Parliamentary
Budget Office

Billionaires Tax	
Party:	Australian Greens

Summary of proposal:

The proposal has 2 components that would tax the net wealth of Australian residents and non-residents.

For **Component 1 and 2**, net wealth would be calculated as follows.

- For Australian residents, net wealth would be equal to the value of all assets minus all liabilities and include any taxable assets held by their children.
- For non-residents, net wealth would be equal to the value of Australian assets minus liabilities.

Assets, both financial and non-financial, over the value of $50,000 would be included in the net wealth calculation.

Component 1 – Levy on net wealth

This component would introduce an annual tax levied on the net wealth of Australian residents, regardless of where their assets are held, and the net wealth of non-residents who hold Australian assets from 1 July 2022.

The following features of the tax would apply to both residents and non-residents:

- The tax would be levied at 6% on the individual's net wealth amount above $1 billion.
- The assessable net wealth would be calculated as at 30 June of each financial year.
- Initial net wealth valuations would be determined as at the date of policy announcement.
  - Non-residents would only be able to move a maximum of 10% of their initial Australian net wealth offshore each year. Any additional Australian net wealth moved offshore would remain subject to the tax.
- Each year the amount of tax that arises from a single real estate holding could be deferred – and secured against the title of the property – up to an amount equal to 80% of the value of the property. Once 80% is reached, all additional tax derived from real estate would be payable when each year's tax is due.
  - The deferred tax liability would be limited to a single property (or single group of properties for agricultural holdings) for each individual.
- Real estate would be considered first in the calculation of net wealth for tax purposes. This means that up to $1 billion of real estate would be exempt from the tax and the tax would not need to be deferred as outlined in the previous point.

The Australian Taxation Office (ATO) would publish each individual's aggregate net wealth figure and tax paid each financial year on a national wealth register.

Component 2 – Pandemic levy

This component would introduce a one-off pandemic levy of 50% on the increase in individual net wealth between 11 March 2020 and 10 March 2021 for individuals with net wealth above $1 billion as at 30 June 2021.

- The levy would apply to Australian adult residents, regardless of where their assets are held, and non-residents who hold more than $1 billion worth of Australian assets.
- For individuals whose net wealth was less than $1 billion on 11 March 2020 and above $1 billion on 30 June 2021, the tax would only apply on the amounts above $1 billion.
- Liabilities would be issued on 1 July 2023, and individuals would be required to pay the levy in full within 2 years.
- Individuals that experienced a decrease in net wealth in the period specified would not be subject to the levy.

Costing overview

The proposal would increase the fiscal balance by around $50.0 billion and the underlying cash balance by around $30.8 billion over the 2022-23 Budget forward estimates period. The fiscal balance and underlying cash balance impacts are not the same due to differences between the timing of when individuals become liable for the levies and the timing of actual amounts that would be paid.

Departmental costs for the ATO to set-up, collect and ensure compliance with the proposal would be $183 million over the 2022-23 Budget forward estimates period. The departmental costs include the costs of establishing and maintaining a National Wealth Register.

The proposal would have an ongoing impact beyond the 2022-23 Budget forward estimates period. A breakdown of the financial implications (including separate public debt interest (PDI) tables) over the period to 2032-33 is provided at Attachment A.

Table 1: Financial implications ($m)[(a)(b)]

	2022-23	2023-24	2024-25	2025-26	**Total to 2025-26**
Fiscal balance	5,728.2	34,642.1	5,058.2	4,608.0	**50,036.5**
Underlying cash balance	4,278.2	9,222.1	8,848.2	8,418.0	**30,766.5**

(a) A positive number represents an increase in the relevant budget balance; a negative number represents a decrease.
(b) PDI impacts are not included in the totals.

Uncertainties

There is significant uncertainty about the extent to which individuals would comply with this proposal, particularly given that it would impose taxes on assets that could be many times greater than the taxes imposed under the income tax regime on the earnings from those assets. It is likely that high net wealth individuals would employ strategies to avoid or minimise their wealth tax liability, which would significantly reduce the revenue raised by the tax.

To account for this, the Parliamentary Budget Office (PBO) has made a high-level adjustment for the potential impact of the behavioural response on the tax base, see *Key assumptions*. The overall magnitude of the estimated response is highly uncertain, as is the uncertainty around how it may vary across different individuals.

The net wealth of high wealth individuals is also very sensitive to international and domestic economic and social conditions. The value of assets such as shares can fluctuate greatly with movements in the stock market on a daily basis. This could have significant implications on the amount of tax payable from year to year.

