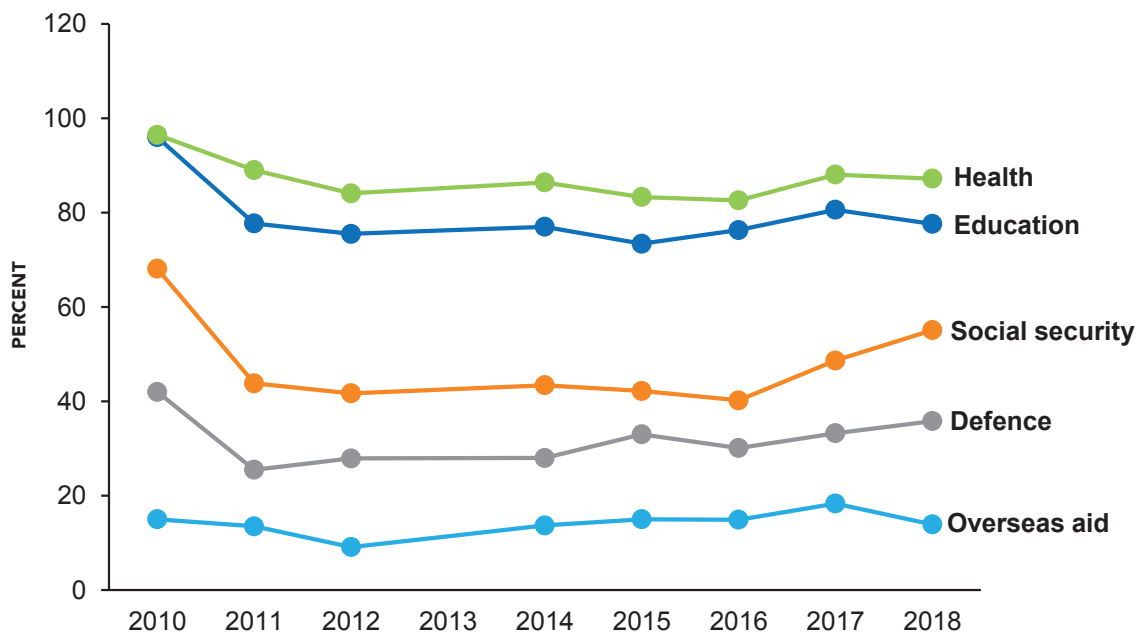
respondents. The 2018 survey has seen another marked increase to 55.1%, meaning that, for the first time in the history of the survey, a majority of respondents support greater government spending on pensions and other income support measures.

Support for greater spending on defence has increased from 33.2% to 35.8% over the last year, and is now at its highest level since the Survey's first year.

Notably, support for spending on foreign aid has collapsed by over 4 points from a Survey high of 18.3% in 2017 to a more historically typical 13.9% this year.

FIGURE 3

**“WOULD YOU LIKE TO SEE MORE OR LESS GOVERNMENT SPENDING IN...?”
PERCENTAGE OF RESPONDENTS ANSWERING EITHER “A LITTLE MORE” OR “A LOT MORE”**



*Note: N = 1,557 (2018), 1,408 (2017), 1,412 (2016), 1,413 (2015), 1,445 (2014), 1,422 (2012), 1,294 (2011) & 1,008 (2010). No survey conducted in 2013.
Source: Per Capita Tax Survey

The next question asks respondents for which, of a number of different policy outcomes, they would personally be willing to pay higher taxes (see Figure 4).

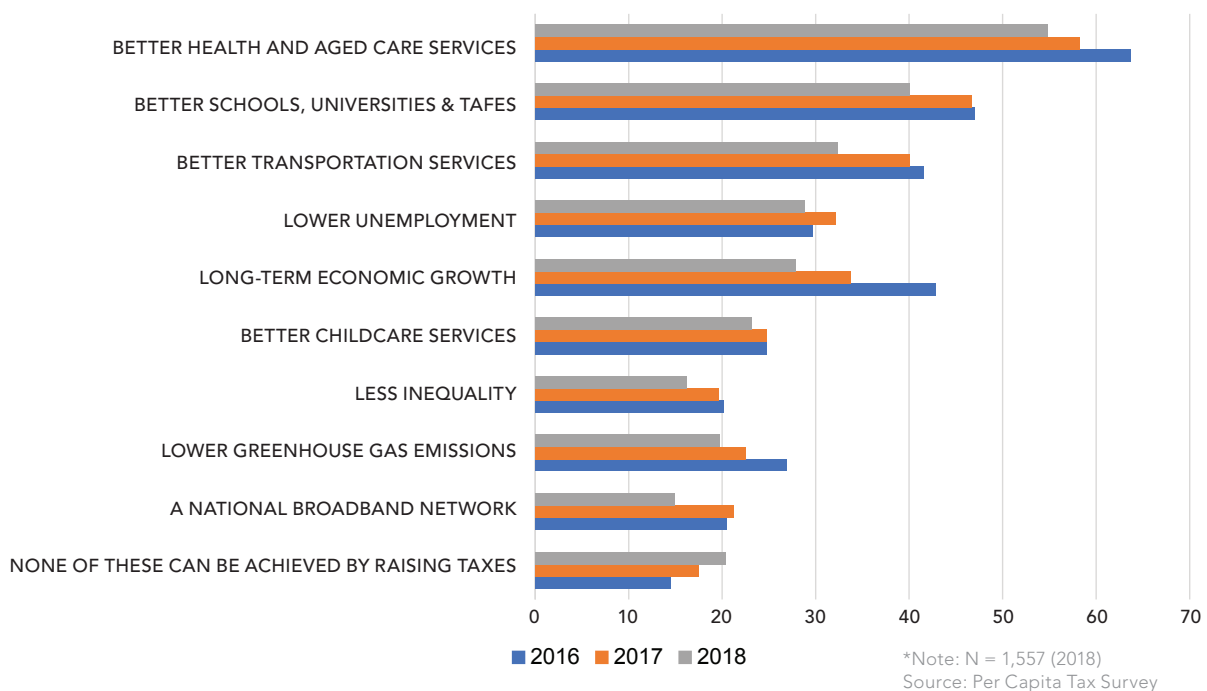
As in previous years, the only government services for which a clear majority of respondents were personally willing to pay more tax was better health and aged care services, although this number declined from 58.2% in 2017 to 54.8% this year. There was a significant drop in those willing to pay more tax for better educational institutions, from 46.73% last year to 40.1%.

It is interesting to note that, for the first time since 2014, willingness to pay more tax for any reason has fallen in the last 12 months, while those who say they would not be prepared to pay more for any of the options presented to them increased by 2.5 points to 20.4% of respondents. This may reflect the fact that increasing numbers of people are feeling the pressures of cost of living increases and stagnant wage growth.

Strikingly, support for higher taxes to underpin long term economic growth has collapsed by a massive 14.9% since the 2016 survey was taken just before the last federal election.

FIGURE 4

"WHICH OF THESE OUTCOMES WOULD YOU BE PREPARED TO PAY HIGHER TAXES TO ACHIEVE?" (RESPONDENTS COULD CHOOSE MULTIPLE OPTIONS)



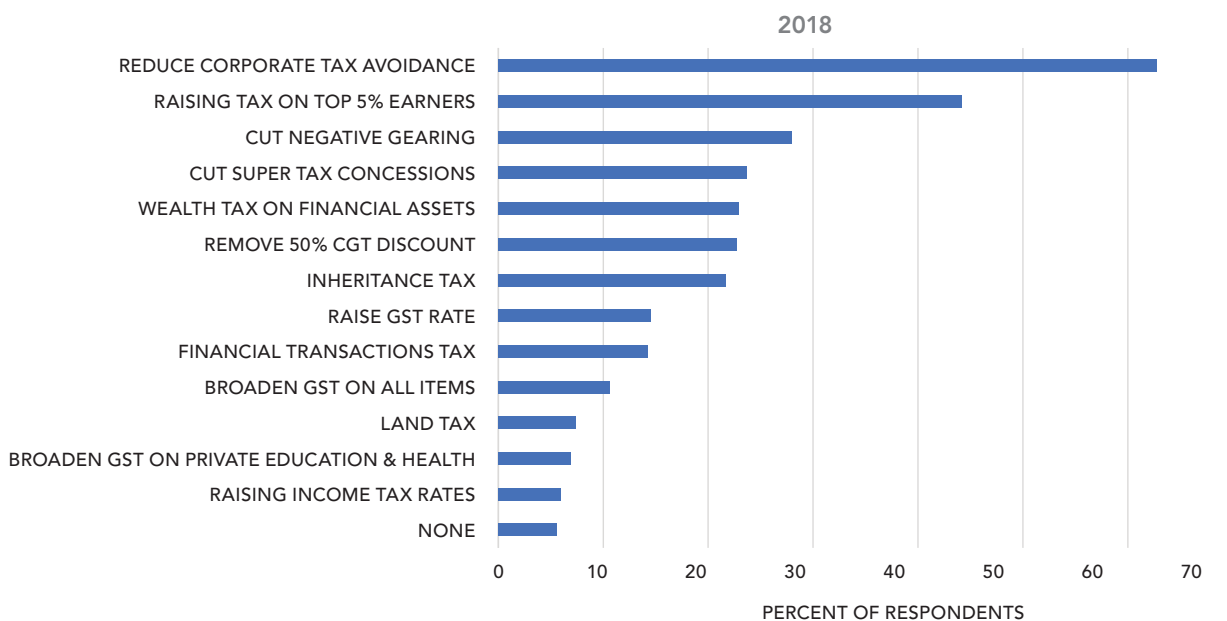
Given the decreasing willingness of people to personally pay more tax to support any services other than health and aged care, we then ask respondents what other taxation measures the Government might implement to raise revenue to pay for public services (see figure 5).

The next most popular options, as in previous years, are to raise tax on the top 5% of income earners (44.2%), and to cut tax concessions on negative gearing (28%) and superannuation (23.7%).

As in previous years, reducing corporate tax avoidance is the most popular option when people are asked how the government should raise additional tax revenue, with support from 62.8% of respondents.

FIGURE 5

“IF YOU WANTED TO RAISE MORE TAX IN AUSTRALIA TO PAY FOR QUALITY PUBLIC SERVICES, WHICH OF THE FOLLOWING APPROACHES WOULD YOU SUPPORT?” (RESPONDENTS COULD CHOOSE MORE THAN ONE OPTION)



*Note: N = 1,557 (2018)
Source: Per Capita Tax Survey

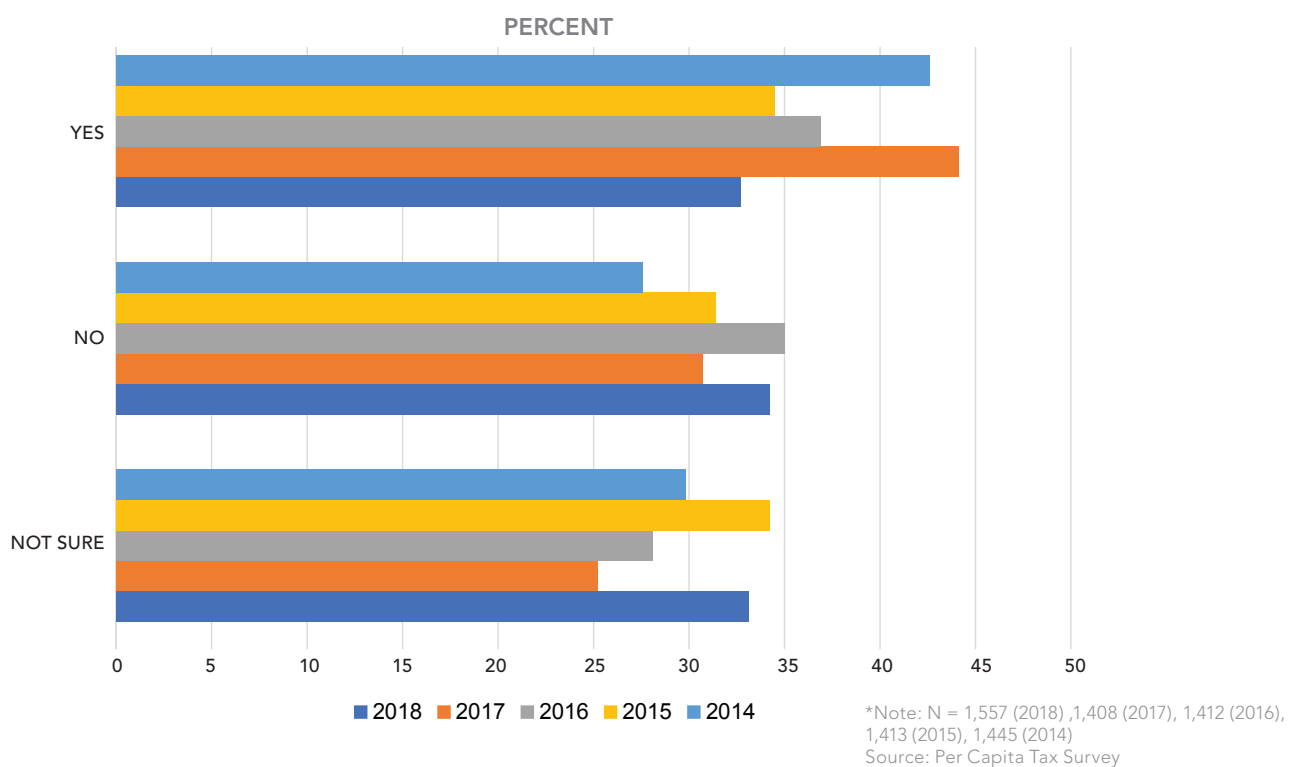
In the next question, we asked respondents for their views on governments taking on debt for long-term investment (see Figure 6). After a significant increase in 2017 in the level of support for government borrowing for long-term investment to a record high of 44%, this year's

results see a return to more historically consistent findings that are fairly evenly split between support for such borrowing (32.7%), opposition (34.2%) and those who don't know (33.1%).

