



BUFFET RULE: A HIGH INCOME TAX GUARANTEE

Putting a floor under tax deductions

The latest tax figures show that 56 people who were in the top 1% of tax payers were able to manipulate their tax affairs so that they didn't pay a cent in income tax. To ensure that the very wealthiest pay income tax, it is time to put a floor under deductions to guarantee that they pay their fair share of tax.

The wealthiest income earners are able to manipulate their tax affairs in a way that ordinary Australians cannot. 56 people who earned over a million dollars in 2013-14 were able to drive their 'work expenses' down to below the tax-free threshold of \$18,200 and not pay a single cent to the tax officeⁱ (but they collectively paid their accountants \$47 million the same year)ⁱⁱ

The Greens are putting forward a proposal that would limit the deductions that the top 1% of income earners can claim, by requiring that a bare minimum 35% of total pre-deduction income has to be paid to the tax office. The Buffet Rule is named for Warren Buffet, one of the world's wealthiest investors, who called for an income tax guarantee after discovering that he paid less tax than his secretary.

> PUTTING A FLOOR UNDER TAX DEDUCTIONS

In response to the breadth and depth of tax avoidance that frustrates the Australian public, the Greens recently released the most comprehensive tax avoidance plan that Australia has ever seenⁱⁱⁱ. The High Income Tax Guarantee is an additional measure that will only apply to the top 1% of taxpayers, people who have a total income of \$300,000 or more a year.^{iv} Their marginal tax rate should be 47 cents in every dollar over \$180,000. They will still be able to claim legitimate work expenses as deductions against their income, but they won't be able to reduce it below 35% of their total, pre-tax income.

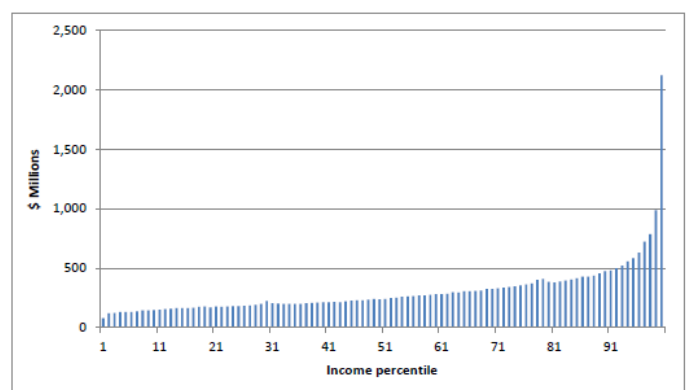
For instance, Geoff earns \$500,000 in a year, he will be required to pay *at least* \$175,000 in tax. However, because he has \$50,000 in allowable deductions (bringing his taxable income to \$450,000), he will pay \$181,000 in income tax.^v

Most of the 185,000 taxpayers who this would affect are already paying a fair amount of tax, but even with the small number of people manipulating the system, the independent **Parliamentary Budget Office estimates this measure would raise \$7.3 billion over the forward estimates and a total \$35 billion by 2025 to invest in public services and infrastructure.**

> FOR THE 99 PER CENT

This proposal would sit within Australia's income tax system, but it is not a new marginal rate of tax. Instead it acts as a guarantee on income tax for those people with annual incomes above \$300,000, which puts them in the top 1%.

Figure 1 – Deductions at income percentiles⁶



The figure above, compiled by the Australia Institute^{vi}, shows the top 1 per cent claim \$2 billion worth of deductions, the same as the bottom 16 per cent, or 2 million Australians.

A high income tax guarantee is a safeguard of our progressive income tax system and ensures that the system is working properly, that tax is being paid by those who can most afford it. The Australian Greens think it is essential that the system has integrity and is no longer open to exploitation.

ⁱ Australian Tax Office *Taxation Statistics: Individuals Selected items by taxable income and total income 2013-14 income year.*

ⁱⁱ <http://www.petermartin.com.au/2016/03/revealed-56-australian-millionaires-who.html>

ⁱⁱⁱ <http://greens.org.au/sites/greens.org.au/files/Tax%20Avoidance%20Package.pdf>

^{iv} See note i

^v Excludes Medicare Levy

^{vi} The Australia Institute *Closing the Tax Loopholes: A Buffett Rule for Australia* April 2015 page 5.