

## Pitch for Inheritance Tax in Australia

### Issue

Wealth inequality in Australia is significantly more prevalent than income inequality (see appendix 1-3), and is also accelerating at a faster rate (ABS, 2016). From an economics point of view, high wealth inequality is less desirable as it impairs economic growth (International Monetary Fund, 2015), while also entrenching further social inequality, which itself bears its own intangible costs.

Since wage stagnation that does not keep up with inflation rate (RBA, 2015), a tax system that primarily targets income inequality becomes less effective over time as a lever against economic inequality. This is while labour's productivity over time has steadily increased. OECD also points out that taxing capital income would not do enough to reduce wealth inequality and the answer may lie in higher taxes on inherited wealth (OECD, 2018).

Furthermore, the Henry Tax Review outlines a guiding principle for taxation: "Raising revenue should be done so as to do least harm to economic efficiency, provide equity (horizontal, vertical and intergenerational), and minimise complexity for taxpayers and the community." The Review found that a bequest or inheritance tax would be a relatively efficient means of taxation (Australian Treasury, 2010).

### Context

Since the beginning of the Australian Federation, the country had a functioning inheritance tax, named 'death duties' (see appendix 4). Although, largely due to its ineffectiveness stemming from the various loopholes and resistance from farming interest groups, it was abolished in 1979. The Capital Gains Tax (CGT) was introduced in the economic reform of 1985, however, there are no tax liabilities to an inheritance of estates by Australian individuals under CGT, which does not make it a quasi-inheritance tax.

As it is an OECD country which raises a considerable proportion of its government revenue through progressive inheritance tax, Belgium currently has a simple but effective inheritance tax (see appendix 5), (OECD, 2018).

### Policy Proposal

A progressive inheritance tax on assets gained by individuals through inheritance with some applicable exemptions. Exemptions may include:

- A threshold asset-value (assets under which are not subject to taxes) of \$500,000, yearly adjusted to inflation, which will consequently effect approximately 50% of the population (See appendix 6).
- Various exemptions already included under capital gains tax: eg. a house, unit, etc., which is the taxpayer's main residence.
- Family-owned businesses up to a certain market value evaluations. To qualify, the business must account for more than a set percentage of the gross assets, and the recipient must be materially running the business, as is in effect in USA (Joulfaian, 1998).

Australia should seek to collect as much revenue as possible with the intention of redistributing through programs that benefit the least well-off. The setting of an inheritance tax rate has to balance between economic efficiency vs equity trade-off. Piketty and Saez derived the optimal tax rate through an econometric analysis considering this trade-off and have come up with optimal top tax rate of 60% (Piketty & Saez, 2013) (see appendix 7). This optimal tax rate should be the rate ceiling in the progressive tax rate system, rising progressively from 20% to align with the already proven floor rate in Belgium. Implementing this broad-based tax helps to discourage avoidance by increasing costs and decreasing the benefits to do so.

In implementing this tax, the prevalence of resulting behavioural distortions would be minimised as wealth is generally not accumulated with the purpose of intergenerational transfer. In other words, the resulting deadweight loss is minimised (see appendix 8).

### **Policy Impact**

The reintroduction of inheritance taxes in Australia is presented as a policy to streamline tax revenue generation, which is worth further exploring to see how these taxes may fit into Australia's broader tax and transfer system. Inheritance taxes may be able to play a small but significant role in the overall tax system in Australia to improve the intergenerational flow of wealth and overall progressivity of the tax system. The effectiveness and acceptability of the tax will be highly influenced by ensuring both transparency in conveying the necessity for a more efficient form of taxation and how the raised revenue will be used to benefit society.

**Bibliography**

Acoss, 2018. *Inequality*. <https://www.acoss.org.au/inequality/>

Australian Bureau of Statistics, 2016. *Household Income and Wealth, Australia, 2015-2016*. 6523.0.

Australian Bureau of Statistics, 2017. *Australian System of National Accounts 2016-2017*. 5204.0.