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?"



The responses to the first section of our annual tax survey give us an idea of the public's views of the funding of public services. Australians continue to demonstrate concerns about the usefulness, ease of access and value for money of public services.

A significant majority of respondents believe that governments should spend more on public services, with a majority again supporting greater public spending on health and education.

2018 results show an ongoing willingness by significant numbers of respondents to pay higher personal income taxes to support public services, but most people want to see higher taxes on big business and high-income individuals rather than measures that would be raise revenue from the majority of income earners.

The most striking result from this section of the 2018 Survey is the finding that, for the first time, a majority of respondents support more spending on social security, with support of 55%.

Section II: Personal Tax Obligations

The next section of the Survey aims to uncover people's attitudes towards personal tax obligations, both their own and others'. This is the heart of the annual tax survey, and the questions in this section have been included since the first survey in 2010. They allow us to understand people's feelings regarding their own interactions with Australia's tax and transfer system.

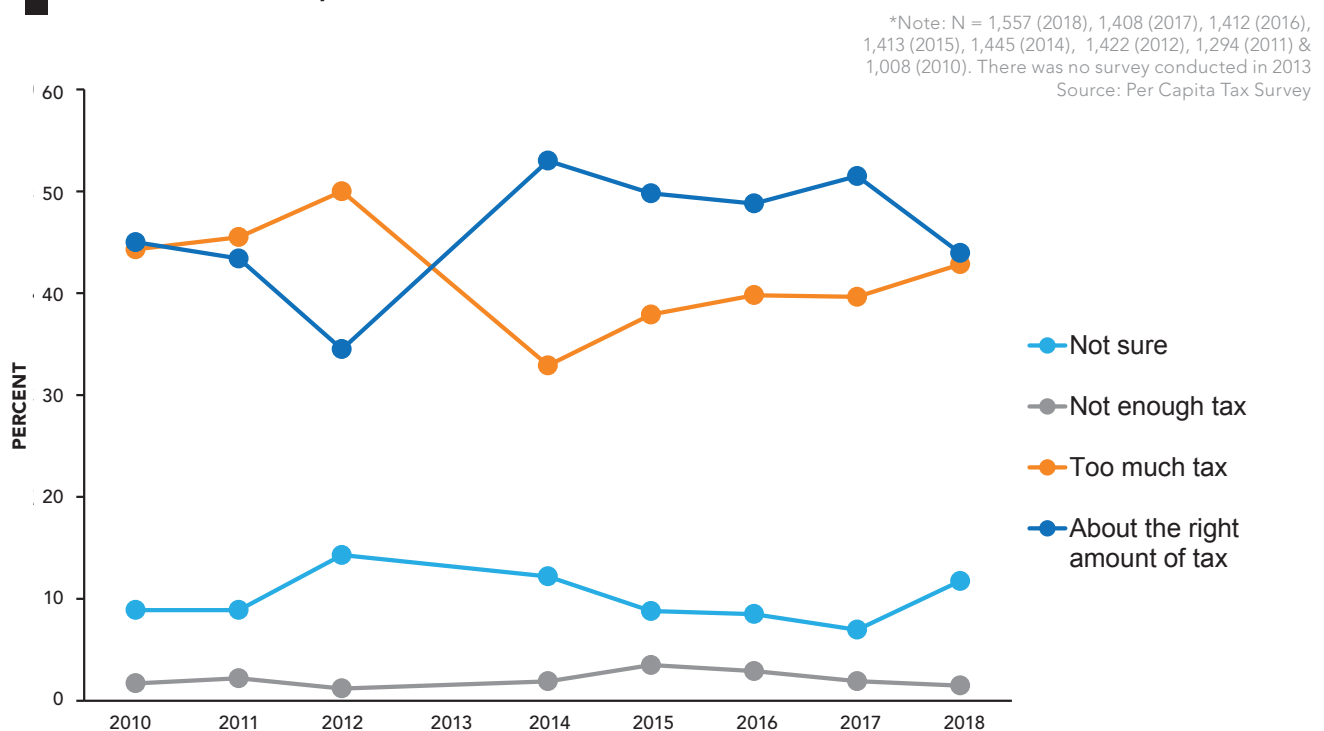
We first ask respondents for their opinions on their own tax contributions (see Figure 7). The findings from this question in 2018 reveal some significant developments over the last 12 months in people's feelings about the tax they pay.

Since 2014, around half of respondents have said they believe that they pay about the right amount of tax. In 2018, this number has dropped considerably, from 51.5% in 2017 to 43.93%.

The proportion of respondents who believe they pay too much tax has risen from 39.6% last year to 42.84% in 2018. Only 1.48% believe they don't pay enough tax, down slightly from 1.9% last year, while those who are "not sure" are up by 3.75% to 11.75%, the highest proportion in four years.

FIGURE 7

"IN YOUR OPINION, DO YOU PAY...?"



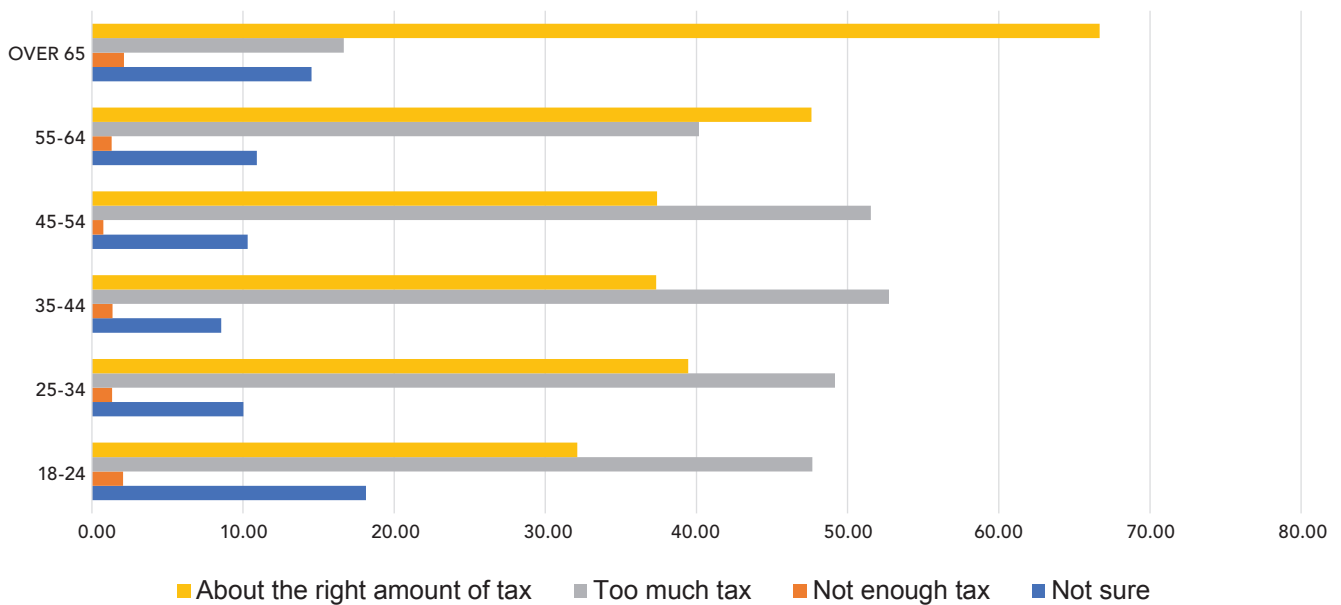
We then look at attitudes to people’s own tax contributions by age (Figure 8). These attitudes display a distinct pattern, constant over the seven years of the survey, in which a majority of only the oldest respondents - those aged over 65 - believe they pay about the right amount of tax, while those age brackets who make up the bulk of full-time pay-as-you-go taxpayers are more likely to say they pay too much.

There is significantly more uncertainty about this question amongst those aged 18-24, where almost one in five respondents is unsure of their views about the level of their own tax contribution.

FIGURE 8

“IN YOUR OPINION, DO YOU PAY...?” (RESPONSES CATEGORISED BY AGE BRACKET)

Note: N = 1,557 (2018)
Source: Per Capita Tax Survey



We also measure people’s attitudes to their own tax payments by household income (Figure 9). Again, the 2018 findings reveal some significant changes in views here.

Last year, in each income category up other than those earning over \$200,000 a year, the proportion of those who felt their tax contribution was about right exceeded those who said they pay too much tax.

In 2018, the income cut off at which more people believe they are paying too much tax than the right amount dropped to \$80,000. That is, more respondents in all income brackets over \$80,000 now believe they are paying too much tax rather than the right amount.

Moreover, in all those income brackets over \$80,000, an absolute majority of respondents, of at least 55%, believe they are paying too much tax. This is a significant difference with last year’s survey findings, when only in the highest income bracket, those households earning over \$200,000 per annum, did an absolute majority believe they paid too much tax.

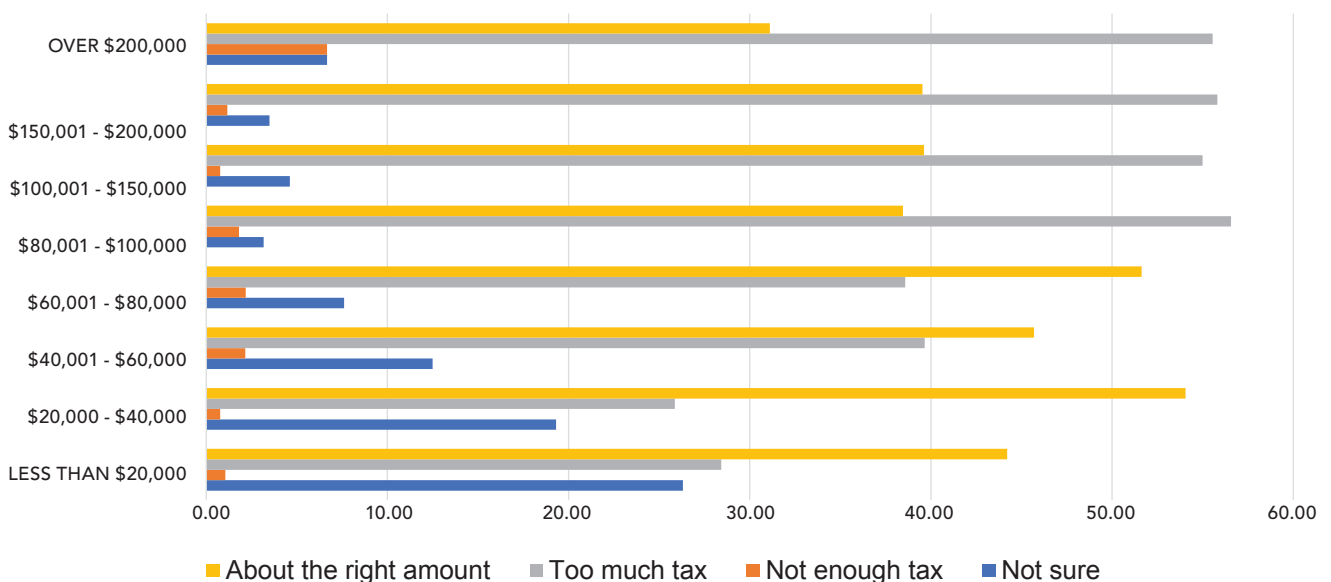
These analyses of people’s views of their own tax contribution by age and income highlight a considerable shift in people’s views of their own tax contributions over the last year.

