Chapter 3

A statistical overview

Contents

3. A STATISTICAL OVERVIEW

SUMMARY

There are many different ways of comparing the taxation systems of different countries — from aggregate measures to measures that focus on individuals, levels of government or particular taxes. Each measure has strengths and weaknesses, and none may be definitive in its own right. Together they paint a picture of how taxation systems in different countries compare. They also need to be placed in the overall context of the countries being compared and not considered in isolation from broader economic issues.

This chapter provides a high level overview of these measures and how Australia's taxation system compares with that of other countries. Drawing largely on OECD data, these measures focus particularly on comparing broad categories of taxation revenue from a national accounting perspective.

- The data reported in this chapter combine taxation revenues from all levels of government — that is, national, provincial and local governments. Where practicable, information about the split between levels of government is also provided.

The broad conclusions from this comparison are as follows.

- Australia has a low tax burden, both currently and historically. In 2003, Australia had the eighth lowest tax burden of the OECD-30 countries and has typically ranked in the bottom third of countries for the period since 1965.

- Australia's tax burden as a proportion of GDP is 31.6 per cent. This is below the unweighted OECD-30 average of 36.3 per cent and above the GDP-weighted OECD-30 average of 30.9 per cent.

- Australia's tax mix is broadly consistent with other countries', although there are some distinguishing features. Like most other advanced countries, Australia raises the majority of its taxation revenue (60.9 per cent compared with the OECD-30 unweighted average of 62.2 per cent) from direct taxation levied on incomes and payrolls. The remaining 39.1 per cent of Australia's taxation revenue is derived from indirect taxation — including the goods and services tax, excise and customs duty, and property taxes.

- Australia's tax burden on individuals and payrolls (14.0 per cent of GDP) is significantly lower than the OECD-30 unweighted average (19.5 per cent) and the average of the OECD-10 countries (16.3 per cent). Ten OECD-30 countries, and three of the OECD-10, have revenues classified as taxation on payrolls and workforce.

- Australia has a relatively high company tax burden. It is the third highest at 5.3 per cent of GDP, compared with the OECD-30 unweighted average of 3.3 per cent and the average for the OECD-10 of 3.4 per cent. However, classification issues make it difficult to draw useful conclusions from these comparisons.

- Australia's tax mix has a significantly lower reliance on value added and sales taxes (4.3 per cent of GDP) than the OECD-30 unweighted average (6.8 per cent).

- Taken together, Australia raises around 3.4 per cent of GDP in excise and customs duties — in line with the OECD-30 average (3.4 per cent). However, there are several classification issues with customs duty which make it difficult to draw useful conclusions from the data.

- Australia has a relatively greater reliance on immovable property taxes (1.4 per cent of GDP) and transaction taxes (1.6 per cent) than the OECD-30 average (0.9 per cent and 0.6 per cent respectively). Transaction taxes are a significant revenue source for Australia's state governments.

3.1 THE TAX BURDEN

3.1.1 What is the tax burden?

The standard measure of the aggregate tax burden is total taxation revenue as a proportion of GDP. While not perfect, it is a universally adopted measure, including by the OECD. Difficulties with this measure include:

- in some cases, taxes are levied on bases that may not even be reflected in GDP (for example, capital gains tax on asset price increases and taxes on land values);

- measures of GDP are estimates and they are often revised, whereas taxation revenues have a reasonable degree of certainty;

- Australia has a full accrual accounting system for the collection and reporting of taxation revenues. This is different to most other countries, where the systems are predominantly cash or partial accrual accounting. This difference typically leads to a downward bias in the level of the reported tax burden of other countries, during periods of economic growth, because of the less than full recognition of tax liabilities recognised but not yet collected; and

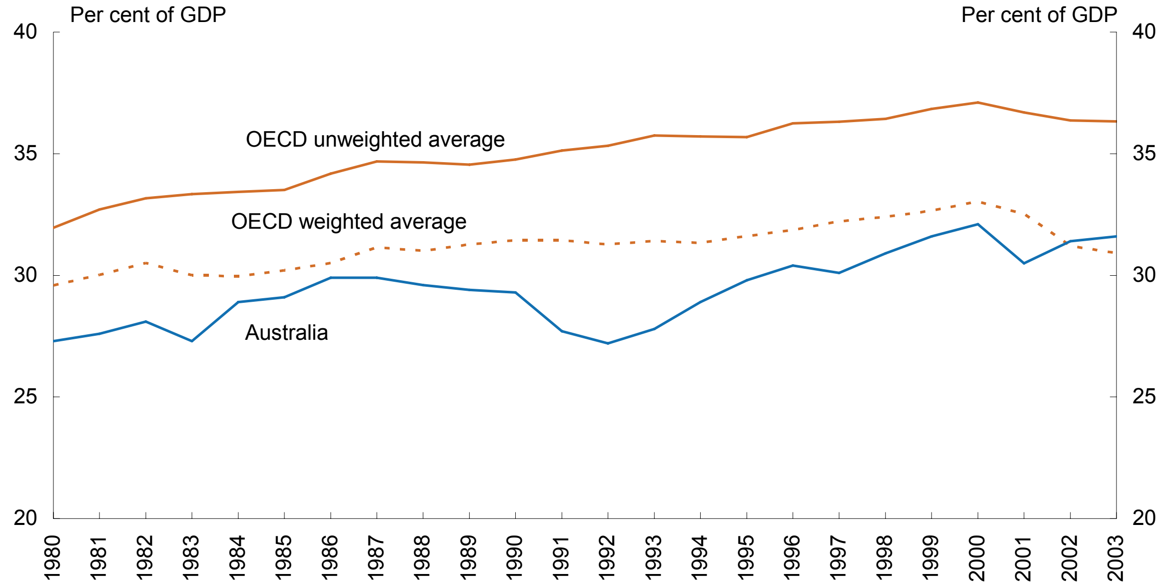
- there are numerous differences and difficulties in standardising the classification of taxes and the components of GDP across countries.

Notwithstanding all of these issues, tax as a proportion of GDP remains the best and most widely accepted aggregate measure of the tax burden, and is the standard measure reported in this chapter, and throughout the report. Other measures of the tax burden are also noted in this report, where those measures provide supplementary information.

3.1.2 Comparing tax burdens

The Australian tax burden has followed the broad trend of growth displayed by most advanced countries, increasing from 27.3 per cent of GDP in 1980 to 31.6 per cent in 2003. The increased tax burden of most countries has been required to finance the increased service levels provided by governments over this period. Australia's tax burden is relatively low, compared with most OECD countries.

Chart 3.1: The Australian tax burden in perspective
OECD-30, total taxation revenue as a proportion of GDP, 1980-2003



Source: OECD *Revenue Statistics*, 2005.

In 2003, Australia's tax burden (31.6 per cent) was lower than the OECD-30 unweighted average (36.3 per cent), and was around the same level as that of the OECD-10 comparator group of countries (32.0 per cent) and the weighted OECD-30 average (30.9 per cent).

- The OECD-30 weighted average is significantly lower than the OECD-30 unweighted average because the United States and Japan, which jointly contribute around half of total OECD GDP, have significantly lower tax burdens than most of the rest of the OECD.

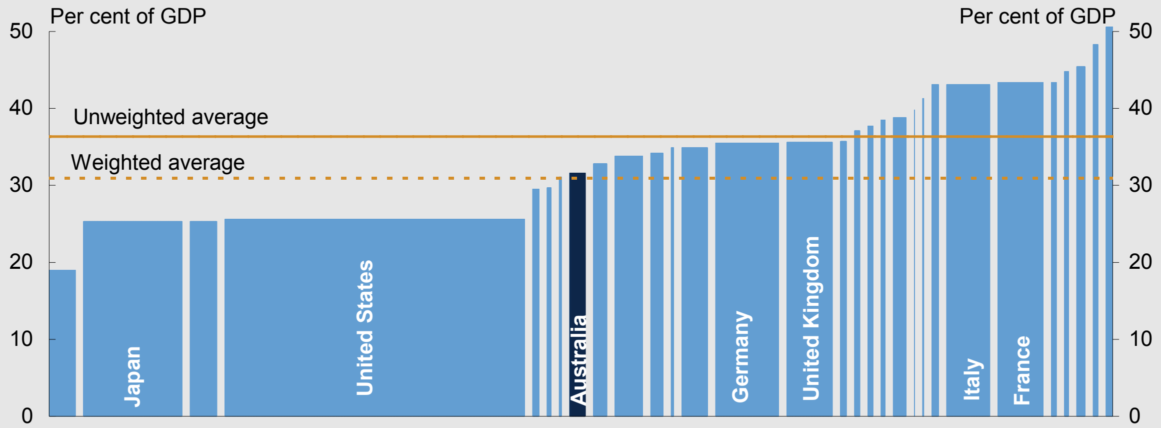
Since 2000, there has been an abrupt and large reversal of trend in the OECD-30 weighted average tax burden (Chart 3.1). This has mostly been driven by large reductions in taxation revenue in the United States and Japan.

In broad terms, the Australian tax burden has always been lower than the OECD-30 weighted average and significantly lower than the unweighted average. The sudden change in the tax burden of the United States and Japan means that, for the first time, the relative position of Australia's tax burden has changed from being below the OECD-30 weighted average to being slightly higher.

- Since 2000, the tax burden of the United States has been reduced by 4.3 percentage points, from 29.9 per cent of GDP to 25.6 per cent of GDP. In the same period, Japan's tax burden was reduced by 1.2 percentage points from 26.5 per cent to 25.3 per cent.

Box 3.1: The use of summary statistics: weighted and unweighted averages

Unweighted averages are the simple average of a range of observations. Only unweighted averages are reported in the OECD's Revenue Statistics — the source of most of the data used in this report. This means that each country's tax burden is given an equal weight in the average of all OECD countries' tax burden, regardless of whether that country is Australia, which in 2003 contributed 1.9 per cent of the total GDP of all OECD countries, or the United States, which contributed 36.3 per cent of total GDP.



In comparison, weighted averages scale the tax burden of each country by that country's contribution to total GDP. On this basis, the tax burden of the United States contributes 36.3 per cent of the average tax burden for the whole OECD, while the tax burden of Australia contributes 1.9 per cent of the average OECD tax burden.

