

CGT discount by electorate

The benefit of the capital gains tax discount mainly flows to Liberal electorates in large cities. Labor and National electorates in rural and outer suburban seats receive much less benefit.

Discussion paper

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Summary

The capital gains tax (CGT) discount is a tax concession. While personal income earned in other ways is taxed at the full marginal rate, only half the income earned from a capital gain is taxed. The CGT discount has been at the centre of considerable public debate. It is expected to cost the budget \$44 billion over the next four years and it is likely that it is making housing less affordable. This paper looks at which electorates are getting the most benefit from the CGT discount.

The government has attempted to reduce the budget deficit by cutting welfare payments. Reform to the CGT discount has been suggested as an alternative to welfare cuts.

The electorates getting the largest advantage from the CGT discount are mostly represented by Liberals. Table 1 shows the 10 electorates that get the most benefit from the CGT discount. The benefit from the CGT discount is measured as an average of all tax payers in the electorate.

Table 1 – Top 10 electorates by average CGT discount

Rank	Electorate	State	Party	Benefit	Representative
1	Wentworth	NSW	Liberal	\$5,387	Malcolm Turnbull (Prime Minister)
2	Higgins	VIC	Liberal	\$3,448	Kelly O'Dwyer (Assistant Treasurer / Minister for Revenue and Financial Services)
3	North Sydney	NSW	Liberal	\$2,349	Trent Zimmerman
4	Melbourne Ports	VIC	Labor	\$1,861	Michael Danby
5	Tangney	WA	Liberal	\$1,848	Ben Morton
6	Kooyong	VIC	Liberal	\$1,748	Josh Frydenberg (Minister for Environment and Energy)
7	Warringah	NSW	Liberal	\$1,706	Tony Abbott (Ex-Prime Minister)
8	Goldstein	VIC	Liberal	\$1,602	Tim Wilson
9	Brisbane	QLD	Liberal	\$1,350	Trevor Evans
10	Sydney	NSW	Labor	\$1,275	Tanya Plibersek (Deputy Opposition Leader)

Source: Commonwealth of Australia (2017) *Taxation Statistics 2014-15 – Individuals detailed Table 6* and author's calculations

Eight of the top 10 electorates are held by the Liberal Party, including senior members of the government – the Prime Minister, Minister for Revenue (i.e. tax) and the Minister for Environment and Energy – and the former Prime Minister, Tony Abbott.

Table 2 shows the average tax payer benefit from the CGT discount by party representing the electorate. Tax payers in Liberal electorates get on average \$672 per year while tax payers in Labor electorates get \$297 per year. National electorates get the least, with \$146 per tax payer per year. Tax payers in Liberal electorates get twice as much as tax payers in Labor party electorates, and more than four and half times as much as tax payers in National electorates.

Table 2 – Average CGT discount by party

Rank	Party	CGT discount Benefit
1	Liberal	\$672
2	Labor	\$297
3	National	\$146

Source: Commonwealth of Australia (2017) *Taxation Statistics 2014-15 – Individuals detailed Table 6* and author's calculations

National electorates have the least to lose from reform of the CGT discount, but are resisting reform as part of the Coalition government. If the government were to reform the CGT discount instead of cutting welfare, some of the biggest winners would be National Party electorates.

Introduction

The capital gains tax (CGT) discount is a tax concession. While personal income earned in other ways is taxed at the full marginal rate, only half the income earned from a capital gain is taxed. So if someone were to earn an additional \$1,000 from extra hours at work, all the \$1,000 would be taxable income. If they were to earn an additional \$1,000 because they sold an asset for more than they bought it for then only \$500 of that would be taxable income.

The CGT discount encourages Australians to invest in residential property which in turn increases demand for houses, making it more difficult for some Australians, particularly first home buyers, to get into the market.¹ The CGT discount creates winners and losers. These winners and losers are not distributed evenly, either by income or geographically. The winners are more likely to be high income households who live predominantly in large cities represented by the Liberal Party. Those getting the least benefit are more likely to be low income earners living in rural or outer suburban seats, represented by the National Party or Labor Party.