Significantly more people this year believe their tax rates are too high: we have seen a notable rise in those who believe they pay too much tax in all age groups other than the over 65s, and a majority of respondents in all income brackets over \$80,000 now say the tax they pay is too high.

FIGURE 9

**“IN YOUR OPINION, DO YOU PAY...?”
(RESPONSES CATEGORISED BY ANNUAL HOUSEHOLD INCOME BRACKET)**

Note: N = 1,557 (2018)
Source: Per Capita Tax Survey



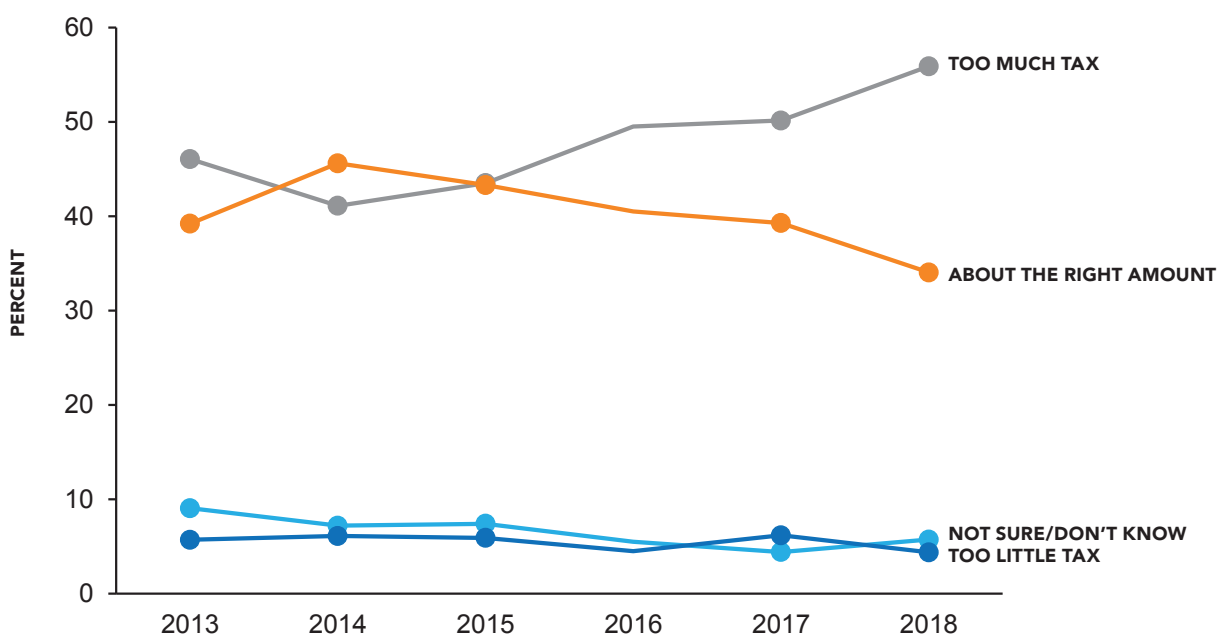
Section III: Fairness of the Tax System

The third section of the Survey looks at public perception of the integrity of our tax system. It asks for people's views of the relative fairness of contributions from low-, middle- and high-income earners, and from small and big businesses. The majority of these questions have been asked since the first Survey in 2010, allowing us to build a picture of trends in popular sentiment over time.

The proportion of those who say low-income earners pay too much tax in 2017 was 50.14%; in 2018, that has jumped to 55.88% (see Figure 10). At the same time, the percentage of respondents who say low-income earners' tax payments are about right dropped 5.24% since last year to 34.04%. The share who say they pay too little also dropped from 6% to 4.37% this year.

FIGURE 10

"IN YOUR OPINION, DO LOW INCOME EARNERS PAY...?"

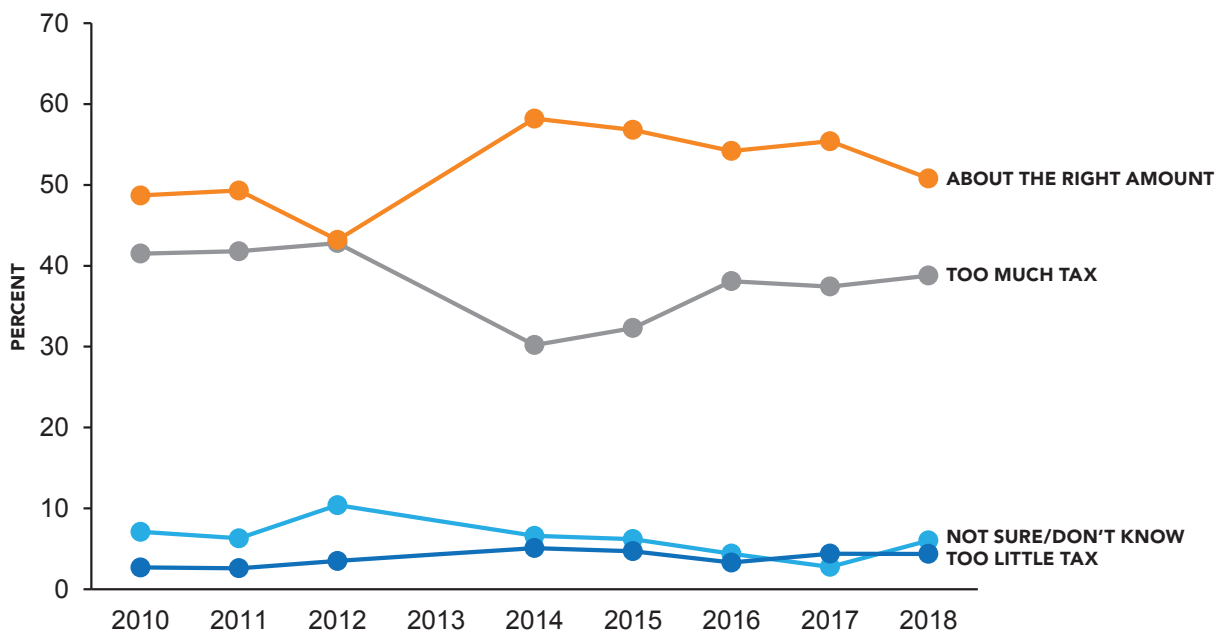


*Note: N = 1,557 (2018), 1,408 (2017), 1,412 (2016), 1,413 (2015), 1,445 (2014), 1,422 (2012), 1,294 (2011) & 1,008 (2010). There was no survey conducted in 2013
Source: Per Capita Tax Survey

A majority of respondents (50.8%) believe that middle-income earners pay about the right amount of tax, but this is down from 55% last year (see Figure 11). The share who say that middle-income earners pay too much tax is up slightly from 37.43% to 38.79%.

FIGURE 11

"IN YOUR OPINION, DO MIDDLE INCOME EARNERS PAY...?"



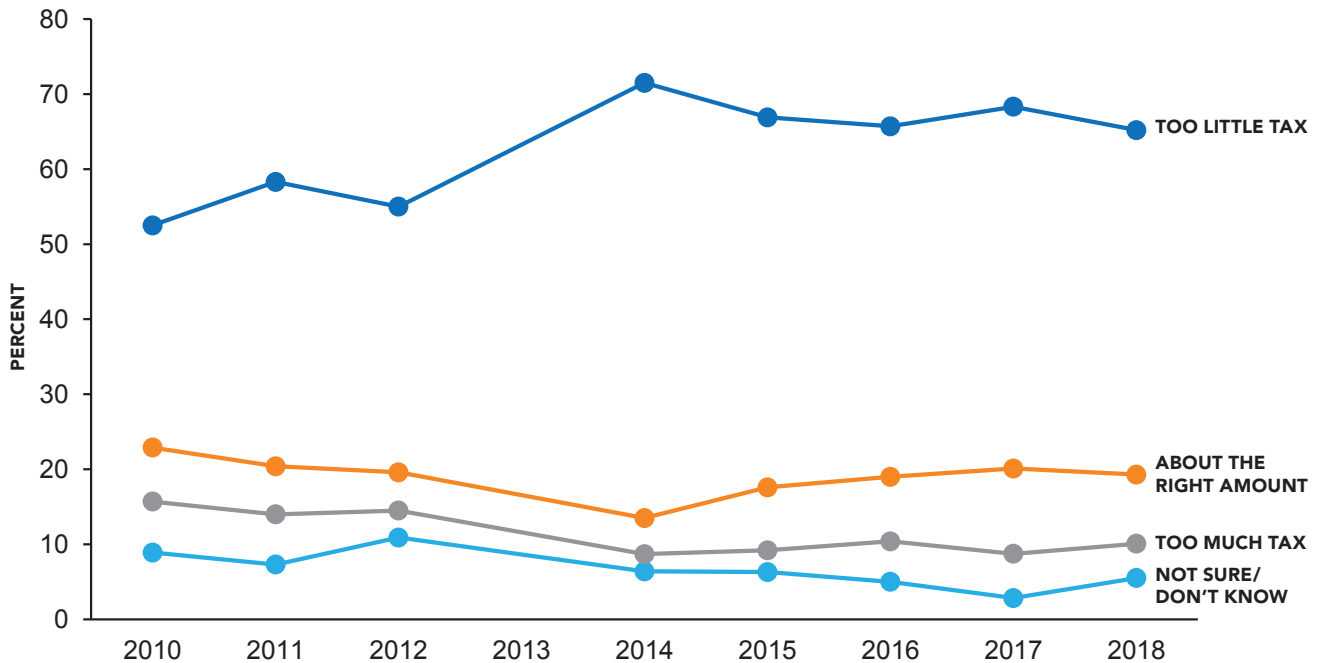
*Note: N = 1,557 (2018), 1,408 (2017), 1,412 (2016), 1,413 (2015), 1,445 (2014), 1,422 (2012), 1,294 (2011) & 1,008 (2010). There was no survey conducted in 2013
Source: Per Capita Tax Survey

As in previous years, the most strongly held view in this section of the Survey is that high-income earners do not pay enough tax (see Figure 12). This is supported by almost two-thirds of respondents - 65.19%, down from 68.32% last year.

Only one-fifth of people (19.29%) say that high-income earners pay about the right amount of tax, while 10.08% believe that they pay too much. Both these levels are similar to last year.

FIGURE 12

"IN YOUR OPINION, DO HIGH INCOME EARNERS PAY...?"



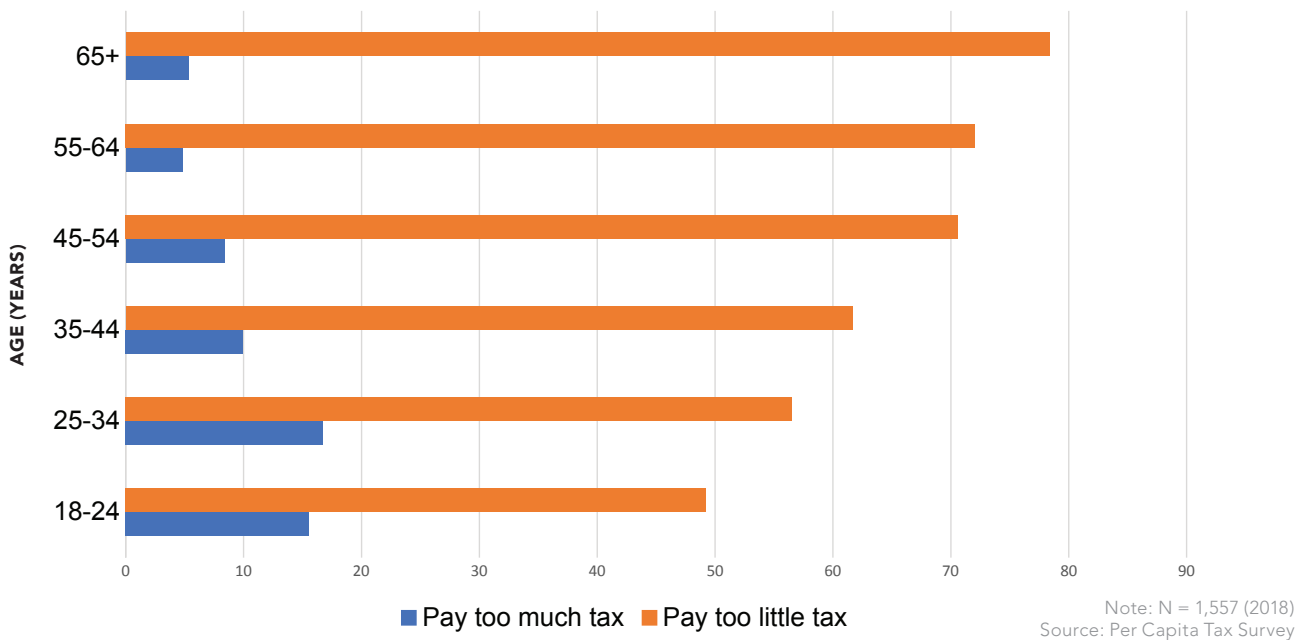
*Note: N = 1,557 (2018), 1,408 (2017), 1,412 (2016), 1,413 (2015), 1,445 (2014), 1,422 (2012), 1,294 (2011) & 1,008 (2010). There was no survey conducted in 2013
Source: Per Capita Tax Survey

As with previous surveys, we have analysed the gap between those who believe high-income earners pay too much and those who think they pay too little by age, household income and political persuasion.