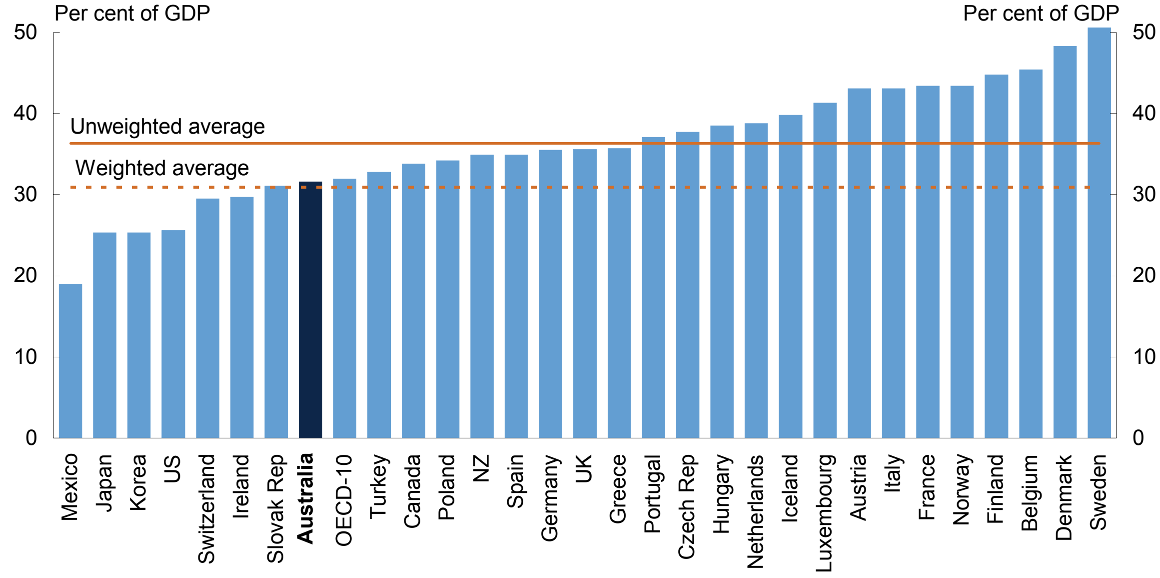
As with most summary statistics, the choice of statistic depends on how it is to be used. The OECD only uses unweighted averages in *Revenue Statistics*. Unweighted averages best reflect the diversity of experience in the OECD. In contrast, weighted averages may be useful if the observer wants to understand the proportion of economic activity relevant to a particular issue — for example, the rate of growth of OECD GDP is a weighted average.

Both weighted and unweighted averages of OECD countries are presented throughout this chapter, in part, because different readers will prefer to make comparisons using one statistic rather than the other. What this draws out is the difficultly in making definitive statements in international comparisons.

- If an observation for a country is above the weighted average, but below the unweighted average, does that make it 'average'?
- Where an observation for a country lies above or below both averages, there could be a range of other factors that need to be taken into account before drawing any conclusions. Differences in classification between countries is the most obvious, but by no means the only, factor that needs to be considered — for example, just because Mexico does not report any personal income tax does not mean that it does not tax personal incomes.

There are a range of other statistical measures of dispersion. For example, there are the median and standard deviation, but these are not used in this report. Instead, charts are the main presentation tool to assist the reader in understanding the varied experiences of OECD countries.

Chart 3.2: The tax burden
OECD-30, total taxation revenue as a proportion of GDP, 2003



Source: OECD *Revenue Statistics*, 2005.

The average tax burden for the European Union members of the OECD in 2003 was 39.4 per cent — well above the Australian tax burden. However, there is quite a diverse pattern of tax burden within the European Union.

- The Nordic (Sweden, Finland, Norway and Denmark) and European Lowland (Belgium, Luxembourg and the Netherlands) countries typically have higher tax burdens (Sweden had a tax burden of 50.6 per cent) and the Mediterranean and Eastern European countries typically have lower tax burdens (Turkey was 32.8 per cent). Switzerland has the lowest tax burden (29.5 per cent) of all the European Union members of the OECD.

Australia had the eighth lowest tax burden of the OECD-30 in 2003 (Chart 3.2). Of all the OECD countries, only Mexico, Korea, Japan and the United States have a significantly lower tax burden than Australia. Switzerland, Ireland and the Slovak Republic had a marginally lower tax burden than Australia in 2003.

For the period 1965 to 2003, Australia's tax burden has mostly been in the bottom third of OECD countries (Table 3.1). Australia's tax burden has typically been lower than that in most of the European countries, the United Kingdom, New Zealand and Canada, but has generally ranked above Japan and the United States.

Ireland is noteworthy. Its tax burden has been dropping rapidly over the last two decades. It ranked as the twelfth highest taxing OECD economy in 1985, yet by 2003 it had the sixth lowest tax burden. The Irish experience is discussed in greater detail in Box 11.1.

Table 3.1: Ranking of OECD countries in descending level of tax burden[(a)]
Selected years, 1965-2003

	1965	1970	1975	1980	1985	1990	1995	2000	2003
Sweden	1	2	1	1	1	1	2	1	**1**
Denmark	9	1	4	2	2	2	1	2	**2**
Belgium	6	5	3	5	3	4	4	4	**3**
Finland	7	10	7	10	9	3	3	3	**4**
France	2	8	9	7	7	6	5	5	**5**
Norway	10	6	5	4	5	7	10	6	**5**
Austria	3	7	8	8	8	9	10	8	**7**
Italy	14	16	18	15	13	10	9	6	**7**
Luxembourg	11	15	6	6	4	8	7	10	**9**
Iceland	12	13	13	16	17	17	21	11	**10**
Netherlands	4	4	2	3	6	5	8	9	**11**
Hungary							6	12	**12**
Czech Republic							12	17	**13**
Portugal	22	22	22	22	21	20	18	16	**14**
Greece	19	18	20	21	18	18	20	13	**15**
United Kingdom	7	3	10	11	10	12	17	14	**16**
Germany	5	9	10	9	11	14	13	15	**17**
Spain	23	23	23	23	20	16	22	19	**18**
New Zealand	17	17	15	14	15	11	15	21	**18**
Poland							14	22	**20**
Canada	13	11	12	13	14	13	16	18	**21**
Turkey	24	24	24	24	26	24	27	23	**22**
Australia	18	19	17	18	16	18	23	24	**23**
Slovak Republic								20	**24**
Ireland	15	12	14	12	12	15	19	24	**25**
Switzerland	20	19	16	17	22	23	25	26	**26**
United States	16	14	19	19	23	22	24	27	**27**
Japan	21	21	21	20	19	21	26	28	**28**
Korea			25	25	25	25	28	29	**28**
Mexico				26	24	26	29	30	**30**
Total countries	**24**	**24**	**25**	**26**	**26**	**26**	**29**	**30**	**30**

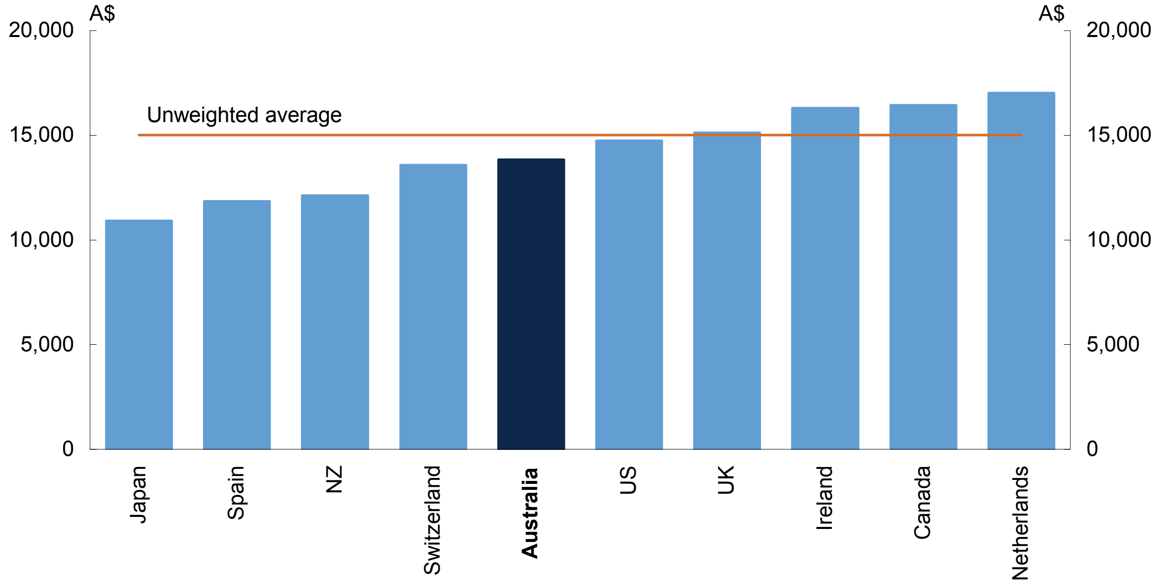
(a) Since 1965, the member countries of the OECD has increased from 24 to 30.
Source: OECD *Revenue Statistics*, 2005.

3.1.3 The tax burden per capita

As noted in section 3.1.1, the standard measure of the aggregate tax burden is total taxation revenue as a proportion of GDP. There are several other ways of thinking about a country's tax burden. For example, Chapter 4 provides details of the tax burden of typical types of taxpayers in different circumstances. These tax burdens are expressed in terms of either average or marginal rates of tax paid, or amounts of tax paid in Australian dollars.

Another aggregate measure of the tax burden is to calculate the average level of tax paid by the average person in Australian dollars. This measure is the tax burden per capita. The main deficiency with this measure of tax burden, particularly when compared with taxation revenue as a proportion of GDP, is that it does not account for capacity to pay or the ratio of taxpayers to non-taxpayers (for example, most children and various low income earners).

Chart 3.3: The tax burden per capita[(a)]
OECD-30, total taxation revenue per capita, 2003



(a) Calculated using OECD data and IMF purchasing power parities.
Source: Australian Treasury estimates.