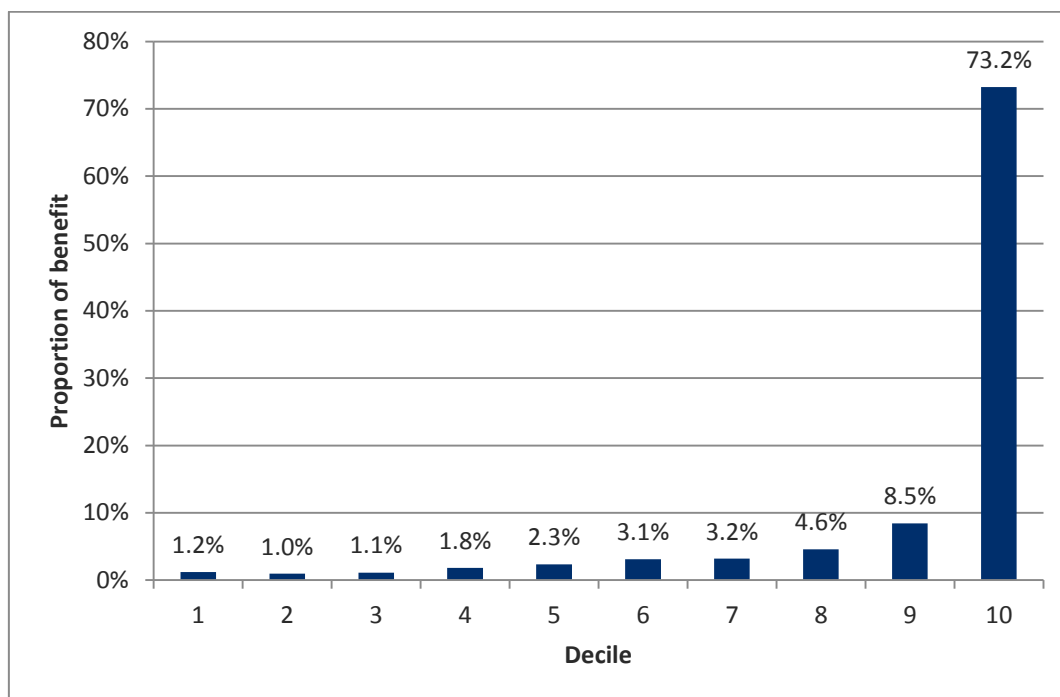
In a representative democracy, geographic distribution is important as it can help inform why some policies are promoted or attacked by different politicians or parties. This paper looks at the CGT discount by federal electorate to find out which electorates are the biggest winners from the CGT discount and which electorates are getting little benefit.

¹ Grudnoff (2015) *It's the revenue stupid: Ideas for a brighter budget*

CGT discount by income

It is expected that the CGT discount will be worth \$9.6 billion in 2016–17 and \$44 billion over the next four years.² It is a tax concession that predominately goes to high income earners, with 73 per cent of the benefit going to the top 10 per cent of households. Figure 1 shows the distribution of the CGT discount by income decile. Those Australian households in the first decile are the lowest 10 per cent of income earners. Each decile represents the next 10 per cent of income earners with the 10th decile being the top 10 per cent of income earners.

Figure 1 - CGT discount by income decile



Source: Grudnoff (2015) *It's the revenue stupid: Ideas for a brighter budget*

The CGT discount is distributed overwhelmingly to the top 10 per cent of households. The top 10 per cent get almost three quarters of the benefit while the bottom half of households get only 7.4 per cent. The top 10 per cent get about 10 times more than the bottom 50 per cent put together.

² Commonwealth of Australia (2017) *Tax Expenditure Statement*

CGT discount by electorate

The benefit of the CGT discount is not just unevenly distributed by income; it is also unevenly distributed geographically. One way to show this is by looking at the average amount of benefit per tax payer going to each federal electorate. An analysis of the CGT discount using the ATO tax statistics shows that the average tax payer in the Prime Minister Malcolm Turnbull's Liberal seat of Wentworth got an average benefit of \$5,387 while the average benefit per tax payer in the Labor seat of Kingston was just \$66.

The amount of the CGT discount has been calculated using ATO estimates of tax on net capital gains. A full description of the methodology can be found in Appendix 1. The method used is likely to be an underestimate of the benefit obtained from the CGT discount for two reasons.