There are also uncertainties about the valuation methods that the ATO would apply to different assets, as well as their ability to accurately value all asset types. There would be practical challenges associated with valuing assets, especially those held in trusts or where the sale of the asset does not take place to allow an independent market value. Individuals may restructure their asset portfolios to take advantage of these challenges, which would impact the revenue collected.

Individuals affected by this proposal may also respond with legal action, which could significantly delay when revenue would be collected and could also mean that less revenue would be collected. In addition, there is a risk that high wealth individuals who are liable for large amounts of tax, but hold illiquid assets, may have difficulties in paying the amount of tax owed.

There are also uncertainties around estimating the tax base.

- For Component 1, it is expected that tax minimisation strategies are already being used to reduce income tax liabilities which means the tax return data used to undertake this analysis may not fully capture the total amount of wealth subject to the tax. Moreover, the data would not capture those who currently do not submit an income tax return (either because they are not a resident for tax purposes or because they do not have reportable income).
- For Component 2, the analysis relies on information from publicly available 'rich lists' to estimate the increase in net wealth between 11 March 2020 and 10 March 2021 for individuals with net wealth above $1 billion. This presents major uncertainties around the estimated tax base since the way assets would be valued under the proposal may be different to the way rich lists value individuals' assets. In addition, since the rich lists only cover individuals who are Australian citizens, certain groups that would be subject to the levy are not captured in this data.

The proposal could also significantly reduce the amount of Australian investment undertaken by high wealth individuals with implications for the level of new capital investment and economic growth. It is unclear whether other investors who are not subject to the tax (eg institutional investors such as pension funds, sovereign wealth funds, corporations) would make up for the loss of investment by high wealth individuals.

Key assumptions

The PBO has made the following assumptions in costing this proposal.

Component 1

- The average rate of return on income-generating assets would be around 7.8% per annum.
  - This is based on the average annualised returns for the Australian Stock Exchange All Ordinary Index over the 10-year period from 2011 to 2020.

- For individuals with net wealth above $1 billion, income-generating assets make up 22.5% of total net wealth.[1]
  - This proportion is informed by *2017-18 Survey of Income and Housing data* on the asset portfolios of high wealth individuals.
- Under the proposal, net wealth subject to the levy would grow by between 3% and 5% per year.
  - The wealth tax is expected to greatly reduce the rate at which individuals would be able to accumulate assets above $1 billion.
- High-wealth individuals would respond in various ways to minimise their tax payable. In the first year of the proposal, 50% of tax liabilities would be lost due to tax avoidance or evasion. This would increase to 80% after 5 years, as individuals take further steps to minimise their tax.
  - This is informed by academic studies which suggest that high degrees of tax avoidance are undertaken by the ultra-wealthy. For example, a paper published by the Wealth Tax Commission in the United Kingdom estimated that the imposition of a 1% wealth tax could reduce the tax base by 7% to 17%.
  - The feature of the wealth tax attributable to a single property, or single group of properties for agricultural holdings, which can be deferred under the proposal would have an immaterial impact on the revenue raised, based on the limited number of properties that would exceed the $1 billion tax-free threshold.
- The wealth tax would be collected on a quarterly basis.
- Applying the wealth tax to non-residents holding more than $1 billion in Australian assets would have an immaterial impact on the revenue raised.
  - Given the magnitude of the wealth tax, affected non-residents would find ways to move any Australian assets above $1 billion offshore to avoid having to pay the tax.

Component 2

- The wealth valuations from The Australian Business Review's rich list, *The List – Australia's Richest 250*, would be a suitable indicative guide on the increase in wealth over the period 11 March 2020 and 10 March 2021 that would be valued by the ATO under the proposal.
- High net-wealth individuals affected by the proposal would respond in various ways to minimise their tax payable. The net wealth reported for 11 March 2020 would be overvalued by 5% and the net wealth reported for 10 March 2021 would be undervalued by 10%.
  - This would allow some individuals to:
    - drop below the $1 billion threshold when net wealth is assessed as at 30 June 2021, such that they are no longer subject to the tax
    - reverse the increase of their net wealth over the period, such that they are no longer subject to the tax
    - minimise the increase of their net wealth that is subject to the levy.

[1] In undertaking further analysis, the PBO identified that the original release of this minute incorrectly stated that this costing assumed the proportion of net wealth that generates income was 25%. The costing actually assumed the proportion of net wealth that generates income was 22.5%. The text was amended on 2 May 2023.