On this basis, Australia has a low tax burden when measured as taxation revenue per capita (A$13,834) — slightly below the OECD-10 average of A$15,011. New Zealand ranks lower (A$12,122), and the United States (A$14,738), the United Kingdom (A$15,124) and Canada (A$16,436) are among those countries that rank higher (Chart 3.3).

One of the reasons the United States has a higher taxation revenue per capita than Australia, but a lower taxation revenue as a proportion of GDP, is because it produces more GDP per person than does Australia (this comparison was highlighted in Chapter 3 in respect of all the OECD countries). The higher productivity and higher income of the United States give it greater capacity to raise more taxes than Australia, while still potentially leaving its citizens with more disposable income than is the case for Australia.

3.1.4 Effective tax rates

While the statutory rate of tax is the *headline* rate of taxation for each dollar of income or consumption, the effective rate is the *average* rate of taxation for every dollar of income or consumption. It is the total tax obligation, including all relevant taxes and credits, divided by total income or consumption.

Unlike statutory rates, effective tax rates are not readily observable. Instead, researchers use various methods to measure representative effective tax rates. In making international comparisons, a country's international ranking can vary considerably depending on the effective tax rate measure adopted. Unfortunately, all effective tax rate measures have significant methodological and/or data problems.

There are several ways to calculate effective tax rates.

- Using tax return data, the effective tax rate reflects the tax payable as a proportion of total (rather than taxable) income or consumption. In this case, the effective tax rate can differ from the statutory rate where taxable income differs from actual income — for example, because of tax offsets. This measure of the effective tax rate is likely to be inflated to some degree because non-compliance is likely to result in observed taxable income being lower than underlying taxable income.

- Hypothetical effective rates can be calculated using stylised modelling of investment, income or consumption. This method is often adopted by researchers, some of which are referred to in this report.

- Using aggregate national accounts data and taxation revenues, the effective tax rate reflects the proportion of taxation revenue to the relevant economic income base. In this case, the effective tax rate can differ from the statutory rate because the taxation revenue might include taxes levied on bases which may not be accurately included in the economic income (for example, capital gains), or because taxable income may differ from economic income — for example, this may be because rates of depreciation are higher or lower than economic depreciation.

Where effective tax rate measures use historical data, inadequate data may complicate the comparison of rates over time and between countries. Hence, robust estimates are not readily available.

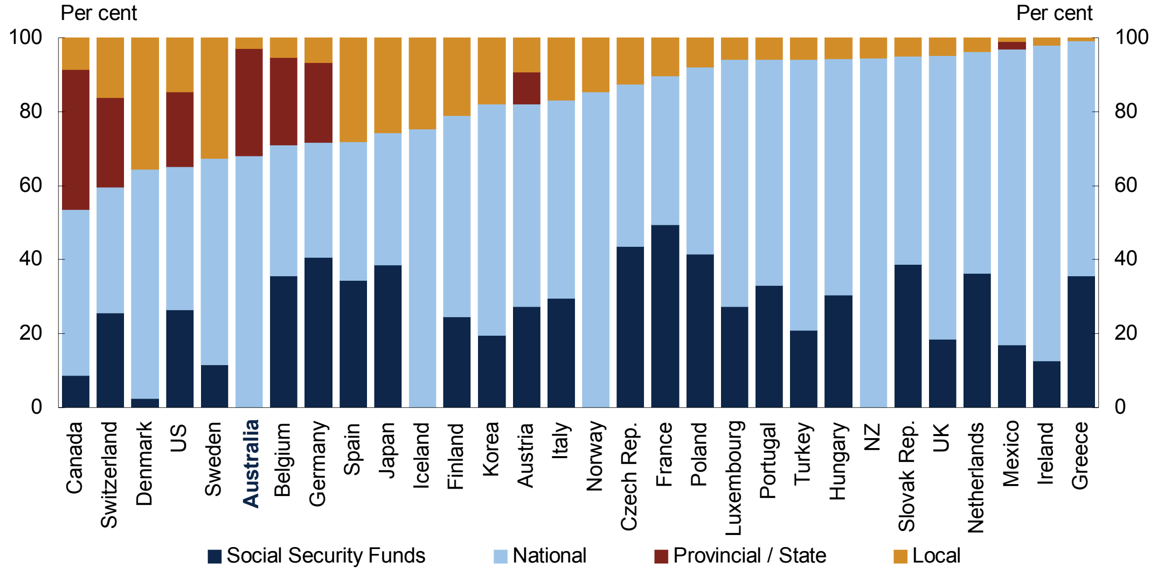
Effective tax rates for Australia are reported in Chapter 4 in respect of personal income taxes and Chapter 5 in respect of company income taxes.

3.2 THE ROLE OF SUB-NATIONAL GOVERNMENTS IN TAXATION

Australia has three levels of government. The Commonwealth, State, Territory and local governments each have various powers to raise taxation revenue. Only a few other OECD countries have a federal structure — most notably the United States, Germany, Canada and Switzerland. The majority of OECD countries only have two levels of government — national and local.

The formation of the European Union as a supranational government means that some European countries now have four levels of government with taxing powers, although most have three levels. The tax burden of the European Union is relatively small — typically one percentage point or less of each country's national tax burden — and, for the purposes of the analysis in this report, it is treated as part of the national government tax burden.

Chart 3.4: The tax burden share by level of government[(a)]
OECD-30, as a proportion of total taxation revenue, 2003



(a) For a large number of countries, the OECD has not allocated a large proportion of social security contributions to any particular level of government. For the purpose of this analysis, these contributions have been assigned to the national government. Consequently, caution should be exercised in interpreting these data.
Source: Australian Treasury estimates.

In addition to these four levels of government, the OECD allocates part of taxation revenue to a fifth category titled 'Social Security Funds'. The breakdown across these five categories is shown in Chart 3.4, with details provided at Appendix 3.2. This fifth category creates difficulties for making international comparisons on the level of centralisation or decentralisation. No comprehensive data is available from the OECD on the distribution of social security tax across levels of government (information is provided for some countries on the allocation for government employees, but this comprises only a small proportion of total payments).

In the absence of reliable information on allocating these taxes, there is scope for considerable misrepresentation of this information. For instance, if all these social security funds were allocated to the national government, Australia would have the second highest level of state/provincial revenue raising of the eight federal countries in the OECD-30. If it was all allocated to the state/provincial level, then Australia would have the second lowest level.

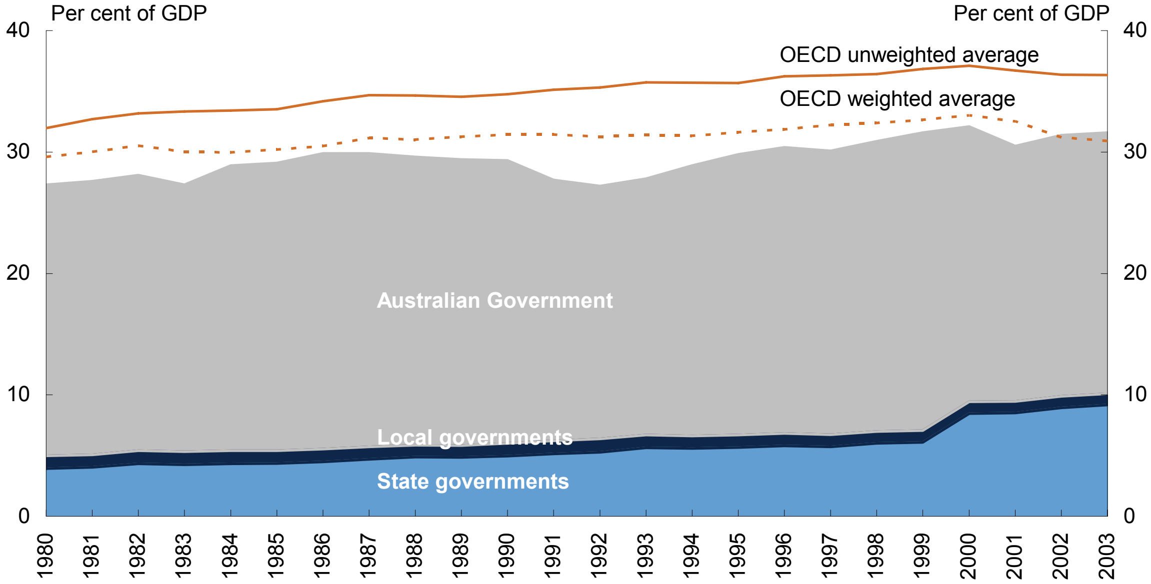
Given these difficulties, no ranking is provided on comparative measures of centralisation or decentralisation.

For information, some further data on the composition of taxation revenue collection across levels of government in Australia is provided in Chart 3.5.

The Australian Government raises 68.1 per cent of Australia's total tax burden, and State governments raise 29.0 per cent (Chart 3.5). Local governments' share has historically been around one per cent of GDP.

- Australia's goods and services tax is classified by the OECD as a state tax.

Chart 3.5: The Australian tax burden by government sector
Total taxation revenue as a proportion of GDP, 1980-2003



Source: OECD *Revenue Statistics*, 2005.

The tax burden of Australia's state governments increased from 6.1 per cent of GDP in 1999 to 8.5 per cent of GDP with the introduction of the goods and services tax in July 2000. The goods and services tax replaced a range of state government taxes and grants from the Australian Government. Since 2000 the tax burden of the State governments has increased by a further 8 per cent (or 0.7 percentage points), taking the State government tax burden to 9.2 per cent of GDP in 2003.