In each age bracket other than 18-24, where the figure is 49.22%, an outright majority believes that high-income earners pay too little tax (see Figure 13). The intensity of this belief increases consistently with age, from 56.52% support in the 25-34 age bracket to 78.37% in the over 65 bracket.

FIGURE 13

**“IN YOUR OPINION, DO HIGH INCOME EARNERS PAY TOO LITTLE OR TOO MUCH TAX?”
(RESPONSES CATEGORISED BY AGE BRACKET)**

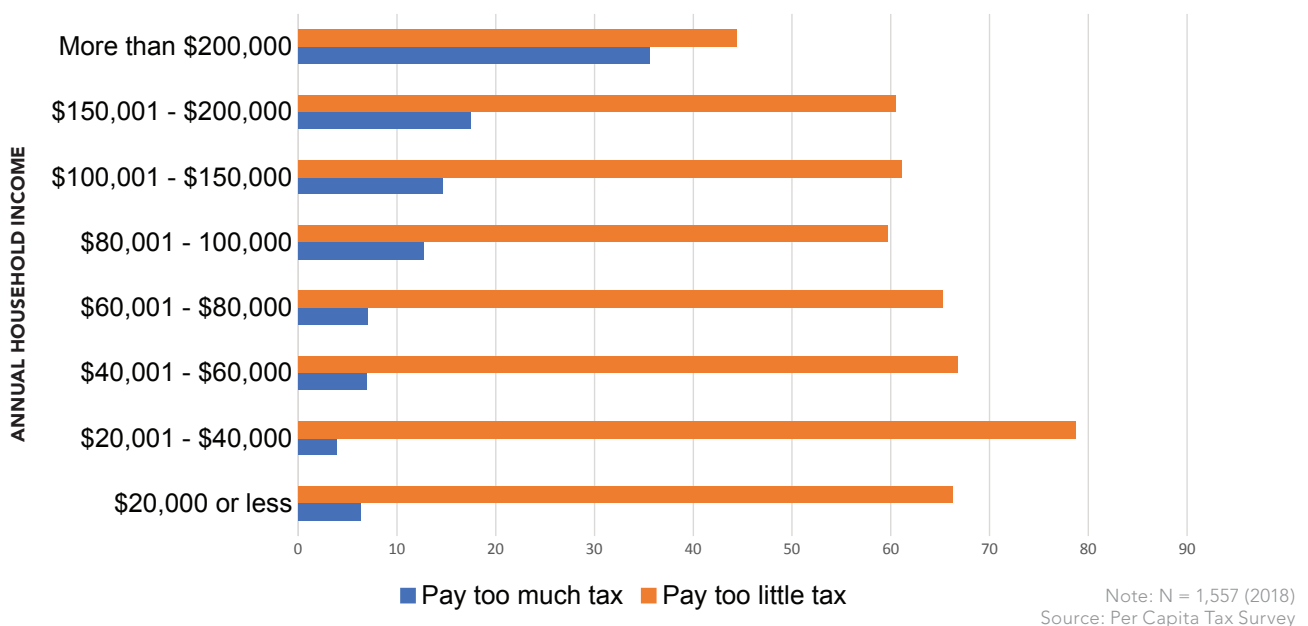


A significant majority, of 60% or more, also supports this view in every income bracket except over \$200,000 p.a. (see Figure 14). For all income brackets under \$80,000 per annum, this view is held, ranging between 65% and 79%.

44.44% of respondents from households in the over \$200,000 income bracket believe high income earners pay too little tax. This group has the largest share who say high-earners pay too much tax, but this finding has recovered from a record low of 17% in 2017 to a more historically consistent 35.56% this year.

FIGURE 14

**“IN YOUR OPINION, DO HIGH INCOME EARNERS PAY TOO LITTLE OR TOO MUCH TAX?”
(RESPONSES CATEGORISED BY ANNUAL HOUSEHOLD INCOME BRACKET)**

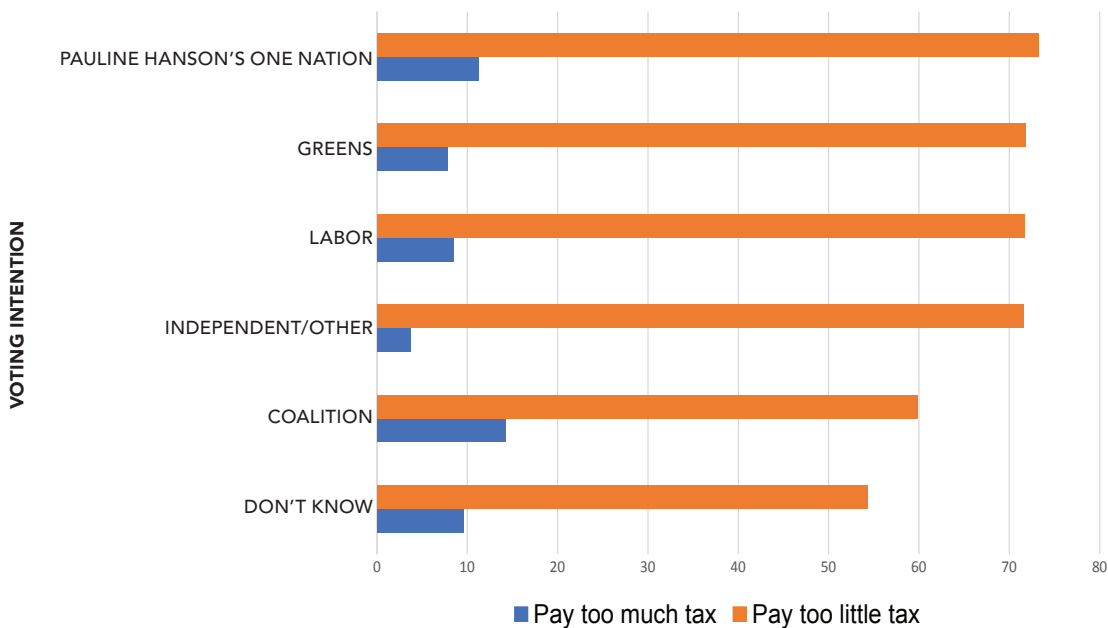


We also analyse the responses by voting intention at the next Federal election (see Figure 15). A significant majority of the supporters of every major party believe that high-income earners pay too little tax. For Coalitions supporters, the figure is 59.81%, while for supporters of every party other than the Coalition, the figure is over 70%.

The perception that those at the top of the income scale are making inadequate contributions to the national budget is shared across the political spectrum, but it is those who intend to vote for One Nation candidates at the next election who are most likely to believe that high income earners are not paying enough tax, at 73.27%.

FIGURE 15

**"IN YOUR OPINION, DO HIGH INCOME EARNERS PAY TOO LITTLE OR TOO MUCH TAX?"
(RESPONSES CATEGORISED BY ANNUAL HOUSEHOLD INCOME BRACKET)**

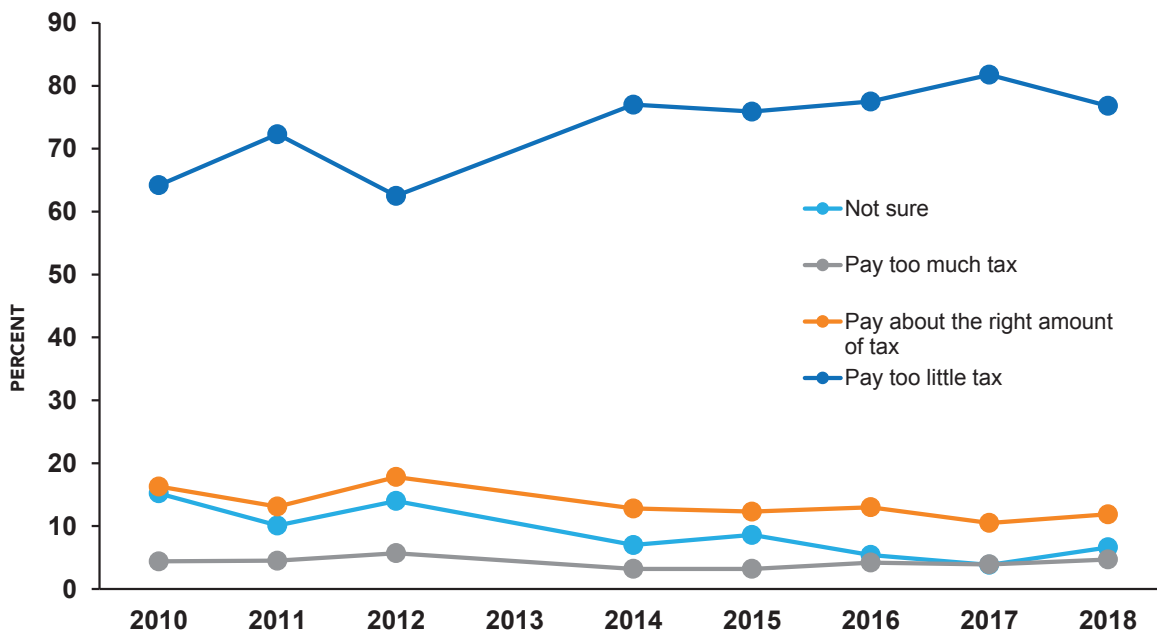


Note: N = 1,557 (2018)
Source: Per Capita Tax Survey

This section of the Survey then looks at attitudes towards tax contributions by business. For the fifth year in succession, over three-quarters of respondents (76.81%) say that big businesses and corporations don't pay enough tax (see Figure 16). 11.8% of respondents say that big business pays the right amount of tax, while 4.69% say it pays too much, both figures virtually unchanged from last year. The number of respondents who were unsure about this question was up from 3.8% in 2017 to 6.62% this year.

FIGURE 16

"IN YOUR OPINION, DO BIG BUSINESSES AND CORPORATIONS PAY...?"