- In reaching this behavioural response assumption, the PBO balanced the relatively large levy rate and the fact that it would be applied to a historical increase in net wealth, which means the ways in which individuals can retrospectively alter their assets to minimise tax are more limited than in the case of prospective taxes.
- High-wealth individuals would be required to lodge their tax return for the pandemic levy in 2023-24.
- Around 37% of the tax liability would never be collected due to bad debt and legal settlements.
  - This is based on the 5-year average of provisions for bad and doubtful debts tabled in the ATO's annual reports from 2018-19 to 2020-21.
  - This amount would be written-off once all legal disputes are settled, which is assumed to take 5 years.
- The remaining amount would be collected gradually over 5 years to account for delays due to legal action and extensions granted by the ATO.

Departmental expenses

- The ATO would employ up to 239 full-time-equivalent staff to administer the proposal, undertake compliance and audit checks as well as establishing and managing the national wealth register.
  - This figure was based on the current staffing profiles of business areas responsible for high wealth individuals and compliance work at the ATO.
  - The classification levels of the new staff would follow a similar distribution to that of the whole organisation.

Methodology

Financial implications were rounded consistent with the PBO's rounding rules as outlined on the PBO Costings and budget information webpage.[2]

Component 1

The tax revenue implications are based on analysing the ATO's personal income tax return data in conjunction with publicly available information on the net wealth of high-wealth individuals.

The net wealth of these individuals was estimated by grossing up income declared for income tax purposes using assumptions on the rate of return on assets and the proportion of assets that would generate income.

Each individual's estimated annual net wealth subject to the wealth tax was projected over the period to 2032-33, with the amount multiplied by the tax rate. The estimates were adjusted to account for anticipated behavioural responses by individuals.

Component 2

The tax revenue implications were based on an analysis of The Australian's rich list, *The List – Australia's Richest 250.* To estimate the final revenue implications, the estimates were adjusted to account for the expected behavioural response by individuals to minimise their tax payable before applying the levy rate and proportion expected to be collected.

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[2] https://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Budget_Office/Costings_and_budget_information

- The PBO compared the net wealth reported in the 2020 Edition of the rich list (published 21 March 2020) and the 2021 Edition (published 20 March 2021) to estimate the increase in net wealth between 11 March 2020 and 10 March 2021 for individuals with net wealth above $1 billion.
- For cases where a family or group of people report a combined wealth, the PBO individualised the family entries by assuming the combined wealth was split equally amongst members.

Departmental expense

The departmental costs were based on an assessment of the additional ATO staff that would be required to implement the proposal, including valuing assets, undertaking compliance checks, as well as the expected increase in litigation and dispute resolution costs.

Data sources

The ATO provided personal income tax files for the 2018-19 financial year.

The Treasury provided economic forecasts as at the *Budget 2022-23*.

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Attachment A – Billionaires Tax – financial implications

Table A1: Billionaires Tax – Fiscal balance ($m)[(a)]

	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	**Total to 2025-26**	**Total to 2032-33**
Revenue													
Component 1 - Levy on net wealth	*5,810.0*	*5,480.0*	*5,090.0*	*4,640.0*	*4,120.0*	*3,470.0*	*3,800.0*	*4,160.0*	*4,560.0*	*4,990.0*	*5,460.0*	***21,020.0***	***51,580.0***
Component 2 - Pandemic levy	-	*29,200.0*	-	-	-	-	-	-	-	-	-	***29,200.0***	***29,200.0***
Total – revenue	**5,810.0**	**34,680.0**	**5,090.0**	**4,640.0**	**4,120.0**	**3,470.0**	**3,800.0**	**4,160.0**	**4,560.0**	**4,990.0**	**5,460.0**	**50,220.0**	**80,780.0**
Expenses													
Administered													
Component 2 - Doubtful debt	-	-	-	-	-	*-10,700.0*	-	-	-	-	-	**-**	***-10,700.0***
Total – administered	**-**	**-**	**-**	**-**	**-**	***-10,700.0***	**-**	**-**	**-**	**-**	**-**	**-**	***-10,700.0***
Departmental													
Australian Taxation Office	*-81.8*	*-37.9*	*-31.8*	*-32.0*	*-32.1*	*-32.3*	*-26.9*	*-27.0*	*-27.2*	*-27.3*	*-27.5*	***-183.5***	***-383.8***
Total – departmental	***-81.8***	***-37.9***	***-31.8***	***-32.0***	***-32.1***	***-32.3***	***-26.9***	***-27.0***	***-27.2***	***-27.3***	***-27.5***	***-183.5***	***-383.8***
Total – expenses	**-81.8**	**-37.9**	**-31.8**	**-32.0**	**-32.1**	**-10,732.3**	**-26.9**	**-27.0**	**-27.2**	**-27.3**	**-27.5**	**-183.5**	**-11,083.8**
Total (excluding PDI)	**5,728.2**	**34,642.1**	**5,058.2**	**4,608.0**	**4,087.9**	**-7,262.3**	**3,773.1**	**4,133.0**	**4,532.8**	**4,962.7**	**5,432.5**	**50,036.5**	**69,696.2**

