

## How much is 'middle income' in Australia? [with minor revisions]

*'When I use a word', Humpty Dumpty said, in a rather scornful tone, 'it means just what I choose it to mean - neither more nor less'*<sup>1</sup>. 'Middle income', a term beloved of politicians, is like that. At a time when we're hearing demands that the further reductions in tax rates on personal incomes legislated in 2019 should be brought forward to stimulate spending it is useful to consider some data.

It is widely perceived that the burden of personal income taxes falls on 'working Australians'. In fact, most 'workers' earn incomes well below those taxed at the highest marginal rates. The mean (average) wage/salary in May 2019 was \$88,182 for full-time workers or \$64,428 for all workers<sup>2</sup>, but median (middle) earnings (in August 2019) were \$71,500 for full-time workers and \$57,200 for all workers<sup>3</sup>.

However, The Australian Bureau of Statistics (ABS) estimated that of a civilian population of 20.6 million aged 15 and over in June 2019 only 8.9 million had full-time jobs (and 4.1 million part-time)<sup>4</sup>. Many 'workers' had other sources of income, while 7.7 million of Australians 15 and over had income only from savings, superannuation, investments and government benefits – or no income at all<sup>5</sup>. Employment income is not the main source of income for nearly forty per cent of Australian households.

The Australian Tax Office (ATO) publishes a vast array of data related to personal income<sup>6</sup>. For 201718 it reported 14.3 million residents who had *taxable* personal incomes, including 11.2 million with some wage/salary income. The mean taxable individual income reported was \$61,217 but sixty per cent of incomes were below the mean: the median was \$45,882<sup>7</sup>. Nearly twenty per cent of incomes were below the lowest bracket for paying tax (\$18,200) and nearly twenty per cent were over \$80,000 (and in the highest two brackets).

It is possible that many small incomes including cash incomes, some government benefits and some defined benefit superannuation incomes, were not reported to the ATO. Certainly, ABS 2016 Census results pro-rated indicate rather more individuals with an individual income (around 17.0 million) and fewer with jobs (around 10.7 million)<sup>8</sup>. Leaving individuals with no income out of the calculation, this Census appears to suggest a median individual income of around \$39,000.

To be clear, Census results cannot be compared strictly with ATO data. Unlike ATO data Census results rely on self-reported data from respondents who indicate the broad income classes into which their incomes fell. This calls for estimations which may be wildly approximate in the case of very small incomes. Using Census data is complicated by the fact that nearly ten per cent of respondents didn't answer questions about their annual or weekly incomes.

Even so, it seems highly likely that middle personal income is less than \$45,000, barely enough to attract the middle of five tax brackets.

This calls into question current calls for further reductions in tax rates on the grounds of tax relief for low and middle income earners! Certainly it is the case that a relatively few income earners pay the bulk of personal income tax (in fact about two thirds of personal tax revenue comes from incomes over \$80,000) but that is a different argument.

Taxation is a price we pay to live in a civilised country.

Compared with other countries in the OECD, tax revenues in Australia are relatively low as a percentage of Gross Domestic Product, a comparison that doesn't take account of the fact that Australia mandates personal contributions to private superannuation funds amounting to around 4% of GDP annually<sup>9</sup> instead of levying the social services taxes of other countries or that countries with smaller GDPs *per caput* than Australia have to tax more heavily to fund comparable public services.

Also compared with other countries, Australian governments rely heavily on revenue from personal income taxes. It seems generally agreed in numerous reviews over the past two decades that our tax-and-transfer system is in need of reform but successive Commonwealth Governments have been reluctant to do this except piecemeal, perhaps because it might disturb a system that is generous towards high-income and high-worth individuals.

It is said that current proposals to bring forward income tax cuts legislated to come into effect in 2022/23 and 2024/25 might stimulate household consumption. In the current economic climate it is not possible to see how changes that will benefit individuals earning more than twice the middle income will stimulate more household spending.

There are difficult debates to be had, for example about how much governments should spend (or outsource), about how governments (or their proxies) should raise their revenues, about minimum levels of personal/household incomes and about intergenerational transfers of wealth and tax liabilities. The current discussion of personal income tax rates is not one of those debates.

Perhaps Members of Federal Parliament thinking about current proposals should reflect on how it might look if they were advocating accelerated tax cuts that would give them, even if they were on their base salary of \$212,250, tax cuts of \$11,210!

<sup>1</sup> Lewis Carroll, *Through the Looking Glass*

<sup>2</sup> Australian Bureau of Statistics, Cat 6202.0 - *Labour Force, Australia, August 2020*, <https://www.abs.gov.au/ausstats/abs@.nsf/mf/6202>

<sup>3</sup> Australian Bureau of Statistics, Cat 6333.0 - *Characteristics of Employment, Australia, August 2019* <https://www.abs.gov.au/ausstats/abs@.nsf/mf/6333.0>

<sup>4</sup> Australian Bureau of Statistics, Cat 6333.0 - *Characteristics of Employment, Australia, August 2019* <https://www.abs.gov.au/ausstats/abs@.nsf/mf/6333.0>

<sup>5</sup> Australian Bureau of Statistics, Cat 6523.0 - *Household Income and Wealth, Australia, 2017-18*, <https://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/6523.02017-18?OpenDocument>

Australian Bureau of Statistics, Cat 6238.0 - *Retirement and Retirement Intentions, Australia, 2018-19*, <https://www.abs.gov.au/ausstats/abs@.nsf/mf/6238.0>

<sup>6</sup> Australian Taxation Office, *Taxation Statistics 2017-18*, <https://www.ato.gov.au/About-ATO/Research-and-statistics/In-detail/Taxation-statistics/Taxation-statistics-2017-18/?anchor=Individuals#Individuals>

<sup>7</sup> Australian Taxation Office, *Individuals – median and average key items, by sex, 2016–17 and 2017–18 income years* <https://www.ato.gov.au/About-ATO/Research-and-statistics/In-detail/Taxation-statistics/Taxationstatistics-2017-18/?anchor=Individuals#Table3>

<sup>8</sup> Australian Bureau of Statistics, *Census Community Profiles, Australia, 2016*, [https://quickstats.censusdata.abs.gov.au/census\\_services/getproduct/census/2016/communityprofile/036?op=endocument](https://quickstats.censusdata.abs.gov.au/census_services/getproduct/census/2016/communityprofile/036?op=endocument)

<sup>9</sup> Australian Bureau of Statistics, Cat 5204.0 - *Australian System of National Accounts, 2018-19*, <https://www.abs.gov.au/AUSSTATS/abs@.nsf/7d12b0f6763c78caca257061001cc588/bfef5c43f53f8d2bca257213001d23c9!OpenDocument>