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Should We Be Worried About "Zero Net Taxpayers"?

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The political and media storm about "zero net taxpayers" [1]

Following Duncan Storrar's appearance on ABC's Q&A on 9 May 2016, one of the milder reactions to his questions about tax cuts was an article in *The Australian* - "ABC's 'budget fairness' victim pays no net tax". The article pointed out that Mr Storrar was "sporadically working as a truck driver on $16 an hour and relying on a $520-a-fortnight Austudy allowance to survive". As a result he was labelled as a "zero net taxpayer", an expression used to describe people who either pay no tax or whose benefits received from government are greater than the taxes they pay.

This had followed an opinion piece in *The Australian* on 7 May by Peter Van Onselen which asked "How is it fair that half of all workers pay no net income tax?" An article by Maurice Newman in *The Australian* on 29 April similarly argued "According to Australian National University researcher Ben Phillips, only 43 % of the adult population excluding public sector workers are net taxpayers, meaning more than 50 % of voters rely fully on political patronage for their income." (The meaning of "relying on political patronage" is not spelled out.)

There have in fact been many stories in *The Australian* about "zero net taxpayers" including "one in two voters is fully reliant on public purse" in April 2016, "3.6 million households pay no net tax after churn" in February 2016, "a leaner world as households make the most of welfare benefits" in December 2015, and "welcome to the welfare nation: half of Australia's families pay no net tax" in May 2014 (in *The Daily Telegraph*).

The *Australian*'s Adam Creighton had made a similar argument in March 2014 under the headline "No, the Rich Don't Pay a 'Fair Share' of Tax. They Pay All of It." According to ABS figures which included cash benefits plus other government health, education and welfare services as well as indirect taxes, he wrote, "only the top fifth of households ranked by their income – those with incomes of more than $200,000 a year in the financial year ending June 2012 – pay anything into the system net of the value of social security in cash and kind received."

A related argument was made by then Treasurer, Joe Hockey, in his speech to the Sydney Institute following the 2014 Budget : "Whilst income tax is by far our largest form of revenue, just ten % of the population pays nearly two-thirds of all income tax. In fact, just 2 % of taxpayers pay more than a quarter of all income tax. Maybe *these* taxpayers would argue that the tax system is already unfair."

Most recently, in an address to Bloomberg on 25 August this year, the Treasurer Scott Morrison has argued

> "A generation has grown up in an environment where receiving payments from the Government is not seen as the reserve of the disadvantaged, but a common and expected component of their income over their entire life cycle, and not inconsistent with self-reliance. On current settings, more Australians today are likely to go through their entire lives without ever paying tax than for generations and more Australians are likely today to be net

[1] I am grateful to Miranda Stewart, John Daley and Ben Phillips for comments on earlier drafts of this Policy Brief. Any errors are my own.

> beneficiaries of the Government than contributors — never paying more tax than they receive in government payments. There is a new divide — the taxed and the taxed-nots."

It is clear that the "taxed" and the "taxed-nots" refer to the same concept as taxpayers and "zero net taxpayers". This address was followed the following day by an editorial in *The Australian* "Indebted Australia cannot afford entitlement culture" which argued "Soon, less than 50 % of households will be net taxpayers, meaning they pay more income tax than they get in welfare payments. Overly generous family tax benefits and childcare subsidies are just two examples of the problem at hand."

A related concern was expressed in an opinion piece in *The Age* in June 2016 criticising the government's proposed changes in superannuation tax concessions: "If fewer and fewer people pay a continually growing share of taxes, they will rebel. As the ratio of net beneficiaries who get more in benefits than pay in taxes rises, citizens will divide into those who work and others who vote for a living. Clawing back the dependency state will become increasingly difficult."

Apparently, the United States (US), New Zealand (NZ) and the United Kingdom (UK) also have zero net taxpayers. The best known expression in the US is Mitt Romney's comments in the 2012 US Presidential campaign that 47 % of Americans paid no income tax (and would therefore be more likely to vote for the other side). It turns out that Donald Trump had cited similar figures in 2011, which were based on an earlier report by the Heritage Foundation, the 2010 Index of Dependence on Government, which had noted:

> "The more people there are that depend on government subsidies for much or all of their existence, the smaller the percentage of tax-paying citizens who finance those subsidies. Combined with Congress's loss of control over the national budget, an impending tipping point is becoming increasingly likely. The Tax Foundation reported recently that the percentage of tax returns filed that required no taxes to be paid in 2008 passed 35 percent.[2] Even more of a wake-up call, the Tax Policy Center says that the percentage of all taxpaying units—single, married filing jointly, head of household, married filing separately—who paid no taxes in 2009 is close to 47 percent.[3]"

In New Zealand, a media report in June 2016 noted that "More than one in four households are contributing nothing to New Zealand's tax take. … 663,000 households - or 40 % - receive more in tax credits and other benefits than they pay in tax. Thousands more are neutral contributors, or are close to it. Households earning less than $50,000 receive more in credits than they pay in direct income. On a net tax basis, 48,000 households pay 28 % of all tax. By comparison, the top 3 % of individual income earners, earning more than $150,000 a year, pay 24 % of all tax received."

The same theme has emerged in the UK. In 2014, the Daily Telegraph stated that "the highest paid 3,000 people in the UK pay more income tax than the bottom nine million, according to official Government statistics. More recently, the same

newspaper and the Guardian reported that the Institute for Fiscal Studies estimated that the proportion of working-age British adults who do not pay income tax has risen from 34.3 % to 43.8 %, equivalent to 23 million people.

Most strikingly, the "zero net taxpayer" theme has been used in explaining the UK's recent referendum decision to leave the European Union. Writing in the 28 July 2016 edition of the London Review of Books on Brexit Blues, novelist John Lanchester has noted "If I had to pick a single fact which has played no role in political discourse but which sums up the current position of the UK, it would be that most people in the UK receive more from the state, in direct cash transfers and in benefits such as health and education, than they contribute to it. The numbers are eerily similar to the referendum outcome: 48 % net contributors, 52 % net recipients. It's a system bitterly resented both by the beneficiaries and by the suppliers of the largesse."

What taxes? What benefits?

What do these figures mean? On the surface at least the suggestion that half, or more, of the Australian population are "zero net taxpayers" sounds surprising if not alarming. How can it possibly be sustainable that a majority of people receive more in benefits than they pay in taxes? Moreover, is the number of people who receive more in benefits than they pay in taxes increasing, and if so why?

The media and political debate about who is a "zero net taxpayer" refers to three different measures of taxes paid to government and benefits received from government by individuals or households.

1. Is an individual or a household paying any income tax? (What they get for their taxes is ignored.)
2. Is an individual or a household paying more in income tax than they are receiving in cash benefits, social security or welfare payments (technically called "transfers") from the government?
3. How do the total direct and indirect taxes of all kinds paid by an individual or household compare with the total cash benefits and public (social) services they receive from government?

Each of these measures is based on a different definition of a "taxpayer" and the last two include different measures of benefits. Each of these measures also draws on different statistical sources. This can result in quite different figures being quoted.

The majority of the media articles and comments on "zero net taxpayers" refer to the second of these measures. They look at the combination of income taxes paid and social security cash benefits received and calculate the extent to which one side of the ledger offsets the other. This also appears to be what the Treasurer was referring to in his 25 August Bloomberg address.

1. Who pays income tax?

A recent report by the Grattan Institute provides estimates of trends in the share of people paying income tax by age group since 1999-2000, using administrative statistics from the Australian Tax Office. This is the first concept referred to above

and the one used by Mitt Romney in the 2012 US election.

Table 1 shows that in 1999-2000 it was estimated that 59% of individuals aged 18 years and over paid income tax, while by 2013-14, that share had declined to 54% - meaning that 46% were not taxpayers. For people of working age, the decline in the share of taxpayers was from 66% to 62% - although it had been as high as 70% in 2007-08, just before the Global Financial Crisis. The share of people aged 65 and over paying income tax is much lower and fell from 25% in 1999-2000 to 16% in 2013-14.

Table 1: Taxpayers by Age (% of age group), Australia, 2000 to 2014

Fiscal year ending	Over 65	18-64	Over 18
2000	24%	66%	59%
2001	15%	66%	58%
2002	16%	66%	57%
2003	17%	66%	58%
2004	18%	67%	59%
2005	20%	67%	59%
2006	21%	69%	60%
2007	20%	67%	59%
2008	16%	70%	61%
2009	14%	64%	55%
2010	13%	62%	54%
2011	15%	63%	55%
2012	16%	65%	56%
2013	16%	62%	53%
2014	16%	62%	54%

Source: Daley, J., Coates, B., Young, W. & Parsonage, H., 2016, A fairer super system: assessing the 2016 tax reforms, Grattan Institute.

The Grattan Institute argues that these trends are mainly the result of deliberate policy changes, including the introduction of the Senior Australians and Pensioners Tax Offset (SAPTO) in the early 2000s which saw a very large fall in the share of taxpayers in this age group (from 24% to 15%); and the decision by the Howard government in 2007 to abolish income tax on superannuation withdrawals for those aged 60 years and over, as well as the general income tax cuts in 2008.

Many Australians face lower taxes when they reach age 65 – they pay less in income tax than a person with the same total income under 65 years of age. Using further data provided by the Grattan Institute[2] it can be calculated that the introduction of the SAPTO was associated with a fall in the number of taxpayers aged 65 and over by nearly 200,000. The superannuation tax changes and subsequent income tax cuts in 2007 and

[2] Daley and Parsonage, personal communication, 2016

2008, saw a fall of nearly 140,000 taxpayers in this age group. Overall there were slightly fewer taxpayers aged 65 and over in 2013-14 than in 1999-2000, even though the population in this age group had grown by more than one million over the period.

Put another way, people over the age of 65 increased from 16.5% to 18.9% of the adult population over this period, but accounted for more than one third of the number of people not paying income tax in 2013-14 and 41% of the increase since 1999-2000.

In addition to the effects of policy changes, this also reflects trends in the labour market and in wages. The fall in the number of working age taxpayers from 70% in 2008 to 64% in 2009 is partly due to income tax cuts and partly the result of the Global Financial Crisis (GFC). Since 2008, ABS data show that 60% of the additional jobs in Australia have been part-time, many of whom are likely to be below the tax free threshold of $18,200. In addition, as the Reserve Bank has noted, Australia is currently experiencing the longest period of low wage growth since the early 1990s recession, with a significant impact on income tax collections.

2. *Income tax and cash benefits*

The second definition of a "zero net taxpayer" is broader. It involves comparing the income tax payments of households or families and then subtracting the social security cash benefits they receive from government in the form of pensions, unemployment payments, family benefits and other forms of assistance.

The assumption underlying this approach involves treating cash benefits or social security payments as "negative taxes". (A related concept is the suggestion by Milton Friedman that welfare payments could actually be replaced by a Negative Income Tax.)

This calculation requires a survey of household incomes rather than the administrative statistics on individual income taxpayers because cash benefits or transfers are provided, and means tested, on a family unit basis in many cases. Household income surveys generally collect information on both taxes paid and benefits received, whereas the relevant administrative data from the Tax Office and the Department of Social Services collect either one or the other.

