Research Note: Analysis of net taxpayers in Australia 1988-2013

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Overview

This research note gives a short description of the analysis of Australian households that are ‘net taxpayers’ that is, pay more in tax than they receive in benefits between 1988 to 2013 using the ABS Survey of Income and Housing (SIH). The rate of net tax payers has declined over the years since 1988. However, after declining to a low in 2009 recently this trend has reversed. This note considers the trend in net taxpayers only, we do not explain the factors driving these variations in the rate of net taxpayers. The rate of net taxpayers is expected to increase over the forward estimates based on the current legislation.

Methodology


The SIH is a household survey which collects information on sources of income, amounts received, household net worth, housing, household characteristics and personal characteristics. It is generally conducted every two years, and is integrated with HES every six years. Both SIH and HES collects data at person level, income unit and household level with over 10,000 households surveyed.

In this analysis, net taxpayer is defined as an individual who pays more tax than the benefits they get from the Government. Tax is only personal income tax and does not include GST or other forms of indirect taxation. Benefits include all social security payments as measured in the surveys. This analysis includes individuals who pays no tax and receive no benefits either.

The analysis is categorised based on the age of the head of the household (reference person in the survey data). The weekly expenditure on tax and the income from government benefits are collected at the person level in the survey data. The total weekly tax paid and weekly income from government payments at the person level are aggregated to the household level. For each year, we estimate the number of net taxpayers based on their social security income and amount of tax paid by the head of the household.

Among net taxpayers, the proportion of people who are of working age or older than working age is also estimated. The working age group classify individuals under the age of 65. We split the households into these groups as the aggregate is impacted by Australia’s ageing population. We know that older households are much more likely to not be net taxpayers. The same approach is applied to different survey data years.

Results

The table below summarises the net taxpayer rates in Australia from 1988 to 2013. In 1988, 66.7 per cent of Australian households were net taxpayers then it reduced to 54.8 per cent in 2009 and has returned to 56 per cent in 2013. The overall household rate for net taxpayers includes roughly 3 per cent of households for each year that pay no tax at the same time receive no benefits. After accounting
for some households who pay no tax and receive no benefits we find that in 2013-14 around 41% of households receive more in benefits than they pay in tax.

The rate of net taxpayers among working and non-working age households has also dropped significantly after 1988. The main driver here is expected to be the increase in payments to families in the Hawke reform in the late 80’s. A range of other factors have contributed such as the economic downturn after the recession in the early 1990’s where the unemployment rate rose to about 11 per cent and took several years to significantly lower.

Table 1: Net Taxpayer Households, ABS Income Surveys 1988-89 to 2013-14

<table>
<thead>
<tr>
<th>Year</th>
<th>Working Age (%)</th>
<th>Pension Age (%)</th>
<th>All Households (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1988</td>
<td>77.0</td>
<td>21.7</td>
<td>66.7</td>
</tr>
<tr>
<td>1993</td>
<td>71.1</td>
<td>15.8</td>
<td>60.3</td>
</tr>
<tr>
<td>1998</td>
<td>71.5</td>
<td>15.8</td>
<td>60.8</td>
</tr>
<tr>
<td>2003</td>
<td>68.3</td>
<td>13.1</td>
<td>57.3</td>
</tr>
<tr>
<td>2009</td>
<td>66.9</td>
<td>9.6</td>
<td>54.8</td>
</tr>
<tr>
<td>2013</td>
<td>68.4</td>
<td>13.9</td>
<td>56.0</td>
</tr>
</tbody>
</table>

Source: ABS Survey of income and Housing

There was a second wave of increases to family payments during the early 2000s as a compensation for the introduction of the GST and also some other increases in payments to families. In conjunction with personal income tax cuts by Treasurer Peter Costello in the mid-00s, the net taxpayer rate bottomed in 2009-10 at 54.8%. Some bracket creep and minor cuts to welfare, particularly family payments and single parent payments are likely to have assisted the numbers increase to 56% by 2013-14.

The rate of net taxpayers among the working age dropped from 77 per cent in 1988 to 68.4 per cent by 2013-14. The rate of net taxpayers for the non-working age population declined from 21.7 per cent to just 13.9 per cent by 2013-14.

Modelling using our microsimulation model, PolicyMod that incorporates all the major welfare payments and personal income taxation using 2013-14 SIH data updated to 2015-16 as a base year suggests a 2 percentage point increase in net taxpayers over the next four years based on the current legislation. The major driver is the increase in personal income tax derived from bracket creep.
Conclusion

Overall, we find that the rate of net taxpayers has declined from 1988 to 2009. This is mainly due to the increase in payments to families along with other factors like lower tax rates in the last decade and some downturns in the Australian economy. The rate of net taxpayers has risen from 54.8 per cent in 2009 to 56 per cent by 2013-14. Our modelling shows that the number of net taxpayers to rise by 2 percentage points by 2020-21. This analysis also shows that, in 2013-14, about 41 per cent of households receive more in benefits than they pay in tax.