Australian Treasury, 2010. *Australia's Future Tax System*. Commonwealth of Australia

Gans, J. and Leigh, A. (2006). *Did the Death of Australian Inheritance Taxes Affect Deaths?*. Topics in Economic Analysis & Policy. The Berkeley Electronic Press.  
<http://www.andrewleigh.org/pdf/DeathAndTaxes.pdf>

Global Property Guide, 2012. *Inheritance Tax and Law*.  
<https://www.globalpropertyguide.com/Europe/Belgium/Inheritance>

International Monetary Fund, 2015. *Causes and Consequences of Income Inequality : A Global Perspective*. <https://www.imf.org/en/Publications/Staff-Discussion-Notes/Issues/2016/12/31/Causes-and-Consequences-of-Income-Inequality-A-Global-Perspective-42986>

Joulfaian, 1998. *The Federal Estate and Gift Tax: Description, Profile of Taxpayers, and Economic Consequences*, OTA Papers: U.S. Department of the Treasury.

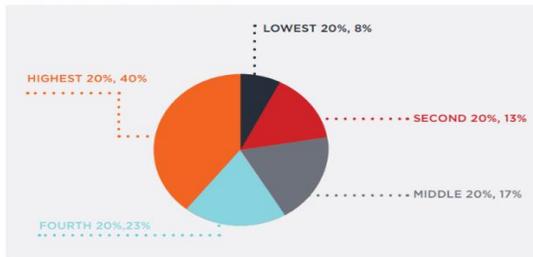
OECD, 2018. *The Role and Design of Net Wealth Taxes in the OECD*, OECD Tax Policy Studies, No.26, OECD Publishing, Paris. <http://dx.doi.org/10.1787/9789264290303-en>

Piketty T. & Saez T., 2013. *A Theory of Optimal Inheritance Taxation*, *Econometrica*, Vol.81, No.5. <https://doi.org/10.3982/ECTA10712>

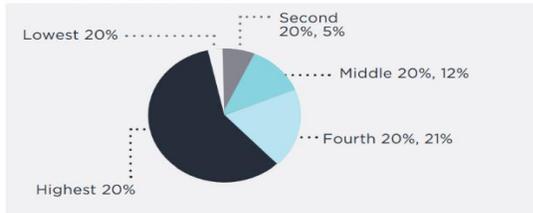
Reserve Bank of Australia, 2015. *Why is Wage Growth so Low?*  
<https://www.rba.gov.au/publications/bulletin/2015/jun/pdf/bu-0615-2.pdf>