Given that around 54 % of adult individuals pay positive income tax (as indicated above), we would expect that netting off cash benefits should reduce this share further. The extent to which this occurs, however, will be moderated by the fact that for many of the people not paying income taxes this will be because they have low incomes and already rely on cash benefits for their main income source. In addition, if two or more individual non-taxpayers live in the same household – for example an age pensioner couple or an unemployed couple – then there will be a difference between the share of individuals and the share of households who are not taxpayers.

3. *Direct and indirect taxes and government spending*

Income tax is not the only tax. There is a wide range of other direct and indirect taxes levied by the federal government,

state and territory governments and local councils.

As Duncan Storrar commented when it was pointed out that he was unlikely to benefit from income tax cuts because of his low income, "I pay tax every time I go to the supermarket. Every time I hop in my car." Mr Storrar is well aware that he bears the incidence of Goods and Services Tax (GST) on a wide range of goods and services, such as shaving cream and soft drinks, books and newspapers, and payments to his mechanic or barber. Mr Storrar would pay fuel excise on petrol for his car. These indirect taxes are passed on to the consumer through higher prices.

Similarly, in a "Factcheck" on Mitt Romney's 47% figure, US business magazine *Forbes* pointed out that "because all working Americans are obligated to pay payroll taxes—the money that supports Social Security and Medicare automatically withdrawn from our paychecks—the actual number of households in America paying nothing was closer to 17 % in 2009 and, more typically, 14 % in non-recessionary years." Similar points have been made by the Center on Budget and Policy Priorities.

This brings us to the third approach to defining zero net taxpayers, which is broader again. This approach involves modelling the impact of indirect taxes such as the GST and excises on petrol, alcohol and tobacco, or social security tax in other countries, together with direct taxes such as income tax and land tax. This approach then balances this more comprehensive definition of taxation with a more comprehensive definition of spending, to include government funded or provided services such as health, education, and services such as child care, public housing and disability care and aged care.

The UK figures quoted by John Lanchester above are based on research by the UK Office of National Statistics (ONS) which analysed the effects of taxes and benefits on household income for the financial year ending in 2015. The figures cited by Adam Creighton in *The Australian* are derived from the Australian Bureau of Statistics (ABS) which every five years or so undertakes a similar study, in this case for 2009-10.

The ONS Study and the ABS Study analyse the redistributive effects on households of direct and indirect taxation and benefits received in cash or kind. The methodology used in each of these studies is virtually identical; indeed, the ABS study is explicitly based on the UK methodology (with some minor differences).

These studies combine household income surveys collecting information on direct taxes paid and benefits received with modelling of the impact of indirect taxes and government services. [3]

[3] There is an important difference between the figures quoted by John Lanchester and those quoted by Adam Creighton. The figures for Great Britain are directly calculated by the ONS from microdata for individual households, while the figures for Australia are derived from published tables from the ABS which summarise the distribution of income components by quintiles (20%) of household income, with the estimate of "zero net taxpayers" being the income quintile where the average total taxes paid by the quintile start to exceed the average total benefits received by the quintile. Because this compares averages within the quintile, it is less precise than the figures for Great Britain.

For example, detailed data on the expenditure patterns of households is used to estimate how much of their spending is subject to the GST, or if they are smokers how much they pay in tobacco taxes, and so on. The value of government provided or subsidised health care is valued as the cost of an insurance policy that would provide this level of services, according to the age and sex of household members. Education spending and child care spending are allocated to families with children according to the ages of their children.

However, even the ABS studies of the impact of government taxes and benefits do not include all taxes and all government spending. As the ABS points out: "The aim of the study has been to allocate only those benefits and taxes relatable to particular types of households. No attempt has been made to allocate the whole of government expenditure and revenue" (Paragraph 78).

For example, the ABS do not allocate government spending related to public debt, or on general public services, fuel and energy, transport and communication, public order and safety, defence, recreation and culture, agriculture, forestry and fishing, mining and construction and other. The ABS do not give precise numbers for this non-included spending, but based on the chart in Paragraph 78 of the ABS publication, there may be as much as $200 billion in spending in these other areas in 2009-10 that is not included. This can be compared to around $234 billion in spending on health and social security and welfare in that year, implying that these studies leave out nearly half of all government spending.

Moreover, while the ABS allocate about 91 % of income taxes to households, they allocate less than two thirds of taxes on production, a gap of around $47 billion in 2009-10. They also do not include about $10 billion in income taxes (mainly capital gains taxes), plus another $50 billion in other taxes.

What would happen if we added these other expenditures and taxes into the picture? In the case of Australia, we do not know, but Edward Wolff – a prominent US researcher in this field – and colleagues undertook such a study for the United States (Wolff et al., 2007). They allocated items of "public consumption" including police, fire services, law courts, prisons, highways, public transport, and airports and so on to a mix of the household and non-household sector. Applying a range of distributional assumptions, Wolff et al. (2007) estimated that US government spending on social security and healthcare strongly favoured lower income households. However, the distribution of public consumption services while progressive as a percentage of "comprehensive income" was relatively less favourable – with the dollar value of spending being twice as high for the richest 10 % of the population as for the poorest 10 %.

In sum, all the figures used to estimate whether people are "zero net taxpayers" are incomplete in one way or another.

A related concept: Net tax thresholds

If we turn to the policy or academic literature, we find that in 2005, the Australian Treasury's *Economic Roundup* included an article on Net tax thresholds for Australian families (Bremner, 2005). The article defined net tax thresholds as the amount of private income a family (including single people and couples without children as well as those with children) could have before the taxes they paid were higher than the cash benefits they received. The concept of a "net tax threshold" is the same as that underlying the categorisation of some people as "zero net taxpayers" applying the second measure identified above. "Zero net taxpayers" are those at or below their net tax thresholds, and positive net taxpayers are those with incomes above these levels. This can be illustrated with a simple example involving just income tax and cash benefits for a single person of working age.

Example

Scott is a single 30 year old who has no private income and is actively looking for work. Scott is likely to be entitled to the unemployment cash benefit, Newstart Allowance, which is currently paid at a rate of $527.60 per fortnight or roughly $13,755 over the course of a year. Newstart Allowance has an "income free area" of $104 per fortnight (so that any income Scott earns up to that level does not reduce his payment). However, if Scott earns more than $104 per fortnight, Newstart Allowance is reduced by 50 cents for each dollar over $104, up to a fortnightly income of $254 per fortnight. Above $254 per fortnight or roughly $6,600 per year, Newstart Allowance is reduced by 60 cents in the dollar until the Newstart payment is zero, at a private income of $1,023 per fortnight or roughly $26,670 per year.

What about income tax? Newstart Allowance is taxable and so the normal individual marginal tax rates apply to the Newstart Allowance and to any other income earned by Scott. The current tax-free threshold for an individual is $18,200, well above the level of Newstart. In addition, the Low Income Tax Offset (LITO) has a maximum value of $445, which means that a low income individual effectively does not start to pay income tax until their income is over $20,540 per year.

Scott faces the first marginal tax rate of 19 cents in the dollar for income over that threshold. At this level, Scott's Newstart Allowance is also being reduced at 60 cents in the dollar. This means that Scott pays income tax at a 19 % rate on 40 cents in each Newstart dollar remaining. (There is also a Beneficiary Tax Offset of 15% of any income from Newstart greater than $6,000 per year, but this stops being relevant at a disposable income a little above $22,000 per year.)

In conclusion, for every $100 per fortnight earned by Scott above $20,540 per year, he loses $60 in Newstart benefits and pays $7.60 in tax. The "net tax threshold" for Scott, at which his remaining Newstart Allowance is equal to his income tax is at a disposable income of just under $950 per fortnight, or roughly $25,000 per year. Above this point, Scott becomes a "net taxpayer" (disregarding supplementary cash benefits and any non-cash benefits and indirect taxes).

The example of a single person receiving Newstart is the least complicated case that can be illustrated. It shows that the Australian system of cash benefits is similar to Friedman's concept of a negative income tax, in that it requires no contributions and simply withdraws payments as other incomes increase, albeit in this example at three differing rates (0, 50% and 60%) rather than a single withdrawal rate – and with many conditions attached, the most important of which is that people fall into specified categories (e.g. unemployed, with a disability, caring).

The overall system is more complicated than this because many cash benefits are designed with different payment levels, thresholds and taper rates, which can also differ by whether people are singles or living in couples. Net tax thresholds will be higher for those benefit recipients who are renting privately and receiving non-taxable Rent Assistance, and for those receiving higher rates of basic benefits such as Age Pension or Disability Support Pension (which is non-taxable) or Parenting Payment Single. Families with children who are receiving non-taxable Family Tax Benefits will also enjoy higher net tax thresholds.

The discussion above refers to benefits level, withdrawal rates and cut-out points. It is important to understand the simple arithmetic of any form of income-tested social security programme. A US political scientist, Theodore Marmor, pointed out in 1969 in a discussion of how to assess income maintenance alternatives that there are three parameters in all income tested social security schemes, which are (1) the guarantee (benefit) level (2) the tax (withdrawal) rate, and (3) the cut-off point. For example, a programme guaranteeing $2500 when earnings are zero with a "tax" rate of 50 percent entails a cut- off point of $5000. If one specifies any two of the three variables, the value of the third variable is determined. As the Henry Review of *Australia's Future Tax System* pointed out more recently, with any income support payment there is an "iron triangle" associated with means testing. "The generosity of the payment (including the breadth of its coverage) needs to be balanced by how much it costs taxpayers, and the incentive for people to get off the payment by earning income. Improving one of these worsens one or both of the others."

It should also be emphasised that in the example of Scott, a single person on Newstart, the net tax threshold falls at an income between the actual income tax threshold (including the effects of the Low Income Tax Offset) and the cut-out point for benefits. By definition, the net tax threshold can't be higher than the benefit cut-out point since at this point a person is no longer receiving payments to offset their tax liability. The same logic applies to any other tax and transfer system, a point to which the discussion will return in looking at net tax thresholds across OECD countries.

Following the 2005 Treasury article, net tax thresholds were also calculated by the Treasury and presented in subsequent Budget Papers together with information on trends in the real disposable incomes of different types of "cameo" families. This information was published in the Budget Overview as Appendix C - Helping households with the cost of living, up until the 2013-14 Budget.

