

WHERE YOUR TAX DOLLARS GO

Taxation is imposed through the coercive power of the state. Politicians often speak of “asking” taxpayers to pay more of this or that tax, but in reality they can and do tell citizens what to pay.

It is vital to the functioning of democracy that voters know what their taxes are paying for. Often they don't, because the information is not readily available to them. This year, for the first time, the federal government will provide a ‘tax receipt’ with each taxpayer’s assessment notice, showing how the individual’s personal income tax payment was spent in 2013/14. This is a step forward, but because it is limited to personal income tax it provides an incomplete coverage of taxation and government expenditure.

Everyone who pays personal income tax also pays a lot in other taxes, while many people pay no personal income tax but still contribute through other taxes. This pamphlet helps to remedy that deficiency by providing a more complete coverage.

How much tax do we pay?

First, how much tax do we pay? There are various ways of answering that question.

The Centre for Independent Studies recently reported that Tax Freedom Day fell on 11 April this year. This is how far into the year all the workers and businesses that make up the private sector had to function solely for the purpose of producing the tax revenue demanded by governments at all levels (federal, state and local) for the whole year. This calculation is based on 2012-13 data, the latest available.

Another way is to calculate tax revenue per head of population. The Australian Bureau of Statistics reports that in 2012-13 tax revenue per capita was \$18,108 for all levels of government (comprising \$14,760 for federal taxes and \$3,377 for state and local taxes).

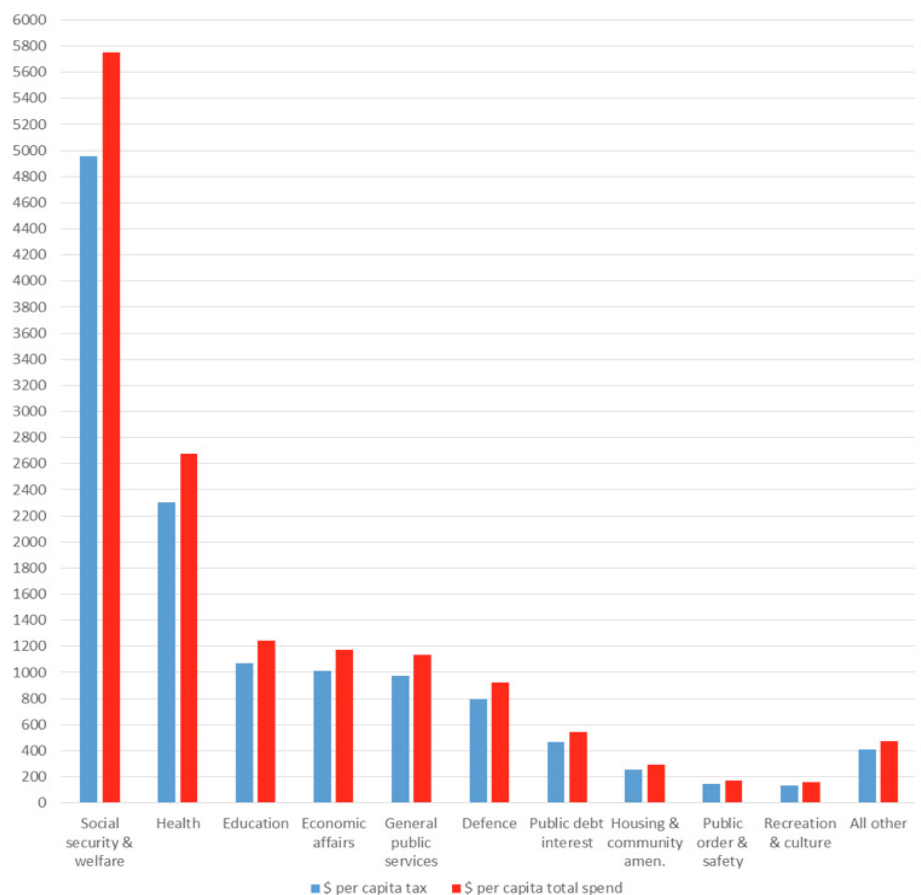
Both Tax Freedom Day and tax per capita are averages across the entire population and do not tell us how much any individual pays. The fact is that nobody really knows, except in the case of personal income tax, for which every taxpayer receives a notice of how much they owed for the preceding financial year.