**Appendices**

**Income shares in Australia**



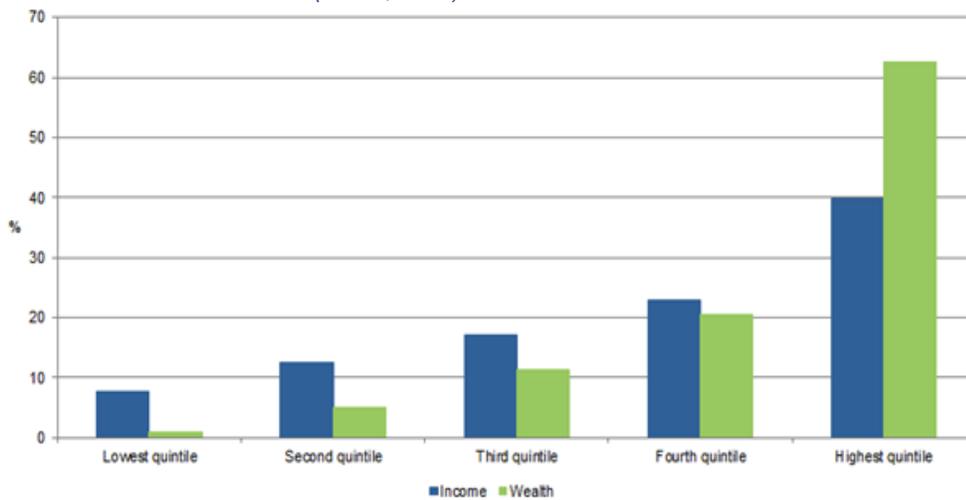
**Wealth shares in Australia**



*Appendix 1: Percentage income and wealth shares in Australia (Acoess, 2018)*

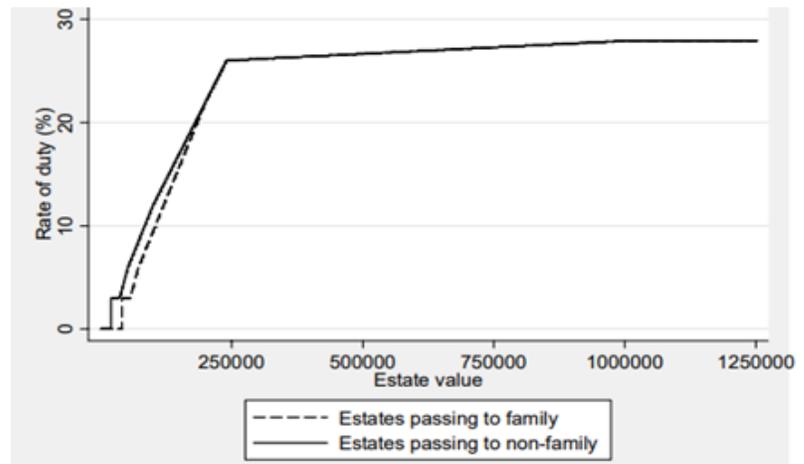


*Appendix 2: Wages share of total factor income (ABS, 2017)*



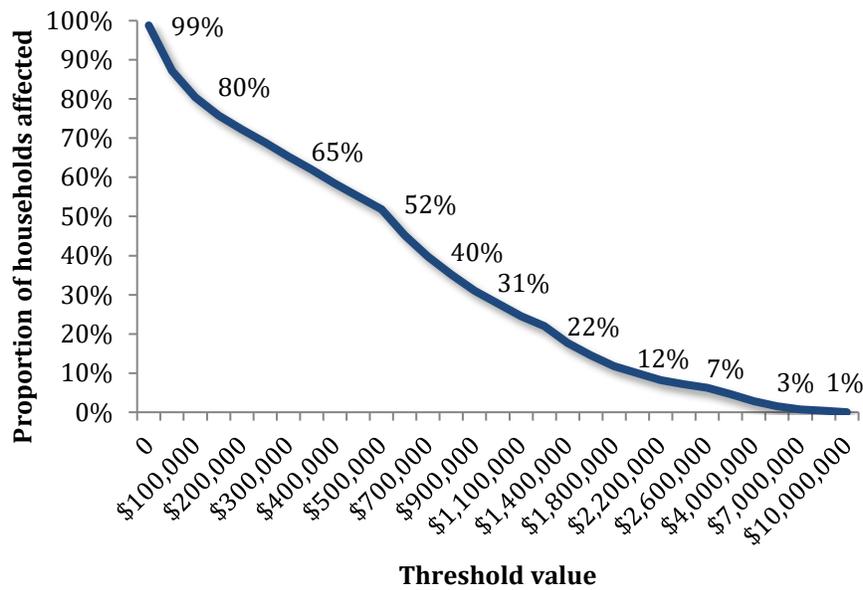
*Appendix 3: Equivalised disposable household income and wealth per quintile 2015-16 (ABS, 2016)*