Firstly, the most recent ATO data is from 2014-15. It is likely that the amount of capital gain has increased since then.

Secondly, the CGT discount currently only taxes half the capital gain (it is a 50 per cent discount). If the discount was removed, the full amount of the capital gain would be taxed. Australia's progressive tax rates mean that doubling the capital gain may put people into a higher marginal rate, resulting in more tax being collected on the second half of the capital gain than on the first half.

Table 3 shows the amount of CGT discount going to the average tax payer in the top 10 electorates. It is interesting to see that the electorates that gain the most from the CGT discount are represented by those that have power to change the current system. This includes the Prime Minister, the Minister for Revenue and the Minister for the Environment and Energy.

Table 3 – Top 10 electorates by CGT discount

Rank	Electorate	State	Party	Benefit	Representative
1	Wentworth	NSW	Liberal	\$5,387	Malcolm Turnbull (Prime Minister)
2	Higgins	VIC	Liberal	\$3,448	Kelly O'Dwyer (Assistant Treasurer / Minister for Revenue and Financial Services)
3	North Sydney	NSW	Liberal	\$2,349	Trent Zimmerman
4	Melbourne Ports	VIC	Labor	\$1,861	Michael Danby
5	Tangney	WA	Liberal	\$1,848	Ben Morton

6	Kooyong	VIC	Liberal	\$1,748	Josh Frydenberg (Minister for Environment and Energy)
7	Warringah	NSW	Liberal	\$1,706	Tony Abbott (Ex-Prime Minister)
8	Goldstein	VIC	Liberal	\$1,602	Tim Wilson
9	Brisbane	QLD	Liberal	\$1,350	Trevor Evans
10	Sydney	NSW	Labor	\$1,275	Tanya Plibersek (Deputy Opposition Leader)

Source: Commonwealth of Australia (2017) *Taxation Statistics 2014-15 – Individuals detailed Table 6* and author's calculations

The electorate that gets the largest average benefit is the Prime Minister Malcolm Turnbull's electorate of Wentworth, followed by the Minister for Revenue Kelly O'Dwyer's electorate of Higgins. It is perhaps unsurprising then that the government has taken such a strong stance against changes to capital gains tax.

The top 10 is dominated by NSW and Victorian electorates (four each) and all ten are located in capital cities (mostly Sydney and Melbourne).

The average figures in Table 3 include all those in the electorate that lodged a tax return. Only a small proportion of those submitting a tax return actually declared a capital gain and got a benefit from the CGT discount. The top 10 electorates with the highest percentage of tax payers getting a benefit from the CGT discount are listed in Table 4.

Table 4 – Top 10 electorates by percentage of tax payers receiving a benefit from CGT discount

Rank	Electorate	State	Party	% CGT discount	Representative
1	Kooyong	VIC	Liberal	9.4%	Josh Frydenberg (Minister for Environment and Energy)
2	Bradfield	NSW	Liberal	9.1%	Paul Fletcher (Minister for Urban Infrastructure)
3	Higgins	VIC	Liberal	8.5%	Kelly O'Dwyer (Assistant Treasurer / Minister for Revenue and Financial Services)
4	North Sydney	NSW	Liberal	8.5%	Trent Zimmerman
5	Goldstein	VIC	Liberal	8.3%	Tim Wilson
6	Wentworth	NSW	Liberal	8.1%	Malcolm Turnbull (Prime Minister)
7	Warringah	NSW	Liberal	7.8%	Tony Abbott (Ex-Prime Minister)
8	Curtin	WA	Liberal	7.8%	Julie Bishop (Deputy Leader Liberal Party & Minister for Foreign Affairs)
9	Ryan	QLD	Liberal	6.6%	Jane Prentice

10	Melbourne Ports	VIC	Labor	6.2%	Michael Danby
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Source: Commonwealth of Australia (2017) *Taxation Statistics 2014-15 – Individuals detailed Table 6* and author's calculations

Unsurprisingly the electorates that have the highest proportion of people getting a benefit from capital gains are similar to the electorates that get the biggest average benefit. Additional ministers make this list, including the Deputy Leader of the Liberal Party Julie Bishop and the Minister for Urban Infrastructure Paul Fletcher.

