

What ever happened to Australia's inheritance taxes?

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THE UNIVERSITY OF
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What ever happened to Australia's inheritance taxes?



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What ever happened to Australia's inheritance taxes?

1. Historical background, contemporary understanding.
2. Quantitative and qualitative research identify the social groups most affected by the taxes:
 - widowed women
 - small family farmers
3. Causal processes:
 - government responses to taxpayer hardship: a self-eroding policy process;
 - activism: a self-amplifying process;
 - fiscal federalism and abolition: a reactionary process.
4. Reintroduction and political feasibility.

Historical background, current understanding

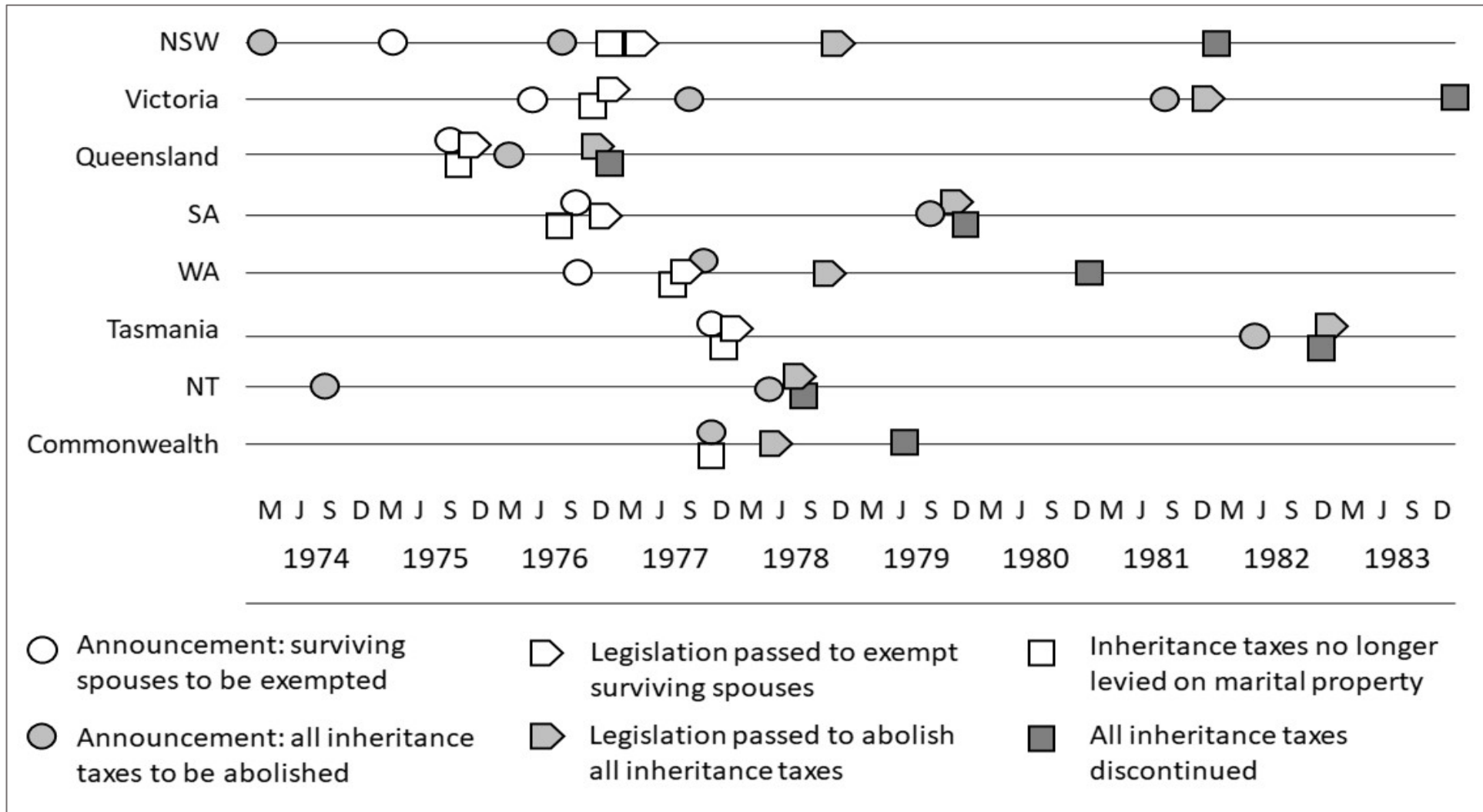
1950s to 1890s	colonial governments introduce probate, succession & death duties
1914	the Commonwealth introduces a national estate duty
1914 to 1976	a dual-level tax system
1976 to 1983	the taxes are discontinued in all jurisdictions