However, net tax thresholds are not included in Budget Papers of 2014-15 or 2015-16 under the Coalition Government. One may speculate that this is because these recent Budgets would have delivered reductions in real disposable incomes for many household types, as a result of proposed changes in social security measures.Table 2 shows trends in net tax thresholds for different types of households between 1996-97 and 2007-08 (the period of the Howard Liberal/National Coalition Government) and between 2007-08 and 2013-14 (the period of the Rudd/Gillard/Rudd Labor Government). The end point is a projection made in the final Labor Budget

Table 2: Real net tax thresholds, 1996-97 to 2007-08 and 2007-08 to 2013-14

Household type (wage as a percentage of the average wage)	Real net tax threshold ($2007-08)			Real net tax threshold ($2012-13)		
	1996-97	**2007-08**	**% change**	**2007-08**	**2013-14**	**% change**
Single person (67%)	$15,801	$18,300	15.8	$20,940	$23,359	11.6
Single person (100%)	$15,801	$18,300	15.8	$20,940	$23,359	11.6
Single person (167%)	$15,801	$18,300	15.8	$20,940	$23,359	11.6
Sole parent (0%)	$36,625	$50,813	39.1	$57,870	$60,816	5.1
Sole parent (67%)	$36,625	$50,813	39.1	$57,870	$60,816	5.1
One income couple (133%)	$17,026	$31,951	87.7	$37,598	$38,960	3.6
One income couple (167%)	$17,026	$31,951	87.7	$37,598	$38,960	3.6
Dual income couple (100 & 33%)	$20,607	$34,113	65.5	$38,939	$41,281	6.0
Dual income couple (100 & 67%)	$23,973	$34,227	42.8	$39,070	$43,036	10.2
One income couple with children (100%)	$35,920	$50,813	41.5	$57,870	$60,816	5.1
One income couple with children (133%)	$35,920	$50,813	41.5	$57,870	$60,816	5.1
One income couple with children (167%)	$35,920	$50,813	41.5	$57,870	$60,816	5.1
Dual income couple with children (100 & 33%)	$36,584	$55,340	51.3	$68,749	$75,338	9.6
Dual income couple with children (100 & 67%)	$36,688	$54,820	49.4	$72,947	$82,894	13.6
Dual income couple with children (167 & 100%)	$36,671	$54,850	49.6	$72,152	$81,753	13.3
Single pensioner (0%)	$21,389	$30,444	42.3	$31,450	$34,465	9.6
Pensioner couple (0 & 0%)	$35,879	$53,031	47.8	$51,861	$61,049	17.7

Source: Budget Overview, Appendix C - Helping households with the cost of living, 2007-08 and 2013-14.

For many types of households, net tax thresholds are the same irrespective of earnings level, although for couples they can vary depending on the split of income earned by each member of the couple and net tax thresholds are higher for pensioners than for people at younger ages.

Real net tax thresholds grew quite significantly in both periods. For single working-age people, the annual rate of change was somewhat greater under the Labor Government. However, for all other types of household, the increase was much greater under the Coalition Government. For example, for single income couples without children real net tax thresholds grew by nearly 90% - or 8% per year – in the first period, compared to 0.6% per year in the second period.

The Treasury article pointed out that changes in net tax thresholds reflected changes in the level of family payments, reductions in marginal tax rates, increases in the basic and higher tax thresholds, the liberalisation of payment income tests and changes in tax offsets for lower income taxpayers. The extent and precise nature of these changes differs between the two periods, and subsequently.

How many households receive cash benefits?

Before turning to estimates of trends in the number of "zero net taxpayers", it is useful to put them into context by considering trends in the share of income received from cash benefits or social security payments. This is because reliance on cash benefits is likely to be one of the main reasons for being a "zero net taxpayer".

Table 3 shows official ABS estimates from their series on Household Income and Wealth of the share of income from government pensions and allowances in household income from 1994-95 to 2013-14. The share of all households for whom social security was their main source of income fell from around 29 % in 1994-95 to 23 % in 2007-08, and rose slightly afterwards. For working age households, the decline was much stronger, from around 20 % in the mid-1990s to 12 % in 2007-08, with a slight increase afterwards.

Overall, there has been a long-term decline in the share of households with a head over 65 years of age relying on social security payments for 50 % or more of their income, from 77 % in the mid-1990s to around 64 % in the most recent year. This is likely to be due to the growth of superannuation savings in this period. The fact that the share of the total population reliant on social security has not fallen as significantly as the share of different age groups reflects the ageing of the population over this period. The share of the population over 65 (and more reliant on social security) grew from 16.8 % of income units in 1995-96 to 22.8 % in 2013-14.[4]

Table 3 also shows trends for the total population in the percentage contribution of benefits to incomes by various ranges, ranging from negligible levels of benefits received (nil or less than 1 %) to almost complete reliance (90 % or more). The share of households who get no income or practically none (less than 1%) from

[4] These estimates differ from estimates for the number of taxpayers due to a different starting point, and because not all persons are in scope for household surveys; for example they do not include people in hospitals or nursing homes.

cash benefits has risen strongly from 41% to 49% over this period. There was a slight decline in this following the Global Financial Crisis, but the upward trend in households being virtually completely outside the social security system has resumed. The share of people who get a relatively minor part of their total income from benefits (less than 20%) has also fallen from around 21 to 16%.

At the other end of the spectrum, the share of people who get more than 90% of their income from benefits has fallen from around 22% in 1994-95 to 15% in 2013-14. In between the share of people who get between 20% and half their income from benefits has risen modestly from around 9 to 10 %, while the share who are more reliant, but not completely reliant (between 50 and 90% of their income from benefits) has risen from 6.5 to 9.3%.

Table 3: Cash benefits and household income, Australia 1994-95 to 2013-14

	Main source of income: Government pensions and allowances			% contribution of government pensions and allowances to gross household income, all households				
	Working age	65 years and over	All households	Nil or less than 1%	1% to less than 20%	20% to less than 50%	50% to less than 90%	90% and over
1994–95	19.3	77.0	28.5	41.0	20.7	9.0	6.5	21.8
1995–96	19.6	75.5	28.0	41.4	20.6	9.2	7.4	20.4
1996–97	20.9	74.1	28.6	41.7	19.9	9.0	8.2	20.3
1997–98	19.8	73.4	28.5	43.3	18.5	8.9	7.7	20.7
1999–2000	18.3	74.7	28.7	44.7	17.7	8.2	7.8	20.7
2000–01	17.6	70.6	28.3	44.4	16.9	9.5	7.4	20.7
2002–03	16.1	68.4	26.6	46.1	17.2	9.0	7.5	19.0
2003–04	17.4	69.4	27.7	44.2	18.6	9.1	8.8	18.7
2005–06	15.0	70.6	26.1	43.9	20.2	9.5	8.6	17.3
2007–08	11.8	65.5	23.2	46.4	20.4	10.1	8.4	14.3
2009–10	14.4	65.7	25.2	45.5	19.4	9.7	9.1	15.9
2011–12	13.8	64.3	24.8	47.1	18.0	9.8	8.9	15.6
2013–14	13.1	63.7	24.7	49.3	15.9	9.9	9.3	15.1

Source: ABS Household Income and Wealth, 2013-14.

While specific households can move between any of these different groups, these patterns of change suggest that "independence" from social security has increased quite significantly, and complete reliance has fallen, with many of those completely reliant "moving" to partial reliance.

Further analysis by characteristics such as the age of the household head and the type of family (lone parents, couples with children) also show that the greatest

reductions were in the proportion of households deeply reliant on welfare payments (i.e. receiving 90% or more of their income from this source), with the greatest reduction in deep reliance being for lone parent households (down from 40 to 22%), for households with a head aged 65 years and over (from 62 to 39%) and for households with a head aged 55 to 64 years (from 32 to 13%).

In summary, receipt of welfare has been falling for most of the past two decades; while the share of people receiving between 20 and 90% of their income from social security has risen from around 15 to 20%, complete "independence" has increased even more.

How many "zero net taxpayers" are there?

The 2005 Australian Treasury article estimated that 38 % of Australian families (singles and couples, with and without children) would receive more money in cash benefits from the Australian Government than they paid in income taxes in 2005-06. A further 5 % received cash benefits equal to their income taxes in that year. Based on the second definition, as explained above, the total of 43 % would be "zero net taxpayers".

The article found that there were large increases in real net tax thresholds for particular types of individuals and households over this period – varying between 11.5% for single people of working age, 30% for lone parents and 71% for single income couples without children. Yet, the proportion of the total Australian population estimated to be zero net taxpayers was the same in 2005-06 as it was in 1996-97: 38 %. The proportion that paid the same amount in income tax as they received in benefits was also stable at 5 %, so overall 43% of households were zero or negative taxpayers in each year.

The 2005 Treasury estimate included households of all ages and it did not provide a breakdown by age of household head. [5] The Treasury article did estimate the proportion of different types of family households below these net tax thresholds in 1996-97 and 2005-06. Lone parents were most likely to be zero net taxpayers, but the proportion in this situation fell from 91% to 82% over this nine year period, while the share of couples with children who were zero net taxpayers fell from 35% to 33%.

Apart from Bremner (2005) and the NATSEM and ANU Centre for Social Research and Methods estimates quoted in *The Australian*, one other Australian article looks at this concept. In Middle class welfare in Australia: How has the distribution of cash benefits changed since the 1980s? (Whiteford, Redmond and Adamson, 2011), trends in the

[5] It is also worth noting that an aspect of their methodology might be expected to overestimate the number of zero net taxpayers. This is because they used a microsimulation model to estimate household's entitlements to cash benefits as well their income tax obligations, instead of using data of individuals who were actually receiving cash benefits. In the case of a single person entitled to Newstart Allowance (as in the example above), this approach assume that any person who satisfies the income test for payments is actually receiving a payment. However, this may not be true in practice. For example, if Scott has been on Newstart Allowance and then moves into part-time or low-paid work, he could be expected to continue to receive part payments of Newstart Allowance. In contrast, a person who finishes study and then gets a low paid job at the same income level may or may not apply for a part-rate of Newstart (particularly given the onerous reporting requirements that such a person would incur).

number of "zero net taxpayers" in Australia are examined together with a wide range of measures of the extent to which middle income groups benefit from social spending. This study provides estimates from 1981-82 up to 2007-8, but restricts its analysis to households of working age rather than the total population.

Table 4 shows estimated trends in the share of the population who are "zero net taxpayers" from these three different sources. The figures from Whiteford, Redmond and Adamson (2011) start from 1982 and show that the share of "zero net taxpayers" among people of working age jumped between the early 1980s and the mid-1990s. This change reflects the business cycle. The ABS Household Income survey for 1982 was taken at the peak of an economic boom and just before the recession of the early 1980s. Following the recession of the early 1990s, recovery started to accelerate from the mid-1990s onwards.

Table 3 showed that the share of working-age households for whom social security was the principal source of income fell from 19.3 % in 1994-95 to 11.8 % in 2007-08. Yet, Table 4 shows that the share of zero net taxpayers was virtually unchanged at around 27 % over this period. This is consistent with the results of the 2005 Treasury estimates which showed no change in the share of the overall population who were "zero net taxpayers" between 1996-97 and 2005-06. The Treasury figures for 2005-06 were very similar to NATSEM's estimates for the same year.

A more recent analysis by the ANU Centre for Social Research and Methods estimates suggest an increase from around 43 % to 48 % for 2013-14 and 2015. It is interesting to investigate why this increase might have occurred.

Table 4: Estimated numbers of zero net taxpayers,% of working age and all households, Australia, 1982 to 2015

	Whiteford et al. (2011)	Bremner (2005)	NATSEM/Centre for Social Research and Methods, various years
1982	21.9	..	..
1990	22.0	..	..
1994–95	26.7	..	..
1995–96	28.3	..	..
1996–97	27.7	43.0	..
2000–01	27.4	..	..
2002–03	25.7	..	..
2003–04	26.0	..	..
2005–06	25.8	43.0	43.9
2007–08	27.1	..	
2013–14	..	..	48.0
2015	..	..	47.4

Notes: Figures from Whiteford, Redmond and Adamson (2011) refer to households of working age only; figures for Bremner (2005) and NATSEM/ANU refer to working age plus pension age households.