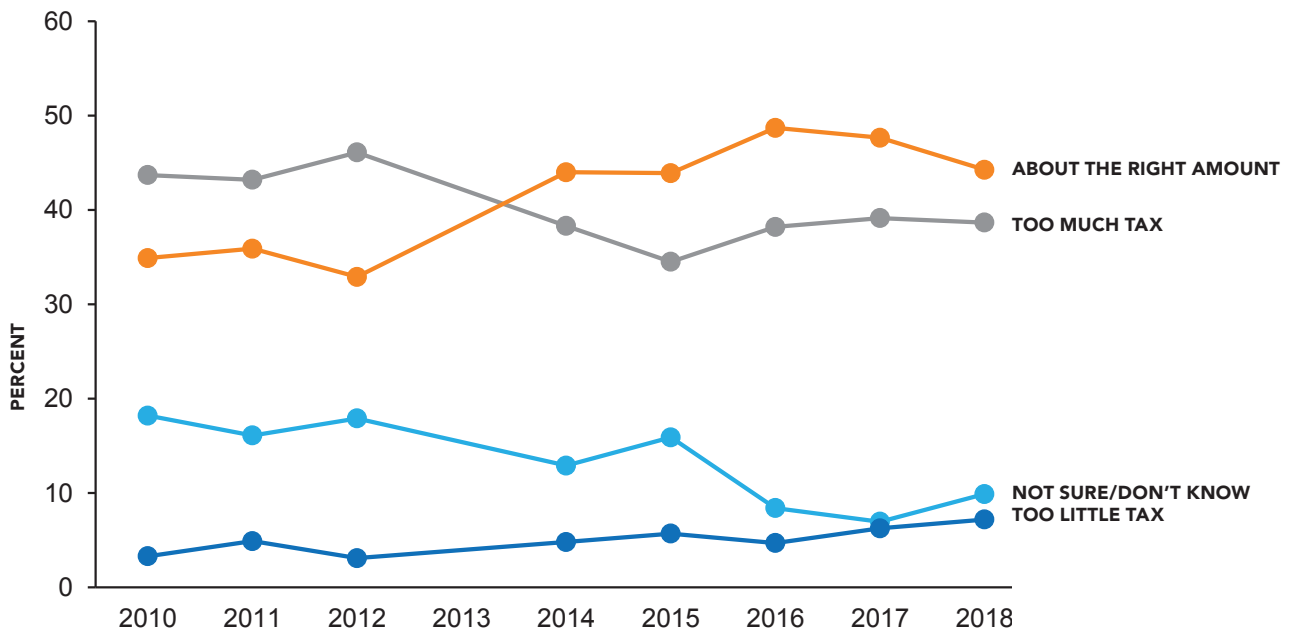


*Note: N = 1,557 (2018), 1,408 (2017), 1,412 (2016), 1,413 (2015), 1,445 (2014), 1,422 (2012), 1,294 (2011) & 1,008 (2010).
There was no survey conducted in 2013
Source: Per Capita Tax Survey

As reflected in previous Tax Surveys, Australians hold different attitudes towards the tax contributions of small business than they do to those of large corporations (see Figure 17). Only 7.19% believe that small businesses pay too little tax. The largest group of respondents (44.25%, down from 48% in 2017) say small businesses pay the right amount of tax, while 38.66% say they pay too much, which is virtually unchanged from last year.

FIGURE 17

“IN YOUR OPINION, DO SMALL BUSINESSES PAY...?”



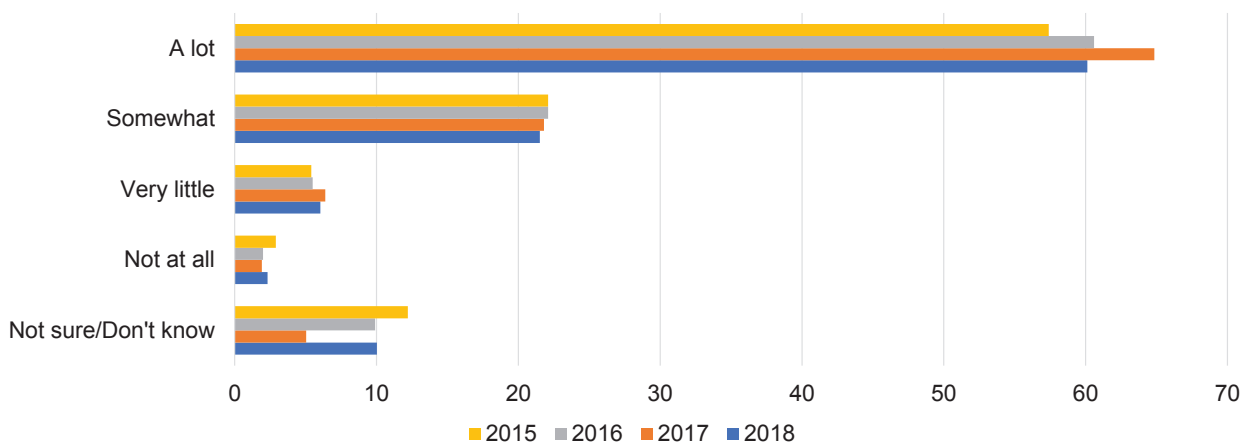
*Note: N = 1,557 (2018), 1,408 (2017), 1,412 (2016), 1,413 (2015), 1,445 (2014), 1,422 (2012), 1,294 (2011) & 1,008 (2010).
There was no survey conducted in 2013
Source: Per Capita Tax Survey

The last question in this section asks respondents about the impact of corporate tax avoidance on the fairness of the tax system (see Figure 18). 60.12% of respondents say that corporate tax avoidance affects the fairness of the tax system a lot, down 4.72 percentage points from last year to return to similar levels as 2016. A further 22.52% say it affects the system somewhat, virtually unchanged from last year. Only 6.04% say the impact of corporate tax avoidance is very little, while 2.31% believe it has no effect at all, both of which figures are similar to 2017 findings.

In total, more than four in five respondents to the Survey believe that corporate tax avoidance is affecting the fairness of Australia’s taxation system.

FIGURE 18

“TO WHAT EXTENT DO YOU THINK CORPORATE TAX AVOIDANCE AFFECTS THE OVERALL FAIRNESS OF THE TAXATION SYSTEM?”



Note: N = 1,557 (2018), 1,408 (2017), 1,412 (2016), 1,413 (2015)
Source: Per Capita Tax Survey

Taken together, results from this section of the Survey provide compelling insights into the public's view of the fairness of our tax system.

Two-thirds of Australians think high earners don't pay enough tax and four-fifths believe big business isn't contributing its fair share. In every age group, every political persuasion and every income bracket except those over \$200,000, a majority of people agrees that high income earners pay too little tax, and 82.64% believe that corporate tax avoidance reduces the fairness of the system either somewhat or a lot.



Section IV: Current Issues in the Policy Debate

The fourth part of the Survey looks at issues that are live in the current policy debate. In 2018, we have retained questions from previous years' surveys that cover negative gearing and the so-called "Buffet Rule" to cap tax deductions for high-income earners.

We also kept last year's question canvassing views about the Government's tax cuts for business, both those already legislated for small business and those yet to pass the Parliament for big business and corporations.

And we added one new question to gauge support for the government's recently cancelled increase in the Medicare Levy to fund the National Disability Insurance Scheme (NDIS). The Survey was taken a month before the decision to reverse this policy was announced last week.

Negative Gearing

The political debate around reforming Australia's negative gearing arrangements has cooled considerably since the 2016 federal election. The proposals the ALP took to that election - to restrict negative gearing tax deductions to new-

build investment property and halve the capital gains discount on assets held longer than 12 months from 50% to 25% - are no longer exciting controversy, and there is, as yet, no indication that the Coalition intends to announce its own reforms to negative gearing and Capital Gains Tax concessions.

For the fourth year, the 2018 Tax Survey asks respondents which, if any, changes they would like to see made to negative gearing (see Figure 19). The 2017 Survey found a significant increase in support for the abolition of negative gearing - it was by far the most popular option, with support at 22.9%, up from just 15.4% in 2016.

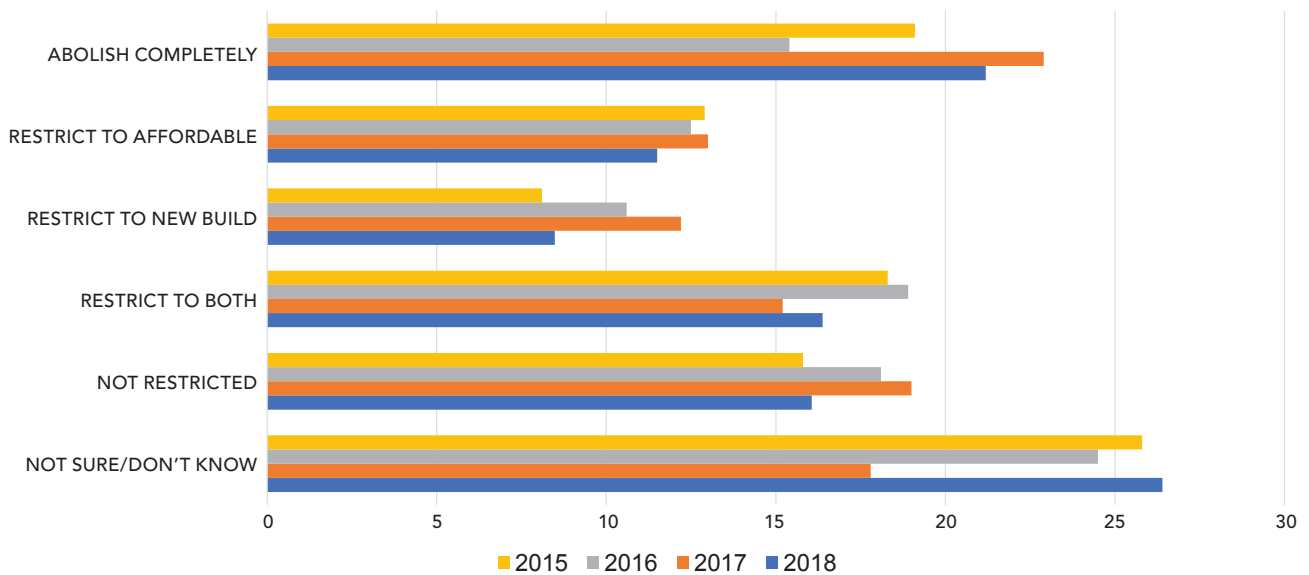
The 2018 Survey finds that support for abolishing negative gearing remains fairly steady, at 21.19% - still by far the most popular option for reforming the arrangements, ahead of restricting it to newly built housing at 8.48%, restricting it to affordable housing at 11.55 and restricting it to both affordable and newly built housing at 16.38%.

The proportion of those who don't believe negative gearing should be restricted at all has fallen from 19% last year to 16.06% this year. But uncertainty about this policy area is at a record

high, with 26.4% saying they don't know. While this is up considerably from 2017 (17.8%), it is similar to the findings in the first two years we asked this question – 25.8% in 2015 and 24.5% in 2016.

FIGURE 19

“NEGATIVE GEARING IS A FAVOURABLE TAX CONCESSION FOR THOSE WHO OWN INVESTMENT PROPERTIES. WHICH OF THE FOLLOWING CHANGES DO YOU THINK SHOULD BE MAKE TO NEGATIVE GEARING?”



*Note: N = 1,557 (2018), 1,408 (2017), 1,412 (2016) & 1,413 (2015)
Source: Per Capita Tax Survey

A 'Buffett Rule'

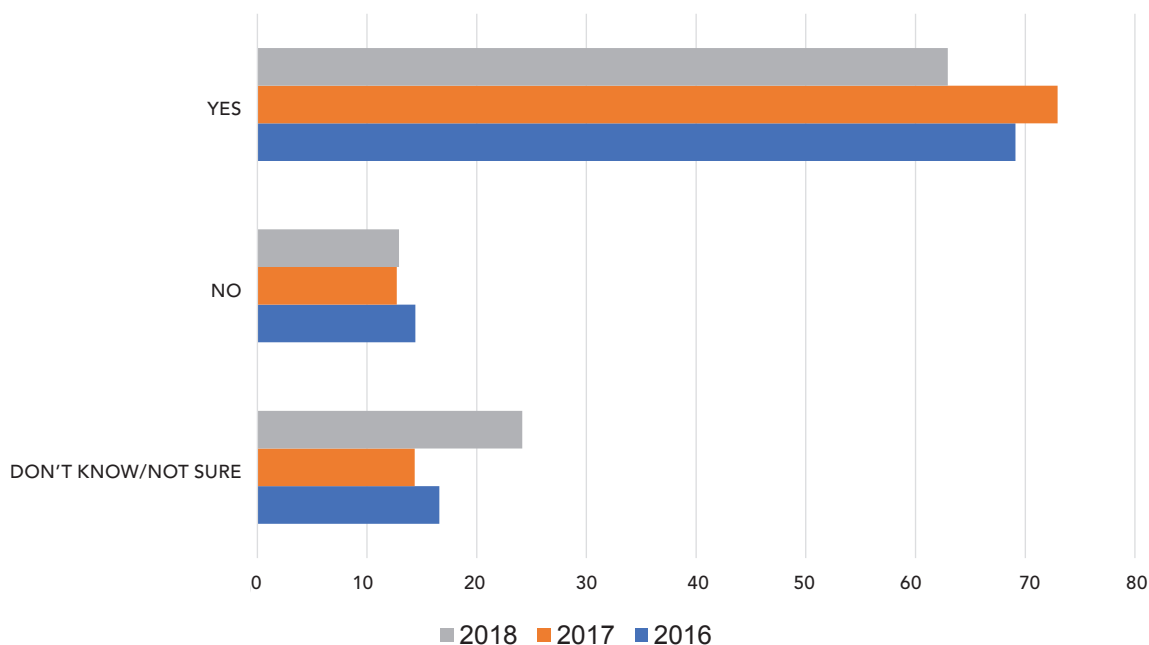
The Buffett Rule is named after American billionaire investor Warren Buffett and posits that high-income earners should not pay a lower share of their income in tax than low and middle-income earners do. It is essentially a deductions cap: a simple measure by which tax law creates a floor under which high-income earners are unable to reduce their taxable income via deductions or other legal measures.