We can also look at the average benefit for those who made a capital gain. This is shown in Table 5. It shows the average amount of CGT discount that each person who paid capital gains tax received.

Table 5 – Top 10 electorates by average CGT discount for those paying CGT

Rank	Electorate	State	Party	Benefit	Representative
1	Wentworth	NSW	Liberal	\$66,798	Malcolm Turnbull (Prime Minister)
2	Higgins	VIC	Liberal	\$40,620	Kelly O'Dwyer (Assistant Treasurer / Minister for Revenue and Financial Services)
3	Tangney	WA	Liberal	\$34,086	Ben Morton
4	Sydney	NSW	Labor	\$33,098	Tanya Plibersek (Deputy Opposition Leader)
5	Melbourne Ports	VIC	Labor	\$29,972	Michael Danby
6	North Sydney	NSW	Liberal	\$27,630	Trent Zimmerman
7	Brisbane	QLD	Liberal	\$22,386	Trevor Evans
8	Fadden	QLD	Liberal	\$22,369	Stuart Robert
9	Warringah	NSW	Liberal	\$21,992	Tony Abbott (Ex-Prime Minister)
10	Melbourne	VIC	Greens	\$20,918	Adam Bandt

Source: Commonwealth of Australia (2017) *Taxation Statistics 2014-15 – Individuals detailed Table 6* and author's calculations

The average CGT discount is biggest in the Prime Minister's electorate of Wentworth, at \$66,798 each. This is half again as big as the second place electorate of Higgins, represented by the Minister for Revenue. Higgins still received a significant benefit of \$40,620 per person receiving the CGT discount.

There is a tension in representative democracy where a minister, including the Prime Minister, has been elected to represent their constituents, but they also have a responsibility to act in the common good of all Australians. While there is no suggestion that these Liberal Party ministers are acting inappropriately, it is likely that in talking to their constituents they are hearing from people who would be

disproportionately affected by a reduction in CGT discount. What this analysis does show is that some of those with the most power to reform the CGT discount have the least incentive to do so.

Table 6 shows those electorates that got the least benefit from the CGT discount. Of Australia’s 150 federal electorates, the Labor electorate of Kingston had the lowest average benefit of just \$66. This means the Prime Minister’s electorate of Wentworth (with an average benefit of \$5,387) received 82 times more benefit than Kingston.

While the top 10 electorates were almost all Liberal party electorates, the bottom 10 were more evenly spread among Labor, Nationals and an Independent. In the bottom 10 there were six Labor, three Nationals and one independent. There were no Liberal party electorates. The list has a significant number of South Australian and Queensland electorates (three of each) and is dominated by regional electorates far from capital cities.

Table 6 – Bottom 10 electorates by CGT discount

Rank	Electorate	State	Party	Benefit	Representative
150	Kingston	SA	Labor	\$66	Amanda Rishworth
149	Port Adelaide	SA	Labor	\$73	Mark Butler (Shadow Minister for the Environment)
148	Kennedy	QLD	Independent	\$82	Bob Katter
147	Makin	SA	Labor	\$86	Tony Zappia
146	Blair	QLD	Labor	\$89	Shayne Neumann
145	Mallee	VIC	National	\$90	Andrew Broad
144	Maranoa	QLD	National	\$94	David Littleproud
143	Parks	NSW	National	\$96	Mark Coultou
142	Lyons	TAS	Labor	\$96	Brian Mitchell
141	Wakefield	SA	Labor	\$97	Nick Champion

Source: Commonwealth of Australia (2017) *Taxation Statistics 2014-15 – Individuals detailed Table 6* and author’s calculations

While the top 10 had a large number of government politicians who held ministry positions, none of the bottom 10 holds positions in the inner or outer ministries. While this is in part because seven of the ten electorates are not held by the government, none of the three Coalition members hold ministries compared with three of the eight Coalition members in the top ten. It should also be noted that one of the five Coalition members in the top 10 that doesn’t have a ministry is Tony Abbott, who has previously held ministerial positions including that of Prime Minister.

Table 7 shows the bottom 10 electorate's average benefit for those who made a capital gain. It is the bottom ten equivalent of Table 5. It shows the average amount of CGT discount that each person who paid capital gains tax received.