The first reason concerns income tax and benefit settings for individuals or households over the age of 65. Table 3 showed that reliance on social security payments is much higher among households with a head aged 65 and over – 64 % in 2013-14 compared to 13 % of households with a working age head. The ANU Centre for Social Research and Methods is reported to have estimated that the share of "zero net taxpayers" among those aged 65 and over increased from 87 % in 2005 to 90 % in 2015.

The earlier discussion of the Grattan Institute analysis of tax data suggests that this is mainly due to the Howard Government's decision in 2007 to exempt people over 60 from paying income tax on their superannuation withdrawals.

It is also the case that in 2009, rates of Age Pension were significantly increased, which other things being equal could be expected to reduce the share of net taxpayers. However, as part of this reform the withdrawal rate on pensions was increased from 40% back to 50% (the rate which had applied between 1969 and 2000). The effect of this was to keep the pension cut-out point at the same income level, so that there should not have been a major impact on the number of zero net taxpayers, remembering that the net tax threshold in the Australian system must be below the payment cut-out point.

For working age households, Table 3 showed that the share that get more than half of their income from social security payments fell from 19.3% in 1994-95 to 11.8% in 2007-08, but Table 4 shows that over this period, the share of zero net taxpayers was broadly stable, going from 26.7% to 27.1%.

It is likely that this is the result of a combination of factors. The withdrawal rates on unemployment payments were reduced in the mid-1990s and those on pensions including the Disability Support Pension, Parenting Payment Single and Carers Payment were also reduced in 2000 with the introduction of the Goods and Services Tax. Withdrawal rates on family payments were also reduced at this time, and again in 2003. As noted by Harding, Vu, Payne and Percival (2009) a key reason for the reduction in withdrawal rates for these benefits was concern about the implications for work incentives of the very high effective marginal tax rates (EMTRs) which result from the interaction of benefit withdrawal rates and income tax.[6]

A second reason is increases in the tax-free threshold and changes in the first marginal tax rate over this period. The basic tax threshold rose from $5400 in 1995-96 to $6,000 in 2007-08; while this was a fall of around 20 % in real terms, the Beneficiary Tax Offset ensured that those completely reliant on Newstart were not liable for income tax. The real value of the Low Income Tax Offset also increased significantly. Moreover, the first tax rate was cut from 20 to 15 cents in the dollar in this period, which could be expected to push up net tax thresholds.

It should be remembered, however, that the reductions in income tax rates and in withdrawal rates on payments as well as the introduction of the Senior Australians Tax Offset were all part of the compensation package for the introduction of the Goods and Services Tax, with the aim of broadening the tax

[6] See Tax and Transfer Policy Institute Policy Brief 1/2016 for a discussion of EMTRs.

base and reducing income taxes. Inclusion of the effects of higher indirect taxes would reduce the number of "zero net taxpayers".

Overall, the substantial increase in real net tax thresholds over this period is the result of deliberate government policy decisions about the structure of the income tax and not the result of extensions of welfare assistance. The fact that the share of "zero net taxpayers" does not appear to have increased in line with the increase in net tax thresholds is also a consequence of growth of earnings and family incomes over the period from the 1990s up to the GFC. Real average weekly earnings grew by 15 % between 1996-97 and 2007-08, and by a further 8.5 % between 2007-08 and 2013-14. This strong growth in wages was further enhanced by increases in employment and the growth of two earner households. As real incomes grow, the operation of income tests means that the role of social security benefits shrinks – a finding confirmed by research from Whiteford (2014) and Herault and Azpitarte (2014).

For example, because Newstart benefits are indexed to prices and real wages have increased both benefit levels and cut-out points have fallen in Australia relative to average wages. In 2001, Newstart plus Rent Assistance for a single person was 27 % of the average wage (using OECD data) but by 2014 payments had fallen to 21 % of the average wage, with the cut-out point falling from 44 to 39 % over the same period. Given that the net tax threshold must be lower than the benefit cut-out point, we would expect the contribution of Newstart payments to the number of zero net taxpayers to be falling.

What about the apparent increase in the share of "zero net taxpayers" in the most recent ANU estimates? The tax-free threshold was significantly increased in 2012-13 as compensation for the introduction of carbon pricing[7], and reflecting a recommendation of the Henry Tax Review. This may also have contributed to the increase in the share of "zero net taxpayers" in the latest estimate. Correspondingly, when real earnings do not grow the size of the social security system will tend to be stable, while increases in unemployment will tend to increase the share of "zero net taxpayers". Real average weekly earnings have risen by only 0.5 % since 2013-14.

It is also worth noting that not all "zero net taxpayers" are in the bottom half of the income distribution. In Middle class welfare in Australia: How has the distribution of cash benefits changed since the 1980s? we estimated that of the 27.7 % of working age households who were "zero net taxpayers" in 1996-97 when the Howard government was elected about 1.9 percentage points were in the top 50% of the population, but by 2007-08 when the Rudd Government was elected – and the overall figure was still 27.7 % - this had risen to 2.8 percentage points, implying a marginal shift upwards in the location of zero net taxpayers. (This can also be seen as a measure of a very small increase in "middle class welfare".)

[7] This was partly offset by a reduction in the Low Income Tax Offset.

Even within the bottom half of the income distribution there are differences in the share of "zero net taxpayers". In 2007, 89.5% of the lowest income decile were zero net taxpayers, reducing to 78% of the second decile, 47% of the third decile, 24% of the fourth decile and 16% of the fifth decile.

How does Australia compare?

The existence and the extent of "zero net taxpayers" is a reflection of the interaction between the level of cash benefits; how we distribute them; and the level and structure of taxation and how progressively it is collected. As discussed above, discussion of "zero net taxpayers" has also arisen in the US, UK and NZ. So how does Australia compare?

Compared to other rich countries, Australia is relatively low in terms of government spending and taxation, having the third lowest level of government spending in the OECD and the fourth lowest level of overall government revenue. One of the major explanations for our overall low level of spending is that we have one of the lowest levels of spending on social security in the OECD. Total government spending in Australia is about 80 % of the OECD average, spending on areas other than social protection is about 90 % of the OECD average, but spending on social protection is only about 60% of the OECD average. Given that spending on social protection in most rich countries is the largest single component of overall government spending, our low level of social spending is one of the most important factors explaining our relatively low level of taxation.

This is primarily due to our low level of spending on cash benefits - as shown in Figure 1 spending on cash benefits in 2014 was 8.6 % of GDP, the sixth lowest level of 34 OECD countries.

The reason why Australia has a low level of spending on social security is that our system differs markedly from those in most other countries. In Europe, the United States and Japan, social security is financed by contributions from employers and employees, with benefits related to past earnings; this means that higher-income workers receive more generous benefits if they become unemployed or disabled or when they retire. By contrast, Australia's flat-rate payments are financed from general taxation revenue, and there are no separate social security contributions; benefits are also income-tested or asset-tested, so payments reduce as other resources increase. The rationale for this approach is that it reduces poverty more efficiently by concentrating the available resources on the poor ("helping those most in need") and minimises adverse incentives by limiting the overall level of spending and taxes.

The Australian system relies more heavily on income-testing than any other country in the OECD. The 2014 Social Expenditure Update from the OECD shows that nearly 80 % of Australian cash benefit spending is income-tested[8] compared to just over half in Canada, 37 % in New Zealand, around 26 % in the United Kingdom and the United States,

[8] The OECD figures include spending on State government workers compensation schemes and Commonwealth and State civil service pensions' which are not income-tested.

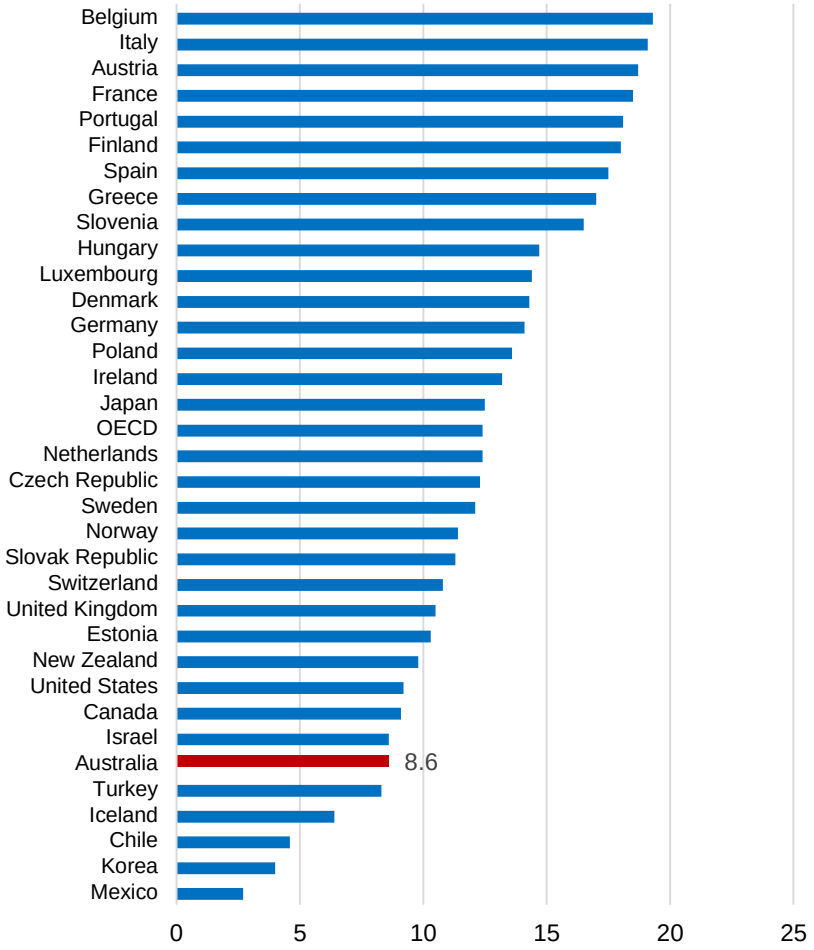
and less than 10 % in most European countries.

As a result, our system directs a higher share of benefits to lower-income groups than any other country in the OECD. The poorest 20 % of the Australian population receives nearly 42 % of all social security spending; the richest 20 % receives around 3 %. As a result, the poorest fifth of Australians receives twelve times as much in social benefits as the richest fifth. In the United States the poorest get about one and a half times as much as the richest. At the furthest extreme are countries like Greece, where the rich are paid twice as much in benefits as the poorest 20 %, and Mexico and Turkey, where the rich receive five to ten times as much as the poor.[9]

In addition to social insurance programmes most other OECD countries do have a range of income-tested social assistance programmes which provide a safety net for those who have not been able to participate in contributory social insurance systems (because they have had interrupted work histories due to caring responsibilities, or because they are migrants, or because they have a disability before reaching working age, or because their low wages when in work mean that their social insurance does not provide a minimally adequate standard of living when they need it).

[9] This is related to the fact that in low income countries, only people who are in the formal labour market have membership pf social security schemes, and these households have higher incomes than those in the informal labour market.