The idea remains in favour with some in the ALP, but has been ruled out by the Labor front bench and is not likely to become policy for either of the major parties in the foreseeable future.

The 2016 Tax Survey asked for the first time whether there should be a minimum overall tax rate for very high-income earners, defined as the top 1% of earners (see Figure 20). A large majority (72.94%) last year said that they would support such a proposal, but that figure has dropped back considerably this year to 69.1%. The numbers opposing the idea have remained steady at 12.91%; it appears the drop in support is entirely due to more people being uncertain this year, now at 24.15%, up from 14.34% last year. This is probably due to the issue being less prominent in public debate over the past 12 months.

FIGURE 20

"SHOULD THERE BE A MINIMUM OVERALL TAX RATE FOR VERY HIGH INCOME EARNERS (I.E. THE TOP 1% OF EARNERS)?"



*Note: N = 1,557 (2018), 1,408 (2017), 1,412 (2016)
Source: Per Capita Tax Survey

Company Tax Cuts

For the second year, we asked people about their support for the Government’s proposed and partially legislated company tax cuts from 30% to 25%.

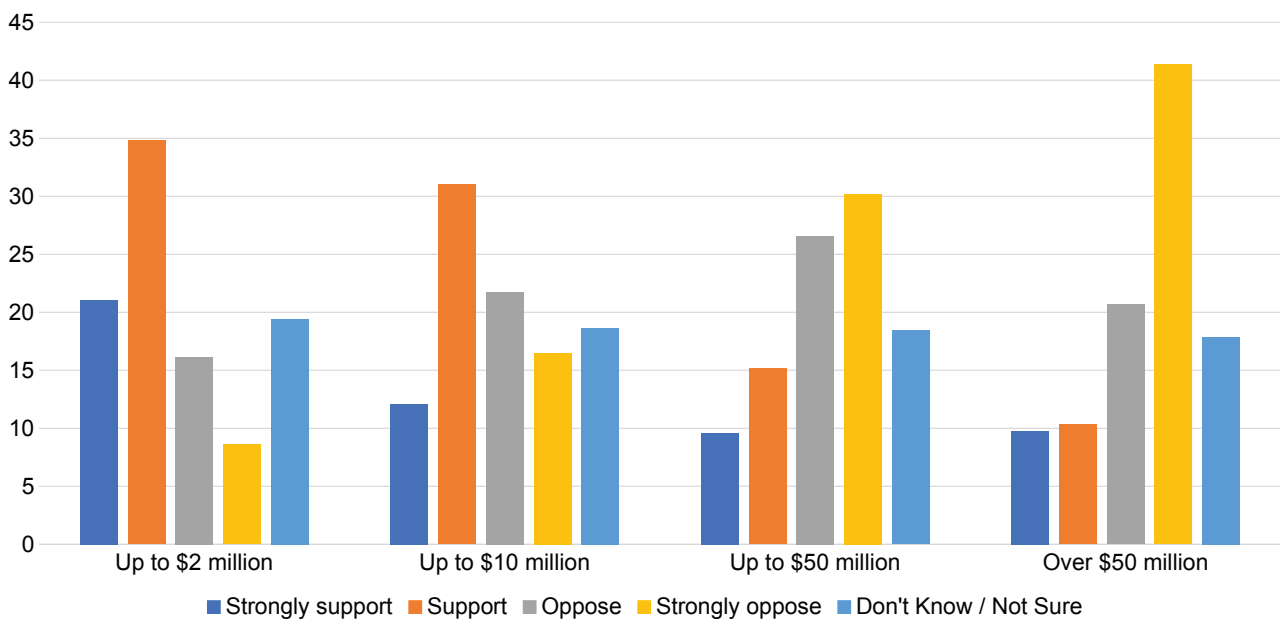
Again, we found that a significant majority (65.88%) support cuts to company tax for businesses with an annual turnover of up to \$2million – 34.81% support and 21.07% strongly support this measure (see Figure 21).

While last year a small majority (51%) supported cuts to company tax for businesses with an annual turnover of up to \$10million, this year that figures has dropped to 43.09% (31.02% strongly support and 12.07% support), while the proportion of respondents who were unsure about tax cuts for businesses in this size bracket increased markedly from 8% in 2017 to 18.63% this year.

The final tranche of these tax cuts, for businesses with an annual turnover of more than \$50million, is opposed by 62.04% of respondents.

FIGURE 21

“COMPANY TAX WAS RECENTLY CUT FROM 30% TO 25% FOR BUSINESSES WITH A TURNOVER OF LESS THAN \$50 MILLION PER ANNUM, COMING INTO FULL EFFECT BY 2026-27. DO YOU SUPPORT OR OPPOSE TAX CUTS FOR BUSINESSES WITH ANNUAL TURNOVERS OF...”



Note: N = 1,557 (2018). Source: Per Capita Tax Survey

The legislation to give effect to the extension of the cuts, the Treasury Laws Amendment (Enterprise Tax Plan Bill No. 2) 2017, is currently the subject of furious negotiations between the Senate cross bench and the Government. Given the finely balanced state of these negotiations, we have broken down support for extending the cuts to large businesses by voter intention (see Figure 22).

We found that support for a tax cut for big business is weak amongst supporters of all the Senate opposition and cross-bench parties.

67.96% of Greens party supporters oppose the final stage of the tax cut, while for Labor voters the figure is 68.03%.

A significant majority of those intending to vote Independent/Other, which includes supporters of Central Alliance (formerly the Nick Xenophon

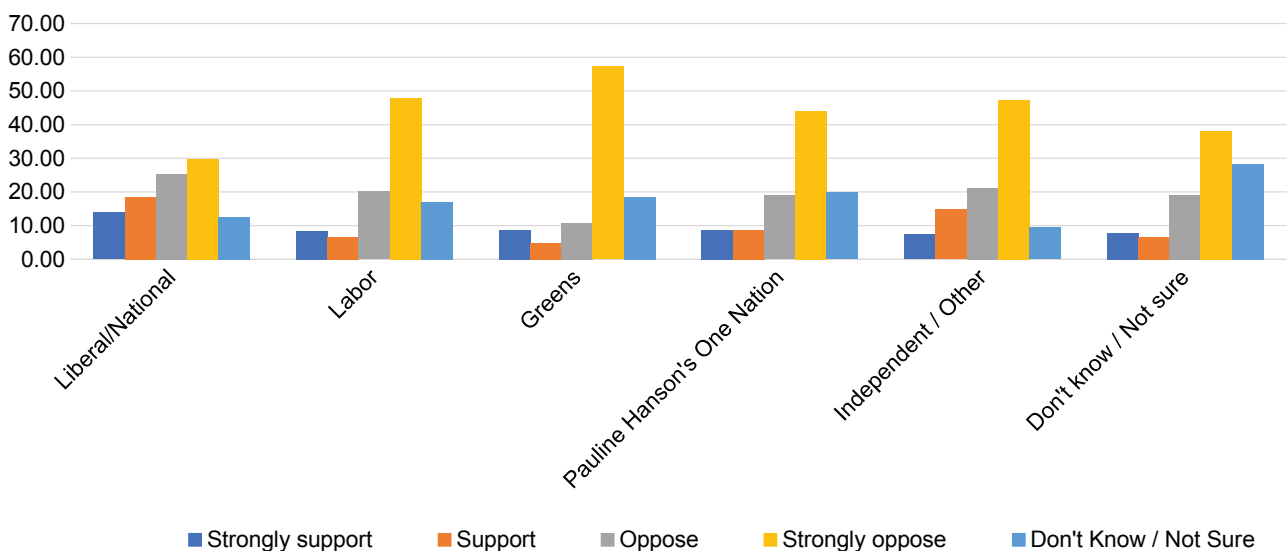
Team) and Senators Derryn Hinch and Tim Storer, oppose the tax cuts, with a figure of 68.42. This grouping has the highest level of support for the cuts, at 22.11%, other than among Coalition voters, who support it by 32.39%. 9.47% of Independent voters remain unsure.

It's notable that less than a third of Coalition voters support the final stage of the Government's signature tax policy, and a majority (55.09%) oppose it, with 29.79% strongly opposed.

Significantly, given their recent about-face to support the tax cuts for big business, Pauline Hanson's One Nation finds itself considerably at odds with its supporter base, where opposition to the cuts runs at 62.94%, and support at just 17.24%. This voter base has the highest level of uncertainty, at 19.83%.

FIGURE 22

"DO YOU SUPPORT OR OPPOSE TAX CUTS FOR BUSINESSES WITH AN ANNUAL TURNOVER OF MORE THAN \$50 MILLION?"



Note: N = 1,557 (2018). Source: Per Capita Tax Survey

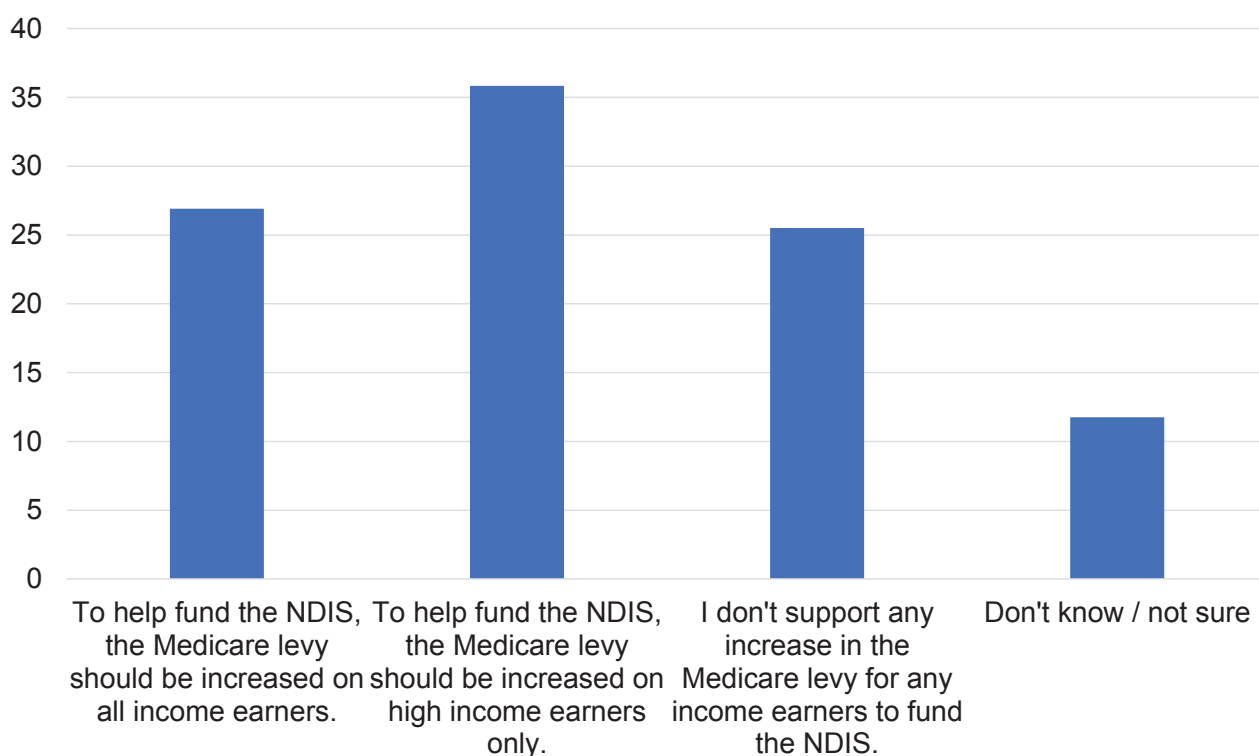
NDIS and the Medicare Levy

The Survey found that support for the increase to the Medicare Levy, which was scheduled to commence in July 2019 before being abandoned by the Government on 26 April, had a low level of support amongst voters.

Only 26.9% supported an increase in the Levy from 2% to 2.5% for all income earners (see Figure 23). A larger proportion, 35.8%, supported lifting the Levy only on high income earners, while 25.5% did not support any increase in the Medicare Levy at all, with 11.75% not sure.

FIGURE 23

"IN THE 2017 FEDERAL BUDGET, THE GOVERNMENT ANNOUNCED THE MEDICARE LEVY WILL INCREASE FROM 2% TO 2.5% FOR ALL INCOME EARNERS. THIS IS TO FUND THE NATIONAL DISABILITY INSURANCE SCHEME (NDIS) AND IT WILL BEGIN ON JULY 2019. WHICH OF THE FOLLOWING DO YOU MOST SUPPORT?"