Commentators:
Pedrick (1981)
Head (1983)
Groenewegen (1985)
Smith (1992)

Reasons cited for abolition:

- unpopularity
- duplication, high compliance costs
- easy avoidance generated resentment
- a strong, anti-tax rural lobby
- fear of capital flight at State level
- short-sightedness and political opportunism

The process of abolition



The passage of legislation: parties

Jurisdiction	Legislation passed		Party in government
Queensland	For spouses	November 1975	Liberal-National coalition
	For all	December 1976	Liberal-National coalition
Commonwealth	For spouses	May 1978	Liberal-National coalition
	For all	May 1978	Liberal-National coalition
Northern Territory	For all	July 1978	Country Liberal Party
Western Australia	For spouses	August 1977	Liberal-National coalition
	For all	September 1978	Liberal-National coalition
New South Wales	For spouses	March 1977	Labor
	For all	December 1978	Labor
Victoria	For spouses	December 1976	Liberal
	For all	December 1981	Liberal
South Australia	For spouses	December 1976	Labor
	For all	November 1979	Liberal
Tasmania	For spouses	November 1977	Labor
	For all	October 1982	Liberal

Identifying key interest groups

Qualitative research

- from national and state archives and libraries
- submissions to SSCFGO inquiry into Death Duties (report published 1973)
- submissions to Taxation Review Committee (report published 1975)

What kinds of people expressed an interest in tax reform?

Senior public servants; finance and accounting professionals; economists, political party representatives; individual farmers; primary producers' groups; and women's groups.

Of these, the two main activist groups were:

1. gender-based: WA Senator Sydney Negus, and women's groups (inc. WEL)
2. farmers and farmers' organisations, in collaboration with the Country Party.

Quantitative research

Data set compiled from

- State Year Books
- Year Book Australia
- Annual Reports from the Commissioner of Taxation
- Australian Bureau of Statistics

[https://opal.latrobe.edu.au/articles/dataset/Inheritance Taxation in Australia Historical Data/16390107](https://opal.latrobe.edu.au/articles/dataset/Inheritance_Taxation_in_Australia_Historical_Data/16390107)

From the data set we can see long-term trends in

1. how much revenue was collected in each jurisdiction
2. what kinds of people left taxable estates (age, gender, occupation, location)
 - how much wealth they owned at the time of death
 - how much tax was charged and paid

There were distinct differences in male/female wealth at the time of death.

Farmers contributed disproportionately large tax revenues.

Gender: wealth differences within marriage

1880s - early '90s:	Married Women's Property Acts
Federation period:	Male breadwinner wage, restrictions on married women's employment

- gender bias in wage and employment policy
- biased tax treatment of male and female earnings in marital partnership
- unpaid domestic labour was not acknowledged as having any monetary value
- married men accumulated more assets than married women
- in most marital partnerships, the male partner died first (leaving widows to face tax compliance)
- widows inherited more from deceased husbands than widowers inherited from deceased wives
- jointly-owned marital property was taxed as if it were inherited (according to the principle of beneficial interest)

Both Negus and the Women's Electoral Lobby argued that property passing to surviving spouses should be exempted from inheritance taxes.