Figure 1: Spending on cash benefits, OECD, 2014 or nearest year (% of GDP)



Source: OECD Social Expenditure database, https://www.oecd.org/social/expenditure.htm

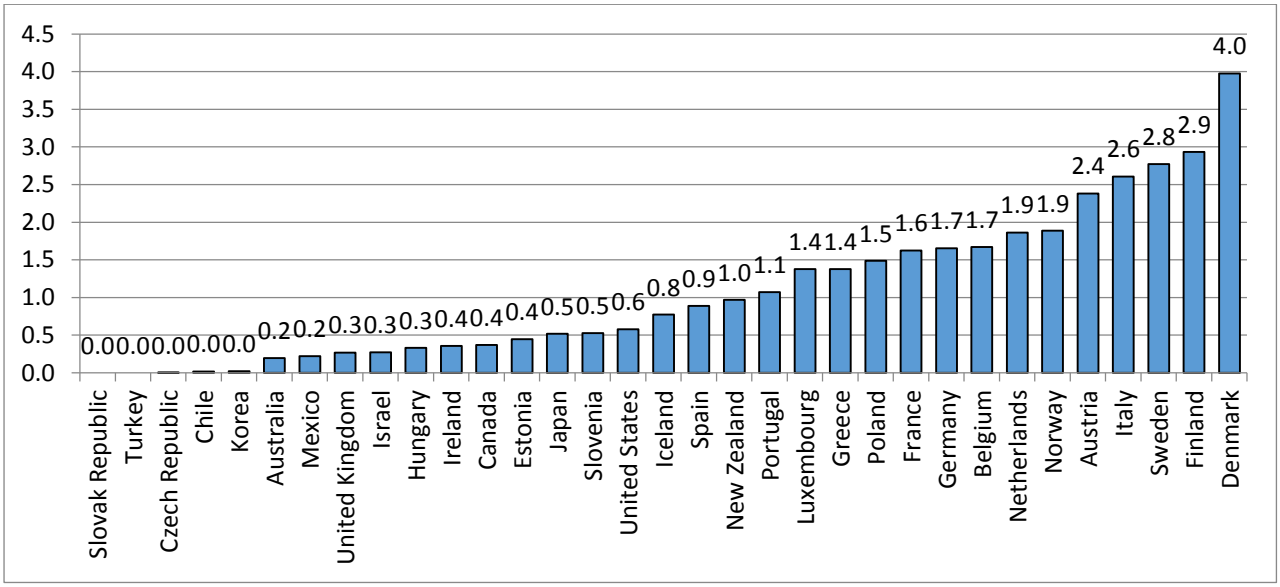
Usually these social assistance programmes are even more targeted to the poor than the Australian system – with much tighter tests on assets, higher withdrawal rates on benefits and more restrictive eligibility conditions - but given their lower profile in the social security system as discussed above, these systems cover a much smaller proportion of their populations. These programmes are intended to complement more encompassing insurance arrangements, so that even while Australia has less restrictive means-testing the system as a whole is much more targeted to the poor. What this means is that when we compare the Australian system with those in other countries, we need to look at not only the structure and progressivity of taxation but also the mix of different types of cash transfers and how they are structured.

Income testing or taxing – different approaches to targeting welfare

A corollary of the fact that our benefit system targets the poor more than any other country is that we also have a tax system that claws-back less of our spending. Recent OECD studies have pointed to the extent to which taxation interacts with the design of social security (Adema et al., 1996; Adema, 2001; Adema and Ladaique, 2005; OECD, 2014).

Figure 2 shows OECD estimates of the level of direct taxes (income taxes and employee social security contributions) that are paid out of cash transfers. In Australia direct tax payments made from social security benefits amount to only 0.2 % of GDP, with the only countries with lower levels of direct tax paid out of benefits being lower income countries. At the other extreme, high spending Nordic welfare states collect direct taxes on benefits of close to 3 % of GDP, or in the case of Denmark around 4 % of GDP.

Figure 2: Clawback of cash transfers through direct taxation, % of GDP, OECD countries, 2011

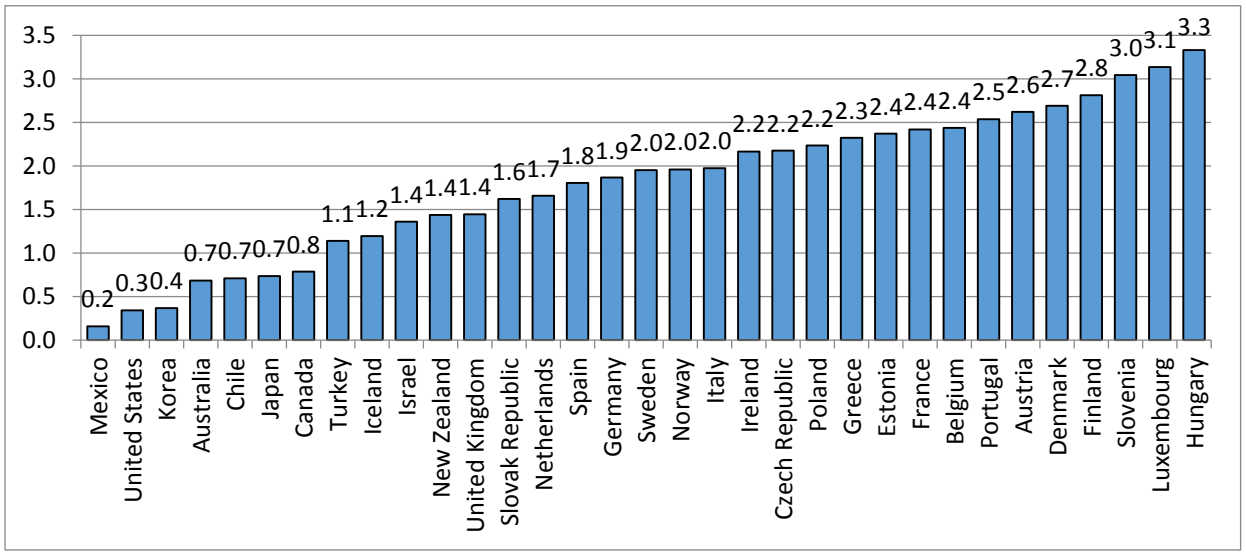


Source: OECD Net Social Expenditure indicators, http://www.oecd.org/els/soc/OECD2014-Social-Expenditure-Update-Nov2014-NetSocx-Data-2011-Fig7.xlsx

Figure 3 shows estimates of clawbacks through indirect taxes, including the GST in Australia and value added taxes in Europe. Again, Australia has one of the lowest levels of clawback through indirect taxation in the OECD, at around 0.7 % of GDP with levels of indirect taxes paid on benefits exceeding 2.5 % of GDP in a range of Nordic and other European welfare states.

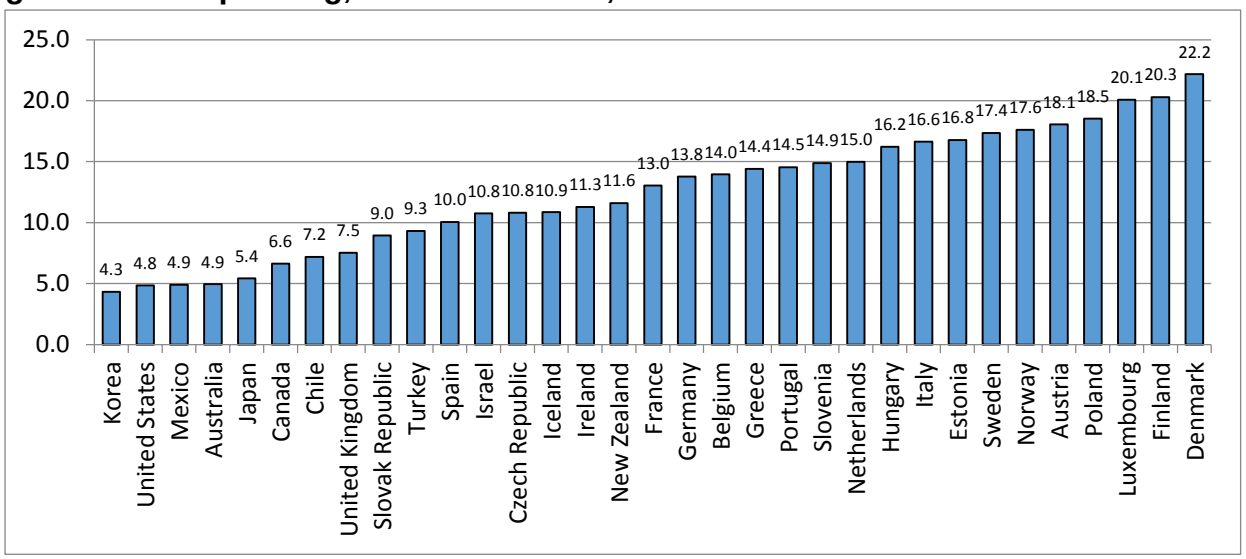
Figure 4 shows the combined effects of direct and indirect taxation on the level of social spending, but expressed as a percentage of gross social spending. Australia has the equal third lowest level of tax clawback in the OECD in 2011, at 4.9% of social spending. At the other extreme in Luxembourg, Finland and Denmark 20 % of their much higher level of spending is clawed-back.

Figure 3: Clawback of net cash transfers through indirect taxation,% of GDP, OECD countries, 2011



Source: OECD Net Social Expenditure indicators, http://www.oecd.org/els/soc/OECD2014-Social-Expenditure-Update-Nov2014-NetSocx-Data-2011-Fig7.xlsx

Figure 4: Total clawback of cash transfers through direct and indirect taxation, % of gross social spending, OECD countries, 2011



Source: Calculated from OECD Net Social Expenditure indicators, http://www.oecd.org/els/soc/OECD2014-Social-Expenditure-Update-Nov2014-NetSocx-Data-2011-Fig7.xlsx

The fact that Australia overall has the most income-tested social security system of all OECD countries is linked to the fact that we tax cash benefits less than most countries. Income-testing is a way of "taxing in advance" rather than clawing back spending through the tax system after payments have been made. Each can be regarded as differing ways of seeking to achieve broadly similar goals.

The decision to have low levels of tax payable on benefits follows from the logic of targeting payments to the poor. If in the benefit system we want to make sure that we direct assistance to those most in need, it would not make sense to tax benefits heavily – it would imply that we are paying basic benefits that are "over-generous". In contrast, in Nordic countries spending on cash payments is more universal in its distribution, so clawing back through the tax system is a logical approach. In European countries with high replacement rates for payments, it is logical to tax benefits like other sources of income.

How progressive are taxes in OECD countries?

The degree of progressivity of the tax system is conventionally measured by the rate of increase in taxes as income increases (OECD, 2008), that is the difference between the tax rates paid by high income and low income groups. A low level of taxation on low income households therefore contributes to the progressivity of the direct tax system, other things being equal.

Analysis by the OECD in Growing Unequal (2008) found that direct taxes are most progressively distributed in the United States, reflecting the greater role played there by refundable tax credits, such as the Earned Income Tax Credit and the Child Tax Credit. Low income groups in the United States pay very low taxes because these credits can mean that the Internal Revenue Service actually pays money to them (i.e. negative taxes because these tax credits are "refundable").