Note: N = 1,557 (2018)
Source: Per Capita Tax Survey

The fact that only just over a quarter of respondents supported an increase on all income earners to fund the NDIS is somewhat at odds with the finding that a majority of people were personally willing to pay more tax to fund better health and aged care services.

We then broke down these findings by voting intention (see Figure 24). Only among Coalition voters was the Government’s now abandoned policy to increase the Levy on all income earners more popular, at 33.57%, than the ALP’s proposal to limit it to high income earners, which was supported by 30.97% of those intending to vote for the Coalition at the next election.

Among ALP voters, support for an increase on all income earners was at 24.81% while the ALP’s own policy enjoyed the support of 42.25% of its own voters. Greens voters and those who intend to vote for One Nation also favoured the

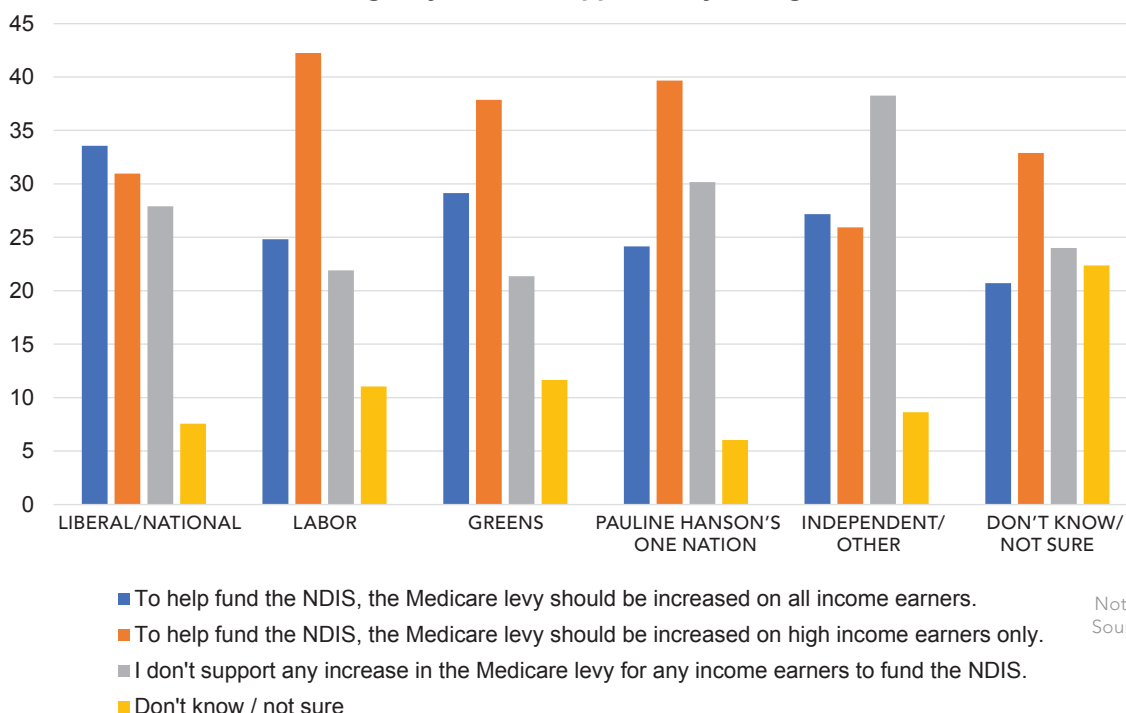
ALP’s approach, at 37.86% and 39.66% support respectively, while those same voters recorded just 29.13% and 24.14% support for the Government’s abandoned policy. Similarly, undecided voters favoured the ALP’s policy by 32.89% to 20.72% for the government’s former policy.

Voters who intend to vote for an independent or other candidate slightly favoured the government’s old policy, with 27.16% in favour, compared to 25.93% who wanted to see the Levy increase limited to high income earners.

27.9% of Coalition voters, 21.9% of ALP voters, 21.36% of Greens voters, 30.17% of One Nation voters, 38.27% of independent voters and 24.01% of undecided voters didn’t support an increase in the Levy to fund the NDIS at all.

FIGURE 24

“IN THE 2017 FEDERAL BUDGET, THE GOVERNMENT ANNOUNCED THE MEDICARE LEVY WILL INCREASE FROM 2% TO 2.5% FOR ALL INCOME EARNERS. THIS IS TO FUND THE NATIONAL DISABILITY INSURANCE SCHEME (NDIS) AND IT WILL BEGIN ON JULY 2019. WHICH OF THE FOLLOWING DO YOU MOST SUPPORT?” BY VOTING INTENT.



Section V: International Tax Comparisons

The last set of questions in the Survey examines perceptions of tax and spending levels in Australia compared to those in other OECD countries. While the narrative around the so-called “debt and deficit disaster” has largely disappeared from political debate over the last 12 months, the argument over whether Australia has a “spending problem” or a “revenue problem” – that is, whether we are spending too much on services or raising too little in taxation – is arguably in sharper relief than ever, given the increasingly divergent positions of the two major parties on tax and transfer policies.

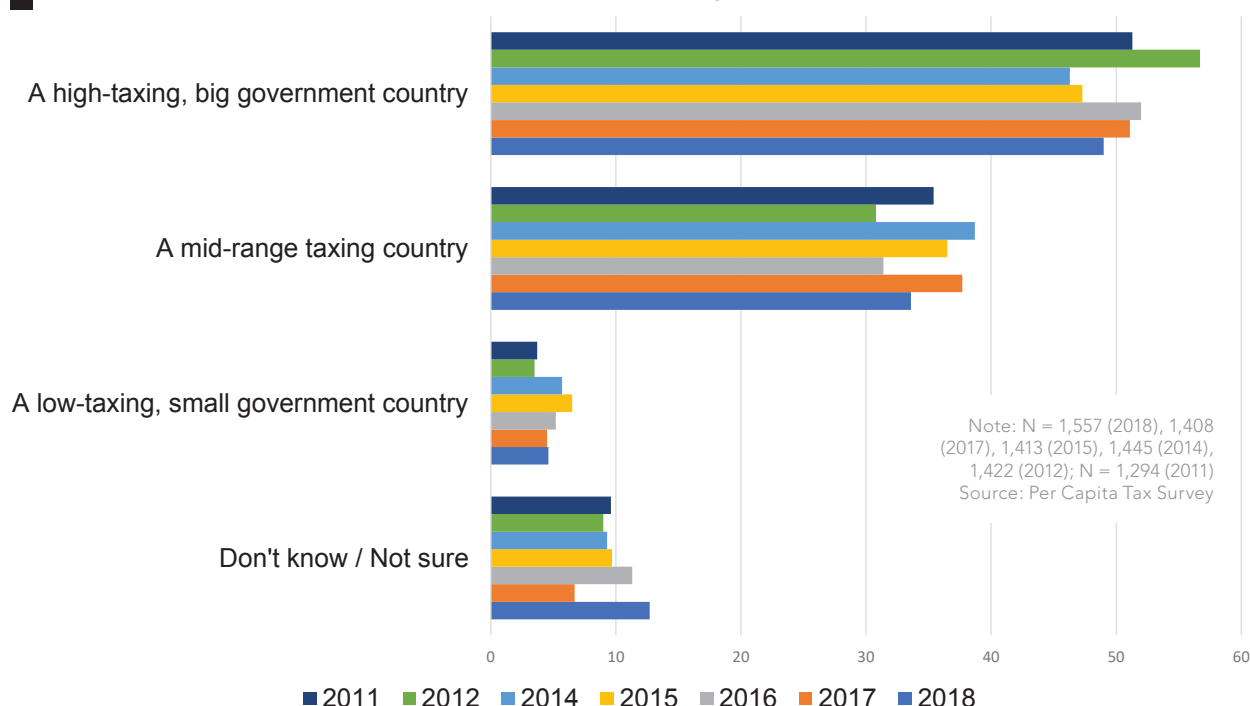
Given this, it is instructive to evaluate how Australian citizens understand the extent of taxation and spending in Australia, and how we compare to similar countries.

The responses to this question, as in previous years, show that Australians believe they live in a high-taxing, big government (IE: high spending) country (see Figure 25). There has been a slight drop in the proportion of respondents who believe this, from 51.1% in 2017 to 49% this year.

One third of people (33.6% - down from 37.7% in 2017) say that Australia is a mid-range taxing country with a mid-sized government, while only a few people (4.6%, statistically unchanged from last year) believe Australia is a low-taxing, small government nation.

FIGURE 25

PERCEPTIONS ON AUSTRALIAN TAX LEVELS BY INTERNATIONAL STANDARDS “WHEN COMPARED WITH OTHER DEVELOPED COUNTRIES, DO YOU THINK AUSTRALIA IS...?”

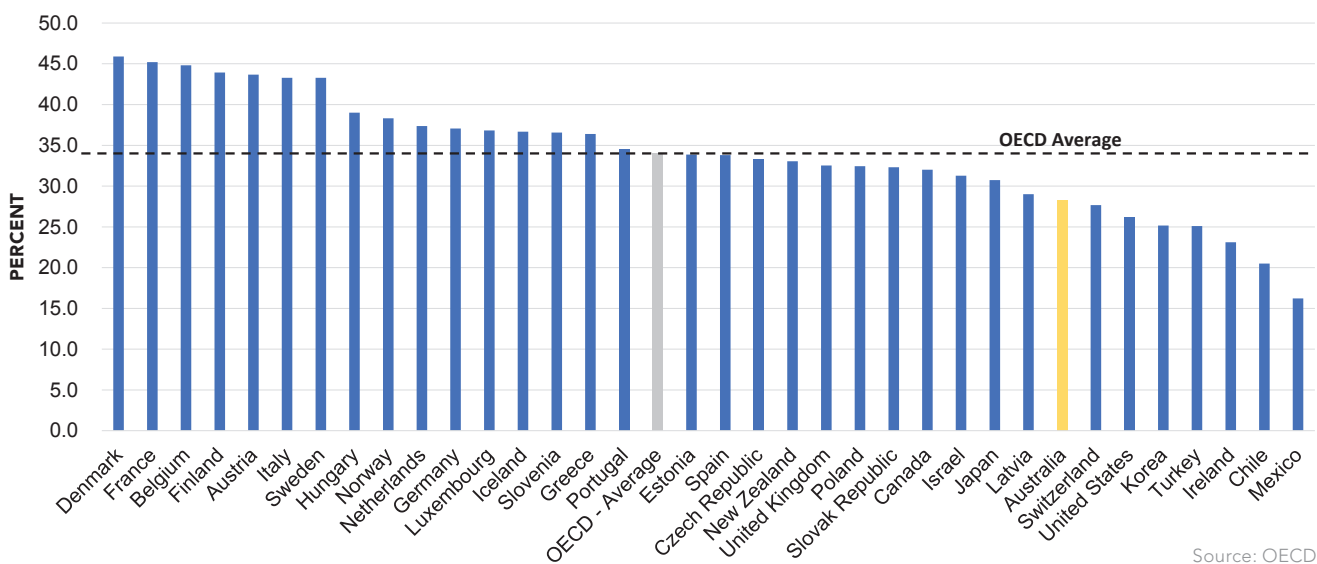


In reality, Australia is a low-taxing, small-spending nation, ranking 29th out of 36 OECD countries in size of government, as measured as the tax share of GDP. Our tax-to-GDP ratio is 28.2% compared with an OECD average of 34.0% and a maximum level (for Denmark) of 45.9%. Of the 36 OECD countries, only Switzerland, the United States, Korea, Turkey, Ireland, Chile and Mexico have lower tax to GDP ratios than Australia.


The empirical data show that the majority of respondents who believe that we are a high-taxing, big government country are quite wrong. Less than one in 20 respondents correctly identify Australia as a low taxing, small government country. This gulf between perception and reality continues to distort the national debate about appropriate levels of spending and taxation in Australia.

FIGURE 26

OECD COUNTRIES TOTAL TAX REVENUE AS A SHARE OF GDP (2015)



Source: OECD



Section VI: Concluding Thoughts and Considerations for Policymakers

The ideological differences between Australia's two major political parties as evidenced in their approach to tax and spending policies are more pronounced than at any time this century. While the Government eschews comprehensive tax reform in favour of tax cuts for business, the Labor opposition is pursuing a suite of contentious reforms that seek to raise revenue by closing mechanisms in the existing tax system that allow high-income earners to minimise their taxable incomes, while opposing the Government's push to extend company tax cuts to large corporations.