But individuals don't only pay income tax. They pay excise duty every time they buy petrol or beer; they pay GST on most goods and services; they pay stamp duty to a state government when they buy most types of insurance; and they pay property rates to their local governments.

These are only the most obvious examples. In fact, individuals ultimately bear the burden of all taxation – even company tax and payroll tax which, although paid by businesses, are passed on in one way or another to people.

Ideally every individual would know how much of every tax they were paying, but this could only be estimated through elaborate modelling using many assumptions, and even then the answer would never be exactly correct. Here we use averages across the whole population to illustrate how tax revenue is used by governments.

Figure 1: Where the Commonwealth Tax Dollars Go (excluding GST, 2012-13)



Source: ABS; Government Finance Statistics, Australia, 2012-13 (cat. no. 5512.0); Taxation Revenue, Australia, 2012-13 (cat. no. 5506.0).

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Table 1: Where the Commonwealth Tax Dollars Go (2012-13)

Expenditure function	General description	\$ per \$100 of tax	\$ per capita of tax	\$ per capita total spend
Social security and welfare		39.60	4,953	5,754
<i>Assistance to aged</i>	Mainly age pension	15.20	1,903	
<i>Assistance to families</i>	Family tax benefits; child care	10.50	1,319	
<i>Assistance to disabled</i>	Mainly disability support pension	7.20	902	
<i>Assistance to unemployed</i>	Newstart allowance	2.60	320	
<i>Assistance to veterans</i>		2.10	262	
<i>Other</i>	Mainly general administration	2.00	247	
Health		18.40	2,302	2,674
<i>Medical services & benefits</i>	Mainly Medicare	7.60	952	
<i>Hospitals</i>	Payments to states	4.80	599	
<i>Pharmaceuticals</i>	Mainly PBS	2.90	369	
<i>Other</i>		3.10	383	
Education		8.50	1,069	1,242
<i>Schools</i>	Payments to states and non-government schools	4.20	526	
<i>Universities</i>		2.60	327	
<i>Vocational</i>	Mainly to states for TAFE	0.60	71	
<i>Other</i>	Mainly student assistance	1.20	145	
Economic affairs		8.10	1,011	1,175
<i>Fuel & energy</i>	Fuel tax credits	1.80	224	
<i>Transport & communication</i>	Mainly roads and rail	1.50	189	
<i>Labour & employment</i>		1.20	156	
<i>Immigration</i>		1.10	133	
<i>Mining, manufacturing</i>		0.90	110	
<i>Agriculture, forestry, fishing</i>		0.70	90	
<i>Other</i>		0.90	110	
General public services		7.80	975	1,132
<i>Superannuation benefits</i>	Public service super schemes	2.40	298	
<i>Financial and fiscal affairs</i>	Includes cost of ATO	2.40	295	
<i>Foreign affairs and aid</i>	Aid is 2/3 of this	1.70	218	
<i>Other</i>		1.30	164	
Defence		6.30	794	922
Public debt interest		3.80	470	546
Housing & community amenities		2.00	254	295
<i>Environmental protection</i>		1.00	127	
<i>Housing</i>	To states for low income housing	0.90	107	
<i>Other</i>		0.20	20	
Public order & safety	AFP; courts and legal services	1.20	147	171
Recreation & culture		1.10	136	158
<i>Broadcasting</i>	ABC & SBS	0.50	63	
<i>Arts & cultural heritage</i>		0.40	44	
<i>Other</i>		0.20	30	
All other		3.30	408	474
<i>Nominal super interest</i>	Unfunded super liability	2.00	253	
<i>Local government assistance</i>		0.70	84	
<i>Natural disaster relief</i>		0.60	71	
GRAND TOTAL		100	12,520	14,543

Source: ABS; Government Finance Statistics, Australia, 2012-13 (cat. no. 5512.0); Taxation Revenue, Australia, 2012-13 (cat. no. 5506.0).

Allocating the tax dollars

We often think in terms of federal, state and local governments separately – and this is essential for accountability of each level of government. For this reason we start here by allocating Commonwealth tax dollars, but excluding GST revenue. The reason for excluding GST is that although it is classified as a Commonwealth tax and is collected by the Commonwealth, all the proceeds are passed on to the states. Saying that Commonwealth GST tax dollars are “spent” on the states is therefore misleading as it begs the question as to what the states then spend those dollars on.