Table 5 compares the progressivity of direct taxes (income tax and employee social security contributions) in OECD countries around 2005, showing the concentration coefficient for taxes and the share of taxes paid by the richest 10 % of households.

After the United States, the distribution of taxation tends to be most progressive in the other English-speaking countries – Ireland, Australia, the United Kingdom, New Zealand and Canada– together with Italy, followed by the Netherlands, the Czech Republic and Germany. Taxes tend to be least progressive in the Nordic countries, France and Switzerland.

In most but not all countries taxes are more progressive for the retirement-age population than for the working-age population, reflecting the existence of various tax concessions for low-income retired people. Australia has the most progressive distribution of taxes for people in retirement age households – put another way, most households of retirement age in Australia pay little or no direct taxes.

However, the progressivity of the tax system also depends on the level of inequality of taxable income, and the effective progressivity of a given tax schedule will be greater in a country with a more unequal distribution of taxable

income. To come back to the argument put by the former Treasurer, Joe Hockey, that high income groups pay a very high share of taxes, the main reason for this that they have a much higher share of income than their share in the population.

For example, the World Wealth and Income Database shows that the richest 10 % of Americans have about 48 % of total income compared to shares of around 28 % for the richest 10 % of the Swedish or the Norwegian population. The richest 10 % of Australians in 2012 were closer to the Swedish than the American end of this spectrum, holding about 30 % of total income. But this implies that even if the tax system was proportional in its incidence, we would expect the richest 10 % of Australians to pay 30 % of direct taxes, and depending on the progressivity of the tax scale their share of taxes would be even higher.

Table 5 (derived from OECD, 2008) also adjusts for this effect by showing the concentration coefficient[10] of household taxes divided by the Gini coefficient for market income (in the third column), as well as the share of taxes paid by the richest 10% of the population compared to the share of market income they receive (sixth column).

[10] The concentration coefficient is calculated in the same way as the Gini coefficient, but with households ranked by their income rather than the taxes they pay. The higher the concentration coefficient the greater is the share of taxes paid by high income groups i.e. the more progressive is the tax system.

Table 5: Alternative measures of progressivity of taxes in OECD countries, 2005

	A. Concentration of household taxes and market income			B. Percentage share of richest decile		
	1. Concentration coefficient for household taxes	2. Gini coefficient of market income	3. Ratio of concentration coefficients (1/2)	1. Share of taxes of richest decile	2. Share of market income of richest decile	3. Ratio of shares for richest decile (1/2)
Australia	0.53	0.46	1.16	36.8	28.6	1.29
Austria	0.38	0.43	0.88	28.5	26.1	1.10
Belgium	0.40	0.49	0.80	25.4	27.1	0.94
Canada	0.49	0.44	1.13	35.8	29.3	1.22
Czech Republic	0.47	0.47	0.99	34.3	29.4	1.17
Denmark	0.35	0.42	0.84	26.2	25.7	1.02
Finland	0.43	0.39	1.11	32.3	26.9	1.20
France	0.37	0.48	0.77	28.0	25.5	1.10
Germany	0.47	0.51	0.92	31.2	29.2	1.07
Iceland	0.27	0.37	0.72	21.6	24.0	0.90
Ireland	0.57	0.42	1.37	39.1	30.9	1.26
Italy	0.55	0.56	0.98	42.2	35.8	1.18
Japan	0.38	0.44	0.85	28.5	28.1	1.01
Korea	0.38	0.34	1.12	27.4	23.4	1.17
Luxembourg	0.42	0.45	0.92	30.3	26.4	1.15
Netherlands	0.47	0.42	1.11	35.2	27.5	1.28
New Zealand	0.50	0.47	1.05	35.9	30.3	1.19
Norway	0.38	0.43	0.87	27.4	28.9	0.95
Poland	0.38	0.57	0.67	28.3	33.9	0.84
Slovak Republic	0.42	0.46	0.92	32.0	28.0	1.14
Sweden	0.34	0.43	0.78	26.7	26.6	1.00
Switzerland	0.22	0.35	0.63	20.9	23.5	0.89
United Kingdom	0.53	0.46	1.16	38.6	32.3	1.20
United States	0.59	0.46	1.28	45.1	33.5	1.35
OECD-24	0.43	0.45	0.96	31.6	28.4	1.11

Source: Computations based on OECD income distribution questionnaire.

Based on the concentration coefficient of household taxes, the United States has the most progressive direct tax system in the OECD and collects the largest share of taxes from the richest 10% of the population. However, the richest decile in the United States has one of the highest shares of market income of any OECD country. Standardising for this underlying inequality, has some effect but not a major one - Ireland has the most progressive direct tax system as measured by the ratio of the concentration coefficients of household taxes and market income, with the United States and Australia still coming in at second and third positions respectively, while Australia and the United States collect the most tax from people in the top decile relative to the share of market income that they earn.

Net tax thresholds in OECD countries

The discussion above has highlighted that Australia has both relatively low levels of total tax revenue and of spending on cash transfers, but has the most progressive distribution of benefits in the OECD and one of the most progressive systems of direct taxation. Does this mean that we have either more or fewer net taxpayers than other OECD countries?

By definition, all tax-transfer systems will produce net tax thresholds where taxes payable start to exceed benefits received. If tax rates rise as market income rises and if benefits shares tend to fall as

income rises, then again by definition there must be an income level where the distributions cross. But given the differences in tax and benefit structures in OECD countries discussed above, how different are net thresholds likely to be?

We can address this question through the OECD database on Benefits and Wages. The OECD notes:

> "The OECD Tax-Benefit models show how complicated tax and benefit rules can affect the net income of families when they are in and out of work. The models are part of the OECD's database on tax-benefit policies, which monitors redistribution policies, income adequacy and benefit generosity for working-age people and their families over time and across countries. They also show how much families gain from employment, accounting for benefits, taxes and other work-related costs, such as for childcare. The latest update of the indicators covers the period from 2001 to 2014"

The Benefits and Wages database includes a series of excel spreadsheets setting out the components of disposable income for a wide range of cameo households (singles, lone parents, one and two earner couples with and without children) of working age. The spreadsheets separately identify the income components for people entitled to contributory benefits and income-tested benefits, including income support payments, rent assistance and family benefits received, minus income tax and employee social security contributions payable for levels of earnings, broken down by 1 % of the average wage from no earnings (i.e. completely reliant on social security benefits) up to 220 % of the average wage[11] in each country. They also show the effective marginal tax rates produced by the interaction between all these elements at each percentile of earnings, as well as gross income (the sum of earnings and benefits) and disposable income (gross income minus taxes and employee social security contributions). From these figures it is possible to identify the earnings level at which taxes paid exceed benefits, and the individual stops being a "zero net taxpayer".

Table 6 shows calculations of net tax thresholds for the simplest case of a single person of working age for selected OECD countries in 2014, separating out the case of an individual entitled to unemployment insurance (not relevant in Australia and New Zealand) or income-tested unemployment assistance (not relevant in Greece and Italy).

[11] Earnings are expressed in national currencies. In the case of Australia the average wage figure in 2014 was $79,409, which means that 1 % of the average wage was $794 or roughly $15 per week.

Table 6: Net tax thresholds and related parameters, OECD countries, 2014

	Net Benefits % of average wage		Cut-out points % of average wage		Net tax thresholds % of average wage	
	Assistance	Insurance	Assistance	Insurance	Assistance	Insurance
Australia	21	-	39	-	36	-
Austria	26	36	30	30	26	26
Belgium	21	38	30	30	22	37
Canada	15	48	41	50	37	46
Denmark	36	38	40	102	39	49
Finland	32	49	54	54	39	66
France	23	47	55	64	36	63
Germany	21	36	40	40	29	38
Greece	-	21	-	22	-	19
Iceland	30	41	31	41	31	41
Ireland	40	40	41	80	40	60
Italy	-	41	-	1	-	1
Japan	33	43	51	52	41	104
Korea	14	35	15	38	15	130
Luxembourg	32	59	45	90	38	65
Netherlands	31	47	45	100	39	59
New Zealand	26	-	61	-	42	-
Norway	26	47	32	51	27	51
Poland	15	33	38	47	38	36
Portugal	12	55	28	55	23	55
Spain	17	43	17	100	17	62
Sweden	31	39	53	100	40	59
Switzerland	28	52	32	100	28	66
United Kingdom	29	29	46	46	38	38
United States	6	34	30	61	26	49

Source: Calculated from OECD Benefits and Wages database.

To facilitate cross-country comparisons the figures are expressed as a percentage of the average wage in each country.[12] In addition, to assist in understanding why net tax thresholds differ across countries, the table shows the basic level of net benefits also expressed as a percentage of the average gross wage and the cut-out points for insurance and assistance benefits as a percentage of the average wage, remembering that net tax thresholds must be below the benefit cut-out point. The calculations also include the level of assistance with rental costs.

Table 6 shows that the combined level of Newstart and Rent Assistance for a single person at 21 % of the average wage is equal 15th out of 23 OECD countries when

[12] For a discussion of issues related to the use of replacement rates and comparisons of average wages across countries, see Whiteford (1995) http://onlinelibrary.wiley.com/doi/10.1111/j.1468-246X.1995.tb00427.x/abstract.

comparing assistance payments; compared to unemployment insurance payments (for the short-term unemployed) Australia is equal lowest. The cut-out point for payments in Australia ranks 13th compared to other income-tested payments and 19th compared to insurance payments.

In most cases, net tax thresholds are higher for people receiving insurance benefits than they are for people in the same country receiving assistance benefits, which is mainly a reflection of the higher level of insurance payments. The net tax threshold in Australia ranks equal 12th compared to other assistance payments and 19th compared to insurance payments. Overall, therefore we are in the middle or lower half of OECD countries in terms of the level of income at which single people effectively begin to pay tax. (We could also expect that receipt of social insurance benefits for other contingencies or life stages – sickness, disability, widowhood or retirement – will produce generally higher net tax thresholds than in Australia.)

The countries with the lowest net tax thresholds for single people are Italy and Greece. This is because these countries do not have national social assistance schemes and they start to pay social security contributions as soon as they have any earnings. In the case of Italy they completely lose their insurance benefits as soon as they have any earnings at all, while in Greece the contributory benefit is actually reduced Euro for Euro as earnings increases, which combined with the social insurance contributions they still pay on these earnings produces an effective marginal tax rate of 115.5 %.

Thus low net tax thresholds in these two countries mean that unemployed individuals have virtually no incentive to work – or if they are working no incentive to declare their income. While there are additional factors to be taken into account, estimates by Schneider (2015) are that the "shadow economy" (undeclared work and under-reported income) are in excess of 20 % of GDP in Greece and Italy compared to his estimate of around 10 % of GDP in Australia.

Other data from the OECD can be used to inform the question of whether these differing net tax thresholds produce varying shares of "zero net taxpayers" in different countries. Table 7 shows data from the OECD Income Distribution Study of the share of disposable income received in transfers or paid in direct taxes by income deciles for selected OECD countries.