It is against this backdrop that the 2018 Per Capita Tax Survey presents evidence of the Australian public's preferred policy approach to taxation and public service provision.

As noted in last year's survey, after a major shift in 2014 following the delivery of the Abbott Government's widely unpopular first budget, public sentiment about the fairness and sustainability of our tax and transfer system has followed an obvious trend towards restoring fairness to the system. The 2018 results continue along this path.

It is now undeniable that the Australian people want the Government to spend more money on the delivery of public services. 71.67% of respondents want to see more spending on services, and only 8.03% want to see less.

One of the most striking findings in this year's report is that, for the first time, an absolute majority, 55%, of respondents want to see more spending on social security.

While previous surveys have found consistent majority support for more spending on health, aged care and education, the fact that support for increased spending on social security is now firmly in the majority is a new development, and one that is at odds with recent government cuts to social security spending through its "Welfare Reform Bill 2018" and related measures to reduce spending through debt recovery practices at Centrelink and the ATO.

It is also at variance with government measures to reduce spending on service delivery by outsourcing public service provision and reducing the number of frontline public sector staff.

This shift to support higher welfare spending may reflect a growing awareness of the widely recognised inadequacy of the level of Newstart and other social security payments following concerted campaigns by the social services sector to highlight the issue over the last 12 months.

This year's survey also finds that more Australians than ever believe that they are personally paying too much tax.

It is striking that the only group by age who now believe they are paying the right amount of tax is that cohort which, due to the almost complete absence of tax on retirement incomes, is unlikely to be paying much tax at all.

That more Australians of working age feel they pay too much, rather than the right amount of, tax indicates that working people are feeling increasingly pressured by the cost of living compared to their income. It may reflect sluggish wage growth and the disproportionate rise in the cost of essential items such as housing, utilities, health and education.

It may also reflect the growing pressure brought about by bracket-creep, in which more people are shifting, however slowly, into higher income tax brackets, which have not been addressed for some time.

Whatever the cause, these findings indicate that most working Australians want a pay rise, or a tax cut – or both – and soon.

The belief that our taxation system is unfairly skewed in favour of the rich and against the poor is likely fuelling the increasing resentment about the level of their own tax contributions displayed by

survey respondents this year.

This cannot be dismissed as populist misunderstanding: these findings have held firm year on year. It is clear that the belief that our tax system unfairly privileges the wealthy and powerful is firmly embedded in public sentiment.

When two-thirds of Australians think high earners don't pay enough tax, and that four-fifths believe big business dodging its fair share, the level of public trust in our tax system is surely being eroded.

Yet, judging by the taxation measures currently before Parliament, policy makers seem blind to this growing problem.

Taken together, the findings from the section of the Survey that examines attitudes to current policy initiatives indicate that popular support for the Government's tax changes, those already legislated and those currently before the Parliament, is weak. Respondents display a clear preference for big business to pay more, rather than less, tax.

Before its abandonment last week, there was a preference amongst respondents, by a considerable margin, that any Medicare Levy increase to fund the NDIS should be applied only to high income earners.

There remains strong support for action to restrict, or even abolish completely, negative gearing tax concessions, and respondents overwhelmingly favour a cap on tax deductions for high income earners, in the form of the "Buffet Rule".

These findings provide yet more evidence that

households are feeling increasingly pressured and believe that wealthy corporations and individuals should be making a greater contribution to tax revenue – that our tax system is unfair to the average Australian citizen.

Political leaders and those with their hands on the nation's fiscal and monetary policy levers should be concerned that there is a widespread and increasingly entrenched view amongst the public that our current system is unfair, and favours the wealthy and big business at the expense of the average citizen.

Such levels of distrust as evidenced by these findings can serve to undermine the social compact at the heart of our democratic system of government.

As in previous years, the findings of the 2018 Per Capita Tax Survey demonstrate that Australian citizens are highly engaged with the policy debate and alive to the impact of political decisions on their day-to-day lives.

Australians retain a firm belief in fairness, and want to see a tax and transfer system that shares the prosperity of our wealthy nation across society.

It is likely that leaders who pursue policies to give effect to this will find favour with the electorate.

Appendix

BREAKDOWN OF RESPONDENTS TO THE PER CAPITA TAX SURVEY – 2018

APPENDIX TABLE 1

NUMBER OF RESPONDENTS FROM EACH STATE AND CAPITAL CITY

LOCATION	FREQUENCY	PERCENT
New South Wales - Sydney	284	18.24
New South Wales - elsewhere	183	11.75
Queensland - Brisbane	183	11.75
Queensland - elsewhere	150	9.63
Victoria - Melbourne	302	19.4
Victoria - elsewhere	101	6.49
South Australia - Adelaide	99	6.36
South Australia - elsewhere	23	1.48
Tasmania - Hobart	18	1.16
Tasmania - elsewhere	14	0.9
Western Australia - Perth	126	8.09
Western Australia - elsewhere	31	1.99
Northern Territory	9	0.58
Australian Capital Territory	34	2.18
TOTAL	1,557	100

APPENDIX TABLE 2

NUMBER OF RESPONDENTS BY AGE AND VOTING INTENT

VOTE INTENT	18-24	25-34	35-44	45-54	55-64	65+	TOTAL
Liberal	36	63	61	62	67	104	393
Labor	67	106	101	93	76	73	516
Greens	15	30	14	18	13	13	103
Nationals	3	6	6	3	1	11	30
Pauline Hanson's One Nation	12	24	19	24	20	17	116
Nick Xenophon Team	0	2	1	2	5	4	14
Independent/Other	6	8	26	10	14	17	81
Don't know/Not sure	54	60	64	50	33	43	304
TOTAL	193	299	292	262	229	282	1,557

QUESTIONS FOR PER CAPITA TAX SURVEY – 2018

1) THINKING ABOUT AUSTRALIA'S PUBLIC SERVICES GENERALLY (E.G. HEALTH AND EDUCATION), ON A SCALE OF 0 – 10 HOW WOULD YOU RATE THEM ON THE FOLLOWING FACTORS (WHERE 0 = POOR AND 10 = EXCELLENT):

- a) Quality
- b) Ease of access
- c) Value for money
- d) Usefulness to you

2) WHICH OF THE FOLLOWING STATEMENTS BEST DESCRIBES YOUR VIEWS ON GOVERNMENT SPENDING AND PUBLIC SERVICES?

- a) Governments should spend a lot more on public services
- b) Governments should spend a little more on public services
- c) Governments are spending about the right amount on public services
- d) Governments should spend a little less on public services
- e) Governments should spend a lot less on public services
- f) Not sure/don't know

3) WOULD YOU LIKE TO SEE MORE OR LESS GOVERNMENT SPENDING IN EACH OF THESE AREAS? (FOR EACH CHOICE, PROVIDE OPTIONS: SPEND MUCH MORE; SPEND A LITTLE MORE; SPEND THE SAME AS NOW; SPEND A LITTLE LESS; SPEND MUCH LESS; NOT SURE/DON'T KNOW)

- a) Health
- b) Education
- c) Defence
- d) Social security/welfare
- e) Overseas aid

4) FOR WHICH OF THESE OUTCOMES WOULD YOU BE PREPARED TO PAY HIGHER TAXES? PLEASE SELECT ALL THAT APPLY. [RANDOMISED ORDER]

- a) Better schools, universities & TAFEs
- b) Lower unemployment
- c) Less inequality
- d) Better health and aged care services
- e) Better childcare services
- f) Better transportation systems
- g) Lower greenhouse gas emissions
- h) A national broadband network
- i) Long-term economic growth
- j) None of these can be achieved by raising taxes

5) IF YOU WANTED TO RAISE MORE TAX IN AUSTRALIA TO PAY FOR QUALITY PUBLIC SERVICES, WHICH OF THE FOLLOWING APPROACHES WOULD YOU SUPPORT? (CHOOSE AS MANY AS YOU WISH):

- a) Raise personal income tax rates
- b) Raise income taxes on the top 5% of income earners
- c) Raise the rate of GST
- d) Broaden the GST base to include all items
- e) Broaden the GST base to include private education and private health insurance only
- f) Remove the 50% discount on capital gains tax
- g) Cut superannuation tax concessions, where over 50% of all concessions go to top one-fifth of income earners
- h) Cut negative gearing tax concessions, where over 50% of all concessions go to top one-fifth of income earners
- i) A broad-based tax on land ownership (a land tax)
- j) A financial transactions tax payable by institutional investors
- k) A wealth tax on financial assets
- l) Establish an inheritance tax on any part of an estate above \$1million
- m) A crackdown on corporate tax avoidance, such as the offshoring of profits to low-tax jurisdictions
- n) By borrowing more
- o) None of these

6) 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?

- a) Yes
- b) No
- c) Not sure

7) IN YOUR OPINION, DO YOU PAY...?

- a) Too much tax
- b) About the right amount of tax
- c) Not enough tax
- d) Not sure/don't know

8) IN THINKING ABOUT THE OVERALL FAIRNESS OF THE TAX SYSTEM, DO THE FOLLOWING GROUPS PAY TOO LITTLE OR TOO MUCH TAX? (OPTIONS: PAY TOO MUCH TAX, PAY ABOUT THE RIGHT AMOUNT OF TAX, PAY TOO LITTLE TAX, NOT SURE/DON'T KNOW)

- a) Small businesses
- b) Big businesses and corporations
- c) Low-income earners
- d) Middle-income earners
- e) High-income earners

9) TO WHAT EXTENT DO YOU THINK CORPORATE TAX AVOIDANCE AFFECTS THE OVERALL FAIRNESS OF THE TAXATION SYSTEM?

- a) Not at all
- b) Very little
- c) Somewhat
- d) A lot
- e) Not sure/don't know

10) IN THE 2017 FEDERAL BUDGET, THE GOVERNMENT ANNOUNCED THAT FROM 1 JULY 2019, THE MEDICARE LEVY WILL INCREASE FROM 2% TO 2.5% TO FUND THE NATIONAL DISABILITY INSURANCE SCHEME. DO YOU SUPPORT THIS INCREASE?

- a) Yes, the Medicare Levy should be increased on all income earners to fund the NDIS
- b) Yes, but the increase in the Medicare Levy should only apply to high income earners
- c) No, I don't support any increase in the Medicare Levy for any reason

11) NEGATIVE GEARING IS A FAVOURABLE TAX CONCESSION FOR THOSE WHO OWN INVESTMENT PROPERTIES. WHICH OF THE FOLLOWING CHANGES, IF ANY, DO YOU THINK SHOULD BE MADE TO NEGATIVE GEARING?

- a) Negative gearing should be restricted to new-build housing only, to increase the supply of new housing
- b) Negative gearing should be restricted to affordable housing only, to increase the supply of affordable housing
- c) Negative gearing should be restricted to both new-build and affordable housing, to increase the supply of both
- d) Negative gearing should be abolished completely
- e) Negative gearing should not be restricted at all
- f) Not sure/don't know

12) SHOULD THERE BE A MINIMUM RATE OF TAX FOR VERY HIGH INCOME EARNERS (IE: THE TOP 1% OF INCOME EARNERS) UNDER WHICH THEY CANNOT REDUCE THEIR TAXABLE INCOME THROUGH TAX DEDUCTIONS? (THIS IS KNOWN AS THE "BUFFET RULE").

- a) Yes
- b) No
- c) Not sure / don't know

13) WHEN COMPARED WITH OTHER DEVELOPED COUNTRIES, DO YOU THINK AUSTRALIA IS...? [RANDOMISED ORDER]

- a) A high-taxing, big government country
- b) A low-taxing, small government country
- c) A mid-range taxing country with a mid-sized government
- d) Not sure/don't know

14) LAST YEAR, LEGISLATION WAS PASSED TO CUT COMPANY TAX RATES FROM 30% TO 25% FOR BUSINESSES WITH A TURNOVER OF LESS THAN \$50 MILLION PER ANNUM, BY 2026/2027. DO YOU SUPPORT EXTENDING THESE TAX CUTS TO OTHER, LARGER BUSINESSES?

- a) Yes, I think the company tax cut should apply to all businesses, regardless of size.
- b) No, I think the cut off of a \$50 million turnover is appropriate.
- c) No, I think it should apply only to small businesses with a turnover of less than \$10million per annum.
- d) No, I think tax cuts should apply only to Australian based businesses whose profits are not sent off shore.
- e) No, I do not think company taxes should be cut at all.
- f) Not sure/don't know



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