3.3 Tax mix

3.3.1 Overview

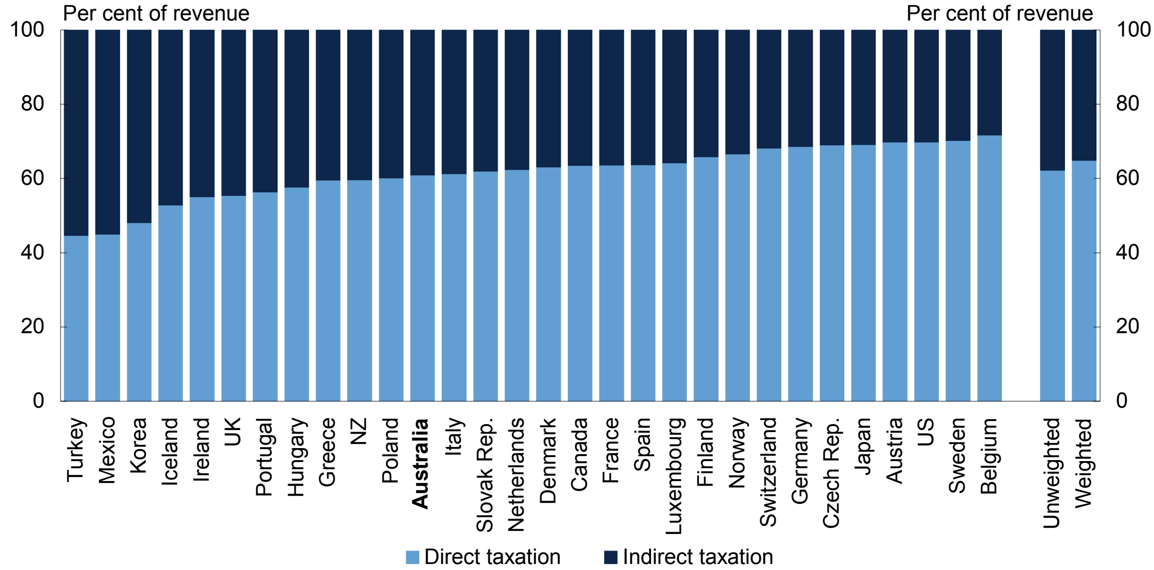
The Australian tax mix is broadly similar to most OECD countries, although there are a few distinguishing features (Chart 3.6).

Like most other advanced countries, Australia raises the majority of its taxation revenue (60.9 per cent in 2003) from direct taxation levied on incomes — wages, salaries and profits. The OECD-30 unweighted average is 62.2 per cent and the OECD-30 weighted average is 64.9 per cent. Japan (69.0 per cent) and the United States (69.8 per cent) have a higher reliance on direct taxation than Australia.

The remaining 39.1 per cent of Australia's taxation revenue is derived from indirect taxation — including the goods and services tax, excise and customs duty, and property taxes. The OECD-30 unweighted average is 37.8 per cent and the OECD-30 weighted average is 35.1 per cent.

Chart 3.6: Tax mix

OECD-30, direct and indirect taxation revenue as a proportion of total taxation revenue, 2003



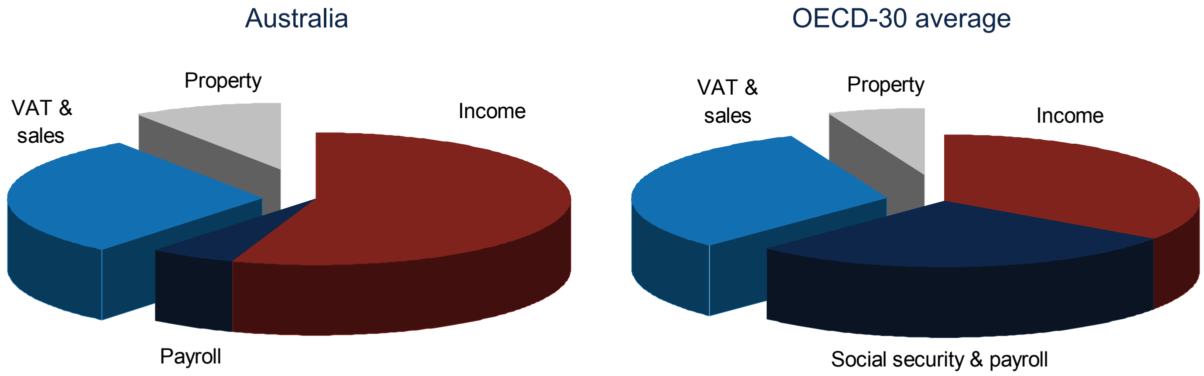
Source: OECD *Revenue Statistics*, 2005.

When income taxes, payroll taxes and social security contributions are taken together, the share of Australia's direct taxes in total taxation is broadly comparable with the OECD-30 average (Chart 3.7). For a significant number of countries, social security contributions are now the largest source of direct taxation revenue.

- Social security contributions are described in detail in Chapter 4. They usually consist of two components — one withheld from employees' wages and the other paid by employers. Both components are treated by the OECD as a tax on the income of individuals because they form part of an employee's remuneration.

Chart 3.7: Australia's tax mix compared with the OECD average

OECD-30, direct and indirect taxation revenue as a proportion of total taxation revenue, 2003



Source: OECD *Revenue Statistics*, 2005.

3.3.2 Direct taxation

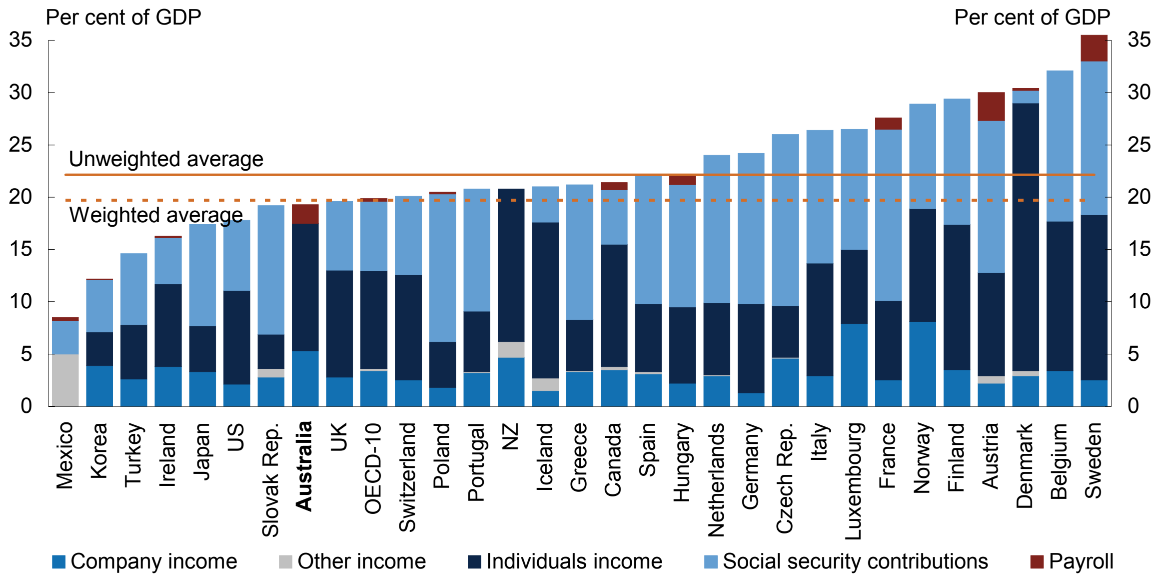
For the purpose of international comparison, there are significant risks in relying on disaggregated data. This particularly applies to direct taxation and the split between taxation on individuals and taxation on companies. Appendix 3.1 contains a discussion of these issues.

Total direct taxation

Total direct taxation consists of taxes levied directly on individuals' income, social security contributions, payrolls and companies' profits. It also includes an 'other' component which cannot be disaggregated, but which is significant for a small number of countries, including New Zealand.

Chart 3.8: Total direct taxation disaggregated[(a)]

OECD-30, taxation revenue as a proportion of GDP, ordered by tax burden, 2003



(a) For the purpose of international comparison, there are significant risks in relying on disaggregated data, especially in disaggregating taxes on income, profits and capital gains into its individuals, corporate and other components. A description of some of the issues is provided in Appendix 3.1.

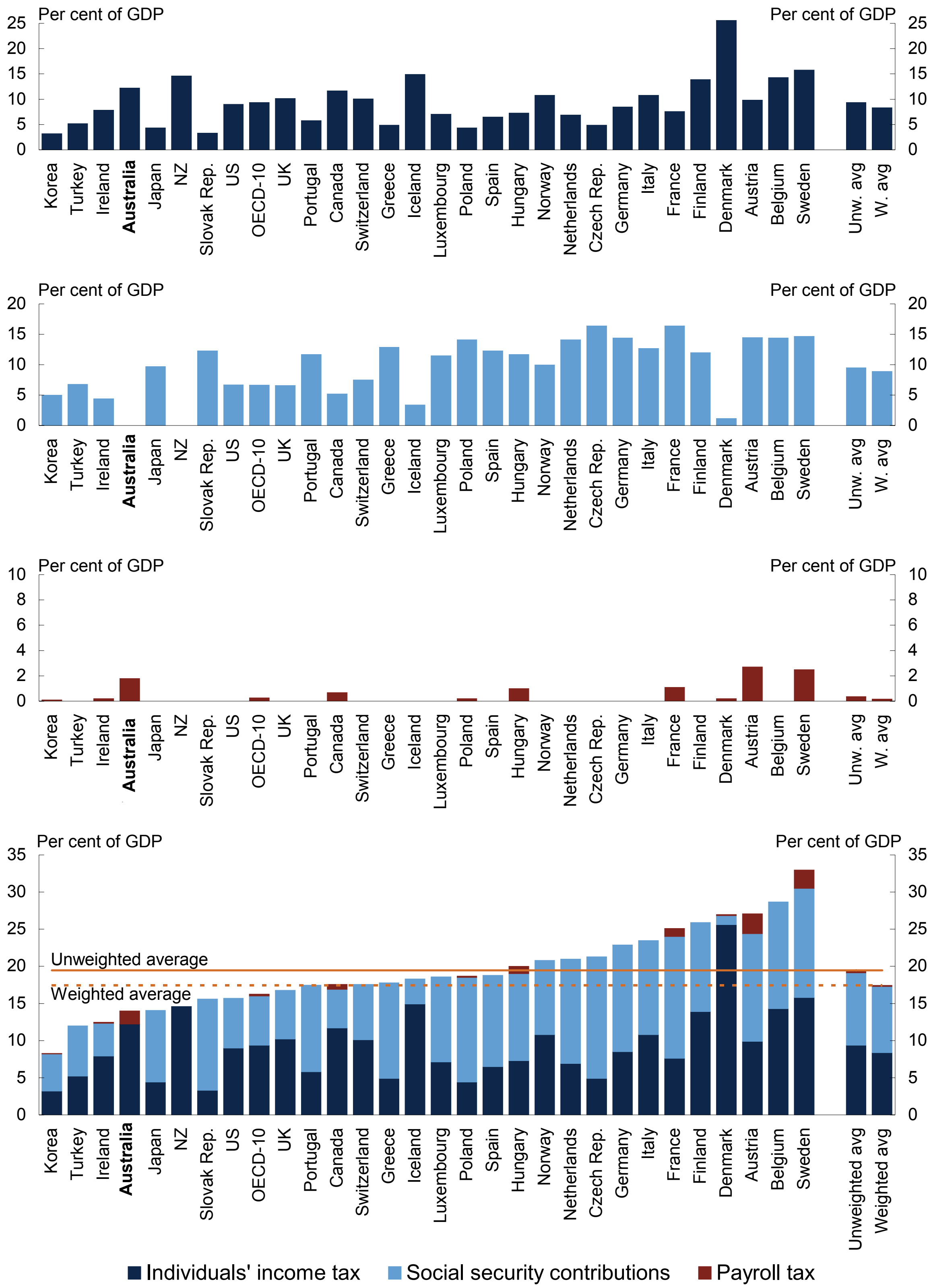
Source: OECD *Revenue Statistics*, 2005.