Table 7: Share of transfers and taxes in disposable incomes by decile of equivalised disposable income

Selected OECD countries, around 2005, % of income of decile

	Australia		Denmark		Korea		New Zealand		Sweden		United Kingdom		United States	
	Transfers	Taxes	Transfers	Taxes	Transfers	Taxes	Transfers	Taxes	Transfers	Taxes	Transfers	Taxes	Transfers	Taxes
Decile 1	80%	-1%	93%	-30%	19%	-10%	48%	2%	84%	-25%	66%	-4%	55%	-12%
Decile 2	72%	-3%	89%	-32%	9%	-6%	69%	-13%	82%	-29%	55%	-6%	35%	-5%
Decile 3	45%	-7%	65%	-37%	7%	-6%	56%	-16%	65%	-35%	42%	-10%	22%	-8%
Decile 4	26%	-13%	42%	-43%	4%	-6%	25%	-21%	50%	-38%	30%	-13%	17%	-12%
Decile 5	15%	-17%	25%	-47%	3%	-7%	16%	-24%	38%	-39%	22%	-18%	12%	-15%
Decile 6	10%	-20%	18%	-50%	3%	-8%	11%	-26%	31%	-40%	14%	-21%	10%	-18%
Decile 7	7%	-22%	13%	-53%	3%	-8%	7%	-27%	25%	-42%	9%	-24%	7%	-21%
Decile 8	4%	-25%	10%	-56%	2%	-9%	4%	-29%	21%	-43%	5%	-27%	6%	-24%
Decile 9	2%	-28%	7%	-59%	2%	-9%	3%	-32%	16%	-46%	4%	-28%	5%	-29%
Decile 10	1%	-38%	4%	-70%	2%	-10%	0%	-42%	10%	-58%	2%	-35%	3%	-41%
TOTAL	14%	-23%	26%	-53%	3%	-8%	13%	-29%	33%	-43%	15%	-24%	9%	-26%

Source: OECD Income Distribution data, mid-2000s.

In the case of Australia what these figures mean is that the lowest income group receive 80 % of their disposable income from benefits and pay 1 % of their disposable income in taxes, while the richest 10 % receive 1 % of their income from benefits and pay 38 % of their income in taxes – and so on.

From figures of this sort it is therefore possible to identify the decile in which taxes on average exceed transfers. In the case of Australia this is decile five, where transfers account for 15 % of disposable income and taxes are a little higher at 17 % of disposable income. Since this is the 5th decile it means that somewhere between 40 and 50 % of Australian households are "zero net taxpayers" – a figure consistent with the estimates discussed earlier. To take the case of the United States, the turnaround point is also in the fifth decile, where transfers at 12 % of disposable income are less than taxes at 15 % of disposable income.

It can also be seen that the turnaround point is also in the fifth decile in New Zealand, but also in Sweden, where transfers are more than twice as high as a share of overall household income than in Australia and taxes are nearly twice as high.

It is notable, however, that the turnaround point in Denmark is somewhat lower in the 4th decile where taxes at 43 % of income are slightly higher than transfers at 42 % of income. This implies that somewhere between 30 and 40 % of Danish households are "zero net taxpayers". Moreover, in the case of Korea it is also the 4th decile where taxes first exceed transfers (6 % compared to 4 %).

What this suggests is that the point at which households become zero net taxpayers is not determined simply by the level of taxes or transfers. Transfers as a share of total household income are eight times higher in Denmark (26%) than in Korea (3%) and taxes are nearly seven times as high in Denmark (53%) as in Korea (8%), but despite these vast differences the turnaround point is in the same income decile.

This is because there is an implicit trade-off between the level and progressivity of spending and the level and progressivity of taxes. High levels of spending are generally taken to require higher levels of taxation, and higher levels of taxation generally require less progressive tax structures (OECD, 2008).

An important point to note is that there is a difference between the share of taxes paid by high income groups and the share of their income that they pay in taxes. Because Australia has a lower overall tax take than many countries, in our case the share of income paid by higher income groups is lower than in many other countries even though the share of taxes they pay is relatively high. For example, Table 5 showed that the richest decile in Australia paid just under 37 % of direct taxes, compared to 26 % in Denmark, just under 36 % in New Zealand, and around 27 % in Sweden.

Table 7, however, showed that the average direct taxes paid by the richest decile in Australia was 38 % of their disposable income compared to 70 % in Denmark, 42 % in New Zealand and 58 % in Sweden. The low tax rates paid by low income groups in Australia flow through to higher income groups because the tax

threshold is available to all taxpayers as is the relatively low first tax rate. So in the case of New Zealand, even though the highest marginal rate is lower in Australia's the highest income decile pay higher taxes on the first tranches of their income, producing a higher average tax rate for this group.

Using the same data source, Table 8 shows the income deciles where households on average become "zero net taxpayers" for a wider range of OECD countries.[13]

The turning point for Australia is in the fifth decile. This means that between 40 and 50 % of the total population receive more in benefits than they pay in taxes. This is also the turning point in Canada, the Netherlands, New Zealand, Norway, Sweden and the United States. Denmark, Finland and Korea have fewer "Zero net taxpayers" with the remaining countries having more.

For people of working age, the turning point is between the third decile and the fifth decile, with the largest number of countries including Australia being in the fourth decile. This is higher than the share shown in Table 4, reflecting the fact that these figures are calculated from grouped data rather than directly from micro-data, meaning that they are less precise.

[13] In a number of countries (Greece, Mexico) it is not possible to identify the turning point, because the original data are collected net of income taxes paid, so that it is not possible to identify the actual amount of tax paid.

Table 8: Zero net tax deciles, selected OECD countries, 2005

	Zero net tax decile		
	Total	**Working Age**	**65+**
Australia	5	4	10
Austria	7	5	-
Belgium	6	4	-
Canada	5	4	10
Denmark	4	4	10
Finland	4	4	6
Germany	6	4	-
Ireland	6	5	`-
Italy	8	5	-
Japan	7	4	-
Korea	4	3	-
Netherlands	5	4	10
New Zealand	5	4	10
Norway	5	4	-
Sweden	5	4	-
United Kingdom	6	4	10
United States	5	3	10

Source: Calculated from OECD income distribution data.

In general, people over 65 have much more favourable tax treatment and are much more likely to receive social security payments than other people. For households with a head over 65 years, many countries have a turning point in the top decile, meaning that more than 90 % of these households receive more in pensions than they pay in taxes. Countries marked by a dash have no turning point – that is, on average no one over 65 pays more in taxes than they receive in payments (this is an aggregate figure; there may in fact be some people who pay more in taxes, but the number is likely to very small). Finland appears to be an anomaly with the turning point being in the sixth decile; this is because Finland has a very large occupational pension system which covers most people in this age group, but which is not classified as social security spending.

The dynamics of "zero net taxpayers": A lifecourse and risk perspective

The media and political debate about "zero net taxpayers" relies on these static measures which provide a static "snapshot" of individuals or households in a single year. Yet each individual (and household) moves through a lifecourse in which most (although not all) will be earning income and paying taxes, or receiving benefits, at different levels over their lifecourse. Individuals and

households also face different risks over their lifecourse.

A lifetime of taxes and benefits

Households with a head aged 65 years or more receive by far the greatest net benefits from government. In Australia, as elsewhere, a high proportion of them receive at least part of the age pension; they are heavy users of the healthcare system; and they pay very low levels of direct tax. Their low tax payments reflect their low overall incomes, together with special tax offsets and the concessional tax treatment of superannuation.

It's important to remember that most people aged over sixty-five were net taxpayers when they were of working age, so classifying them as "zero net taxpayers" fails to take account of any contributions they made earlier in life.

Many European countries have a contributory public social security system. This makes clear that in these systems that identifying a group in the population as "zero net taxpayers" makes little sense, since by definition you have to have contributed in the past to receive benefits currently. Of course, this does not necessarily mean that your past contributions were sufficient to cover your lifetime payments. Contributory social insurance systems generate widespread recognition of redistribution across the lifecourse as one of the primary aims of the welfare state.

Even in Australia, the point in time data in Table 4 showed that more than 70 % of working age households are positive net taxpayers: they are paying tax while working, and receiving more in benefits once they reach age 65.

Similarly, many low-income families with children may receive more in family benefits and education support than they pay in taxes but they paid more in taxes before they had children and they will pay more after their children have left home; in future years their children will pay taxes too. As in most other rich countries, public spending in Australia is an important instrument for redistributing resources across the lifecourse.

Taking account of the vicissitudes of life

There are other reasons why the distinction between low- and high-income earners (and taxpayers) that is implied in the concept of "zero net taxpayer" is not hard and fast. Australia's longitudinal survey of households, the Household Income and Labour Dynamics in Australia (HILDA) Survey, shows that many people ascend and descend the income ladder over time.

Between 2001 and 2010, only 2.2 % of the Australian population stayed at the same percentile of the income distribution. Around 21 % went up more than two deciles, close to 30 % went up by less than two deciles, 27 % went down by less than two deciles and 21 % went down by more than two deciles.

People rise up the income distribution because they leave study and get jobs or because they are promoted at work or because they marry or because their children leave home. People fall down the income distribution because they retire or become unemployed, become sick or disabled or separate from partners, or because they have children (in particular, this affects female income levels).

In fact, HILDA shows that only around 47 % of those in the poorest 20 % of the population in 2001 were still there in 2010. Similarly only around 47 % of those in the richest 20 % of the population in 2001 were still there in 2010. So if we go back to the figures cited by Adam Creighton that only the richest 20 % of the population pay net tax after taking account of non-cash benefits, it should be recognised that nearly half the net taxpayers at the beginning of one decade will not be in that position at the end of the period. The longer the time period over which income is measured, the greater the proportion of the population will change their economic status. Households that stay permanently either at the very top or the very bottom of the income distribution are relatively uncommon.

Mobility is greatest in middle income groups because there it is possible to experience both rises or falls in income, whereas if you start at the top you can only go down, and if you start at the bottom you can only go up. Only a quarter of those in the middle 20 % of the population in 2001 were still in the same income group in 2010, with a third being in a lower income group and close to 40 % being in a higher income group.

A US study, The Lifecycle of the 47% analysed longitudinal data for households with observations from the US Panel Survey of Income Dynamics. They found that over a period of 10 to 40 years, nearly 68% of households owed no federal tax in at least one year, approximately 78% receive some type of transfer in at least one year, and more than 58% receive transfers other than Social Security in at least one year. Of those who do not owe federal tax in any given year, 18% pay tax the following year, and 39% contribute within five years. Of those who receive transfers other than Social Security within a given year, nearly 44% stop receiving such transfers the next year, and more than 90% stop within ten years. They also pointed out that the bulk of transfer spending over time (63%) goes to people over 65 in the form of social security payments.

A recent Productivity Commission report also modelled the distribution of taxes and benefits across the lifecourse. At a point in time, the lowest income Australians with private incomes less than $25,000 per year[14] on average receive social security benefits of more than $18,000 per year, while the high income group between $175,000 and $200,000 per year receive benefits of about $120 per year. The low income group effectively pay no income taxes, while the high income group pay nearly $48,000 per year in taxes, with even higher income families above $200,000 per year (including GST) of close to $100,000 per year.