Federal estate duty: estates and assets left by females

	1968-69		1976-77	
	No. of estates	Gross assets	No. of estates	Gross assets
	% female	% female	% female	% female
NSW & ACT	36.6	32.2	44.5	39.4
Victoria	40.2	34.3	44.8	36.5
Queensland	28.7	23.3	35.5	28.5
South Australia*	33.8	27.1	41.5	30.3
Western Australia	30.9	24.9	36.9	27.8
Tasmania	32.7	24.3	39.0	32.9
Northern Territory	14.3	5.7	na	na
Australia	36.0	30.6	42.7	35.8

*1976-77 South Australia figures include Northern Territory

The 'farm problem': asset-rich, income poor

pre-Federation	Colonial governments instigate closer settlement schemes.
post-Federation	The federal government commits to closer settlement, including small post-war soldier-settler farms.
post WWII	Despite earlier failures, the federal government supports more soldier-settler farms.

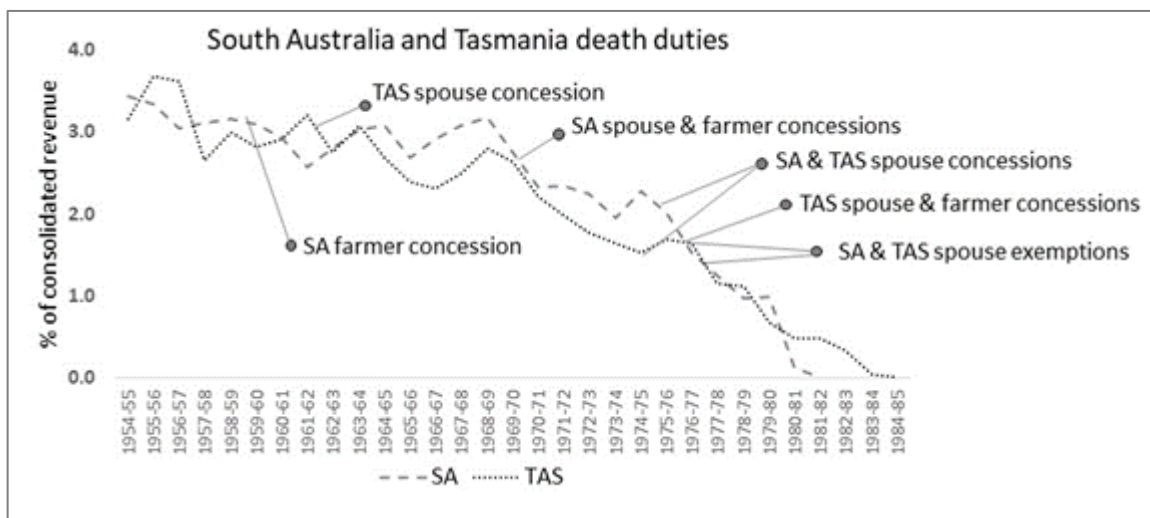
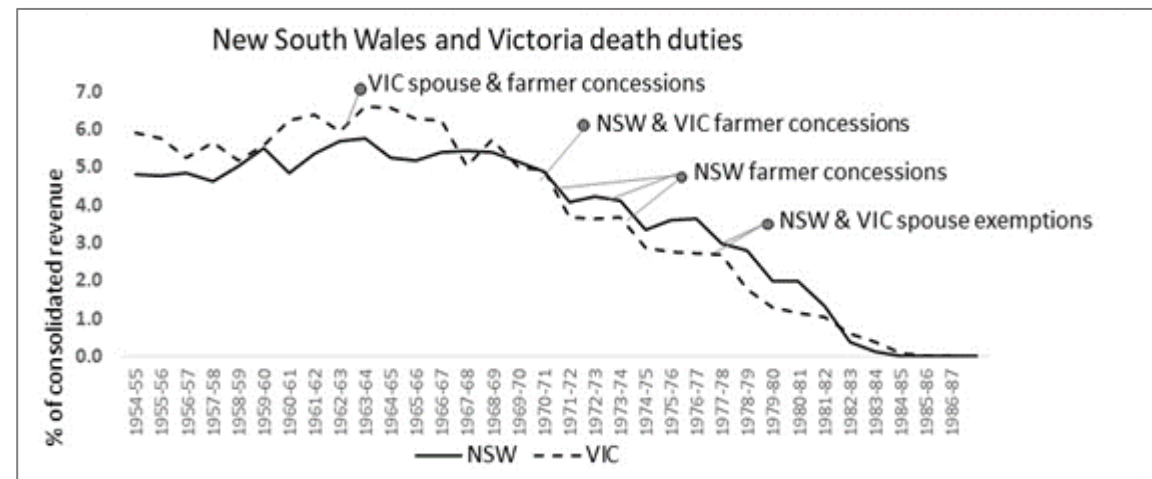
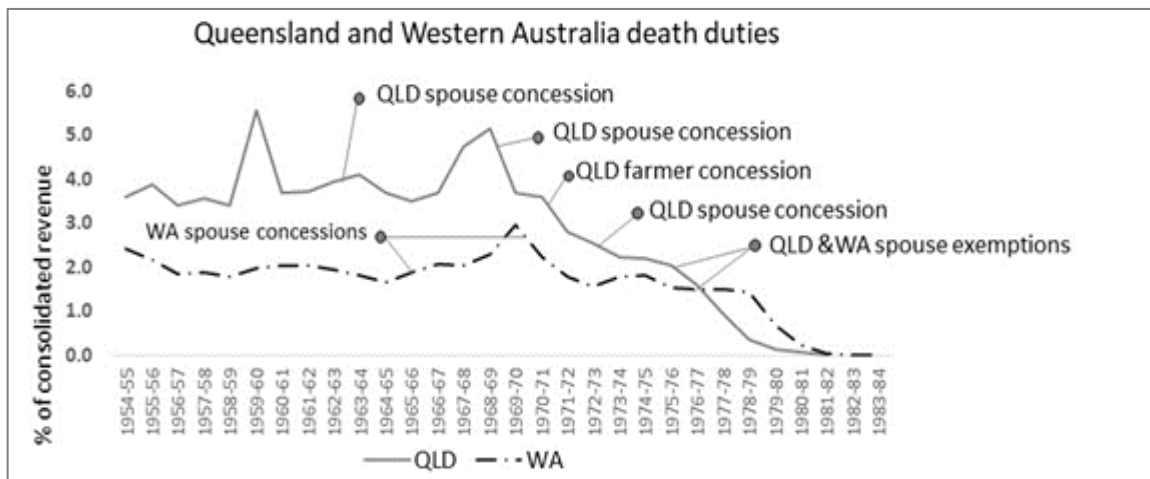
The “small farm” problem (McKay 1967):