Australia's total income tax burden (19.3 per cent of GDP) is low by international standards — it is the eighth lowest in the OECD-30 (Chart 3.8). In comparison, the OECD-30 unweighted average is 22.2 per cent, the OECD-30 weighted average is 19.7 per cent, and the average for the OECD-10 is 19.9 per cent.

- Of the comparator OECD-10 countries, only Ireland (16.3 per cent), Japan (17.4 per cent) and the United States (17.8 per cent) have lower income tax burdens than Australia.

Chart 3.9: Components of direct taxation in respect of individuals and payrolls[(a)]

OECD-30, taxation revenue as a proportion of GDP, ordered by tax burden, 2003



(a) For the purpose of international comparison, there are significant risks in relying on disaggregated data, especially in disaggregating taxes on income, profits and capital gains into its individuals, corporate and other components. A description of these is provided in Appendix 3.1. Mexico doesn't provide a disaggregation of its income taxes.

Source: OECD *Revenue Statistics*, 2005.

Direct taxation in respect of individuals

Casual observers often conclude that Australia has relatively high levels of taxation on individuals' incomes because, when only personal income tax is taken into account, Australia ranks seventh highest in the OECD-30. Once social security contributions and payroll taxes are accounted for, Australia has the fourth lowest level of direct taxation on individuals and payroll in the OECD-30. (Chart 3.9)

- Australia's tax burden (14.0 per cent) is significantly lower than the OECD-30 weighted average (17.5 per cent), the OECD-30 unweighted average (19.5 per cent), and the average of the OECD-10 countries (16.3 per cent).
- Mexico is excluded from these comparisons because disaggregated data are not available. It is likely that Mexico has a lower individuals' income tax burden than Australia.

Payroll taxes are levied on a similar basis to social security contributions, and so are also considered a type of income tax.

- Personal income taxes, social security contributions and payroll tax, taken together, represent the difference between the cost of remuneration paid by employers and the after-tax remuneration received by employees.
- For Australia, the OECD's data on payroll taxes include state government levies on the payrolls of certain types of employers (usually larger employers) as well as the Australian Government's fringe benefits tax[1]. Ten OECD-30 countries, and three of the OECD-10, have revenues classified as taxation on payrolls and workforce.

Direct taxation in respect of companies

Casual observation would suggest that Australia has a relatively high corporate tax burden — 5.3 per cent of GDP, compared with the OECD-30 unweighted average of 3.3 per cent, the OECD-30 weighted average of 2.6 per cent, and the average for the OECD-10 of 3.4 per cent (Chart 3.10).

- Only Norway (8.1 per cent) and Luxembourg (7.9 per cent) have higher corporate tax burdens than Australia.

However, classification issues mean that it is difficult to draw conclusions from the data.

- A description of the numerous classification issues is provided in Appendix 3.1, including Australia's imputation system and the treatment of superannuation taxes.
- New Zealand also has a relatively high corporate tax burden (4.7 per cent of GDP); however, it may also be affected by some of the same classification issues as Australia — in particular, it also has an imputation system.

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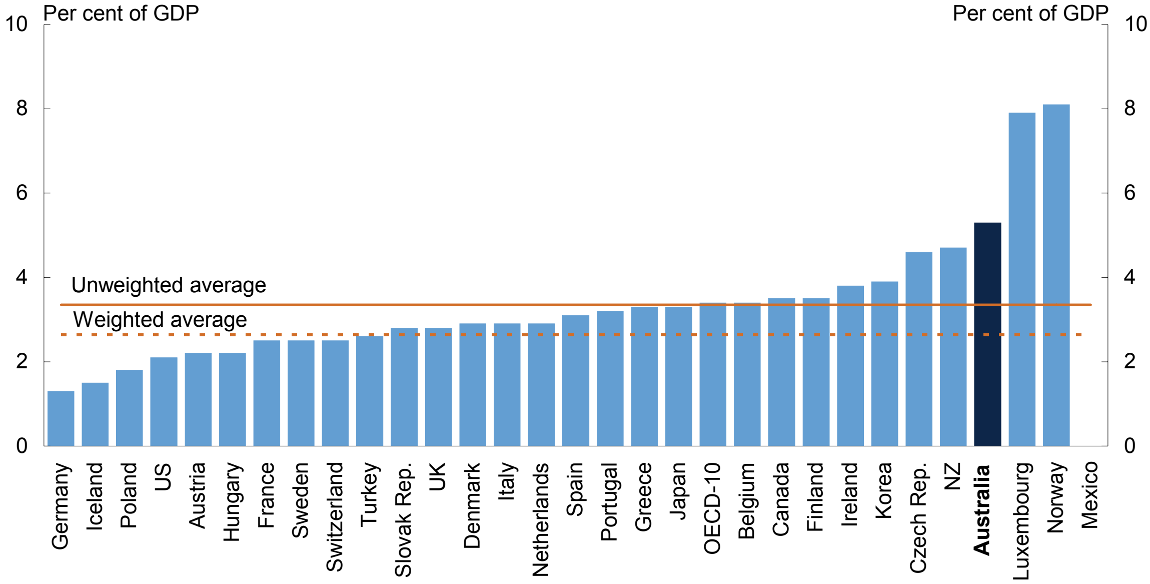
1 The Australian Bureau of Statistics has recently changed its classification of fringe benefits tax to be a tax on individuals (ABS cat. no. 5506.0). This is expected to flow through to the OECD classification in the 2006 edition of OECD *Revenue Statistics*.

Chart 3.10: Direct taxation in respect of companies[(a)]

OECD-30, taxation revenue as a proportion of GDP, ordered by tax burden, 2003



(a) For the purpose of international comparison, there are significant risks in relying on disaggregated data, especially in disaggregating taxes on income, profits and capital gains into its individuals, corporate and other components. A description of some of the issues is provided in Appendix 3.1. Mexico doesn't provide a disaggregation of its income taxes.

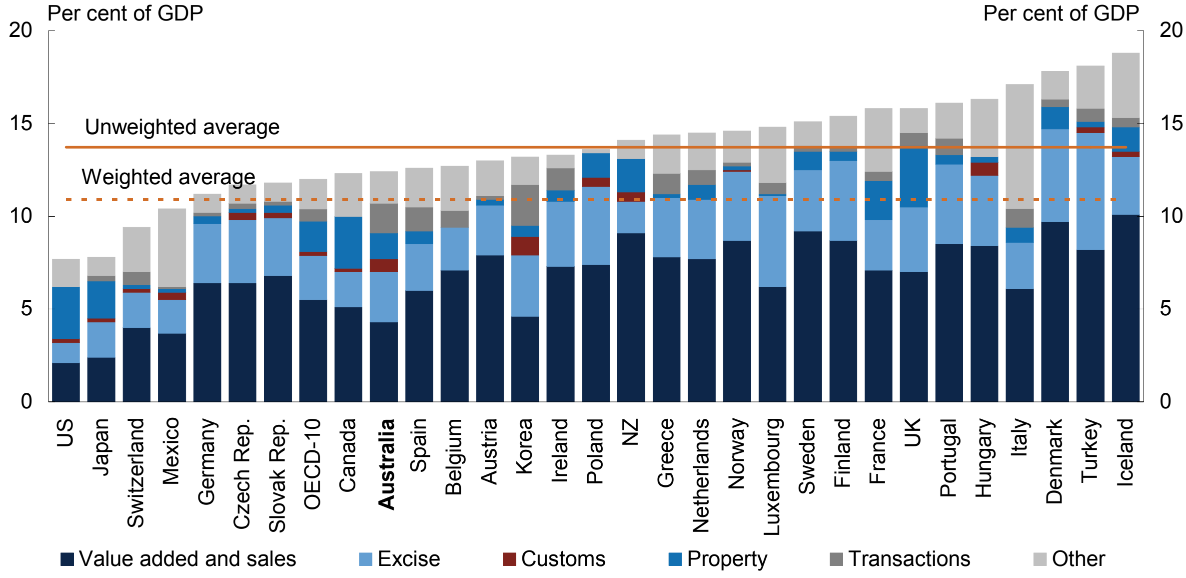
Source: OECD *Revenue Statistics*, 2005.

3.3.3 Indirect taxation

Australia's indirect tax burden (12.4 per cent of GDP) is lower than that of most other OECD countries — it is the ninth lowest in the OECD-30, and is also lower than the OECD-30 unweighted average (13.7 per cent). It is higher than the OECD-30 weighted average (10.9 per cent) and the average of the OECD-10 (12.0 per cent) — Chart 3.11.