The lifetime distribution of benefits and taxes differs quite significantly, however, particularly for social security benefits. The middle income groups – those with annualised lifetime incomes between $25,000 and $100, 000 per year receive significantly more over time than these groups do in a single year – averaging between $4,000 and $7,000 per year. This reflects the fact that many in this group will end up receiving a part age pension

[14] The Productivity Commission report did not use income groups of the same size, so the low income group comprise about 35% of family units, while those with incomes above $175,000 per year accounted for less than 10 % of family units.

after the age of 65, that many have children at some stage of their lives and that they can also experience periods of unemployment or disability.

However, these same groups pay more income taxes over their lives while higher lifetime income groups pay lower lifetime average taxes than annual taxes. Nevertheless, the distribution of net taxes (taxes paid minus social security benefits received) remains progressive across income ranges. Rather than increasing from minus $16,000 per year to $55,000 per year as they do on a current basis, net taxes rise from minus $14,000 per year to around $41,000 per year for annualised lifetime income.

A final issue that arises from this analysis relates to the question of whether people can be characterised as "lifters" or "leaners" and relates to the idea that it is only the rich that effectively pay (net) taxes. A lifecycle perspective shows that people whose lifetime annualised income is less than $25,000 actually pay more than 10% of their lifetime income in taxes (rather than near to zero), and this doesn't include indirect taxes.

In contrast, middle income people over their lifetime receive far more in social security benefits than do people in these income brackets at a point in time. The implication is that a much wider range of people benefit from the welfare state and pay taxes to support it than is often acknowledged.

A different approach to estimating lifetime social security benefits received (but not taxes paid) is contained in the Department of Social Services' recent Baseline Valuation Report as part of the Government's new "investment approach" to social welfare. This report takes the population of Australia in 2015, and on the basis of past patterns of receipt of payments, it projects the amount of money the population will be paid over the rest of their lives (and converts this into the present value of this lifetime spending, with a discount rate of 6%).

The population modelled in the report includes: around 5.7 million people currently receiving various income support payments (of whom 2.5 million are age pensioners); 2.3 million people not receiving income support payments but who receive other payments (mainly families receiving the Family Tax Benefit); around 3.9 million who were previously receiving payments but are not currently; and just under 12 million people who are not receiving any payments currently and have not in the past.

The lifetime valuation is about 44 times the total amount of payments in 2014-15 (A$109 billion). But it also includes people's future age pension entitlements. In fact, more than half the total estimated lifetime spending ($4.8 trillion in discounted terms) will be on age pensions. The average lifetime cost per current client is made up of $150,000 in age pensions and $115,000 in all other benefits. For previous clients, the corresponding figures are $114,000 in age pensions and $60,000 in other payments. For the balance of the Australian population it is $88,000 in age pensions and $77,000 in all other benefits.

The implication of this is that the majority of the Australian population would be expected to receive a social security payment at some point in their lives, with the payment most likely to be received

being the Age Pension. But currently most Australians are not receiving payments and those of working age more likely than not will be paying taxes.

Should we be worried that nearly half the population are "zero net taxpayers"?

Underlying these figures is a more fundamental question about what the concept of "zero net taxpayers" actually means. As pointed out by John Quiggin, generally speaking total government spending is roughly the same amount as government raises in taxes and other revenue. That is, on average, the whole population pays zero net tax.[15]

Once we consider the distribution of taxes and of spending – a distribution with an average around zero - it is not surprising that a large share of the population receive more in spending than they pay in taxes. Indeed, it is difficult to think of a distribution of net taxes where less than 50 % of the population pay less than the average.

Alternatively, imagine a country where the only tax was a poll or head tax, in which everyone pays the same amount of money, and the only spending was on classic public goods of defence and public order. Assume that the benefits of this spending were the same for the whole population. In this completely non-redistributive tax-benefit system, everyone is a zero net taxpayer.

Alternatively, imagine either halving or doubling both taxes and spending. That is, imagine a government that is half as big as our current government; and a government that is twice as big. As long as the distribution of taxes and spending remained the same, the proportion of the population who are zero net taxpayers would also remain the same. So, whether or not some proportion of the Australian population receive more in terms of benefits than they pay in taxes in any year does not tell us whether taxes or benefits are too high, and it also does not necessarily tell us anything useful about the distribution of taxes and benefits.

This point is reinforced by the finding that the proportion of zero net taxpayers is rather similar across countries with very different tax and social security systems. The fact that Korea – a country with very low taxation and very low transfer spending - has roughly the same proportion of the population who are zero net taxpayers as Denmark, which has the highest level of taxes in the OECD, suggests that the concept is not useful in policy debates.

The share of "zero net taxpayers" in the population is in a sense an "accidental statistic". It is the by-product of other decisions – where we want to set the income tax threshold, what is the mix of indirect and direct taxes, what is an adequate level of benefits, and what withdrawal rate do we want to set on payments – presumably with the aim that we don't wish to discourage work effort or savings.

This raises the issue of what policies are implied by a concern with "zero net taxpayers". If we actually believed that there are too many zero net taxpayers, what would we do about it? To go back to

[15] If across all levels of government, there is a deficit, then net taxes are below zero and, perhaps, future generations may need to pay more tax because current generations are paying negative net taxes.

the example of a single person eligible for Newstart, if we wanted to reduce the number of people in this situation who are zero net taxpayers, there are just four ways of doing this:

1. Increase the share of people earning over $25,000 per year;
2. Reduce the level of Newstart – already widely acknowledged to be inadequate – so that the cut-out point is lower;
3. Increase the withdrawal rate on benefits so that the cut-out point is lower; or
4. Increase taxes on lower income groups, for example by lowering the tax-free threshold to zero or increasing the first tax rate.

It can be noted that (3) and (4) may be counter-productive, as they involve increasing effective marginal tax rates on social security recipients and the low paid, which may reduce their work effort. In this context, the examples of Greece and Italy, which have very low effective tax thresholds and a high level of undeclared activity suggest that we should be careful what we wish for.

In addition, increasing taxes on lower income groups by either cutting the tax threshold or increasing the first rate also increases taxes on higher income groups unless there are some compensatory cuts further up the income scale. This would simply be a way of reducing the progressivity of the tax scale – if this is what some people concerned with the number of "zero net taxpayers" want to achieve they should say this directly.

If we think that family payments are the cause of the problem, then we should recognise that if we reversed the policy direction of the last 40 years and we moved the payments as they are back into the tax system as rebates or refundable tax credits then we would have no impact on the number of zero net taxpayers. If we wanted to reduce the number of people who receive more in family payments than they pay in tax then we would need to either reduce the base level of payments, increase the income test withdrawal rate or increase the income taxes they pay. As noted earlier, there is an "iron triangle" in policies related to income-tested transfers – if we want to reduce the payment cut-out point then we must either reduce the payment or increase the withdrawal rate.

Spending on family cash benefits in Australia as a per cent of GDP peaked in Australia in 2003 (apart from the temporary stimulus payments at the time of the GFC) and has since fallen by more than any other OECD country (by around 0.7% of GDP). The proportion of families with children receiving Family Tax Benefits has been shrinking, due to changes in the indexation of payments introduced by the Rudd Government and the freezing of the higher income test threshold. So *contra* the arguments put in The Australian cited earlier, any increase in the share of "zero net taxpayers" since 2008 is unlikely to be related to more generous family payments.[16]

[16] In addition, the argument in *The Australian* that child care subsidies contribute to the problem is incorrect as child care assistance is not counted in the income surveys as a cash payment.

Framing the "zero net taxpayer" debate

Media reports of the share of "zero net taxpayers" in the Australian population are broadly accurate. However, neither the numbers nor the concept are a useful guide to developing public policy.

First, recent trends are largely the result of tax cuts both for those of working age, but particularly for people aged 65 and over, and also related to changes in the taxation of superannuation withdrawals. Those concerned by the number of zero net taxpayers are usually not proponents of higher taxes. It would be possible to reduce the progressivity of the tax system but this would require either increases at lower income levels or cuts only for high income earners, or a combination of both. Nobody has come out to advocate this, probably in recognition of its likely political unpopularity.

Instead, the problem has been framed as a result of over-generous welfare payments or too much "middle class welfare". But ABS statistics show that the share of Australian population predominantly reliant on welfare payments has been falling for most of the last two decades and correspondingly, the share who are completely "independent" of welfare has risen from 40 % to nearly 50 % of households. In addition, by multiple definitions, Australia has continued to have the lowest level of "middle class welfare" spending on social security in the OECD for the past 35 years.

There does appear to have been an increase in the share of "zero net taxpayers" in the working-age population between the early 1980s and the mid-1990s, but not strongly after that. It is also true that income tests were liberalised for unemployment payments in the 1980s and 1990s with the aim of encouraging recipients into part-time work as a "stepping stone" to full-time work. But since then payment levels have been falling relative to wages, and cut-out points along with them.

To reduce benefit cut-out points, it is necessary to either cut the already inadequate level of working age payments or to increase benefit withdrawal rates with likely work disincentive effects for low paid and part-time workers. The 2014 Report of the Commission of Audit did propose increases in withdrawal rates to 75 cents in the dollar for Newstart and for pensions, but they did not discuss the implications for incentives to work, particularly in an economy now much more marked by part-time and casual work and underemployment than in the past.

The repeated discussion of "zero net taxpayers" and the sharing of the underlying idea across a range of English-speaking countries – but apparently starting with a conservative think-tank in the United States – suggests that the use of this language is about framing concepts for political impact.

It may be the case that it is desirable to emphasise the link between paying taxes and receiving the benefits of a government spending to emphasise the reciprocity necessary to maintain a welfare state. In a sense, this is what the contributory social insurance principle emphasises and it is closer to the principles said to be underlying the universal, citizenship basis for entitlements in the Nordic social democratic welfare states.

But the recent trends to seeing a change in the tax mix as desirable policy directions tends to work in the other way. One of the factors behind cuts in income tax after 2000 was the introduction of the Goods and Services Tax which also led to increases in benefits and reductions in withdrawal rates. If we measure "zero net taxpayers" without accounting for the effects of a shift in the tax mix then we are simply taking an internally inconsistent approach to thinking about tax and welfare reform.

In discussing the 9 May article about Duncan Storrar, Greg Jericho in The Guardian pointed out that **"**The headline in Wednesday's Australian — reflects a longstanding view of the conservative side of politics and the media that we should worry about the rise of those paying no "net tax" – where you balance the amount of tax paid with benefits received." The proliferation of articles and opinion pieces using the concept of "zero net taxpayers" suggests that it strikes a chord – presumably most amongst those who believe they do not fall into this group.

Other terms that have been used contemporaneously or sometimes slightly earlier - "lifters and leaners" in Australia, "makers and takers" in the United States, "strivers and skivers" in the United Kingdom are much more emotive. They are also more likely to be recognised as pejorative labelling of the sort Herbert Gans identified in *Labelling the Poor* (1995).

The concept of "zero net taxpayer", in contrast, appears to be based on objective statistics and an apparently common-sense perspective about financial unaffordability. But like those other phrases, it is also a label that does not help us to understand the causes of the issue and whether it is something that politicians and the public should be concerned with. Most importantly, it does not help us assess the alternative policies that could be pursued to actually improve both public finances and outcomes for individual and families.

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