Table 7 - Bottom 10 electorates by average CGT discount for those paying CGT

Rank	Electorate	State	Party	Benefit	Representative
150	Mallee	VIC	National	\$2,327	Andrew Broad
149	Kennedy	QLD	Independent	\$2,699	Bob Katter
148	Kingston	SA	Labor	\$2,719	Amanda Rishworth
147	Grey	SA	Liberal	\$2,744	Rowan Ramsey
146	Maranoa	QLD	National	\$2,896	David Littleproud
145	Makin	SA	Labor	\$2,921	Tony Zappia
144	Parks	NSW	National	\$3,035	Mark Coulton
143	Wannon	VIC	Labor	\$3,063	Dan Tehan (Minister for Defence Personnel & Veterans' Affairs)
142	Port Adelaide	SA	Labor	\$3,247	Mark Butler (Shadow Minister for the Environment)
141	O'Connor	WA	Liberal	\$3,338	Rick Wilson

Source: Commonwealth of Australia (2017) *Taxation Statistics 2014-15 – Individuals detailed Table 6* and author's calculations

Many of the electorates from Table 6 are also in this list. It is dominated by Labor and National electorates but includes two Liberal electorates, including one held by a member of the outer ministry (Dan Tehan). Four of the 10 electorates are from South Australia.

CGT discount by party

Table 8 shows the average tax payer benefit from the CGT discount by party representing the electorate. Tax payers in Liberal electorates get on average \$672 per year while tax payers in Labor electorates get \$297 per year. National electorates get the least, with \$146 per tax payer per year. Tax payers in Liberal electorates get twice as much as tax payers in Labor party electorates, and more than four and half times as much as tax payers in National electorates.

Table 8 – Average CGT discount by party

Rank	Party	CGT discount Benefit
1	Liberal	\$672
2	Labor	\$297
3	National	\$146

Source: Commonwealth of Australia (2017) *Taxation Statistics 2014-15 – Individuals detailed Table 6* and author's calculations

The government has focused on cutting welfare spending rather than reducing tax concessions like the CGT discount. The fact that Liberal electorates disproportionately benefit from the CGT discount might help explain the Liberal Party's opposition to any changes to the tax concession. Similarly, the fact that Labor party electorates have a far smaller benefit might help explain their willingness to make changes.

What is difficult to understand is why the National Party would be unwilling to consider changes to the CGT discount? Electorates they represent get very little benefit, and failing to make changes to the CGT discount means larger cuts to welfare, which National Party electorates disproportionately receive.

Conclusions

The CGT discount is an area of tax policy that is in need of reform. It has been linked to higher property prices and experts have warned that it may encourage speculation and create instability in financial markets. Reform of the CGT discount could also reduce the budget deficit at a time when the government is looking for savings measures.

Looking at the benefit of the CGT discount by electorate shows that those who are most able to reform the CGT discount represent electorates that would have the most to lose if the CGT discount were reduced.

Despite their resistance to reform, National electorates have the least to lose from reform of the CGT discount. If the government were to reform the CGT discount instead of cutting welfare, some of the biggest winners would be National electorates.

The government has consistently said that it wants to cut spending, particularly welfare spending. But the Government has struggled to pass its savings measures in large part because the Senate has said they disproportionately affect low income households. Reform to the CGT discount may overcome the Senate's concerns.

References

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Appendix 1 – Methodology

The CGT discount by electorate has been put together using the Australian Tax Office (ATO) data by post code (2014–15). This is the most recent data available. Post code data was aggregated up to federal electorates using a concordance from the ABS.³ Where a post code overlaps more than one electorate, the concordance assigns a proportion of the postcode to each electorate. This proportion was then assigned to the postcode data, breaking it up among the federal electorates. The federal electorates used are the electorates at the 2016 federal election.

The ATO does not publish the benefit from CGT discount directly. It has been derived from the ATOs estimated tax on net capital gains. A discount of 50 per cent means that at least twice as much tax would be paid. This is likely to be an underestimate. With Australia’s progressive tax system, doubling the amount of taxable income from a capital gain could push the person into a higher tax bracket. Hence they could pay more than twice as much tax.

³ Postcode 2016 to ABS Commonwealth Electoral Divisions 2016