The United States (7.7 per cent) and Japan (7.8 per cent) have the lowest indirect tax burdens, generating a relatively large differential between the weighted and unweighted averages.

Chart 3.11: Indirect tax burden
OECD-30, taxation revenue as a proportion of GDP, ordered by tax burden, 2003

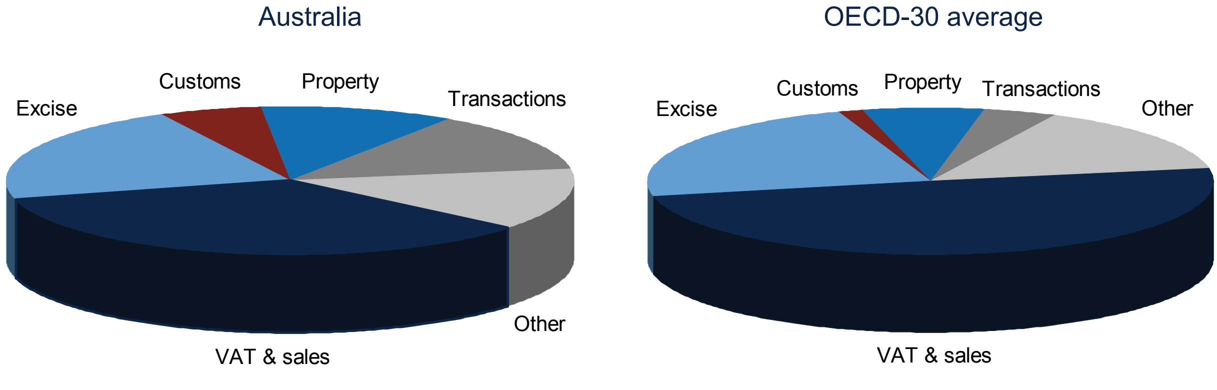


Source: OECD *Revenue Statistics*, 2005.

Australia's tax mix has a significantly lower reliance on value added and sales taxes (4.3 per cent) than the OECD-30 unweighted average (6.8 per cent) — Chart 3.12.

Australia raises around 3.4 per cent of GDP in excise and customs duties, in line with the OECD-30 average (3.4 per cent). However, there are several classification issues with customs duty which make it difficult to draw useful conclusions from the data.

Chart 3.12: Australia's indirect tax mix compared
OECD-30, indirect taxation revenue as a proportion of total taxation revenue, 2003



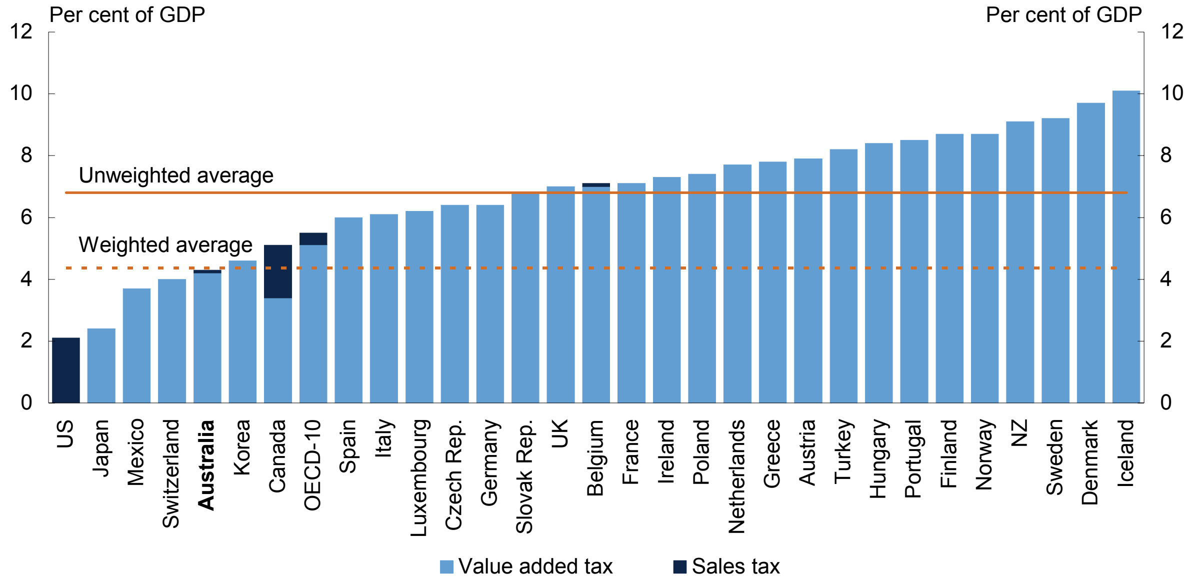
Source: OECD *Revenue Statistics*, 2005.

Australia has a relatively greater reliance on immovable property taxes (1.4 per cent of GDP) and transaction taxes (1.6 per cent) than the OECD-30 average (1.0 per cent and 0.6 per cent respectively).

Value added and sales taxes

Australia has a relatively low tax burden from value added and sales taxes (4.3 per cent of GDP) — it is the fifth lowest in the OECD-30 and is significantly lower than the OECD-30 unweighted average (6.8 per cent) and slightly lower than the OECD-30 weighted average (4.4 per cent) — Chart 3.13.

Chart 3.13: Value added and sales tax burden
OECD-30, taxation revenue as a proportion of GDP, ordered by tax burden, 2003



Source: OECD *Revenue Statistics*, 2005.

Excise and customs

Australia's revenue from excise and customs duties (3.4 per cent of GDP) is around the unweighted average for the OECD-30 (3.4 per cent) — Australia is thirteenth highest in terms of tax burden from excise and customs duty. The weighted average for the OECD-30 is 2.4 per cent and the average of the OECD-10 is 2.6 per cent (Chart 3.14).

- The United States (1.3 per cent of GDP) has a low tax burden from excise and customs duty. Japan (2.1 per cent) is also lower than Australia.

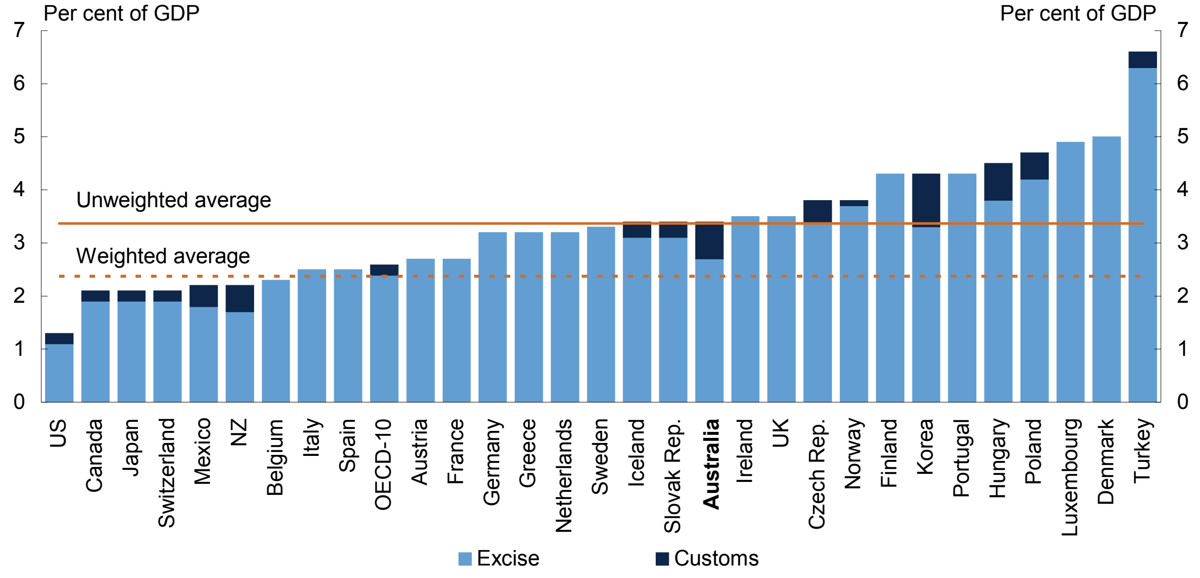
As noted above, there are classification issues with customs duty which make it difficult to draw conclusions from the disaggregated excise and customs duty data.

- For the European Union countries, customs duty is treated as a supranational tax and excluded from the national tax burden.

- Where a customs duty replicates a domestic excise duty, the OECD classifies the customs duty revenue together with excise revenue rather than separately under the customs revenue classification. On the other hand, Australia is one country identified by the study which does not transform its customs revenue data in that way.

Chart 3.14: Excise and customs duty burden

OECD-30, taxation revenue as a proportion of GDP, ordered by tax burden, 2003



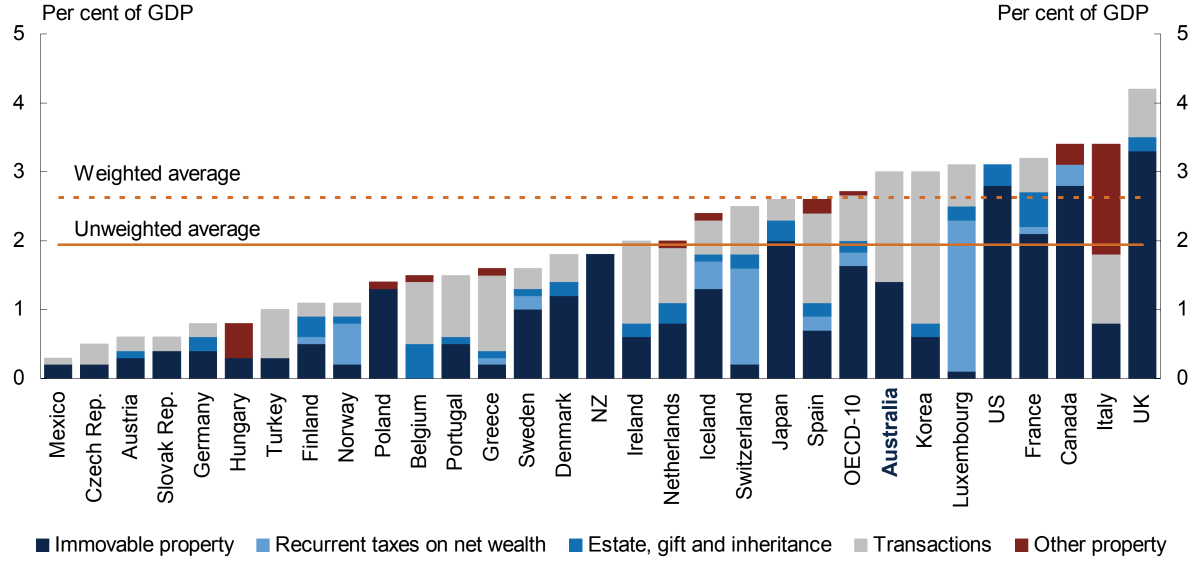
Source: OECD *Revenue Statistics*, 2005.