Figure 1 and Table 1 therefore show the allocation of Commonwealth tax dollars in 2012-13 excluding the GST. Table 1 shows how many out of each 100 dollars of tax paid go to identified functions such as defence; how the average per capita tax paid (\$12,520 in 2012-13) is allocated to each function; and the actual \$ per capital total spend (excluding GST). The figures largely speak for themselves, but a few points are worth emphasizing. One is the dominance of the broad ‘social security and welfare’ and ‘health’ categories, which together absorb almost 60 cents of every tax dollar. Conversely, some other functions such as defence and foreign aid which are often thought to be very large are in fact relatively small.

Another point to stress is that the Commonwealth allocations to health and education, in particular, by no means comprise the totality of national public spending on these functions because they are merely the Commonwealth contributions to state functions. The Commonwealth makes grants to the states for specific purposes such as public hospitals, but only by looking at the Commonwealth and states combined do we

know how much is being spent on public hospitals in total (see below).

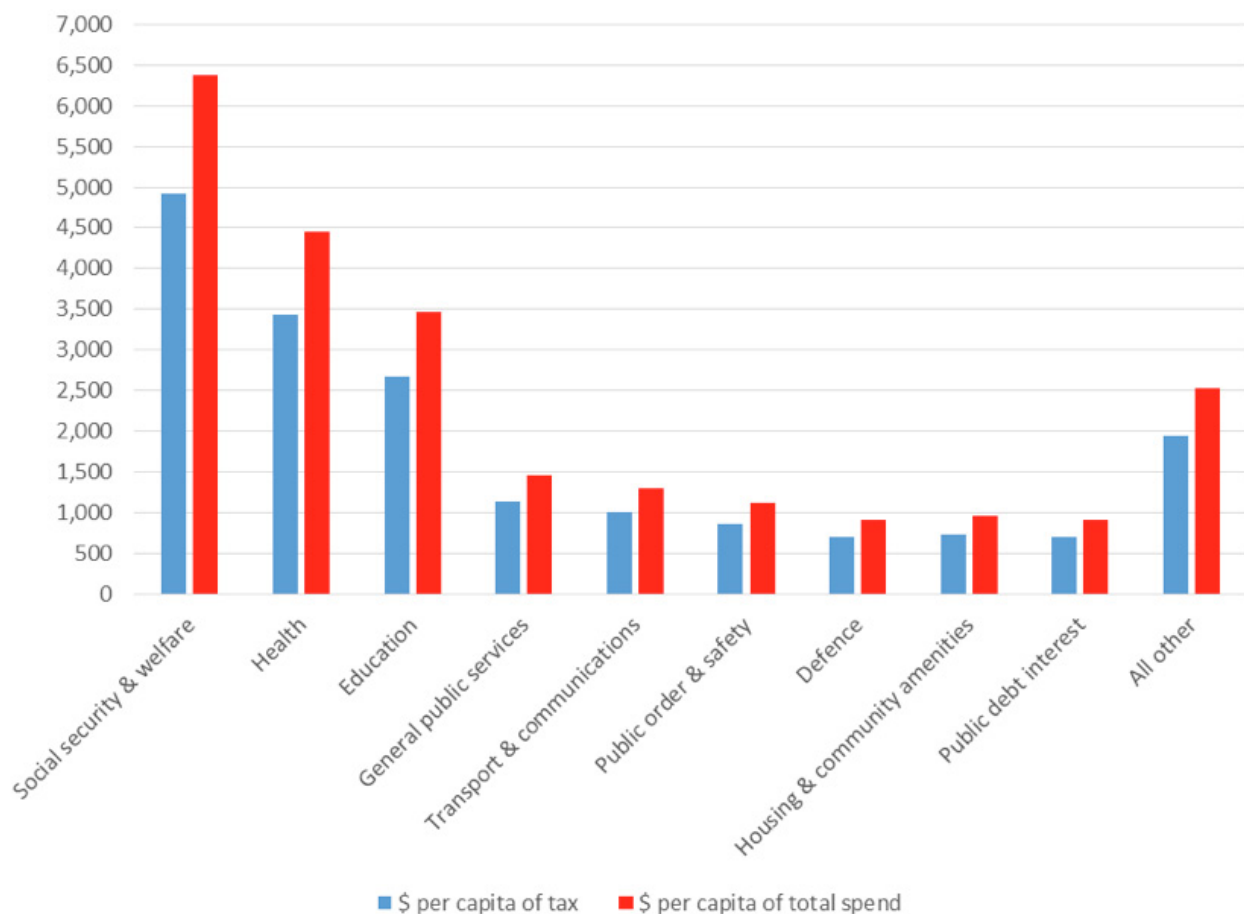
A further point is that total Commonwealth spending (\$14,543 per capita excluding GST grants to states) far exceeds tax paid (\$12,520 per capita excluding GST). The difference is explained by non-tax sources of revenue and borrowings. The distribution of total per capita spending is shown in the final column of Table 1.