- average farm incomes are good, but incomes are dispersed widely around the mean;
- around one third of farms earned low or very low incomes, split among the family;
- low cash reserves meant that farm heirs lacked the capacity to pay taxes on the farm assets.

Three concurrent post-war trends:

1. a slow cost-price squeeze in the agricultural sector, exacerbated in the late 1960s by drought and a collapse of the wool and wheat markets;
2. high land price inflation;
3. the amalgamation of farmers' organisations and increasing organisational capacity.

Causal process 1: The erosion of State death duty revenue



The federal government granted extra tax concessions to farm business in 1969-70 – increased in 1972. Under federal Labor (1972-75), there were no further concessions for farmers. When the LNP returned to power in 1975, it was obliged to prioritise tax relief for widows.

Causal process 2: the amplification of activism

1970 Sydney Negus elected to the federal Senate on a tax-reform platform. Policy starts to consolidate around political party lines.

1971 Senate Standing Committee (SSCFGO) launches inquiry into death duties.

1972 Taxation Review Committee (Asprey) announced and launched.

→ New opportunities to participate in policy discussions prompted interest groups to consolidate and articulate their concerns.

Causal process 3: reactive State-federal relations

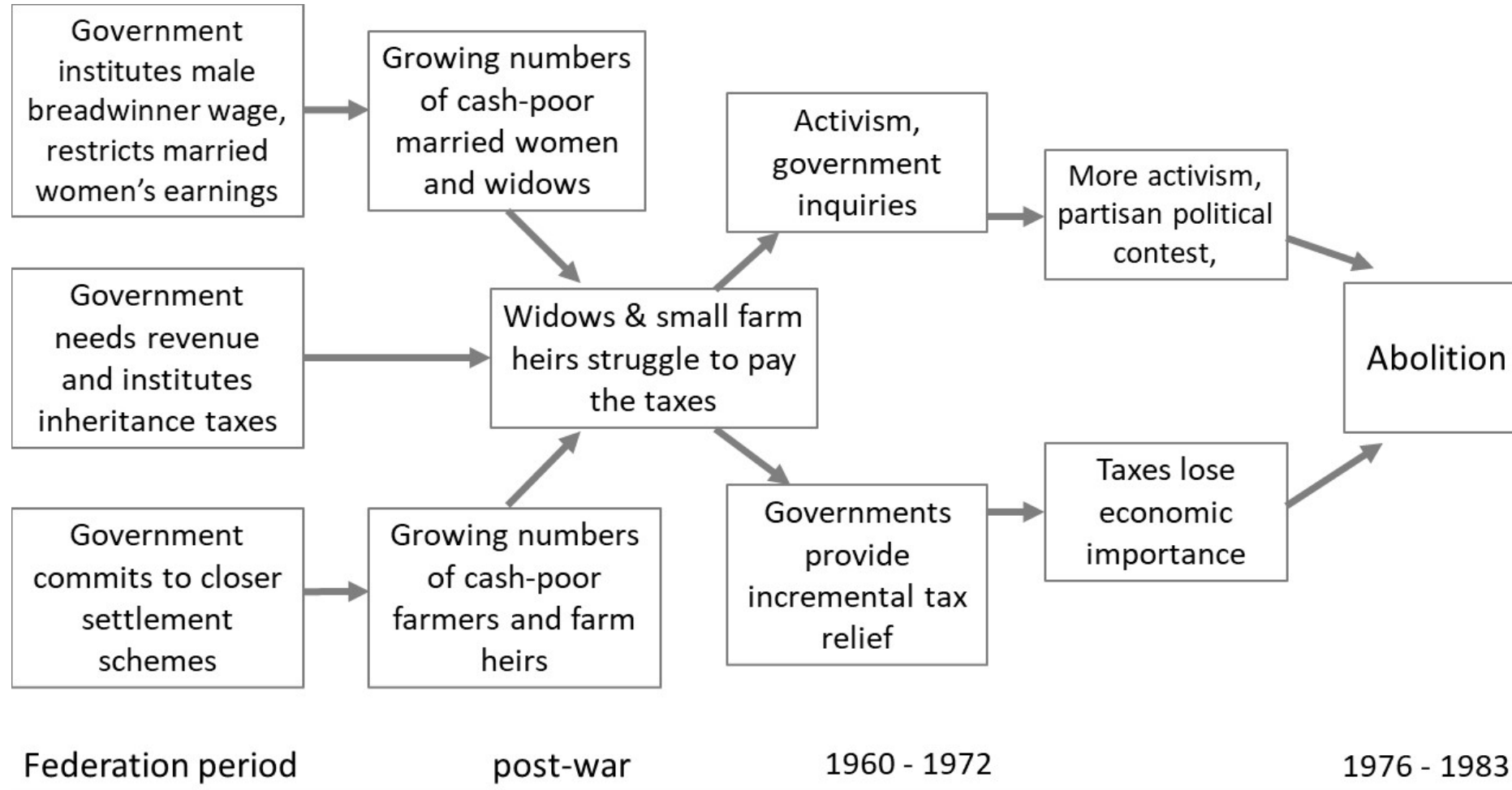
November 1975 Election: Fraser/LNP promises a “new federalism” and lower taxes.

March-Dec 1976 Bjelke-Petersen announces and implements abolition of Queensland probate duties; Fraser is embarrassed and angered, threatens other States.

November 1977 Fraser promises to end estate duties if re-elected.

May 1978 Federal legislation passes; State Liberal leaders adopt abolition policy while Labor leaders oppose full abolition.

The long-term erosion of a policy regime



Reintroduction: Political feasibility

Technical feasibility

- no Constitutional barriers;
- sophisticated administrative capability;
- electronic and online tax tools make personal tax compliance easier;
- tax avoidance still an issue.

Interest groups and their access to government

- surviving spouses, the gender pay gap and the gender wealth gap;
- small family farmers.

Political will

- broad public support vs. resistance
- the news media, misinformation, and the manipulation of public sentiment.