Property and transaction taxes

Australia has a relatively high reliance on property and transaction taxes (3.0 per cent of GDP) — Australia is seventh highest in terms of the tax burden. This is above the OECD-30 weighted average (2.6 per cent), the OECD-30 unweighted average (1.9 per cent), and the average of the OECD-10 comparator countries (2.7 per cent) — Chart 3.15.

- The United Kingdom (4.2 per cent of GDP) has the highest reliance on property and transaction taxes, and Canada (3.4 per cent) and the United States (3.1 per cent) are also high. All of these countries have a greater reliance on taxes on immovable property.
- Transaction taxes are a significant revenue source for Australia's state governments.

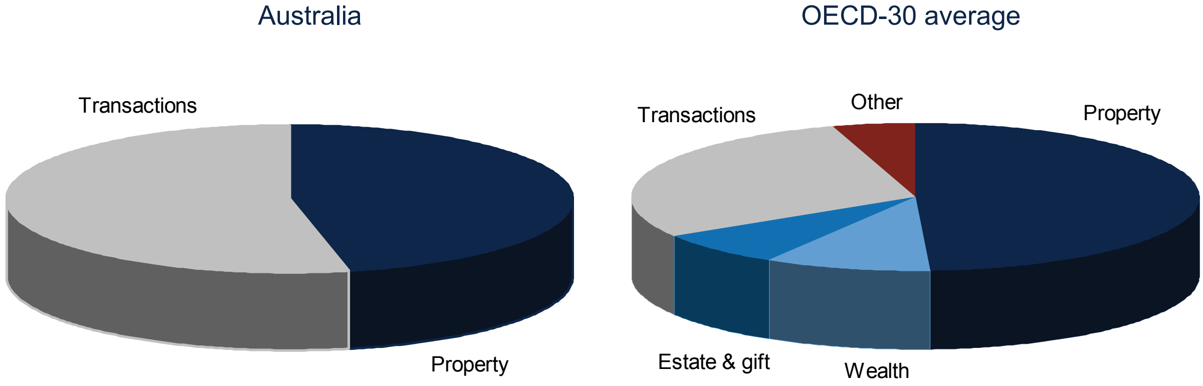
Chart 3.15: Property and transaction tax burden
OECD-30, taxation revenue as a proportion of GDP, ordered by tax burden, 2003



Source: OECD *Revenue Statistics*, 2005.

There is considerable diversity across the OECD in respect of the mix of property and transaction taxes (Chart 3.16). While the proportion of the tax mix from immovable property in Australia is similar to the OECD-30 average, Australia's transaction tax burden (1.6 per cent of GDP) is second highest in the OECD after Korea (2.2 per cent). Australia also raises no taxation revenues from wealth taxes or estate, inheritance and gift taxes.

Chart 3.16: Australia's property and transaction tax mix compared
OECD-30, property and transaction taxation revenue as a proportion of total taxation revenue, 2003



Source: OECD *Revenue Statistics*, 2005.

Immovable property taxes

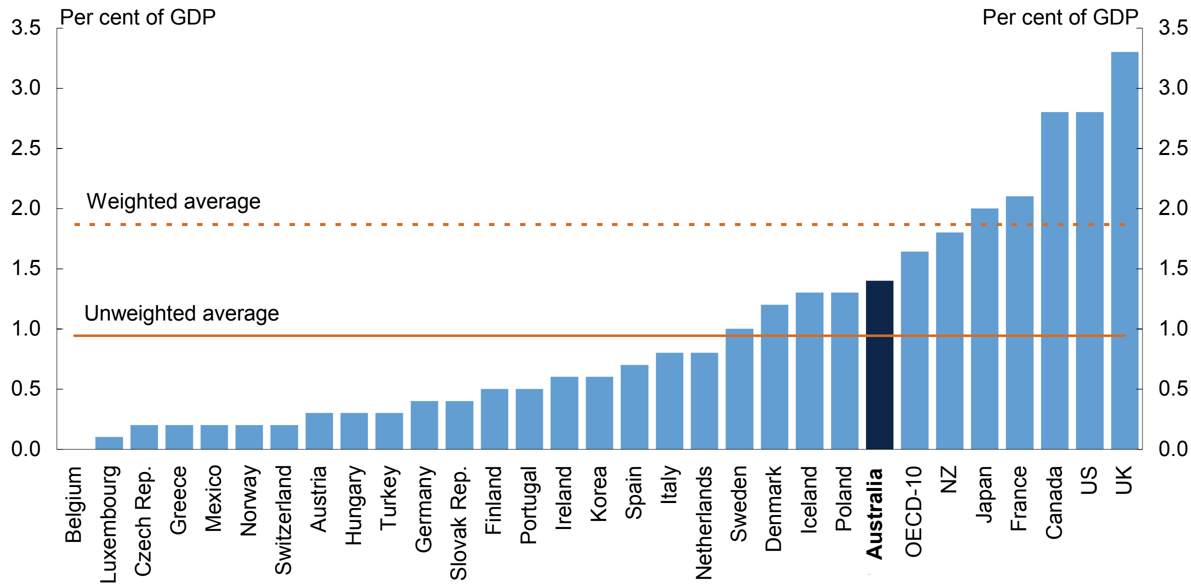
Taxes on property do not include taxes on incomes flowing from property ownership (for example, rental income) or taxes on incomes flowing from the sale of property (for example, capital gains). These types of taxes are included in the relevant categories of income taxation revenue. Property taxes include taxes levied on the ownership or transfer of immovable property (land and buildings), wealth and inheritances, and financial and capital transactions.

Compared with other OECD countries, Australia's taxes on immovable property (1.4 per cent of GDP) are the seventh highest. This is above the OECD-30 unweighted average (0.9 per cent), but below the OECD-30 weighted average (1.9 per cent) and the average of the OECD-10 comparator countries (1.6 per cent) — Chart 3.17.

- The United Kingdom (3.3 per cent of GDP) has the highest reliance on immovable property taxes, and the United States (2.8 per cent), Canada (2.8 per cent), Japan (2.0 per cent) and New Zealand (1.8 per cent) are also high.

Chart 3.17: Immovable property tax burden

OECD-30, taxation revenue as a proportion of GDP, ordered by tax burden, 2003

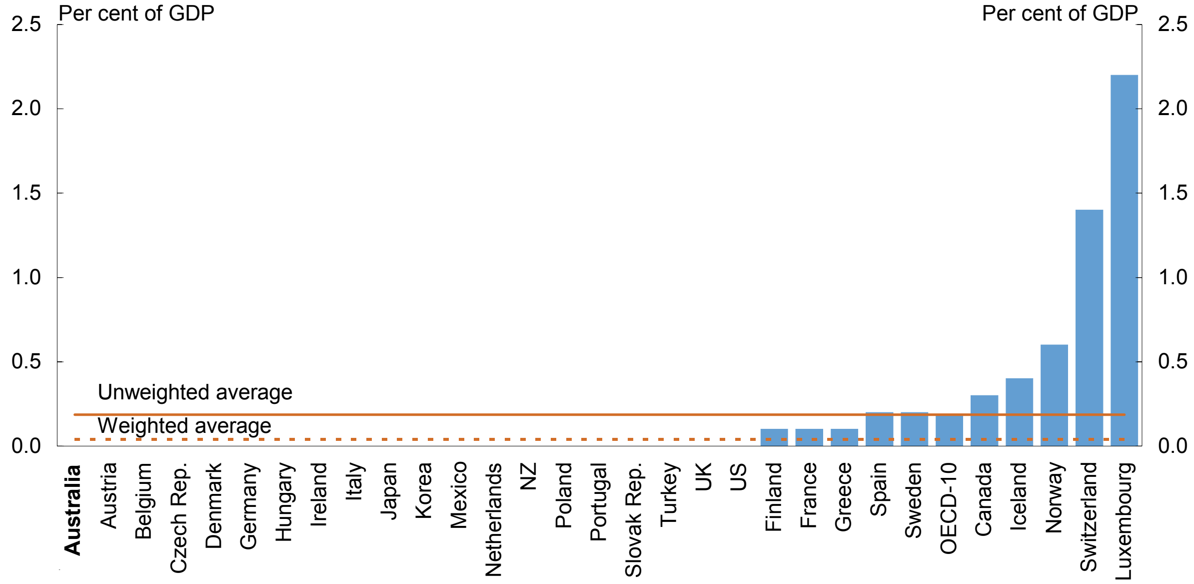


Source: OECD *Revenue Statistics*, 2005.

Recurrent wealth taxes

These taxes are usually levied annually on net wealth — that is, taxes in respect of movable and immovable property, net of any debt financing. Only a few countries levy this type of property tax. Australia does not have any taxes in this classification. Luxembourg (2.2 per cent of GDP) and Switzerland (1.4 per cent of GDP) stand out as having a relatively significant reliance on these taxes in their mix (Chart 3.18).