In the Australian system of large intergovernmental grants, if the objective is to identify the ultimate use of each tax dollar then it is more meaningful to look at government expenditure aggregated across all three tiers of government. For these reasons Figure 2 and Table 2 show how revenue is allocated to the various broad functions of government without distinguishing between the different tiers of government. Table 3 then shows further detail within selected functions.

As with Table 1, one striking feature is the concentration of expenditure in a handful of broad categories. The top three – social security and welfare, health and education – account for 61% of the total. Another 30% is accounted for by the next six categories. The remaining six explain just \$11 out of every \$100 spent. Some of the functions popularly believed to absorb a large share of revenue in fact account for very little. These include defence (just \$4 out of every \$100) and foreign aid (a mere \$1 out of \$100).

Total government spending, at more than \$23,000 per capita, far exceeds tax paid (just over \$18,000 per capita). The difference is explained by non-tax sources of revenue and borrowings. The distribution of total per capita spending is shown in the final column of Table 2.

Figure 2: Where the Tax Dollars Go (All tiers of government, 2012-13)



Source: ABS; Government Finance Statistics, Australia, 2012-13 (cat. no. 5512.0); Taxation Revenue, Australia, 2012-13 (cat. no. 5506.0).

Table 2: Where the Tax Dollars Go (All tiers of government, 2012-13)

Expenditure function	General description	\$ per \$100 of tax	\$ per capita of tax	\$ per capita total spend
Social security & welfare	Income support payments (pensions, benefits, allowances) mostly paid by Commonwealth Government	27.20	4,926	6,382
Health	Public hospitals; Medicare benefits; pharmaceutical benefits (shared by Commonwealth and states)	19.00	3,438	4,453
Education	Government schools; subsidies to non-government schools; universities; TAFE (shared by Commonwealth and states)	14.80	2,679	3,471
General public services	General costs of running govt (all levels)	6.20	1,129	1,463
Transport & communications	Road and rail building and maintenance; public transport services (Commonwealth, states and local government)	5.50	997	1,291
Public order & safety	Police, prisons, courts (mainly states)	4.80	863	1,118
Defence	Commonwealth only	3.90	698	904
Housing & community amenities	Public housing; environment protection (all levels of govt)	4.10	736	953
Public debt interest	Commonwealth and states	3.80	695	901
All other	Mainly recreation & culture; industry assistance & regulation	10.80	1,948	2,523
GRAND TOTAL		100	18,108	23,459

Table 3: Selected Program Details (all tiers of government, 2012-13)

Expenditure function and sub-function	General description	\$ per \$100 of tax	\$ per capita of tax	\$ per capita total spend
Social security & welfare				
Social security	Mainly age pension	20.60	3,565	4,916
Welfare services		5.80	998	1,375
Health				
Acute care institutions	Mainly public hospitals	7.40	1,277	1,761
Community health services		6.60	1,137	1,567
Other health services		2.70	473	652
Pharmaceuticals	Mainly PBS	2.20	381	526
Education				
Schools		7.60	1,310	1,807
Universities		4.10	718	990
TAFE		1.30	219	301
General public services				
Foreign affairs & aid		1.10	187	258
Transport & communications				
Roads		3.00	512	706
Rail		1.50	262	361
Other				
Recreation and culture		2.40	420	579
Fuel and energy	Fuel tax credits scheme	1.40	239	329
Agriculture, forestry, fishing		0.80	139	192
Mining and manufacturing		0.80	137	189
Other economic sectors		2.90	500	689

Source: ABS; Government Finance Statistics, Australia, 2012-13 (cat. no. 5512.0); Taxation Revenue, Australia, 2012-13 (cat. no. 5506.0).