(a) A positive number for the fiscal balance indicates an increase in revenue or a decrease in expenses or net capital investment in accrual terms. A negative number for the fiscal balance indicates a decrease in revenue or an increase in expenses or net capital investment in accrual terms.

\- Indicates nil.

Table A2: Billionaires Tax – Underlying cash balance ($m)[(a)]

	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	Total to 2025-26	Total to 2032-33
Receipts													
Component 1 - Levy on net wealth	*4,360.0*	*5,560.0*	*5,180.0*	*4,750.0*	*4,250.0*	*3,630.0*	*3,720.0*	*4,070.0*	*4,460.0*	*4,880.0*	*5,340.0*	***19,850.0***	***50,200.0***
Component 2 - Pandemic levy	-	*3,700.0*	*3,700.0*	*3,700.0*	*3,700.0*	*3,700.0*	-	-	-	-	-	***11,100.0***	***18,500.0***
Total – receipts	**4,360.0**	**9,260.0**	**8,880.0**	**8,450.0**	**7,950.0**	**7,330.0**	**3,720.0**	**4,070.0**	**4,460.0**	**4,880.0**	**5,340.0**	**30,950.0**	**68,700.0**
Payments													
Departmental													
Australian Taxation Office	*-81.8*	*-37.9*	*-31.8*	*-32.0*	*-32.1*	*-32.3*	*-26.9*	*-27.0*	*-27.2*	*-27.3*	*-27.5*	***-183.5***	***-383.8***
Total – departmental	***-81.8***	***-37.9***	***-31.8***	***-32.0***	***-32.1***	***-32.3***	***-26.9***	***-27.0***	***-27.2***	***-27.3***	***-27.5***	***-183.5***	***-383.8***
Total – payments	**-81.8**	**-37.9**	**-31.8**	**-32.0**	**-32.1**	**-32.3**	**-26.9**	**-27.0**	**-27.2**	**-27.3**	**-27.5**	**-183.5**	**-383.8**
Total (excluding PDI)	**4,278.2**	**9,222.1**	**8,848.2**	**8,418.0**	**7,917.9**	**7,297.7**	**3,693.1**	**4,043.0**	**4,432.8**	**4,852.7**	**5,312.5**	**30,766.5**	**68,316.2**

(a) A positive number for the underlying cash balance indicates an increase in receipts or a decrease in payments or net capital investment in cash terms. A negative number for the underlying cash balance indicates a decrease in receipts or an increase in payments or net capital investment in cash terms.

\- Indicates nil.

Table A3: Billionaires Tax – Memorandum item: Public Debt Interest (PDI) impacts – Fiscal and underlying cash balances ($m)[(a)(b)]

	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	Total to 2025-26	Total to 2032-33
Fiscal balance	*50.0*	*200.0*	*410.0*	*620.0*	*830.0*	*1,040.0*	*1,220.0*	*1,370.0*	*1,550.0*	*1,760.0*	*2,030.0*	***1,280.0***	***11,080.0***
Underlying cash balance	*40.0*	*180.0*	*390.0*	*590.0*	*800.0*	*1,020.0*	*1,200.0*	*1,360.0*	*1,530.0*	*1,740.0*	*2,000.0*	***1,200.0***	***10,850.0***

(a) As this table is presented as a memorandum item, these figures are not reflected in the totals in the tables above. This is consistent with the approach taken in the budget where the budget impact of most measures is presented excluding the impact on PDI. If the reader would like a complete picture of the total aggregate, then these figures would need to be added to the figures above. For further information on government borrowing and financing please refer to the PBO's online budget glossary[3].

(b) A positive number for the fiscal balance indicates an increase in revenue or a decrease in expenses or net capital investment in accrual terms. A negative number for the fiscal balance indicates a decrease in revenue or an increase in expenses or net capital investment in accrual terms. A positive number for the underlying cash balance indicates an increase in receipts or a decrease in payments or net capital investment in cash terms. A negative number for the underlying cash balance indicates a decrease in receipts or an increase in payments or net capital investment in cash terms.

[3] Online budget glossary – Parliament of Australia (aph.gov.au)