Chart 3.18: Recurrent wealth tax burden
OECD-30, taxation revenue as a proportion of GDP, ordered by tax burden, 2003



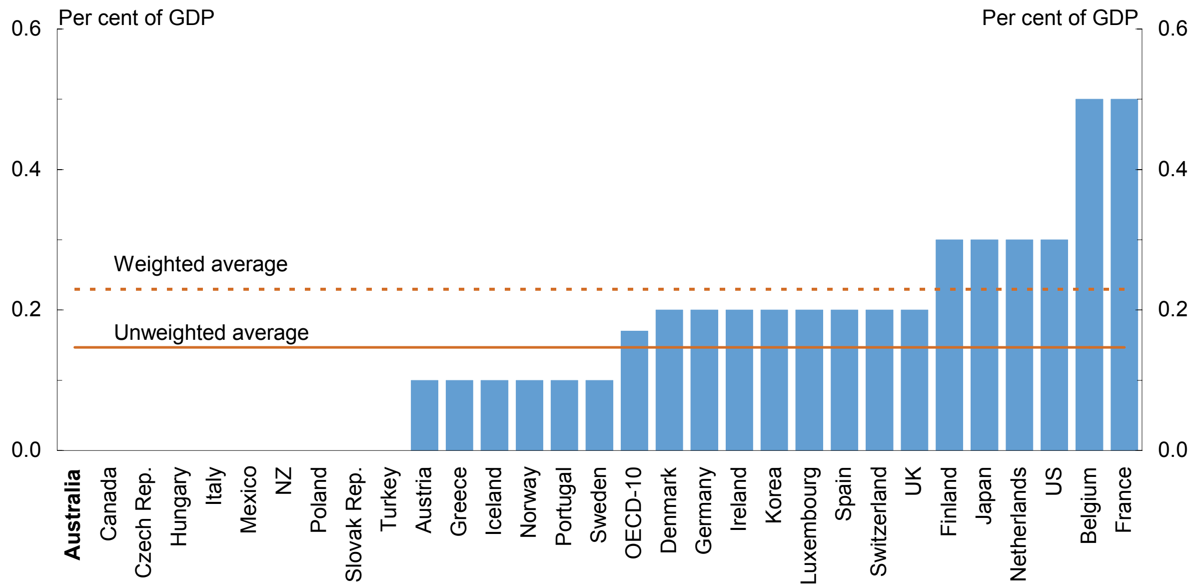
Source: OECD *Revenue Statistics*, 2005.

Estate, inheritance and gift taxes

Australia is in a group of ten OECD countries that do not impose any estate, inheritance and gift duties (Chart 3.19).

- Belgium (0.5 per cent of GDP) and France (0.5 per cent) have the highest reliance on these types of tax. The United States (0.3 per cent) and Japan (0.3 per cent) also have a relatively higher reliance on these taxes.

Chart 3.19: Estate, inheritance and gift tax burden
OECD-30, taxation revenue as a proportion of GDP, ordered by tax burden, 2003



Source: OECD *Revenue Statistics*, 2005.

Transaction taxes

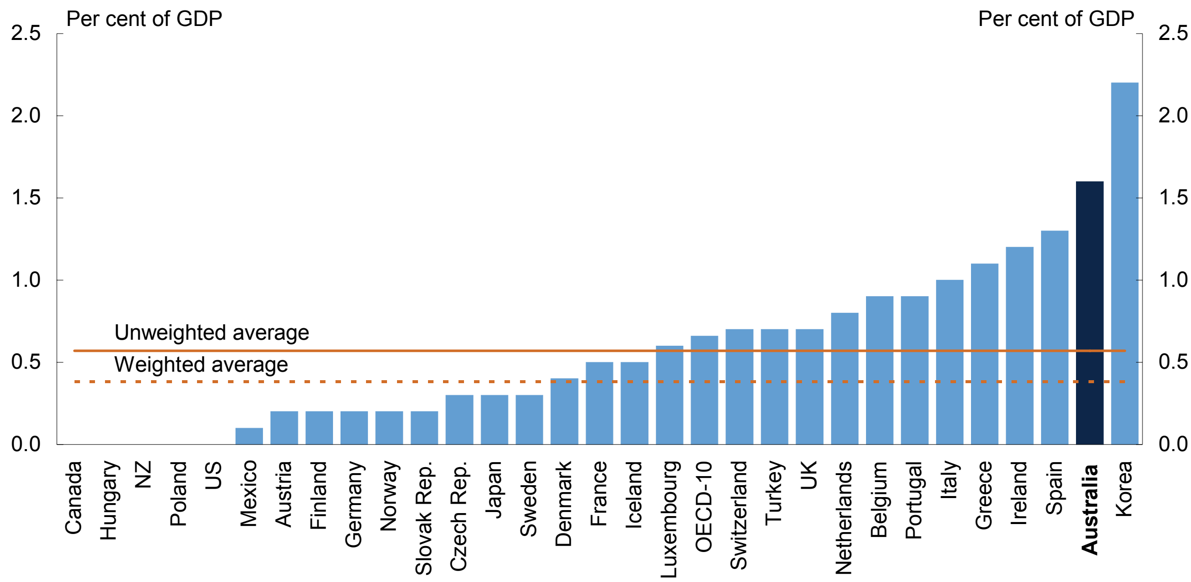
Transaction taxes include taxes on the transfer of securities or property, financial transactions such as cheques, and legal transactions such as the validation of contracts.

Australia's reliance on transaction taxes (1.6 per cent of GDP) is second highest in the OECD-30. This is well above the OECD-30 unweighted average (0.6 per cent), the OECD-30 weighted average (0.4 per cent) and the average of the OECD-10 comparator countries (0.7 per cent) — Chart 3.20.

- Korea (2.2 per cent of GDP) has the highest reliance on property taxes. Of the OECD-10 comparator countries, the Spain (1.3 per cent) and Ireland (1.2 per cent) have the highest reliance on transaction taxes.

Chart 3.20: Transaction tax burden

OECD-30, taxation revenue as a proportion of GDP, ordered by tax burden, 2003



Source: OECD *Revenue Statistics*, 2005.

Appendix 3.1: Classification issues in disaggregating income taxes

For the purpose of international comparison, there are significant risks in relying on disaggregated data. This can reflect differences in the structure of economies and taxation systems.

In particular, the disaggregation of income taxes into its individuals and companies components must be treated with significant caution. There are many classification-related reasons why a simple comparison of Australia's corporate income taxation with that of other countries is misleading. It is important to bear in mind that these issues mostly affect the classification of taxation revenue, not the level of overall tax burden. So a classification issue which overstates the burden of corporate taxation also understates the burden of other classifications of taxation.

- Australia's imputation credit system means that a significant proportion of company tax revenue represents withholding tax payments in respect of individual's income tax liabilities.

- Unlike most countries, Australia's company tax revenue includes taxes on superannuation funds, levied on both contributions and earnings. While the legal incidence of these taxes is on incorporated superannuation funds and life assurance companies, the economic incidence rests with the individual.

- For Australia, company tax revenue includes petroleum resource rent tax revenue. This tax is levied on the economic profits of certain petroleum production projects where those profits are not taxed elsewhere through excise or royalties. The taxation revenue represents a return to the community for the depletion of a natural resource. The rent tax was previously imposed as an excise, and other rent taxes are imposed as excise or royalties. In this case, the choice of taxation instrument fundamentally changes the tax mix while the actual tax burden on companies is no different.

- There are different levels of incorporation between countries. This reflects factors other than the level of business activity. For example, Germany has a low level of incorporation of business (but not a low level of business activity), and so taxes on its business activity mostly show up in taxes on individuals rather than taxes on corporate income. Similarly, 'S corporations' in the United States (similar to Australia's trusts) account for a significant proportion of all business activity, but taxation revenue from this sector appears as taxation on individuals rather than taxation on companies.

- Income taxes that can not be attributed to either individuals or companies can be relatively large for some countries. In the case of Mexico, all income tax is in this category. New Zealand also has about 1.5 percentage points of the income tax burden which cannot be split between individuals and companies.

– For the purpose of this report, these unallocated amounts are ignored for analysis of disaggregated revenue data, but are included in the analysis at the income tax level of aggregation.

Furthermore, different tax systems may change the incentives for economic agents to structure their affairs. For example, capital gains tax concessions in different countries can influence the way companies behave. If capital gains are taxed concessionally (either through deferral of income recognition from economic accrual to realisation, or through concessional rates of tax), there is an incentive for shareholders to accrue capital gains through appreciating the value of the company by retaining and reinvesting profits, and then realising those gains through equity transfers, rather than distributing the profits as dividends. While this incentive exists for Australia, it is counter-balanced by the imputation system which encourages the distribution of taxed profits as franked dividends to shareholders, rather than retaining and reinvesting those profits.

APPENDIX 3.2: DATA TABLES

Appendix table 3.2.1: Tax burden in OECD countries, 2003

	Supranational	National	Provincial	Local	Social Security Funds
Federal countries					
Australia		68.1	29.0	3.0	
Austria	0.2	54.6	8.5	9.4	27.3
Belgium	1.3	34.0	23.8	5.3	35.7
Canada		44.8	37.9	8.6	8.7
Germany	0.9	30.2	21.6	6.8	40.5
Mexico		79.9	2.2	1.0	16.9
Switzerland		34.1	24.2	16.2	25.5
United States		38.8	20.2	14.7	26.4
Unweighted average	0.8	48.0	20.9	8.1	22.6
Unitary countries					
Czech Republic		43.8		12.7	43.6
Denmark	0.3	61.5		35.7	2.5
Finland	0.2	54.3		21.1	24.5
France	1.0	39.4		10.3	49.4
Greece	1.0	62.5		0.9	35.6
Hungary		63.9		5.8	30.3
Iceland		75.3		24.7	
Ireland	0.4	84.9		2.1	12.6
Italy	0.3	53.4		16.9	29.5
Japan		35.8		25.7	38.5
Korea		62.4		18.0	19.5
Luxembourg	0.7	66.1		5.9	27.2
Netherlands	1.0	58.8		3.9	36.3
New Zealand		94.4		5.6	
Norway		85.3		14.7	
Poland		50.7		8.0	41.4
Portugal	0.9	60.3		5.8	33.0
Slovak Republic		56.2		5.1	38.7
Spain	0.4	37.0		28.2	34.4
Sweden	0.7	55.0		32.7	11.6
Turkey		73.4		5.8	20.8
United Kingdom	1.2	75.5		4.8	18.5

Source: OECD *Revenue Statistics*, 2005.