*Appendix 4: Commonwealth inheritance tax before abolition (Gans, 2006)*

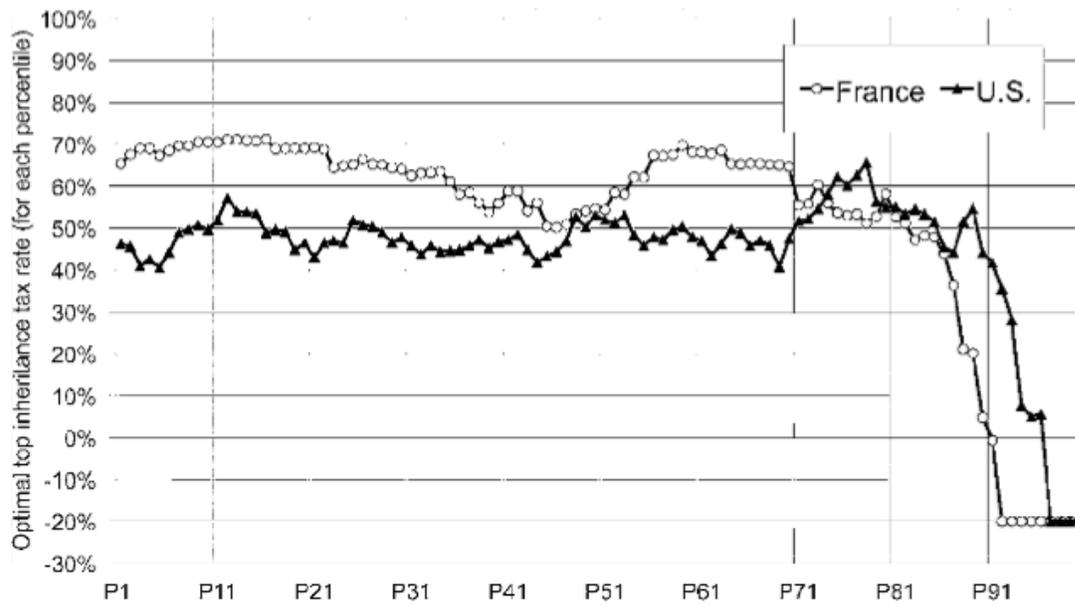


BRUSSELS REGION: INHERITANCE TAX OF LINEAL RELATIVES AND SPOUSES	
TAX BASE(€)	TAX RATE
Up to €50,000	3%
€50,000 - €100,000	8%
€100,000 - €175,000	9%
€175,000 - €250,000	18%
€250,000 - €500,000	24%
Over €500,000	30%

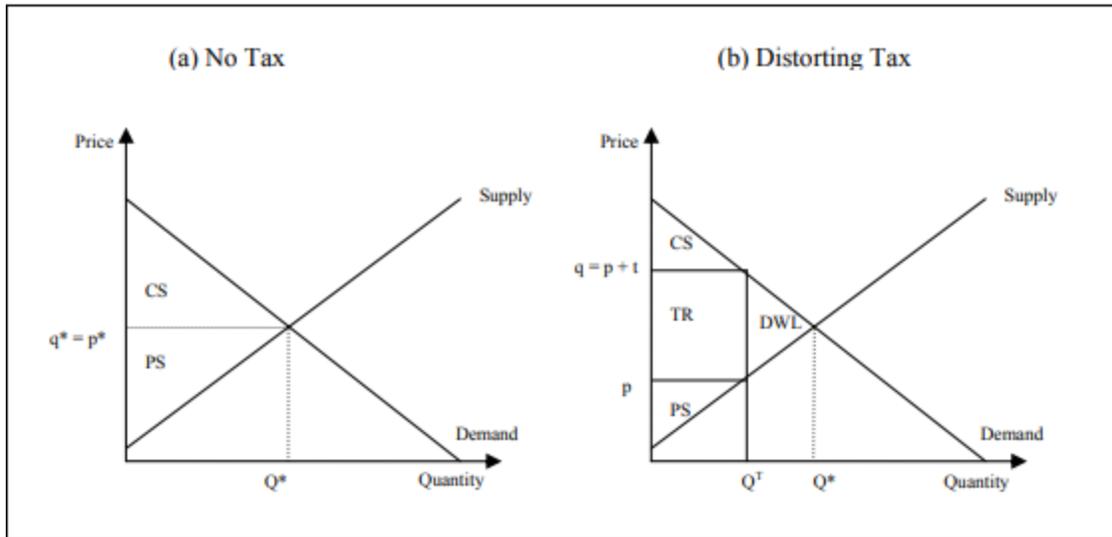
Appendix 5: Belgium's inheritance tax rate for relatives and spouses (Global Property Guide, 2018)



Appendix 6: Proportions of household affected by different threshold values (ABS, 2016)



Appendix 7: Optimal top inheritance tax rate by percentile of bequests received (Piketty, 2013)



Appendix 8: Deadweight loss from no tax vs distorting tax